



# **What are Social Safety Nets, What do they Achieve and Where do they fit into Competing Demand on a Government's Finances**

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# Definition

Safety nets are non-contributory transfer programs generally targeted to the poor or those vulnerable to shocks, eg:

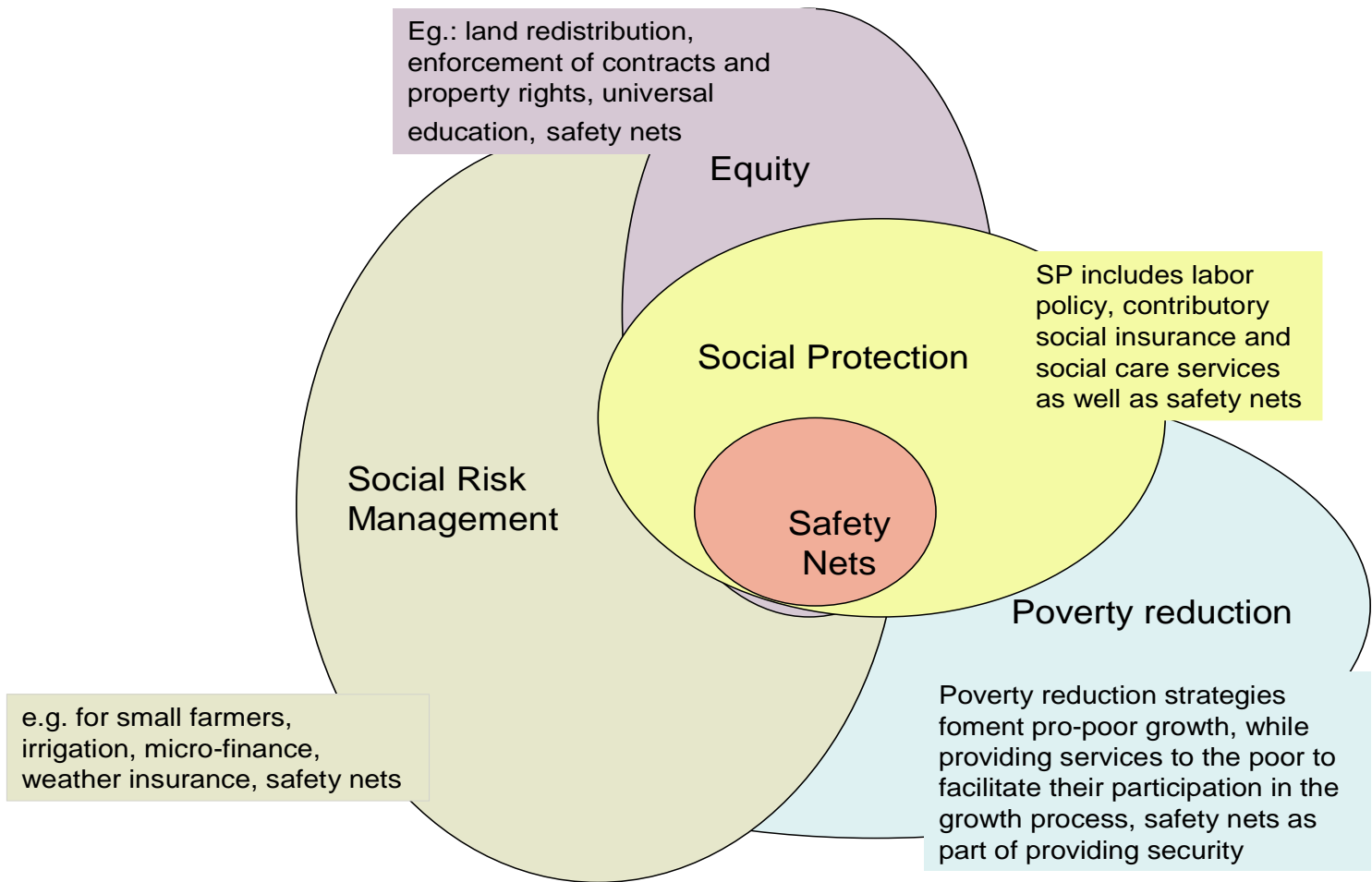
- Cash transfers, targeted or not, conditional or not;
- Food or other in-kind distribution
- Public workfare jobs
- General price subsidies, eg for food or fuel
- Fee waivers for essential services such as health or education

Similar concept to what is called social assistance in Europe.

