SESSION IV SOCIAL SAFETY NETS
BACKGROUND PAPER

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Session Objective: Identify and discuss priority measures to help protect the vulnerable from the impact of food and other price shocks in the short term; as well as options for developing in the medium and long term an affordable well targeted social safety net system capable of providing effective protection from future shocks, either economy wide, or at individual household or community level.

As Development Partners of the Royal Government of Cambodia, **and in 2008 the 60th Anniversary of the signing of the Universal Declaration of Human Rights**, we see social safety nets as an important Government and Development Partner priority for continuing and sustaining social, cultural and economic growth and attainment of Cambodia's Millennium Development Goals.

Social safety nets are not a new area of priority within the policy framework of the Royal Government of Cambodia. The National Strategic Development Plan 2006 – 2010 (NSDP) highlights policy objectives to establish social safety nets that reduce the vulnerability of the poor and mitigate the impact of economic and natural shocks. The Rectangular Strategy Phase II acknowledges that "the social safety net for workers and the poor has not yet become an efficient system" and includes priorities for the development of social safety nets. There is a very real understanding that taking steps to put in place policy that supports the establishment of social safety nets underpins Cambodia's future and sustained growth.

Through this dialogue we aim to promote understanding of social safety nets (and how this concept is operationalised) as a modern cost effective component of national development policy, and in addition:

- identify common sources of vulnerability and how they have been exacerbated by the current global economic crisis;
- highlighting current commitments, good practice to date and lessons learned;
- discuss opportunities for further policy development and subsequent action that supports a more coordinated system of targeted assistance that will take key sources of risk both in the current economic downturn and over the long term;
- focus on the importance of leadership and the potential for partnership in that process.

1. Risks faced by Cambodian household have been exacerbated by inflation and the recent global financial crisis

Cambodian households continue to face a number of risks, which will reduce their economic capacity and push them into poverty, or indeed further into poverty, unless adequate social safety nets are established. A social safety net system requires a Government wide response across a range of sectors.

Cambodian livelihoods remain vulnerable to a range of shocks including: harvest failure due to drought or flooding; macroeconomic and trade shocks (e.g. inflation or job losses in export sectors); natural disasters destroying crops and household assets; disease and death of livestock; and the impact of health shocks (eg debt and sale of assets). All of these issues highlight continued vulnerability and the importance of providing social safety nets to ensure sustainability and continued growth. A social safety net strategy not only responds to economic crisis and social or economic shocks but incorporates a preventative component that promotes long term investment in human, social, economic and physical capital.

Those most vulnerable remain the urban and rural poor, economic migrants and their families, fixed salary workers, the landless or land poor, and families affected by chronic illness and disability. Among family members, children and the elderly face particularly high risks.

Recent global price increases and the ongoing financial crisis have exacerbated these vulnerabilities and highlight the need for both immediate and long term responses. Recession in other parts of the world (namely the US and Europe) is likely to reduce demand for Cambodian products, reduce investment in construction and real estate and reduce inflows to the tourism industry, all of which may lead to economic stagnation or reduction in employment opportunities and wages.

The Royal Government has achieved steady progress in reducing poverty over the last fifteen years. Nonetheless, 30 percent of the population still lives below the national poverty line, and a significant additional number live at near poverty levels and may easily fall below the poverty line when affected by a shock.

A study[1] by the Cambodia Development Research Institute (CDRI) during 2008 on the Impact of High Food Prices in Cambodia confirmed the above concerns. The report states that in the absence of formal social safety nets Cambodian households face a variety of risks. Half of households surveyed reported cutting back on food consumption as a way of coping, with the poorest spending 70% of their household income on food. It is of grave concern that people are experiencing increasing economic vulnerability, which as stated in the report "threatens their nutritional status and worsens their health, which might result in lasting adverse impacts".

We therefore recommend:

- that the Government and its development partners recognize that Cambodian households face significant vulnerabilities, and that these vulnerabilities have been exacerbated over the last 12 months by the rise in inflation and the global financial crisis;
- further development of social safety nets to assist the poorest and most vulnerable

[1] Impact on High Food Prices in Cambodia 2008.

2. Developing a common understanding of social safety nets beyond the immediate response to current economic shocks

Social safety nets address social and economic need through collective arrangements (for example insurance, exemptions and targeted support) that:

- distribute income to the poorest and most vulnerable, with immediate impact on poverty and inequality, alleviating extreme poverty;
- help households to manage risks and shocks without having to resort to coping strategies that undermine their future welfare and foundations of long-term economic growth
- provide a minimum socially acceptable standard of living and opportunity;

Safety nets are programmes that target benefits to the poor and most vulnerable. A safety net programme may take the form of cash transfers (conditional or unconditional); in kind transfers (e.g. school feeding programmes or mother/child supplementation programmes); labour-intensive public works schemes (food or cash for work); or exemptions from fees for essential services (e.g. healthcare or schooling). Safety nets are an important part of a broader poverty reduction and social protection strategy that includes policies for health, education, social insurance and affordable credit and savings schemes.

Safety nets aim to address both (i) chronic (long term) poverty (often of groups – the elderly, disabled, chronically ill who cannot work) and (ii) transitory (short term) poverty of those who suffer a shock which reduces their income or increases their costs.

Safety nets are no longer seen as something that only rich countries can afford. Over the last decade, even very poor countries in Sub Saharan Africa have developed and implemented such systems. On average safety net expenditure[2] in developing countries is in the range of 1 to 2 percent of GDP, though some spend more. Cambodia's estimated expenditure is lower than 1 percent, suggesting that Cambodia can afford, and will benefit from developing a broader social safety net system.

We therefore recommend:

- to begin discussions among stakeholders leading to an agreed common understanding of social safety nets appropriate for the Cambodian context and within a broader national development strategy.

