

# Protecting the Vulnerable:

## The Design and Implementation of Effective Safety Nets



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# **Safety Nets in Very-Low- Income Countries**



**What Role for Public Transfers  
When Almost Everyone (and the  
State) is Poor?**



# *Safety Nets in Very-Low-Income Countries*

- The basic problem: the countries that most need SNs can least afford them.
- Looking at lowest income countries \$100-300 p.c. (eg. Chad, Niger, Ethiopia, Nepal)
- When “Almost everyone is poor” is there any identifiable group out there it is worth targeting?
- Can we find them?
- Can program choice & design overcome fundamental constraints to have a workable SN program?

# Safety Nets and Growth (I)

Minimum GDP growth required to prevent an increase in the number of poor - under given population growth (%)

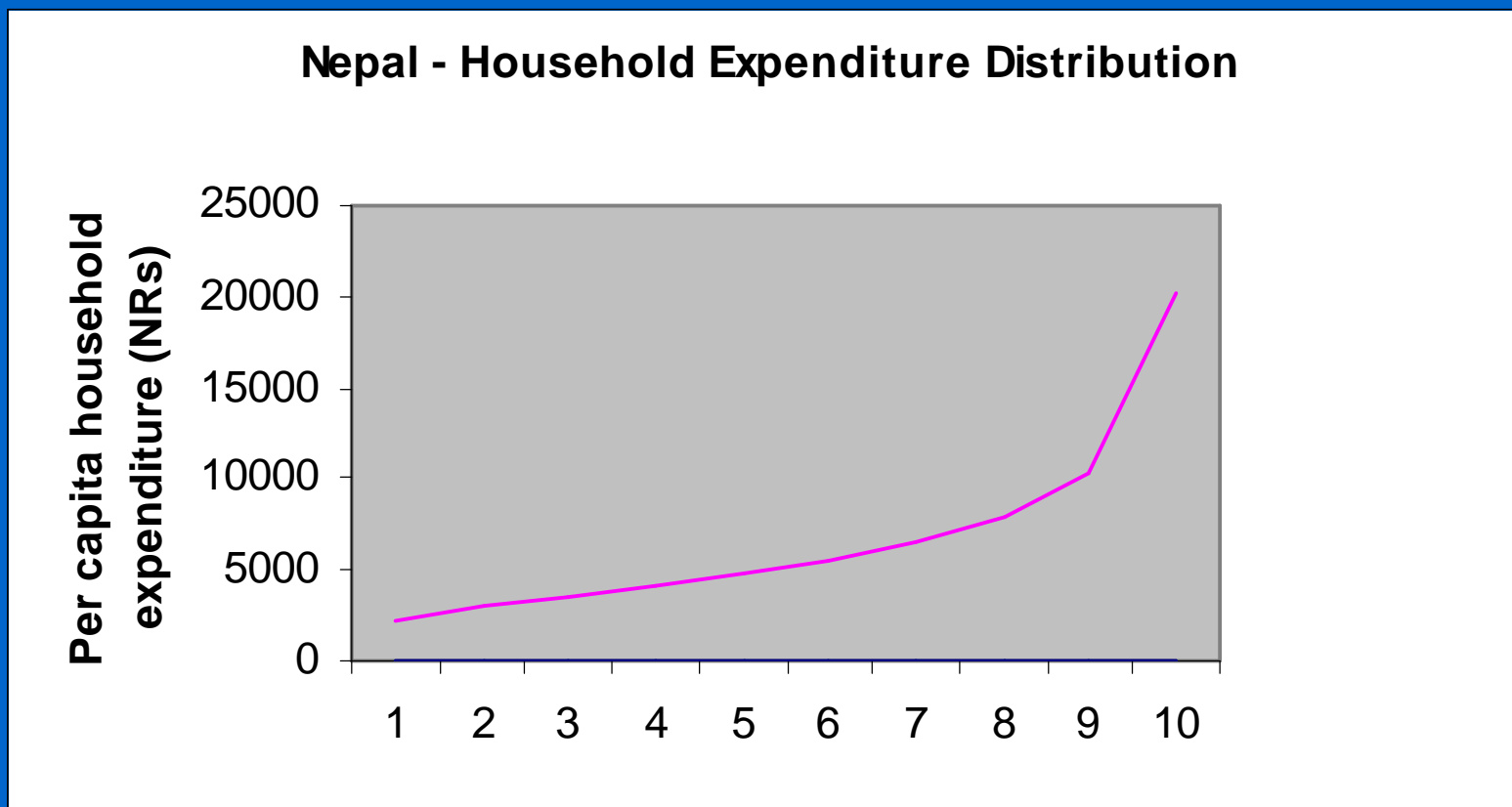
<u>Country</u>	<u>Population growth rate:</u>		<u>Actual growth</u>
	(2.5%)	(3.0%)	<u>1981-91</u>
Tanzania	6.5	7.8	3.3
Malawi	5.8	7.0	4.0
Rwanda	4.2	5.0	0.8
Senegal	5.8	7.0	3.5