This definition excludes *contributory* social insurance as a whole. But the boundary is a bit fuzzy. SN often complement other aspects of what is termed social policy including health and education

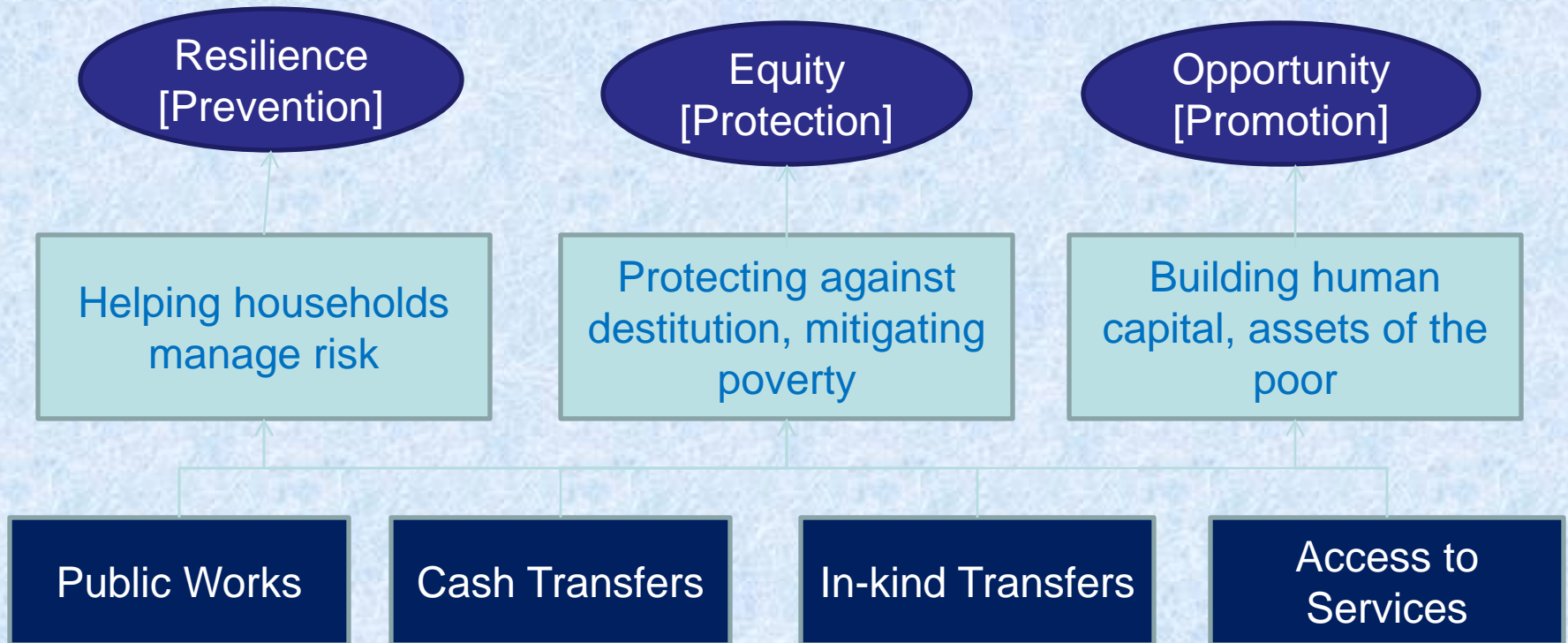


# Safety Nets and Social Protection are part of a Larger Development Policy





# A Framework for Safety Nets



## COMMON ANALYSES AND ACTIONS AROUND SNs

- Common “nuts and bolts” tools
- SN evaluations
- Knowledge sharing
- Models of fiscal, behavioral , welfare impacts of reforms
- Communication and outreach
- Good governance, transparency



# Four Roles for Safety Nets

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



# The twin objectives of income support and poverty reduction

The rationale for income support comes both in **equity** and **efficiency** motives.

Equity motive often tied to human rights arguments but equity can be also addressed in terms of economic gains. Both approaches will be discussed below.

Efficiency motive implies a market failure.

