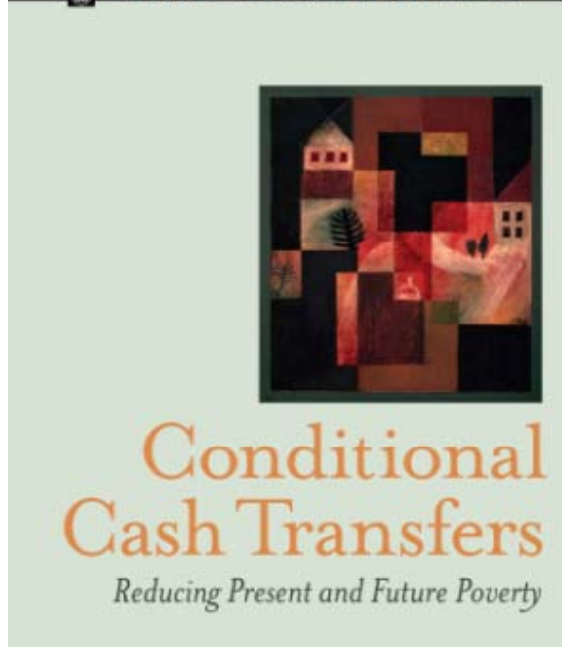


A WORLD BANK POLICY RESEARCH REPORT



New Findings on Safety Nets in Developing Countries

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Outline

- Overview of messages on Safety Nets
- Illustrations from Conditional Cash Transfers
- Thoughts on Safety Nets vis-à-vis MFI

Overview of Safety Nets

Safety nets are non-contributory transfers targeted to the poor or vulnerable

Programs such as:

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

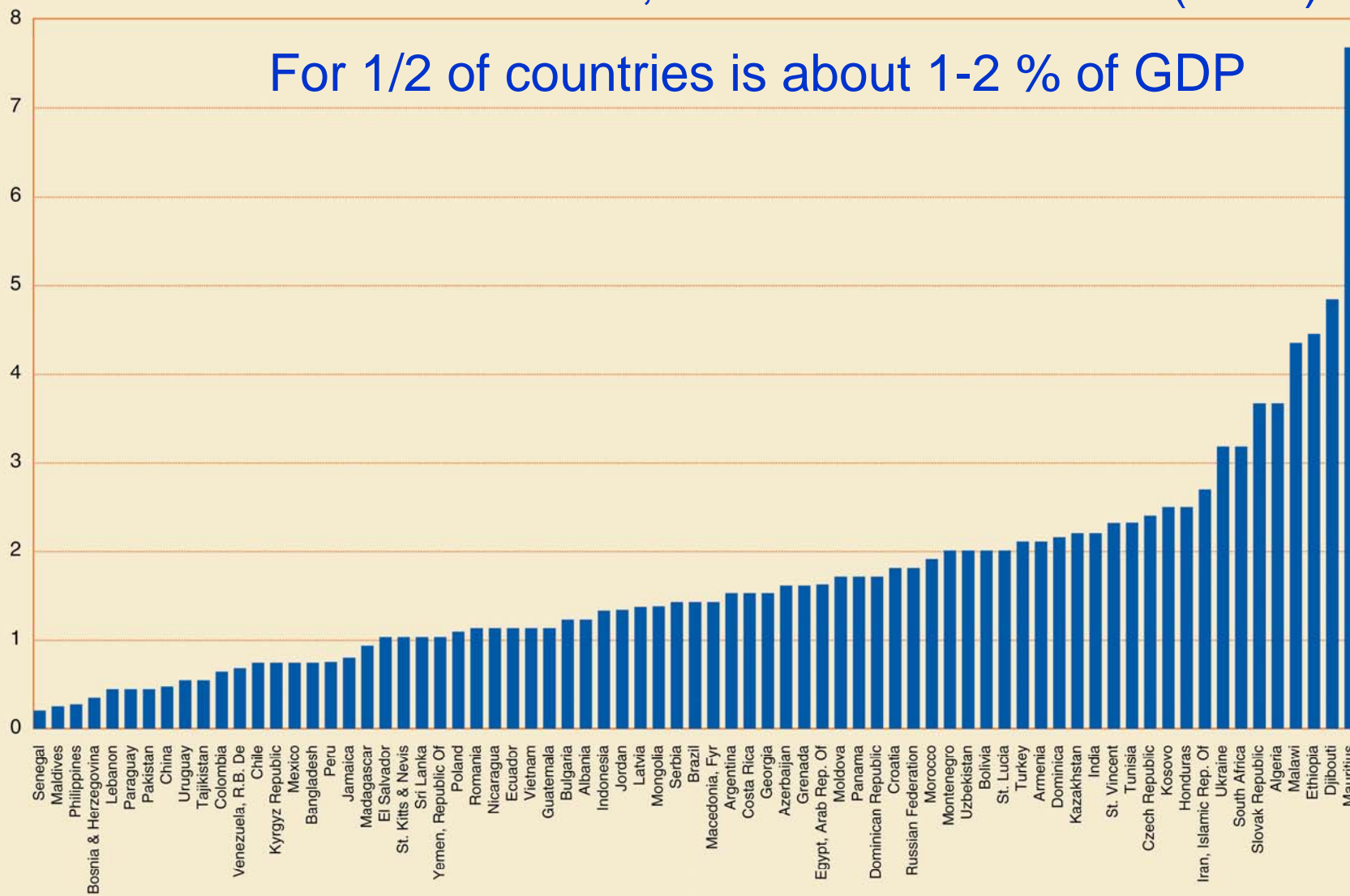
Also known as social assistance or welfare

Does **NOT** include social insurance, health, education, housing.