3. A well designed social safety net system complements growth-promoting policies

Over the last ten years, most countries and international organizations have started to see pro-growth policies and social safety net policies as complementary. As discussed in the session on macro-economic management, well targeted social safety nets for the most vulnerable should complement pro-growth oriented spending in productive areas. Although the core role of social safety nets is to provide a minimum standard of welfare to citizens, they also help to facilitate the operation of markets and growth in several ways:

- By increasing *security* and promoting *growth* (i) creating an environment where households and individuals can adapt and change livelihood strategies, which is necessary for an economy to diversify and grow (ii) reducing the impact that shocks have on productivity (as for example when a family member falls ill, forcing a household to sell off productive assets, take on debt or take their children out of school);

[2] Mexico and Brazil spend 0.4 percent of GDP; Ethiopia spend 1.7 percent of GDP

- By contributing to *equity and equality of opportunity* through (i) establishing basic standard of living and consumption levels of the poorest (those that allow basic education, standards of health and nutrition necessary for human development).

Social safety nets can also play an important political role. Economic growth creates inequalities. If these inequalities are large they can foster instability (crime and social disorder). Compared to other successful Asian nations at comparable stages in their development, inequality in Cambodia is rising quite rapidly (the Gini co efficient rose from 0.39 in 2004 to 0.43 in 2007). By tackling extreme poverty, safety nets can help offset rising inequality and promote social harmony and economic growth.

We therefore recommend:

- Promotion of social safety nets as a means to address social security, equality and long term economic development.

4. Existing commitments and current status of social safety nets in Cambodia

The development partners recognize the Royal Government of Cambodia's commitment to build a social safety net system within broader social sector policies designed to achieve the CMDGs. The National Strategic Development Plan (NSDP) states that "The Royal Government of Cambodia will continue to provide alleviating social sector interventions which will include: reducing the vulnerability of the poor; measures to mitigate the impact of natural disasters and calamities; help victims of such events;…as well as welfare programmes for the elderly, orphans, poor widows and widowers, poor female-headed households,…".

We also acknowledge that the Government has begun to put in place elements of a social safety net system. Specific programmes and activities include:

- pensions for civil servants, veterans and their dependents.
- the newly-formed National Social Security Fund currently provides coverage to up to 250,000 employees in the formal private sector.
- school feeding programs (which currently reach about 500,000 students) and supplementary food and nutrition programmes for mothers and children
- food-for-work programmes;
- targeted scholarship programmes for secondary education students (especially girls) from poor households in selected provinces (reaching almost 29,000 students in 2008).
- helping the poor to obtain access to health care without paying fees, or through targeted monetary assistance (for example, exemptions from health service fees funded from health equity funds now active in 44 health sector Operational Districts and 6 national hospitals).
- cash transfers to victims of natural disasters

Over recent years the Ministry of Planning has led a cross-Government effort to develop and roll out a standardized system for identifying poor households in rural areas through the Identification of Poor Households Programme (IDPoor). By the end of 2009, more than a third of the country will have been covered by this identification exercise (5,004 villages in ten Provinces, of which six Provinces have been covered in full). Partner organizations using these standardised procedures cover many other areas of the country. This initiative deserves our collective support to enable nationwide implementation. Such a national system of identifying poor households, together with poverty mapping, can enable Government to target limited resources efficiently and effectively to where they are needed.

However, these existing activities are limited in a number of ways. Firstly, they are often confined to particular sub-sectors, geographical areas or target groups. Secondly, they use different methods for identifying beneficiaries. Thirdly, they are often funded largely by development partners through specific projects. There is now a need to pull together these various discrete and parallel activities into a coordinated safety net system under Government leadership.

We therefore recommend:

- that Government and its development partners work together to undertake a comprehensive mapping of current social safety net initiatives, in order to identify the overall status in terms of coverage, targeting mechanisms, the value of benefits, gaps, etc.

5. Future opportunities and policy priorities

Cambodian households continue to be vulnerable to a variety of risks that can push them into poverty and undermine growth and social stability. Economic growth and rising Government revenues in Cambodia over the last decade make it increasingly feasible to develop a social safety net system, while regional and global integration – which exposes Cambodian's to new risks as well as new opportunities – makes it increasingly important. The current global crisis and the slow down of growth reinforces the urgency of bringing together existing elements, unified around a single mechanism for household identification, into a more integrated and coherent social safety net system.

With these priorities in mind, we confirm our commitment to working in partnership with the Government to support the development of an appropriate and affordable safety net system. This process will include:

- continued support to existing social safety net activities focusing on the most vulnerable (including health service fee exemptions; basic education scholarship programmes for poor students; school feeding; food for work and public sector pensions)
- Inter-ministry engagement at the central level to develop a vision and strategy for an integrated social safety net system. This will need to address: (i) continuation and expansion of the Identification of Poor Households Programme to achieve nationwide coverage; (ii) the use of this data across sectors for the delivery of poverty-targeted services (transfers, exemptions, etc.); (iii) consider broadening coverage through (for example) the expansion of conditional cash transfers; and (iv) the financing of the social safety net system (covering both targeting and benefit delivery), including incremental budgetary commitment from Government.
- identify institutional capacity required to implement this programme and the support required to build this capacity.

Finally and most importantly, Development Partners request that the Government identifies a single focal point to coordinate Government strategy on this issue. We see it as important that this coordinating mechanism is not a single social sector ministry but rather a body with convening authority to mobilize a number of relevant government ministries for the development of a safety net system.

Development partners reinforce their commitment to supporting Government's development of an interlinked social safety net system that focuses on the poorest and most vulnerable and the achievement of Cambodia's development goals.