## Safety Nets, Poverty and Growth (II)

### Some recent poverty thinking:

- Income distribution matters for growth....
- Distribution of *assets* matters more.
- Growth helps the poor, but level of investment is most important - implication?: transfers, but not at cost of investment.
- Transfers themselves as an investment, in human capital - eg. nutrition, education,

# Objectives: Safety Nets and Income Distribution (I)



## Objectives: SNs and Income Distribution (II)

	<b>Poorest 10%</b>	<b>Next 10%</b>	<b>Bottom 50%</b>	<i>Ratio of Poorest to Next Poorest Bottom 50%</i>	
Mali	11.5	18.7	23.9	.61	.48
Niger	5.0	11.6	19.9	.43	.25
Tanzania	29.6	42.1	51.1	.70	.58
Ethiopia	327	464	549	.70	.60
Nepal	2152	2987	3540	.72	.61
Malawi	101	246	417	.41	.25

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## Objectives: SNs and Income Distribution (III)

### Landholding among the Poor - Malawi

**All Rural Population    0.79 ha.**

**Poorest 50%                0.53 ha.**

**Poorest 10%                0.25 ha.**

## Objectives: SNs and Income Distribution (IV)

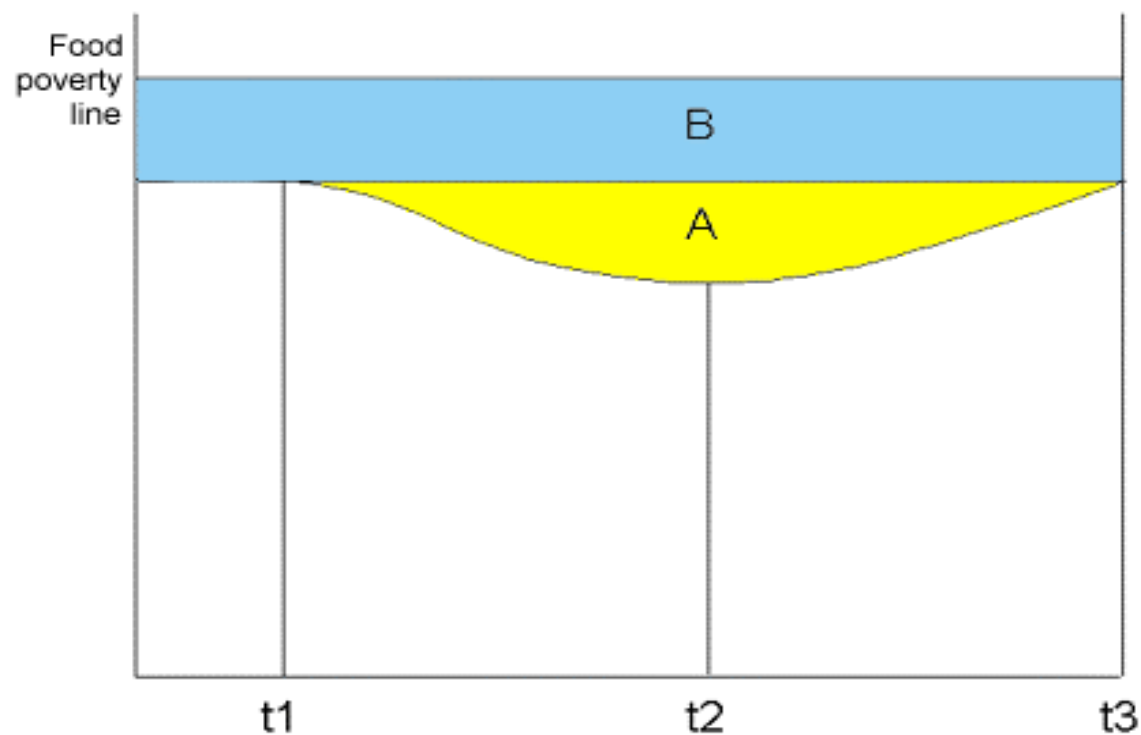
- Can we define some ‘minimum’ level of support for the poorest?