This may be a missing or incomplete market for credit or insurance.

It may also reflect a divergence of private and public incentives that occur when pursuing private interest has a detrimental impact on society or when my incentive is to under-invest compared to the optimal for the public good



# **Safety nets enable households to invest in their futures**

**To the degree that the underlying problem in investments in schooling or in inputs is that credit markets are insufficient to allow households to make justified investments**

- **In child nutrition**
- **In child schooling**
- **In production**

**Then safety nets raise future incomes as well as increase current consumption**



# **Safety nets help households manage risk: ex-post**

**Provision of SN 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**

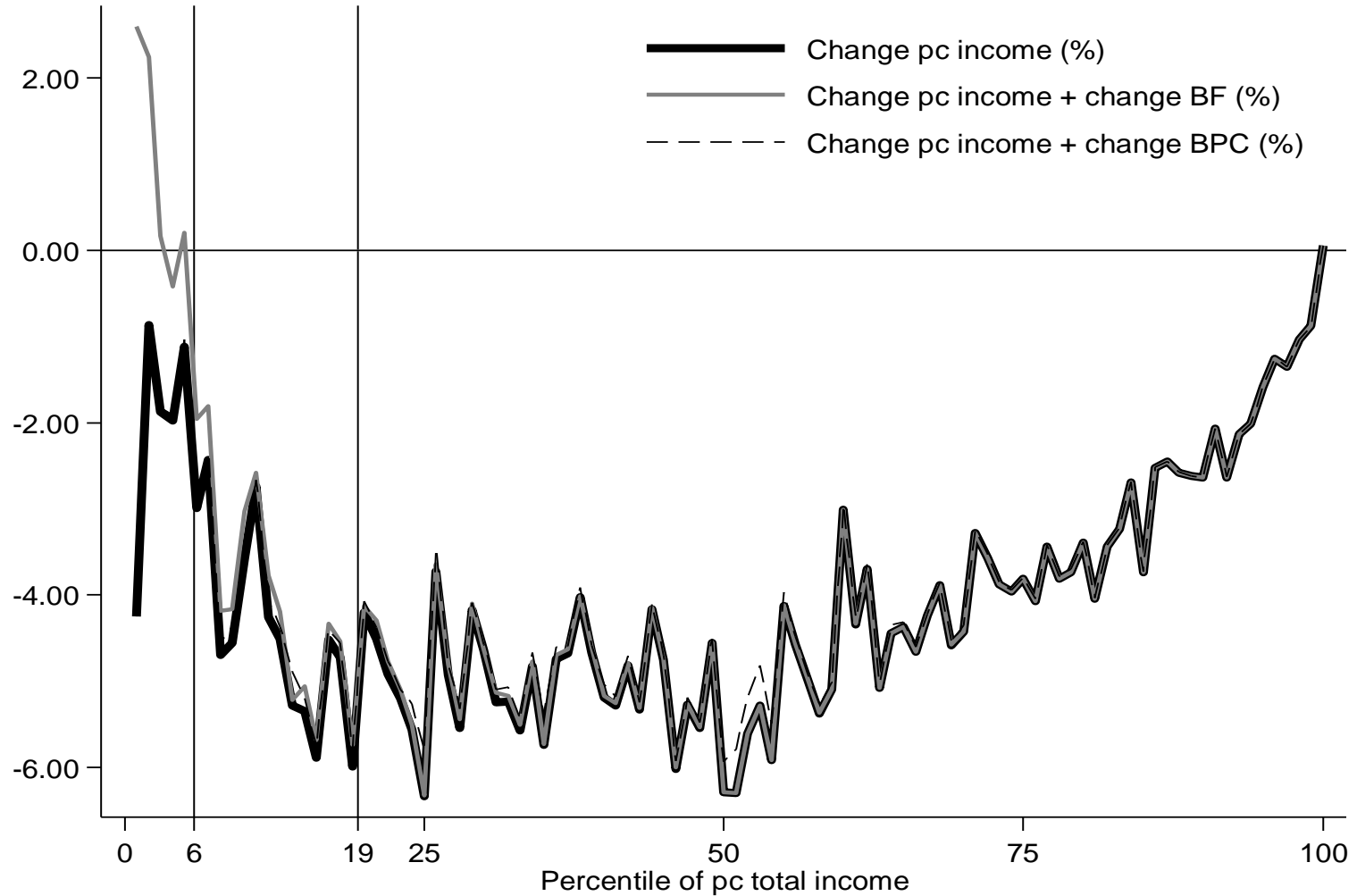
**The bad luck of being born during a drought can leave a child stunted for life.**

