



For Protection and Promotion: The Design and Implementation of Effective Safety Nets



Definitions

- **Safety nets are non-contributory transfer programs targeted to the poor or those vulnerable to shocks and policy: eg:**
 - Cash transfers, targeted or not, conditional or not;
 - Food or other in-kind distribution
 - Public workfare jobs
 - Price subsidies, eg for food or fuel
 - Fee waivers for essential services such as health or education

Similar to what is called social assistance in Europe but with more varied forms of programs in developing countries.

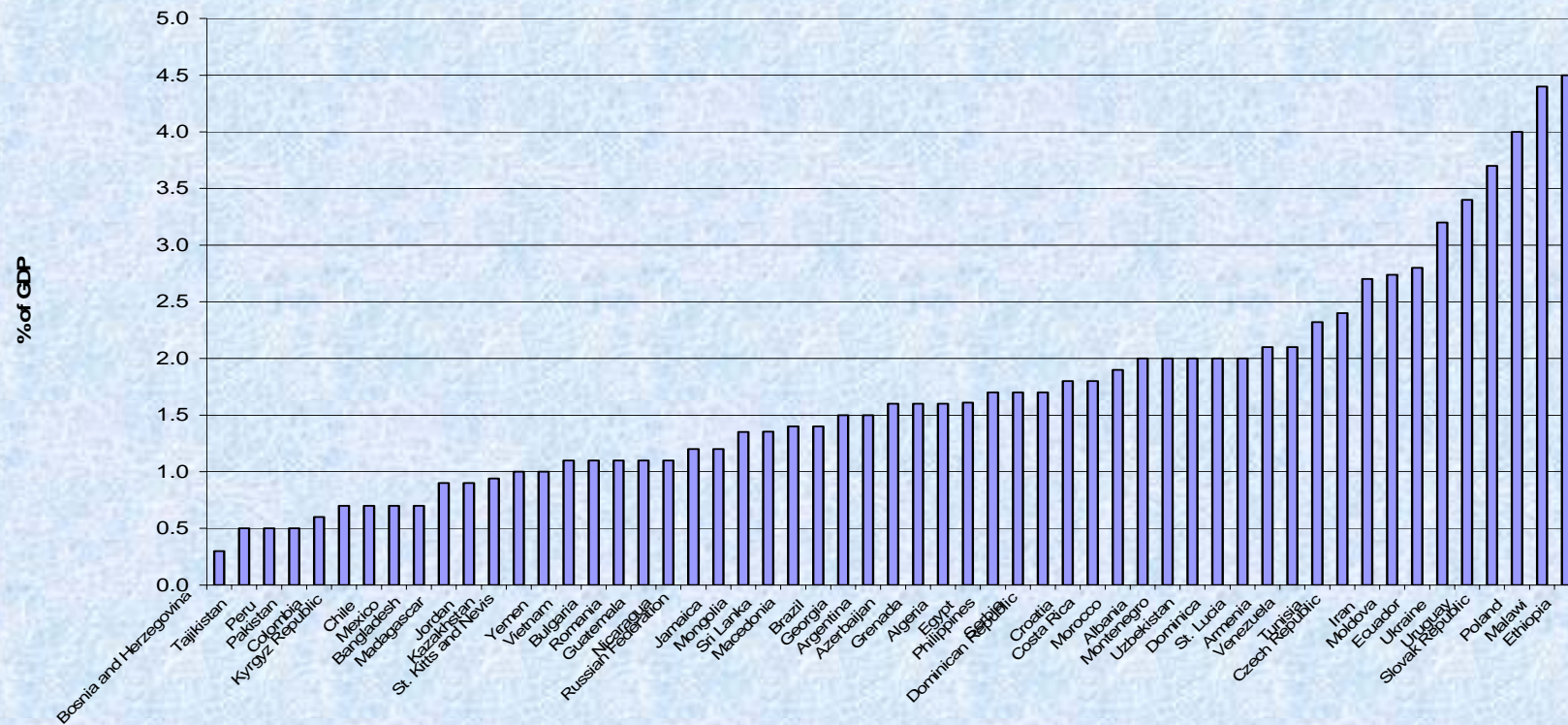


Spending on safety nets defined in this way is modest

Mean 1.7% of GDP; median 1.6% of GDP

For 2/3 of countries is about 1-2 % of GDP

Social Assistance Expenditures as a % of GDP
All countries (n=55)





What does this SSN spending do?

