

Protecting the Vulnerable:

The Design and Implementation of Effective Safety Nets



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Outline

- Rationale
- Benefits and Costs
- Financing and Scale of Operations
- Wage rate and targeting
- Labor intensity
- Cost-effectiveness; Targeting Effectiveness

Outline.....

- **Implementation Issues**

- who finances

- who executes

- who maintains the assets created

- Evaluation:**

- Impact on incomes, poverty and social life

Rationale..

- Quite effective in consumption-smoothing,
- Can perform both an insurance function and a redistribution function,
- Can be rendered complementary to growth (via infrastructure building),
- Potential for self-targeting,
- Potential for regional targeting,

Rationale....

- Potential for encouraging private sector participation via contracting specific activities,
- Very helpful in post-conflict situations,
- World-wide experience, including OECD, Africa, Latin America, South and East Asian countries.

Benefits and Costs

- Benefits
- Transfer benefits = wage rate, net of
 - transaction costs
 - foregone earnings
- Stabilization benefits = depends on timing
 - ..More if program's timing synchronizes with agricultural slack seasons,
- Second round benefits from assets.

Benefits and costs..

- Costs to the government
- Administrative costs
- Wage costs
- Non-wage cost
- Need to remember opportunity cost as well
- Two key concepts: Cost per job created, and cost per \$ 1 of income transferred.

Financing....

- If entirely aid-financed, advantage to workers is straightforward.
- If financed out of general tax revenues, examine the counterfactual:
 - would workers have benefited more (less) from alternative ways of spending,
 - is the program being extended at the expense of other activities providing non-labor income

Financing...

- Finally there is yet another source ... a special tax on the employed -- the resources are then used to finance employment of the unemployed (India's Maharashtra Employment Guarantee Scheme -- MEGS)
- Each of the sources and magnitude of finance have implications for the scale and duration of the program....

Scale of operations:PDE

- Botswana: 1992-93: 7 million person days
- Ghana: 1988-91: 0.5 -do-
- Kenya: 1992-93: 0.6 -do-
- India National: 1994 800-900 -do-
- Bolivia: 1987-90 8 - 9 -do-
- Chile: 1987 40 – 45 -do-
- Egypt: 27-30 -do-

Percent of labor force employed..

- High in Chile, Bolivia, Botswana, but not high in India, Bangladesh.
- A third measure is in terms of person days of employment per person -- hard to get this information.
- About 50 days in India's national program, and 110 days in India's MEGS

Indirect employment effects...

- To get the total employment effect, one needs to:
 - **(a) add** employment generated from assets, **and**
 - **(b) deduct** opportunity job costs or foregone employment
- Hardly any estimates of (a).
- On (b) evidence for India's MEGS suggests the magnitude is not high.

Wage rate.....

- The level of the wage rate is critical for determining ***distributional*** outcomes,
- To ensure program reaches the poorest, keep program wage no higher than the ruling market wage for unskilled labor,
- Not easy where minimum wage is enforced,
- Not surprisingly, varied experience.

Public Works: Program Wage (PW), Minimum Wage (MNW) and Market Wage (MW) in Selected Countries

Country/Program	PW in Relation to MNW and/or MW
1. Bangladesh: Cash For Work, 1991-92	$PW < MW$
2. India: (a) Cash For Work, JRY, 1991-92	$PW = MNW > MW$
(b ₁) MEGS: up to 1988	$PW = MNW < MW$
(b ₂) After 1988	$PW = MNW > MW$
3. Pakistan: IGPR* III, 1992	$PW < MW$
4. Philippines: Cash For Work 1990	$PW > MW$
Food For Work 1987	$PW^{**} > MW$
5. Botswana: Cash For Work	$PW < MNW$, but $> MW$
6. Kenya: Cash For Work, 1992-93	$PW = MNW > MW$
7. Chile: Cash For Work 1987	$PW < MNW = MW$

Food for works...

