

Protecting the Vulnerable:

The Design and Implementation
of Effective Safety Nets



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Cash Transfers

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Categories of Cash Transfers

Types:

- Social Insurance vs. Social Assistance
- Entitlements vs. Conditional Transfers
- Universal Vs. Means-Tested
- Residence Vs. Employment-Related
- Private cash transfers: formal and informal
- Near-cash transfers (ie. marginal food stamps)
- Area development funds, micro-insurance and micro-credit

How do they differ?

- Risks Covered
- Assistance Duration
- Cost-sharing
- Institutional Complexity
- Targeting Requirement
- Incentive Effects
- Wider social benefits and “spring board” effects
- Political Support

Cash Transfer Types

- Coverage: compulsory or contributory. All pool-risk.
- Benefits: earnings-related or social-adequacy based
- Classical “urban” systems: old age, disability, death, sickness, maternity, medical care, employment injury, unemployment, family
- Social Assistance: minimum income guarantee, disaster relief, income support for hardcore poor, conditional transfers
- Financing arrangements:
 - Pay-as-you-go: contributions equal outflow
 - General average premium system: high constant rate ensures indefinite financial equilibrium
 - Scaled-premium system: contribution rate is gradually increased in later years on a step-by-step system

How important are cash transfers?

- Coverage: less than 10% in Africa and Asia, 15-60% in Latin America, 20-25% in N. Africa and 50-80% in the transition states. Mainly social insurance.
- OECD states spend 8% of GDP on cash entitlements while only a small number of Latin American and Near-Eastern nations devote more than 1% of GDP to cash transfers.

Why low coverage?

- Fiscal and administrative constraints
- Priority accorded to development spending over transfers to combat poverty
- Private transfers deemed to be more cost-effective in smoothing consumption;
- High marginal collection costs and efficiency losses from taxation;
- Many “near” and “sometimes” poor makes transfers difficult to target effectively.

Role is increasing

- Minimum income guarantees introduced in several low-middle income countries
- LAC conditional transfer programs shown to complement growth
- Patchwork safety nets evolving into social protection systems in many post-crisis states
- Globalization of social protection and assistance in middle-income, regional trading bloc countries.

Cash vs. In-Kind Transfers

- Can't self-target: is no “inferior” cash
- Market friendly: rely on beneficiaries knowledge of what their own needs are;
- Lower stigma attached to receipt and use of cash.
- Less risk of distorting markets or causing unanticipated income distribution effects.
- Higher “net transfer” for each level of allocation, but value may erode due to inflation.
- Can stabilize spending over the cycle, but can also weaken fiscal discipline.
- Administration: high fixed costs but lower operating costs. Fixed costs depend on state of financial and administrative services.
- More vulnerable to mal-governance: require better fraud safe-guards
- Politicians may not want to fund de-merit good consumption. Their patrons may want to use transfers to expand markets for their goods.

Assessing Cash Transfers

- spending doesn't measure adequacy or effectiveness;
- assess as a package, net of tax;
- Both the direct and indirect poverty reduction impacts are important
 - resource transfer and resource mobilization cost
 - incentive effects
 - external effects (including payoffs due to equity, harmony, social solidarity)
- Each scheme has its own targeting (transfer effectiveness), incentive (externality), administrative and political economy features.