Social assistance spending is roughly 1/4th the total spending on social services including health and education

The 1-2% of budget for assistance is, of course, far less money and covers far more poor in low income countries.



The Case for Safety Nets



Safety nets contribute in four ways to poverty reduction and risk management

1. Safety nets and transfers have an immediate impact on inequality and extreme poverty (valued in its own right).
2. Safety nets enable households to make better investments in their future.
3. Safety nets help households manage risk
 - Ex post: Avoiding losses that are hard to reverse
 - Ex ante: Allowing higher risk/higher return strategies
4. Safety nets help governments make beneficial reforms.



2. Safety nets enable households to invest in their futures

- The underlying problem is that credit markets are insufficient to allow households to make justified investments
 - In child nutrition
 - In child schooling
 - In production
- There is evidence of steep gradients by income in many child welfare variables, e.g.:
 - In LICs, 36% of children are malnourished
 - Rate is 2 -3 times higher among lowest quintile as highest



3. Safety nets help households manage risk: ex-post

Provision of SSN can decrease harmful coping strategies.

For many households, accumulating assets is like the child's board game, with laborious efforts to increase one's position set back in one unlucky draw

The bad luck of being born during a drought can leave a child stunted for life.

The underlying problem is lack of insurance markets, exacerbated by lack of credit markets and lumpiness of assets



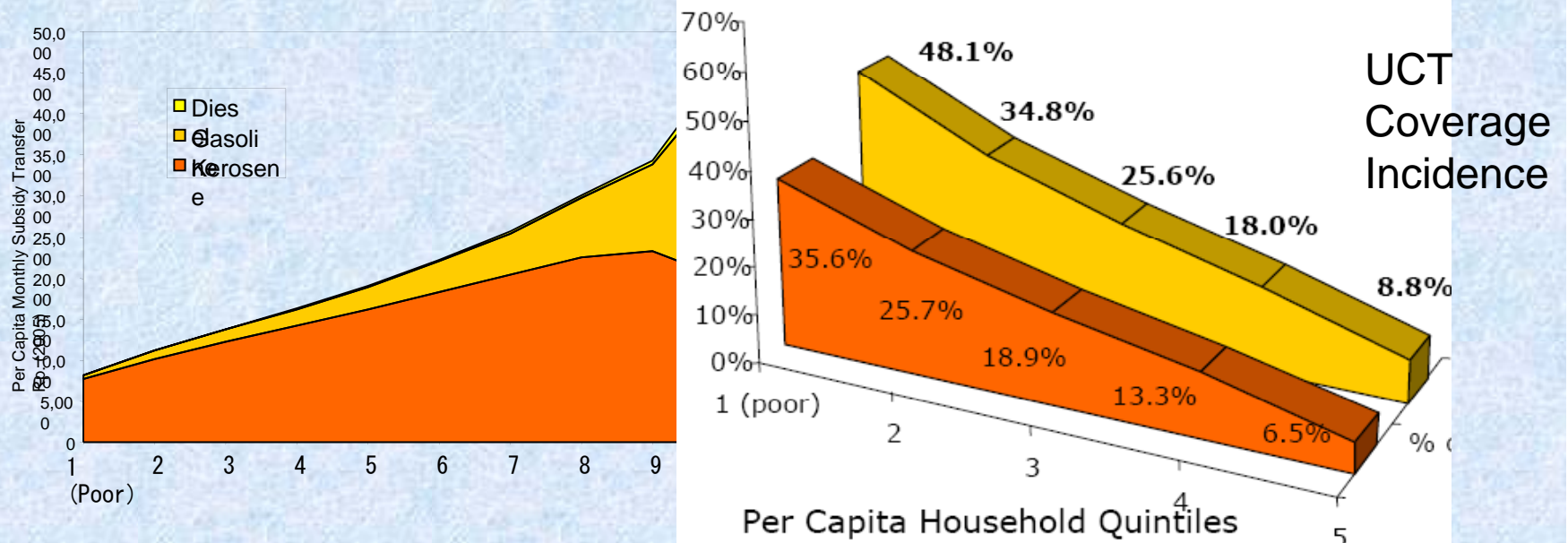
4. Safety nets help governments make beneficial reforms

Good social assistance programs can:

1. Facilitate structural changes
2. Replace inefficient redistributive elements in other programs
3. Reduce the consequences of high inequality for economic growth



4. Safety nets help governments make beneficial reforms Example: Indonesia



- In 2005, Indonesia reduced regressive fuel price subsidies by \$10 billion
- Saved \$5 billion; distributes remainder over a new unconditional cash transfer and health and education programs
- Incidence dramatically improved, as shown above



Vision of a Good Safety Net and Reflections on Current Practice



1. Appropriate

- Definition

Concept

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- The range of programs used and the balance between them and with the other elements of public policy should respond to the particular needs of the country.
- Each program should be customized for best fit with the circumstances.