- **Kenya:** Designed to utilize 800 workers per month to build assets and distribute food without diverting labor from farm activities. Program financed by WFP, GOK and WB.
- Unfortunately program wage as % of market wage unavailable; difficult to evaluate outcomes and targeting effectiveness.

FFW: Zimbabwe

- Food Wage was set at a low level;
- Main the poor participated; highly successful in ensuring food security during drought years; the poorest received 33% of income from FFW; average cost per person employed was \$0.91 per day.
- Converted to emergency relief employment program during massive drought of 1992 and expanded five-fold; quality suffered.

FFW: Niger..

- Initiated in 1973-74 and continued for some years; Extremely low food wage; poorest poor (women 60-80%) participated; operated through NGOs; poorest derived 20% income from FFW
- Following the financial crisis, Korea introduced PW in 1998 with a careful eye on the design of the program.

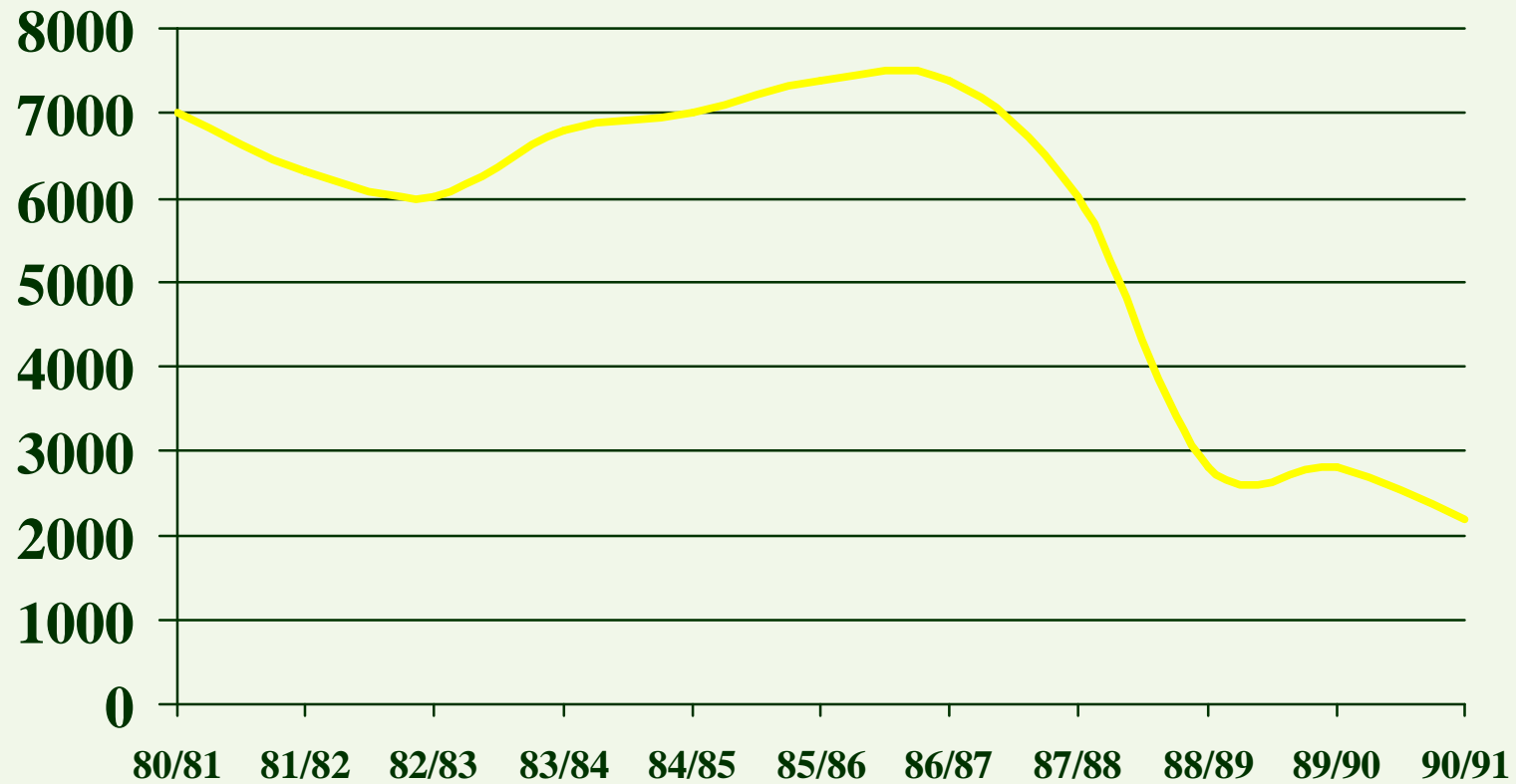
Level of the wage rate.....