**The underlying problem is lack of insurance markets (including limitations of informal assistance), exacerbated by lack of credit markets and lumpiness of assets**





# Example: Brazil Bolsa Familia protected poorest against food price increases





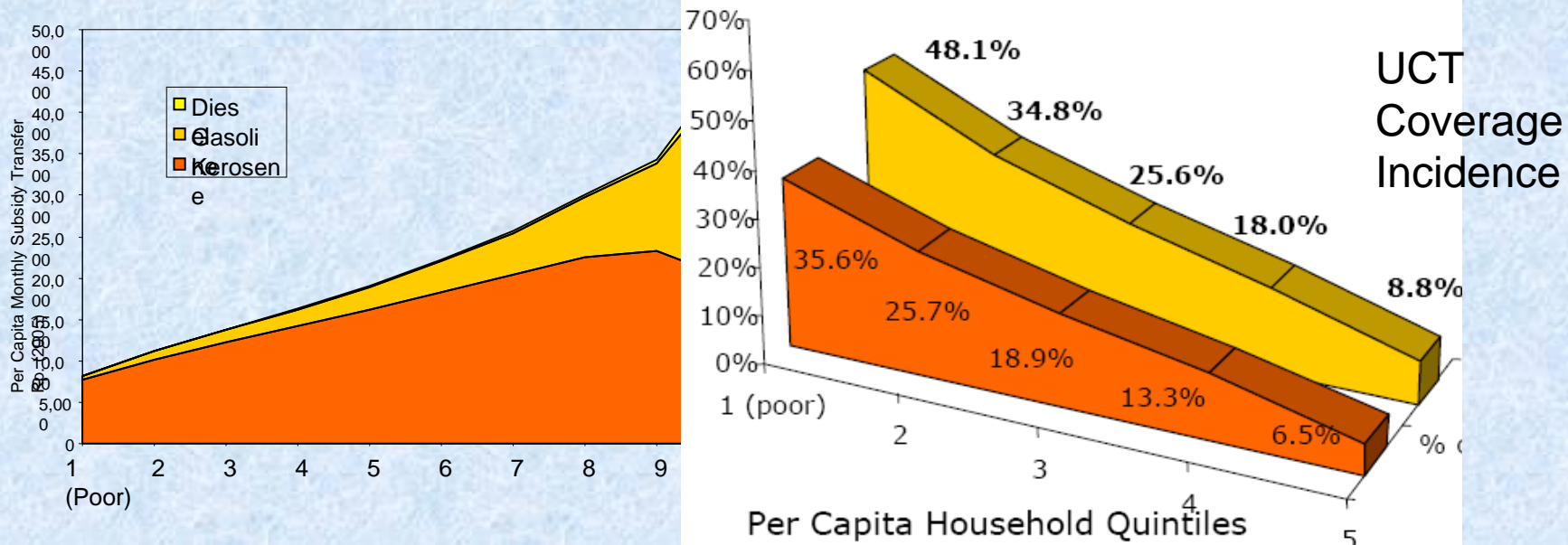
# **Safety nets help governments make beneficial reforms**

**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**



# 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



## **Other examples of safety nets assisting in promoting reforms**

In Mexico, the Pro Campo program provided income transfers targeted to small farmers at the same time as the state was reducing price subsidies in keeping with the North American Free Trade agreement. These the transfers also helped relax credit and insurance constraints and increased production.

Similarly in 2000 Turkey introduced direct income support to farmers as a component of major market reforms.



# How Much is Known about these 4 Roles?

Role	Strength of Evidence	Required elements	How good is current practice?
Reduce poverty and inequality via redistribution	★★★★★	Progressive net benefit	★★★
Enable households to invest –In children’s human capital –In their livelihoods	★★★★★ ★	Transfers to those with unrealized opportunities; maybe threshold effect	★★★ ★
Help households to manage risks –Avoid irreversible losses –Allow higher risk/return activities	★★★★★ ★	Reach hh in time; Credible guarantee	★★ ★
Provide governments room to focus on efficiency in trade, industrial policy		Credible promise or record	★★★



# Placing SN within Larger Development Strategies

Over the next two weeks details of best practice will be presented along with evidence on the impact of SN programs in serving these 4 roles.