- How to get there

Tools

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- Diagnosis of risk and poverty
- Diagnosis of effectiveness and efficiency of individual programs
- Reform proposal – rebalance among programs; modify, stop or introduce programs.



2. Adequate

- The safety net as a whole covers the various groups in need of assistance, the chronic poor, the transient poor, those affected by reforms, various subsets of these groups.
- Individual programs provide full coverage and meaningful benefits to the subset of the population they are meant to serve.



3. Equitable

- Horizontal equity: treat those who are equal in important respects are treated equally → minimize errors of exclusion;
- Vertical equity: provide those who are poorer more generous benefits than those who are less poor → minimize errors of inclusion.

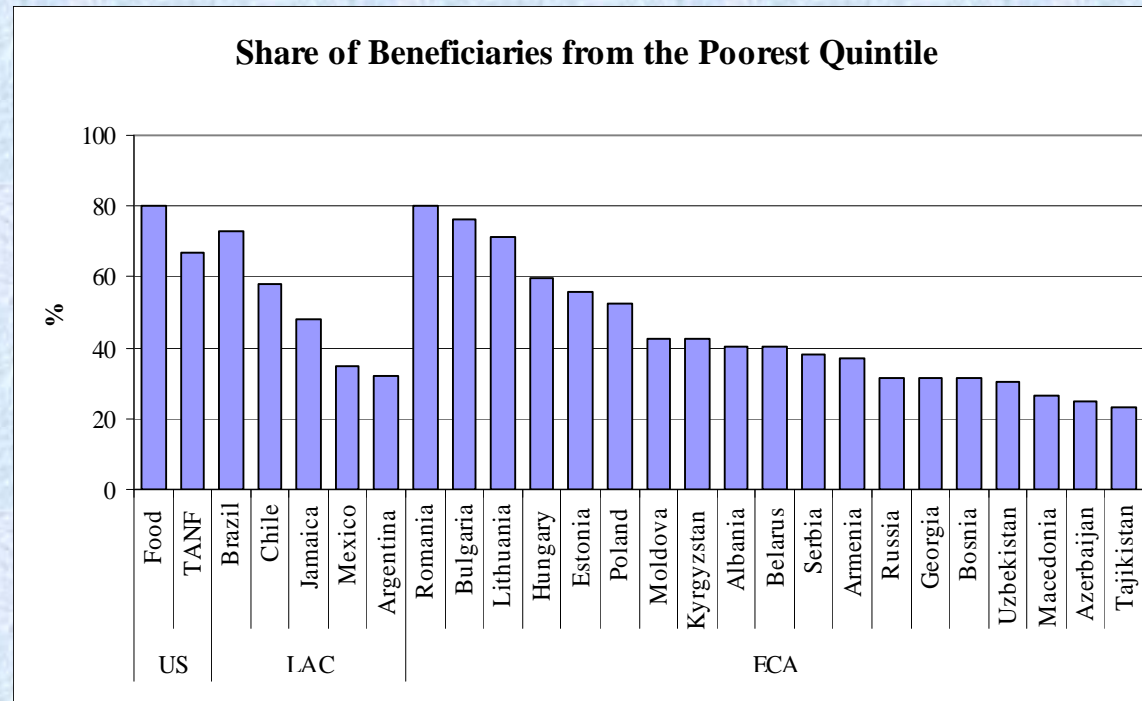


3. Achieving Equity

- Steps:
 - Define eligibility
 - Outreach – to lower errors of exclusion
 - Selection – to lower errors of inclusion
 - Recertification or exit – to maintain outcomes over time
- Targeting methods
 - means, proxy means or community based assessment;
 - Geographic or demographic targeting
 - Self-selection through works requirement, etc.