### Fiscal cost of Closing the Food Poverty Gap

	<u>GNP p.c.</u>	<u>Fiscal cost</u>
	(1995 US\$ p.c.)	(% of GDP)
<b>Nepal, 1995</b>	<b>211</b>	<b>15.1</b>
<b>Niger, 1993</b>	<b>200</b>	<b>2.4</b>
<b>Madagascar, 1993/94</b>	<b>225</b>	<b>9-11</b>

# Objectives (V): The Risk Reduction Function

Figure 1. Filling food poverty gap versus protecting shortfalls in food consumption



Policy A: Defend a food poverty line. Transfer equals  $A + B$ .

Policy B: Defend only precipitous falls in food consumption. Transfer equal to  $A$ .

## Underlying Economic Analysis (*Summary*)

- (1) The persistent large number of poor, and the depth of their poverty, justify the need for some form of safety net intervention;
- (2) Recent research suggests that improved distribution helps the poor – but can't be at the expense of investment (so need to minimize trade-off)
- (3) Survey data shows there *is* a distinct group of ultra-poor, even in very poor countries.
- (4) Trying to raise them out of poverty (for example, by closing the food poverty gap) is unaffordable, so need to look at other options...

## Possible Objectives: Risk Reduction

- **Types of Risks:**
  - **Macro, liberalization: unemployment, price shocks (esp. food, fertilizer)**
  - **Drought**
  - **Seasonal - shortages, price increases**
  - **Age and infirmity**
  - **AIDS, loss of breadwinner, orphanhood**
- **Insurance function: judicious transfer allows the poor to take on extra risk...**

## Possible Roles for Safety Nets in Very-Low-Income Countries

- **Some possible roles for SNs in VLICs:** *(>>>probably skip this slide)*
    - fill deepest part of poverty gap
    - smooth consumption
    - protect against major shocks
    - insure against individual risks
    - as an investment
- Need to match with what is possible....**

# Three Constraints to Safety Nets in Very-Low-Income Countries

- **The Information Constraint**
- **The Administrative Constraint**
- **The Fiscal Constraint**

## What Is Possible? (I)

### The Information Constraint

- Information - not known, expensive (eg. pensions elsewhere)
- Proxy indicators eg. demographic, dwelling
- Link to another program (eg. PWP, nutrition)
- 3 Ways around the Information constraint:
  - Self-targeting
  - Community targeting
  - Universal programs

## What Is Possible? (II)

### The Administrative Constraint

- Weak capacity, labour-intensive, supervisory staff
- Policy implications?
  - *Choose simple program designs*
  - *Simple, repetitive steps, sustain over a long period*
  - *Choose a few simple, nationwide programs*
  - *Explore possibility of using existing administrative systems.*

## What Is Possible? (III)

### Community Targeting

- **Communities, or representatives identify beneficiaries (subject to criteria), deliver benefits**
- **Information may be better, lower cost**
- **Risks: favoritism, difficulties of inclusion/exclusion; divisive. Administrative support.**
- **Remarkably little experience - Rajasthan, Malawi, Uzebekestan**
- **Generally limited (eg. Armenia) , jury still out.**

## What Is Possible? (IV)

### The Fiscal Constraint

- Typically VLIC spending \$50-75 p.c. p.a.
  - Illustratively: \$20 per annum (\$1.67/month) to 40% below poverty line = 21% of public spending; not affordable.
  - No way of defining ‘right’ mix, but question: efficiency and cost-effectiveness of other spending: if composition bad, or effectiveness low, possible argument for spending more on direct transfers
- “We can’t do worse, and possibly better, by putting money directly in the hands of the poor”?