- South Africa's experience is worth noting: evidence from 101 Western cape public works projects, only 36% managed to offer wage lower than the prevailing market wage.
- In Argentina, discretion given to local communities. Some managed to even lower wages to promote self-selection.

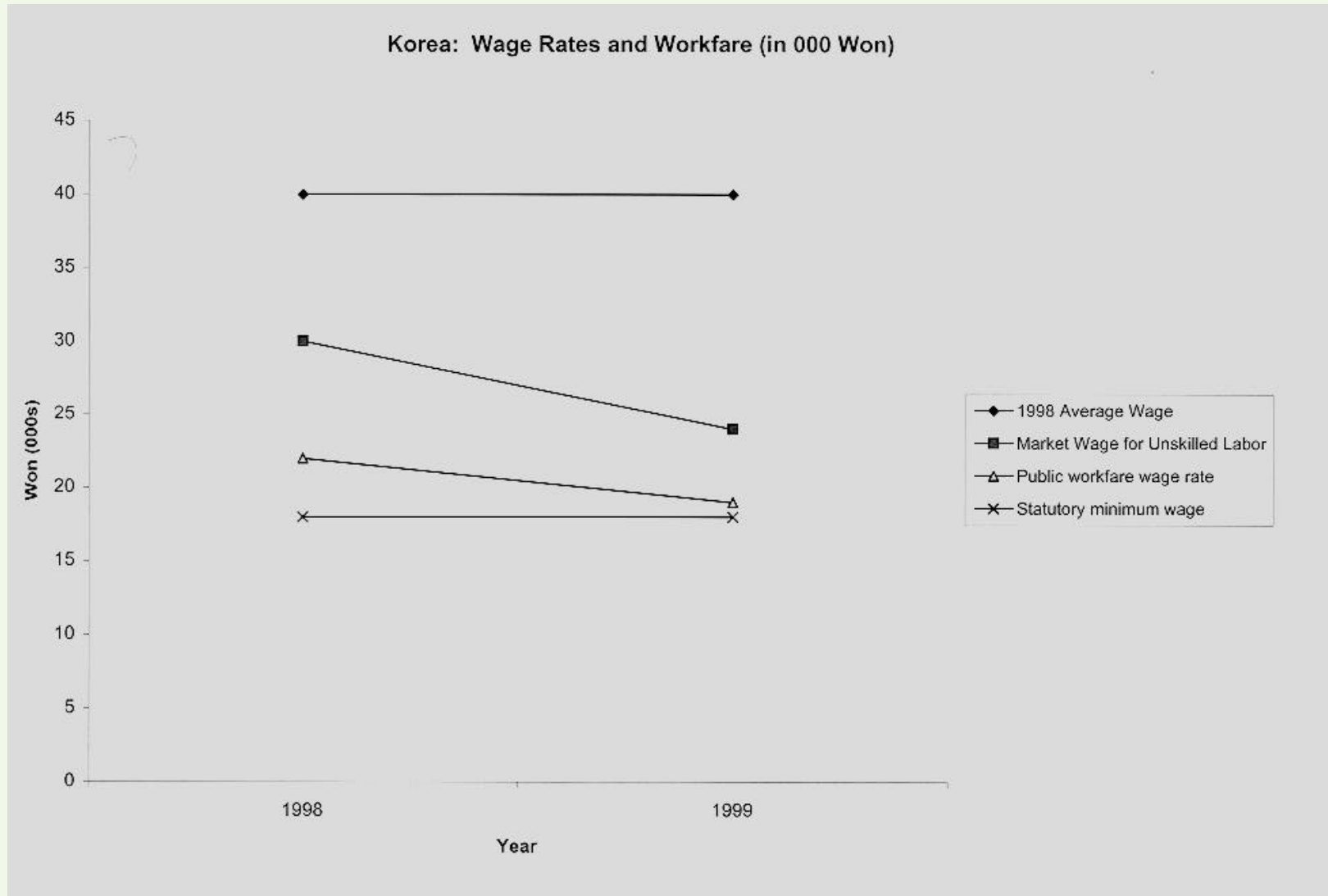
Wage rate, targeting and transfer gains

- Evidence is overwhelming that a relatively high wage rate attracts the non-poor to the program and reduces distributional gains (Kenya, the Philippines, India)
- A relatively high wage leads to job rationing and even abuse of the program,
- See Figure 1 on MEGS

MEGS Labour Attendance



Getting the design right.....

