How Effective were the Public Transfers as a Social Safety Net in Nepal?

네덜의 사회안전망으로서 공적이전소득이 얼마나 효과적이었는가?

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【Abstract】

Using a Generalized Tobit (Heckman's two step estimation) for household data from Nepal for 1995-96, the paper investigates the motives of private transfers and tests whether public transfers crowded out private transfers. In addition, the results are compared with that of the companion study, Kang(2004), which used the same data but different estimation methods, Probit and Tobit estimation separately. From the estimation, it is inferred that the motives of private transfers and crowding-out effect of public transfers are not identified. These results are quite similar to those of Kang(2004), implying that the results do not depend on estimation method. These results indicate that social safety nets of Nepal reflected by various pensions were not...
well-prepared. Or the result is mainly due to low share of public transfers or low share of employment provident fund that plays a significant distribution role. In decision equation it is shown that the probability to receive private transfers is negatively related with household size. However, the probability as well as amount of private transfers are positively related with the number of elderly and children.

**Key Words** Nepal, Public transfers, Private Transfers, Crowding-out.

### 1. Introduction

Most of the countries in the world use social safety net programs to reduce poverty and thus improve income distribution.

The recent studies on the motives of private transfers and crowding-out relation between private and public transfers play significant roles in investigating how the public transfers as a social safety net program are effective. This is because private transfers and public transfers have a quite similar economic benefits (redistributive and risk reduction role), and the degree of effectiveness of public transfers depends mainly on motive of private transfers. Social safety nets are generally considered to include unemployment insurance, various pension, educational credit and health insurance.

Inter- and intra-household private transfers given by family, friends and even neighbors are widespread in developing countries (Cox and Jimenez, 1990). Thus any government which intends to design social safety nets mainly for poverty reduction needs to clarify the networks of private transfers: motive and crowding-out relation.

For the studies on motive of private transfers, most of them support exchange motive (Cox, 1987; Cox and Rank, 1990; Altonji et al., 1992,