Cash Transfer Programs: Key Features	Main Funding Source	Targeting Difficulty 1 to 3	Adverse Incentive Risk	Typically operated in which setting	Budget Burden in mid-income developing nation	Ability to Cushion Shocks
Insurance-Type						
Unemployment	Payroll	2	Moderate	Urban, formal sector	Low	Moderate
Work-Injury	Payroll	2	Low	Urban, formal sector	Low	Moderate
Death and Disability	Payroll	1	Low	Urban, formal sector	Low	Moderate
Illness	HH/Payroll	2	Moderate	Urban, formal sector	Low	Moderate
Pregnancy	Payroll	1	Low	Urban, formal sector	Low	Moderate
Micro-Insurance	Community	2 to 3	Low	Rural hinterland	Low	High
Private Pension	Payroll/HH	1	Low	Largest urban firms	Low	Moderate
Cash-Assistance						
Family Transfers	Govt.	1-2	Low	Europe plus LAC/Magreb	High	Low
Minimum-Income Guarantees	Govt.	3	Moderate	Europe plus LAC/Magreb	Moderate	Moderate
Grants to Poor Families (or to female headed households)	Govt.	3	Moderate	Middle-to-upper income states	Moderate	Moderate
Utility Bill Offsets	Govt.	2	Moderate	Transition states	Moderate/High	Moderate
Conditional Education Grants	Govt.	2	Low	Mainly LAC states	Low/Moderate	Low
Public Pension	Govt.	2	Low	Some African states plus most upper-middle income states	Low	Low
Disability Allowance	Govt.	1-2	Low	Allowance to care provider in low-income states	Low	Moderate
Orphan Allowance	Govt.	1-2	Low	Allowance to care provider in low-income states	Low	Moderate
Widows/Widowers Allowance	Govt.	1-2	Low	Selected middle income states	Low	Moderate/High
Indigent Allowance	Govt.	1-2	Moderate	S.Asia and China plus selected mid-income states	Low/Moderate	Low/Moderate
Natural Disaster	Govt.	1-2	Low	Universal	Moderate	High
War-related loss	Govt.	1-2	Low	Universal	Moderate	High

Reaching those in the Informal Sector (Fostering Subsidiarity)

- “Third Way” programs: micro-insurance build on micro-credit, cooperatives and HMO type services
- builds on self-help groups, limited risks—funeral, illness, wedding, childbirth, schooling and coverage: emergency reinsurance, arbitrators and mutual insurance funds help risk management (Philippines NATCCO-SEDCOP, SEWA Trade Union in India for life/asset insurance)
- Risk-based social insurance—new forms of crop insurance
- Minimum social pensions and social protection window in social fund (ex: Thai Social Investment Fund, Menu 5)
- Public policies to “legalize” social insurance, foster income diversification and smooth labor demand

Reaching those in the informal sector: inclusive approaches

- Extending coverage of official social insurance and social protection programs to small businesses, self-employed, farmers and others
- Universal catastrophic risk coverage (ie. Vietnam Contingency Fund for Pre-Harvest Starvation and Disaster Relief)
- Universal pensions and health coverage (note: will mean shifting financing mode)

Well-designed cash transfer programs

- Respond to market failures and well-understood poverty and vulnerability risk (address idiosyncratic risk: illness, old age, widowhood, destitution, hunger)
- Expectations are reasonable and programs coherent
- The needy do benefit from the program
- Financing strategy has a progressive incidence
- Assistance doesn't "trap" the poor in poverty or discourage them from working
- Assistance contributes to social integration and overcoming gender discrimination
- Administration is cost-efficient but effective
- Political support is sufficient to sustain programs

Programs well-matched to poverty and vulnerability risk

- Categorizing poverty risks
 - Possible shocks, adverse event, condition impacting on vulnerable groups (type, severity, predictability, many more are vulnerable than poor, private risk-management likely to be inefficient and constrained)
 - Are there market mechanisms to manage such risks?
 - Adequacy of private transfers to manage risk
- Match program type to poverty and vulnerability risk
 - Risk-coping vs. risk-prevention
 - Risk-group focused; Reaching the most vulnerable?
 - Single vs. multiple risk coverage
 - Coverage as a transfer or user-financed risk management

Reasonable Expectations

- Cash transfers don't "solve" poverty or eliminate risk
- Some benefit leakage will occur
- Number of programs will be held down to minimize overlap and reduce high overheads
- Urban-bias in target groups happens and can be partly countered (need urban allies)