There are, of course, other programs that also enable households to invest in children and to manage risk. How, then does one place SN programs in the broader context of the wider range of investments?

The remainder of this session will look at this question by:

- Presenting global patterns of SN budgets
- Discussing economic calculations of benefit:cost ratios for SN as well as limitations of this approach
- Introducing the theme of human rights and political motivations for safety nets



# In most countries, spending on safety nets is modest

Mean safety net expenditures is 1.7% of GDP; median 1.6% of GDP

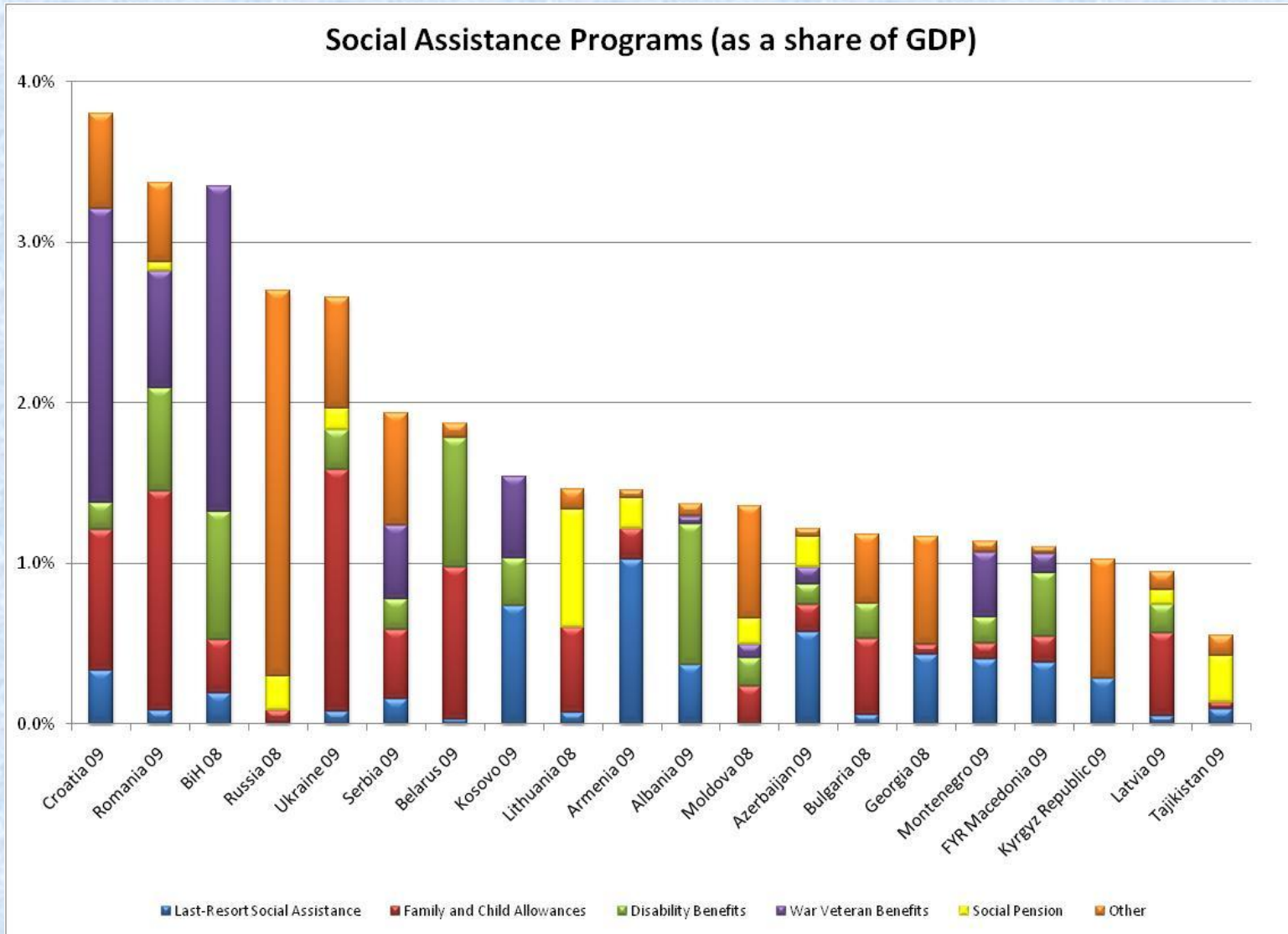
For 2/3 of countries this spending is about 1-2 % of GDP