3. Errors of Inclusion



- are approaching OECD standards in best of cases;
- mediocre in many others;
- incidence is regressive in a quarter of programs



3. Administrative costs of targeting are modest

Administrative Costs of Targeting for Selected Means and Proxy Means Tested Programs

Program, year	Share of total admin. cost	Share of total program cost	US\$/Beneficiary	Source
<i>Programs</i>				
Mexico: Progressa, 1997-2000	40	2.4		Caldes et al.
Colombia: Familias en Accion, 2004	34	3.6		Lindert et al.
Albania: Ndihma Ekonomika, 2004	88	6.3	7	Kolpeja
Armenia: Family Poverty Benefit, 2005	26	0.6	3	Ghukasyan
Bulgaria: Guaranteed Minimum Income, 2004	64	6.3	7	Shopov
Kyrgyz Rep: Unified Monthly Benefit, 2005	24	2.3	1	CASE
Lithuania: Social Benefit,	41	2.7	8	Zalmiene
Romania: Guaranteed Minimum Income, 2005	71	5.5	25	????



4. Cost Effective

- Build and refine capacity over time
 - Bad examples: many start/stop donor-funded ‘emergency’ public works programs in Africa
- Contract out to agencies with comparative advantage, where possible,
 - Payment systems through banking sector or postal bank system
- Realize economies of scale, avoid redundant systems
 - Use a common targeting tool for many programs
 - Example: Introduction of the one-window approach in Arzamas, Russian Federation illustrates potential savings



5. Incentive Compatibility

According to theory, any unearned income lowers incentive to work via the ‘income effect’. Some programs also lower incentive to work via the ‘price effect’, depending on the targeting and benefit design.

Some targeting approaches imply 100% marginal tax rate for recipients

This concern is politically very powerful, but actually is somewhat **overstated**



5. Incentive Compatibility: Concern may be a little overstated

In fact, very few programs operate with strong disincentives for earning:

- Few programs are means tested;
- Fewer have customized benefits;
- Benefits are rarely more than 20 percent of base welfare so survival on them alone is impossible
- Programs often limited to those not meant to work: children, elderly, disabled
- Countries beginning to use sophisticated tools to manage disincentives



5. Incentive Compatibility: Tools to Preserve Work Effort

- **Tools to manage:**
 - **Consider proxy means or asset tests rather than only income tests; and/or use work requirements**
 - **Set benefits to maintain work incentives**
 - **Increase ‘productivity’ of transfers.**
 - **Link transfers to elements that will improve earnings (Education, job training or placement services, micro-finance, social support services, etc.)**
- **As programs become more generous concern over work effort will be more important**
- **These tools are administratively demanding, so pace increase in generosity with increase in administrative capacity**



6. Sustainable

- **Factors contributing to FISCAL sustainability:**
 - Efficient, lower cost programs
 - Consolidation of piecemeal programs
 - Funded by tax rather than debt or donors
 - Link programs to asset creation
- **Factors contributing to POLITICAL sustainability**
 - Design is concordant with public attitudes about poverty, redistribution
 - Established record of transparency, effectiveness, impact.
- **Factors contributing to ADMINISTRATIVE sustainability**
 - Appropriate set up of institutional responsibilities and incentives
 - Adequate administrative budget and capacity development



SSN in Low Income Countries

- Resource constraints – financial, human, administrative - make implementing safety nets in low income countries challenging.
- But they do not make it impossible. Key messages from this presentation are:
 - Embed safety nets into the broader growth and poverty reduction strategies, including agriculture as well as education and health
 - Match the program type(s) to the objectives of the safety net
 - Think about implementation from the perspective of both the provider (eg government, what is feasible) and the beneficiary (what is desirable)



Role of SNN immediately after a disaster

- “Saving Lives” activity and relief operations to prevent further suffering are undertaken by countries themselves, NGOs, International organizations (Red Cross; WFP) and donors.
- No clear boundaries in practice
- To assist affected people or only the poor?
- Challenge: initial relief decisions can establish institutional arrangements and determine choice of instruments that continue during recovery.
- Plan ahead: we know a disaster **will** happen we just don't know **when**



Particular lessons learned about Public Works

- Pay attention to:
 - Level of wage rate
 - Implementation, quality of assets
 - Timing/seasonality
 - Community involvement
 - Include budget for non-wage components
 - Be sensitive to gender aspects
 - Watch out for corruption/leakages (social audits)
 - Donor coordination