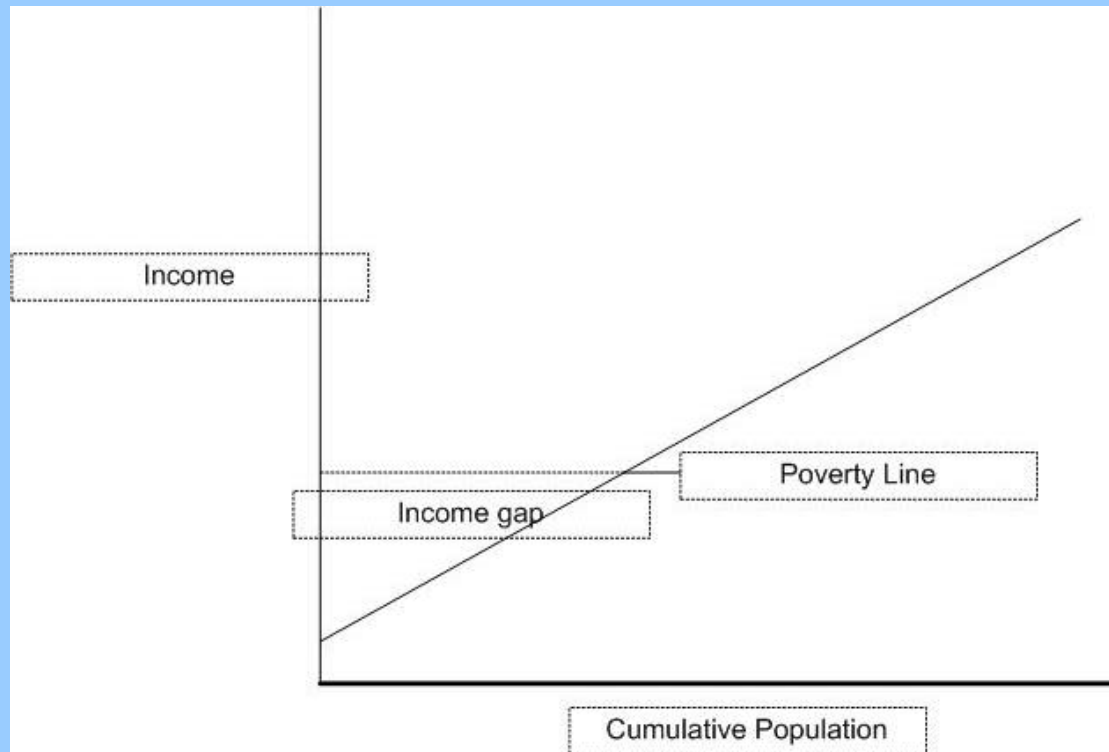
Targeting: Beneficiary selection and exit rules

- Poor: receive a third to three-quarters of direct benefits in cash transfer programs around the world.
- Universal programs: easier to target and may reach hardcore poor
- Income and means testing: has been gradually adopted in east-Asia and post-socialist Europe
- Geographical and categorical proxies: can substitute for a lack of income and wealth data
- Local Knowledge (Armenia case) can improve targeting and facilitate “exit”.

How generous should a program be?

- Generosity: measured by replacement-income concept and transfer-to-wage ratios
- Are fiscal constraints;
- Targeting errors (adverse inclusion);
- Crowding-out effects;
- Incentive-effects (both positive and negative)