2% of the GNP of a low income countries is, of course, far less then the same share of a middle income country and has to be allocated over a larger share of poor individuals, hence the need for selectivity.

In many low income countries the majority of this spending is by NGOs and donors



# Example: Europe and Central Asia Social Protection Database World Bank





Social Protection Program	# of beneficiaries (million)	Coverage (% of national population)	Average annual benefit level per household	Fiscal incidence (% of GDP)
Ethiopia: Productive Safety Net Program	8	10%	US\$137 <sup>1</sup>	1.2%
South Africa: All social security grants	15	30%	US\$450-2,000 <sup>2</sup>	6%
Lesotho: Old age grants	0.70	3% <sup>3</sup>	US\$350	3%
Rwanda: Mutuelles des santé	10	91%	US\$ 235 <sup>4</sup>	1.2% <sup>5</sup>
<b>International Comparisons</b>				
Brazil: Bolsa CCT Program	44	25%	US\$84-540	0.5%
India: <i>Maharashtra Employment Guarantee Scheme</i>	8 <sup>6</sup>	n.a.	US\$ 109 <sup>7</sup>	1.5% <sup>8</sup>
Mexico: Oportunidades CCT	28 <sup>9</sup>	25%	Range depending on multiple grants <sup>9</sup>	0.3%

Sources: World Bank (2009a); Bello, Letete, Rapapa and Chokobane (2007); Samson *et al* (2005); Lane (2009); Niño-Zarazúa (2010); Bobonis, Gustavo (2009); Subbarao (2003).

Notes: <sup>1</sup>This is equivalent to 40 percent of the household food basket

<sup>2</sup>The value of the transfers depend on eligibility

<sup>3</sup> 100 percent of the population over 70 years

<sup>4</sup> This is calculated using US\$47 per capita with an assumed household size of five. This is equivalent to total health expenditures

<sup>5</sup> Government/donor contributions to *mutuelles*. Total health expenditure 10.7 percent of GDP

<sup>6</sup> This is based on the program generating over 800 million person days per year, with each person working for 100 days

<sup>7</sup> This is assuming 100 days of work at an average of 48 rupees per day in 2005

<sup>8</sup> If extended to the national level

<sup>9</sup> Equivalent to 8 percent of average expenditures of beneficiary families



# Such patterns, however, are a weak starting point

The data is often misleading since local government expenditure in decentralized systems is often excluded as are NGO programs. One study identified 123 cash transfer programs from 35 African countries. Only a third of these were solely funded by the government; half had no government support at all.

Moreover, the nature of the overall system is not conveyed by budgets. A well integrated systems may look rather different than an uncoordinated set of small programs even if the expenditure levels were the same.

What has been spent or what is being spent is not a strong argument for what should be spent.

In some cases a government may declare a floor or minimum – for example, India aims for at least 2% of GNP – but this is notional.



# An Economic Argument for SN Expenditure

Benefit : cost analysis is a widely used technique to assess programs. While hardly new, it has a recent resurgence among donors.

In principle, any program that provides more benefits than it costs is a candidate for funding.

But as revenue is often limited, comparison of *relative* benefits for a given cost is often used to rank programs

Consider, for example, the following slide based on the website of the J-PAL laboratory that promotes impact evaluation. While this example covers investments in education, benefit : cost ratios have no units and can be compared across different outcomes.