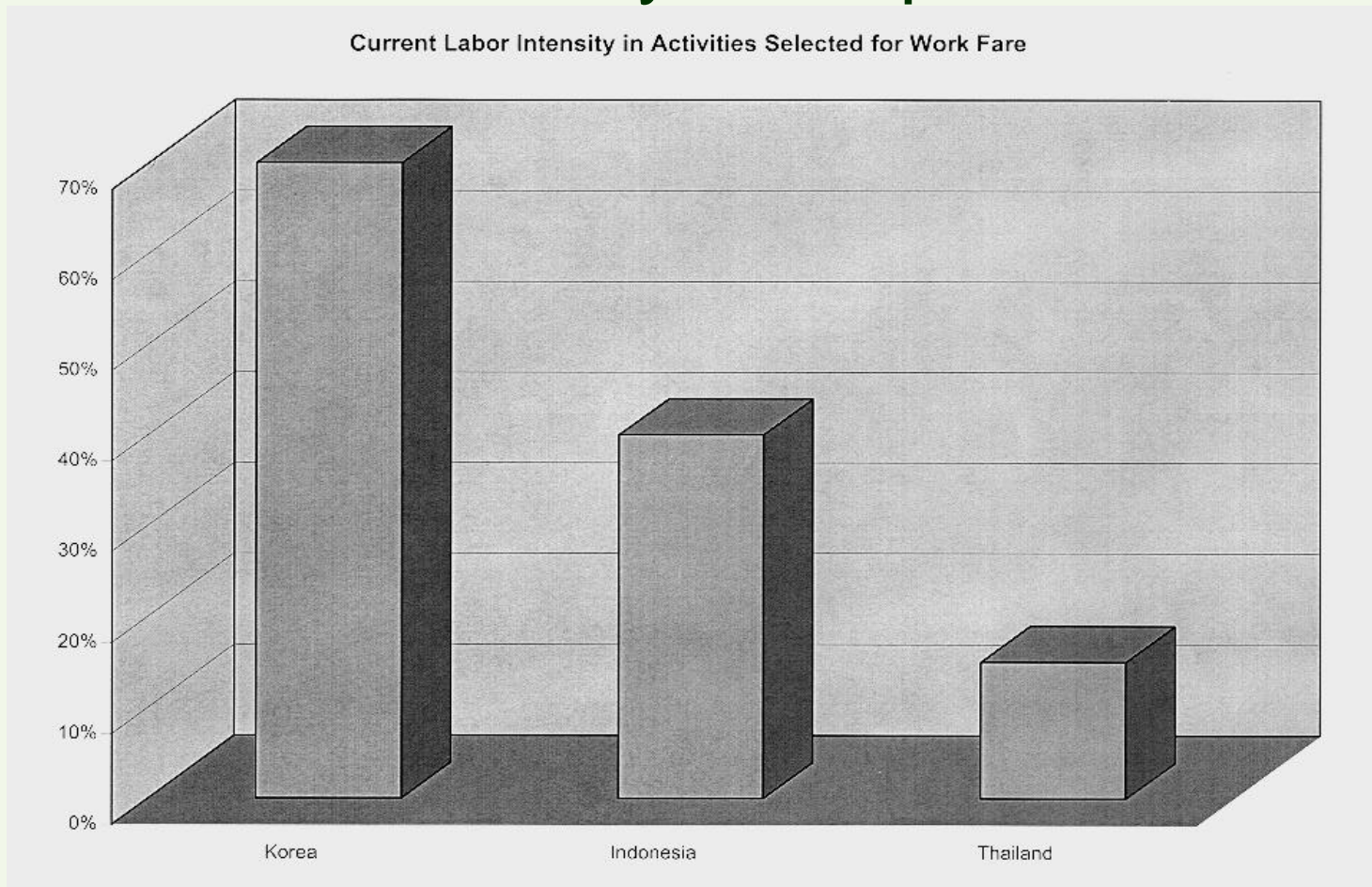


Share of wages...

- Typically in low-income countries, it varied between 0.3 to 0.6; 0.7 in Korea; 0.2 in Thailand, 0.8 in ECA countries.
- Depends on the nature of the asset being created, and the agency executing the program,
- Not much control over this if private contractors execute the program.

Getting the design right.....

- A labor intensity of 70 percent



Cost-effectiveness.....

- How much does it cost to transfer 1\$ of income to the poor?
- Depends on:
 - labor intensity,
 - Wage rate
 - Foregone income,
 - Current and future gains from the program.

Cost-effectiveness...

- Martin put all these factors together nicely into a simple formula and, using parameter values comparable to low and middle-income countries, derived ball-park numbers:

	Low	Middle
• Current earnings only:	\$3.60	\$5.00
• Current+future earnings:	\$2.50	\$2.50

Cost-effectiveness.....

- What does this tell us?...
- Public workfare could be an expensive way of transferring income, unless future gains from the assets created are factored into. It means one needs to worry about quality of assets created, maintenance, etc. --- implementation issues.....

Targeting effectiveness....

- In terms of reaching the poor, how does public workfare compare with other anti-poverty/safety net interventions?
- Hard to find such a comparative evidence. The only country for which we have evidence is India. Martin exploited a household data set to look at this issue - discuss Martin's findings.

Targeting effectiveness....

- While in a relative sense PW may be better than other interventions in reach the poor, in an absolute sense it may not be the case if the wage rate offered were higher than the market wage -- Kenya, the Philippines evidence for example.

Implementation issues.....

- Who finances.....
- Who executes...
- Who maintains the created infrastructure..
- New delivery models are gradually replacing the traditional government-financed, government-executed, and government-maintained model.

Evaluation of impacts....

- Unfortunately, rigorous evaluation of public workfare program is available only for India and Argentina. Availability of data the critical binding factor in evaluation. Without household data sets, you can't analyze the counterfactual: what would have been the welfare position in the absence of the intervention.

Evaluation of impacts...

- India results:
- Nation-wide program: 60 - 70% of participants belonged to poor households.
- MEGS: The program contributed to a fall in the severity of poverty from 5.0% to 3.2% (Datt/Ravallion, 1992),
- Significant social gains: reduced sexual barriers; economic status, power to women.

Evaluation of impacts...