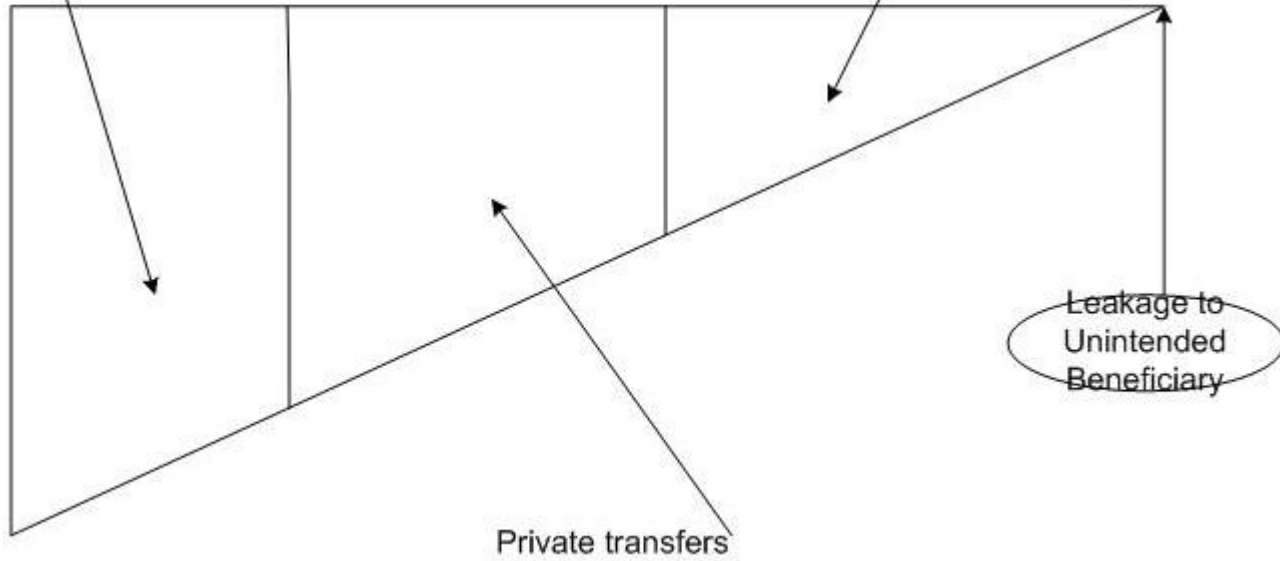
What needs to be financed?



Estimating the size of the cash transfer based on the poverty gap

Existing entitlement

Public Gap Share



Incentive-compatible transfers

- Poverty traps: Marginal effective tax rate measure
- Labor supply and Enterprise Labor-dumping effects
- Private saving effects
- Program-specific “fixes”: workfare and training requirements, fixed duration of benefits, declining assistance intensity, job-search finance, bonuses and continued benefits for “graduates”, negative income taxes
- Conditional Transfers (to be discussed)

Making Cash Transfers Gender-Inclusive

- Why?
 - female headed households may face greater risks
 - women may make better use of transfers
 - Poverty payoffs to better women's nutrition and empowerment shown to reduce half or more of infant malnutrition.
- How?
 - Gender reviews to identify risks and legislative inequity
 - Old-age pensions and family allowances tend to “self-target” women
 - Legislative reform to provide equal access to welfare-buffers (savings, property, inheritance, pension rights)

Building Administrative Capacity

Challenges

- Political interference in staffing & investment
- Fragmented policy making and programs fragmented amongst many agencies
- Delays in processing claims
- Poor record-keeping
- Failure to explain the schemes to members and public
- Poor terms of service
- Excessively complex procedures and regulations
- Neglect of compliance, M&E and policy research functions

Reform Options

- establish professional criteria and staff certification boards
- separate policy and operational aspects---contract out the later to social partners
- ***consolidate and harmonize programs****
- central govt to prepare guidelines and local govts to prepare implementation rules
- earmark funds for M&E, audit, and policy research
- automation after management systems are in place.

Building Political Capital for a cash-transfer program

- New programs tend to start during a crisis but political interest quickly fades; Programs often plagued by political stop-start cycles
- Political leaders like to “re-shape” entitlement programs
- Political leaders: “transfer risk” and “invisible benefits” problem
- Analysis, information outreach and social partner consultation can help build political consensus and sustain support
- Programs that don’t have M&E will lose support to “results demonstrating” public expenditure programs
- Political sensitization needed to avoid patronage in design, and conflict between assistance and development spending
- Universal or Narrow Targeting
 - Broad vs. narrow coalitions
 - Altruistic vs. Utilitarian coalitions
 - Median-voter information and preferences

Near-cash transfers: utility subsidies

- Positive features
 - Ensure access of poor to basic services through lifeline tariffs, cross-subsidies
 - Strong political support
 - Positive education spinoffs
- Negative features
 - Difficult to target well
 - Can lead to disincentives for enterprises
 - May contribute to bad loans and continued soft-budget constraints for enterprises