## Extra Years of Education per \$100 Spent

Evaluations	Cost-Effectiveness	Impact: 90% Confidence Interval		
		Lower Bound	Point Estimate*	Upper Bound
<b>Programs</b>				
<b>1</b> <b>Information in Madagascar</b> Giving parents information on the higher wage returns to education caused higher student attendance.	19.8 years	0.19	3.517	6.84
<b>2</b> <b>Deworming in Kenya</b> Deworming children at school decreased absenteeism by 25% and was extremely cost-effective.	6.1 years	4.59	11.25	17.91
<b>3</b> <b>Iron &amp; Deworming in India</b> Children were given iron supplements and deworming pills to fight anemia, enabling them to attend school more often.	2.9 years	0.21	5.8	11.39
<b>4</b> <b>Merit Scholarships in Kenya</b> Merit scholarships for high-performing girls induced all students to attend more regularly.	0.27 years	0.24	3.20	6.16
<b>5</b> <b>Free School Uniforms in Kenya</b> Subsidizing uniforms, a large part of school expenses, increased student attendance.	0.72 years	2.95	6.40	9.85
<b>6</b> <b>CCT for Primary Enrollment in Mexico</b> Families were given cash transfers conditional upon their children attending primary school.	0.032 years	0.77	1.23	1.68

\*Point estimate of the percentage point increase in enrollment/attendance



## **But can Safety Nets be included in such a Comparison?**

In principle, yes. In practice, it is very difficult.

It is not hard to assess the impact of a SN for increasing enrollment or improving nutrition, nor even to place an economic value on such an improvement.

But this is only one outcome of a safety net. The value of the redistribution from a transfer may be the dominant component of the total benefits but this is harder to estimate.

Yet to exclude this transfer is to bias benefits down. Asking is a SN the best way to increase schooling will give a different answer than asking does the combination of improved schooling and increased equity compare to other investments.



# The Human Rights Argument for SN Expenditure

Often proponents of safety nets view them in the context of human rights. A simplistic interpretation of a rights perspective places this in opposition to a technocratic or pragmatic approach, especially in regards to targeting of services and for determining levels.

However, there may be less of a dichotomy than expressed in some debates. For one thing, one needs to define which rights are under discussion.

Occasionally one declares a right to a certain service (for example, education) but for SN the rights that are often sought are in terms of rights to a livelihood. This differs from rights to a specific program. The question then is which programs are more likely to ensure livelihoods and which household are in need of assistance to maintain their livelihood and which are already secure.



# Example: Right to Food in India

In 2001, a NGO in Rajasthan, India petitioned the Supreme Court to use India's food stocks to address hunger citing a clause in the country's constitution ensuring a right to life and personal dignity. The Court directed state governments to provide mid-day meals at schools. A campaign by civil society united behind this ruling and pressed for measures to actualize this entitlement.

India's rights approach illustrates how civil society facilitated movement from slogans to programs with an enabling environment created from the confluence of three features:

- a clear legal basis to establish such a right;
- a means to enforce that framework and
- the fiscal space to maintain an entitlement.

Others add a fourth feature to successful defense of this legal right:

- the capacity to reach the intended beneficiary.

Much of the next few days will focus on this fourth element of similar programs.



# Financing of Safety Net Programs

Basic economic theory argues that financing is separate from expenditure decisions. While all taxation involves economic distortions – deadweight costs to the economy – revenue collection should seek to minimize these.

But from a political perspective, a *dedicated* revenue source may provide ring-fencing of a program as well as make the taxation more politically acceptable

Ex: The Indian state of Maharashtra financed public works from an earmarked tax of payrolls

Similar protection of a program may come from declaring an “entitlement” in which the government commits to providing a benefit to any individual or household that qualifies. Such entitlements have first claim to revenues.





# **Vision of a Good Safety Net: Six 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 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.



## 4. Cost Effective

- Build and refine capacity over time
  - Bad examples: many start/stop donor-funded ‘emergency’ public works programs in Africa; a plethora of CCT pilots in Cambodia
- 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 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 incentives to work due to “clawback” of assistance 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: Global Experience

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

- Few programs are directly 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 targeted to those not meant to work: children, elderly, disabled
- Countries beginning to use sophisticated tools to manage disincentives



## 6. Making programs 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; does the public view poverty as individual weakness or bad luck?
  - Established record of transparency, effectiveness, impact
  - Considers both demand for inclusion by middle class as well as demand for fairness (tied to transparency)
- **Factors contributing to ADMINISTRATIVE sustainability**
  - Appropriate set up of institutional responsibilities and incentives
  - Adequate administrative budget and capacity development