## What Is Possible? (IV)

### *The Fiscal Constraint (Con't)*

	<b>\$10 p.c to Poorest 25%</b>	<b>Approx Total Health</b>	<b>Spending On Education</b>
<b>Chad</b>	<b>\$ 18 m.</b>	<b>\$ 39 m.</b>	<b>\$ 27 m.</b>
<b>Malawi</b>	<b>\$ 28 m.</b>	<b>\$ 65 m.</b>	<b>\$ 125 m.</b>
<b>Nepal</b>	<b>\$ 58 m.</b>	<b>\$ 66 m.</b>	<b>\$ 162 m.</b>
<b>Tanzania</b>	<b>\$ 80 m.</b>	<b>\$ 87 m.</b>	<b>n.a.</b>

## Program Choices (I)

- Cash Transfers - Selected, Universal (eg. pensions, unemployment)
- Food Programs - Free Dist'n, Food-for-Work, Food Stamps, School Feeding.
- Food Subsidies
- Agricultural Inputs - Subsidies, Free Packs
- Nutrition Programs - Child nutrition, micro-nutrient supplementation
- Fee Waiver Programs - Education, Health

## Program Choices (II)

**(1) Public Works:** self-targeting, create assets, counter-cyclical;

- Expensive (\$2/\$1 transferred); critical get wage rate right; create 'good' assets.

**(2) Cash transfers:** generally not appropriate -

Pensions - info.; Unemployment; Social assistance: income measurement, large pool.

- potential for very targeted (eg. orphans, disabled), but even then problems - identify, target; not all orphans poor.

# Program Choices - (3) Food & Feeding Programs

- **Food subsidies** - unaffordable, Sri Lanka 5% GDP; generally switched to targeted - cost savings, targeting efficiency improved.
- **School Feeding** - difficult to target w/in schools, expensive if universal, disruptive; possible geographical, food-for-ed'n.
- **Free Distribution** - common - drought, donors. Distort markets, create dependency, leakage to non-poor, cumbersome. Justified in limited cases (Nepal); Recommend: restrict to emergency. What to do w/ food aid? (eg. WFP) monetize? Or channel to PWP or child nutrition for targeting; or community-based transfer programs (eg. for orphans, if exist).

# Program Choices - Food & Feeding Programs (Con't)

## Seasonal Price/Supply Smoothing

Potentially attractive in VLICs. Options: NFR, buy surplus, release stocks; controlled food grain prices, explicit seasonal subsidization.

**Risks:** captured by non-poor (urban consumers, middle-men for re-sale)

- gov't cannot afford to intervene on sufficient scale (high cost, ultimately ineffective)
- discourages dev't of private markets

**Prefer:** Arms length interventions, buy-sell at commercial prices, influence aggregate supply, only where markets not functioning

# Program Choices (IV)

## Agricultural Inputs

- Subsidies - (Generally fertilizer) - regressive, expensive, distortionary.
- Free Packs “Multiplier” effect (eg. Malawi, \$15/\$10), Mexico (1.6-2.4); compensates for market failures.
- Rules of thumb: keep small; vouchers preferred to commodity distribution; targeted preferable, but difficult.

# Conclusions (I)

- **SNs appropriate in VLICs** given depth & severity, but choice depends on degree of uninsured risk; feasibility of identifying; needs to be tailored to constraints.
- **Use SNs to fund investments** that will contribute to longer-run growth (eg. PWP roads, irrigation); fee waivers (education)
- **For pure transfers, be selective:** of very specific groups (disabled, street children, orphans) limits costs, increases support.
- **Choose transfers that have a multiplier effect**
- **Choose self-targeting interventions**

## Conclusions (II)

- **Judicious *timing* of transfers is important**  
(eg. provide funds at planting time, lean-season employment)
- **'Leverage' safety net spending** - eg. by insuring against risk, avoid asset sales; allowing diversification)
- **Use safety net expenditures to simultaneously contribute to long-run human capital development.** (eg. child nutrition programs; fee waiver programs in education)
- **Keep it simple** - tailored to administrative constraint - 1 or 2 nationwide programs, sustained over a long period