Near-Cash Transfers: Fee Waivers for Social Services

- Positive features
 - Maintains access to social services when there are fees
 - Fee structure may be a source of funds to maintain or improve service quality
- Disadvantages
 - Need a system to reimburse providers
 - Hard to target well
 - Fees may be “informal”

Bridging the Development-Transfer Divide: Conditional Transfers

- “Cash or near-cash payments made to households/mothers conditional upon the household guaranteeing other welfare outcomes (programs in Mexico, Turkey, Jamaica, Nicaragua, Russia, Colombia etc.)
- Tie long and short-run actions together
- Have “co-responsibility”, especially when there are high opportunity costs amongst the poor
- Demand-side tool for health, education and nutrition
- Can address gender bias
- But: excludes families w/o kids, needs good quality and accessible services; tremendous information requirements; not good in a crisis setting
- Types of conditions: regular school attendance, clinic attendance, literacy, infant weight gain, children not working

Progresa

- Progresa: 40% of rural families, 2.6 million families, education, school materials and food consumption grant. Grants provided for children in school up to age 18, higher for girls. School absence can't exceed 15% and clinic visits must be met. IFPRI—school enrollment rises; hh labor reduced, especially for girls, no shift in parent's labor. Positive effects on child health and nutrition. Behrman found positive effects on stature, which could lead to a 3% rise in lifetime earnings.

Nicaragua FISE program

- Social fund managed: 60,000 persons pilot (80% poor) in 2000/2001.
- No more than 5 days school absence, bi-monthly visits to health centers, child weight gain, mother's participation in public health and child development seminars
- Results: sharp rise in school attendance, child malnutrition rate halved, much higher immunization rate, larger share of family budget spent on basic foods. Stimulated “demand” for basic social services.

Other examples: decentralized programs

- Brazil's Bolsa Escola (municipality run): started in 1995, and based on children attending school a minimum number of days per month—standard cash transfer to all families.
- Brazil's Peti (child labor offset payments): payments to parents if children are not working other than vocational training

Selected Lessons from Conditional Cash Transfers

- Promising potential but performance varies depending on targeting method (good in Mexico, less good in Jamaica).
- Are stigma costs, administration-intensive, indicators are static, communities may not be impartial. Some programs are donor dependant;
- But demand for basic services is important and Incentives can help in boosting investment in child's education and health care, and in reducing child labor
- Decentralized-cum-NGO management can help use proxy-targeting and community-targeting programs

Conditional Transfers and Emerging Risks

- S.S.Africa: % of orphans has increased from 2% in 1970s to 15-17% in some countries. Biggest risk is dropping out of school or never enrolling. How to combine incentives for foster care with incentives for schooling?
- Asia: 7-11% are over Age 60 now; 20-30% will be over age 60 in 2050. 2/3s of elderly poor are women; Issues: extended family breakdown, community support can lower costs of elderly care. May need incentives to support “foster-models” of elderly assistance.

Main Points

- Is cash appropriate?
- Do programs help you manage risks?
- Do the poor benefit?
- Is the transfer amount suitable?
- Does the program avoid adverse incentives and poverty traps?
- Are women's needs accorded priority?
- Is administration cost-effective, for the system as a whole?
- Has a political base of support been nurtured for such a program?
- Are there ways of linking positive long-term development impacts to augmenting family resources?

<http://www.worldbank.org/poverty/safety/types.htm>

World Bank portal for social safety nets.

<http://www.worldbank.org/wbi/socialprotection/index.html>

World Bank Institute Social Protection Web Site.

<http://www.ssa.gov/statistics/ssptw/1999/English/readme.html>

<http://www.ssa.gov/statistics/ssptw/2002/europe/index.html>

<http://www.issa.int/engl/homef.htm>

SSA, Social Security Programs Throughout the World.

http://europa.eu.int/comm/employment_social/missoc2001/index_en.htm

MISSOC, *Social Protection in the EU Member States*

<http://users.utu.fi/thepap/world3.htm>

International Social Policy Gateway