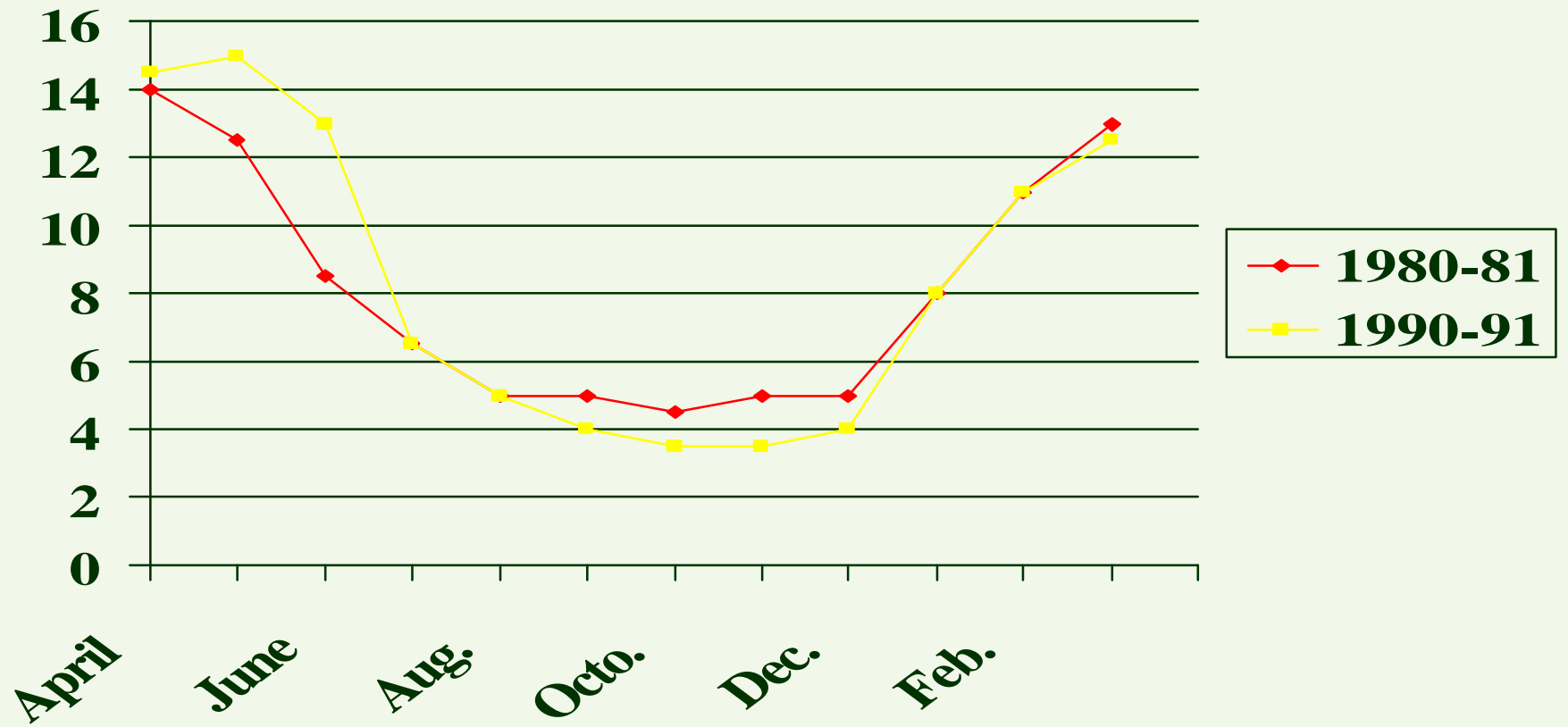
- Argentina results...(Trabajar program: evaluation after 18 months):
- Targeting performance: after taking into account foregone income, 50% of beneficiaries came from the bottom 10%, and 80% from the bottom 20% of the income distribution.
- Net income gain was about 1/2 wage paid.

Lessons from experience...

- First, politics do influence beneficiary and project selection (in Argentina as much as in India, Kenya, and the Philippines),
- Providing jobs can take precedence over project quality pretty much in all countries,
- Important to design program rules that discriminate in favor of the poor and women(quick payment, piecerates, location)

Lessons....

- Time the program when the poor's opportunity cost is low (slack seasons), see Figure 2 MEGS data.
- Minimize transaction costs of participation (bribes, transport costs),
- Maintain competition between scheme providers (government/municipalities/NGO and private contractors)



Lessons.....

- Improve the scheme's integration into the locality by forming pressure groups of participants, and enhance their capacity to come to mutual agreement on a shelf of projects,
- Evaluate outcomes periodically, maintain a baseline on participants and control groups.