Spending on safety nets is modest

Percentage of GDP Mean 1.7% of GDP; median 1.4% of GDP (n=72)

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



Message 1:

All countries
need good safety nets
to reduce poverty and vulnerability

Because they are not just a palliative...

Effect	Nature of Benefit		Rationale	Evidence
	Protect	Promote		
Reduce poverty and inequality via redistribution	✓		Equity	e.g. Brazil
Enable households to invest –In children’s human capital –In their livelihoods		✓ ✓	Credit market failures	CCT programs Social transfers
Help households to manage risks –Avoid irreversible losses –Allow higher risk/return activities	✓	✓	Credit + Insurance market failures	Crises (Indonesia, Nicaragua) Agricultural risk
Provide governments room to focus on efficiency in trade, industrial policy, etc.	✓	✓	Political economy	e.g. Mexico

1. Safety Nets Reduce Poverty and Inequality

Reductions in poverty and inequality in Brazil

% of the reduction in **inequality**:

BFP 18%	BPC 11%	Pensions 27%	2001-06
BFP 41%	BPC 24%	Pensions 27%	2005-06

% of the reduction in **extreme poverty** (2001-05):

BFP 25%	BPC 12%	Pensions 16%	Headcount Index (P0)
BFP 33%	BPC 18%	Pensions 16%	Poverty Gap (P1)
BFP 41%	BPC 22%	Pensions 17%	Severity (P2)

Government outlays as % GDP (costs) (2004-06):

Pensions 10%	Of which, 40% are tax-financed subsidies (deficit)
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→ BFP = 0.4%; BPC = 0.5%

Sources: Lindert et. al. (2006)
Paes de Barros/IPEA (2007)

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
- There is evidence from many kinds of programs, especially CCTs, that households who receive income support get more schooling and health care for their children

2. Safety nets enable households to invest in their futures

Households invest some transfers

In various programs:

- Mexico's Oportunidades CCT program - Gertler, Martinez and Rubio (2006) find that recipients invest 12 percent of their transfers, allowing them to raise their consumption by about a third after five and half years in the program.
- Kenya FFW - Bezuneh, et al. 1988 found that in northern Kenya during the lean season FFW income allowed households to purchase additional agricultural inputs and increase the net returns from their farms by 52 percent.
- Mexican PROCAMPO program - Sadoulet, de Janvry and Davis (2001) Households invest the steady flow of funds to purchase inputs and it serves as collateral for borrowing so that the program had a positive multiplier effect in the range of 1.5 to 2.6.

Even in social pensions:

- South Africa - Ardington and Lund, 1995 show improved access to credit, thanks to the regularity of pension payments.
- Brazil -- Lago and Cardoso 2000 show higher levels of investment in household's physical capita.l
- Bolivia Bonosol – Martinez 2005 -- in rural areas the pension recipients invest their transfers in small holder agriculture and as a result their food consumption goes up by twice the amount of the transfer received.

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

Provision of SSN can decrease harmful coping strategies

In absence of safety nets there is firm evidence of increased hunger/malnutrition; decreased use of health care or worse health outcomes; some loss of assets. Loss of schooling happens in some crises, not in all.

There are credible evaluations of SSN that help prevent these strategies or outcomes among those reached. For example:

- In [Indonesia's financial crisis](#), scholarship program and waivers for health care fees helped families keep their kids in school and get health care (Saadah et al. 2001; Cameron, 2002)
- In [Central America's coffee crisis](#), Nicaragua's CCT program allowed beneficiary households to maintain consumption;
- [Ethiopia's Productive Safety Nets](#) program: 3 in 5 beneficiaries said they avoided having to sell assets to buy food

3. Safety nets should be able to help households manage risk: ex-ante

- The underlying problem is lack of insurance markets, exacerbated by lack of credit markets and lumpiness of assets
- Families may minimize the variance of their incomes in ways that also lower mean income
 - Most evidence drawn from rainfed agriculture in poor countries, but logic holds more broadly
 - Evidence suggests losses could be large, as large as a quarter of income (Dercon, 2005)

4. Safety nets help governments make beneficial reforms

Armenia Energy Sector and Social Protection reforms

Energy strategy

- Raising prices to cost recovery levels
- Metering and cutting off non-paying customers
- Establishing predictable and transparent regulations
- Introducing competition in generation and supply
- Selling industrial assets to private strategic investors
- Establishing a protection mechanism for poor households

Social Protection Strategy

Pre-reform:

- Inherited a generous and regressive cash benefit system (26 small cash and in-kind programs)
- Spent more on regressive electricity subsidy

Reform (1998/99) and consolidation (1999 –present):

- Consolidation of all social assistance program into one, the PFB, targeted to the poor using a proxy-means test.

Achievements

- Electricity subsidy discontinued
- Better coverage and higher benefits for those covered
- Good targeting – share of benefit to poor more than double than in old cash assistance programs
- Low administrative costs
- No labor disincentives

Message 2:

Safety nets must and can be cost-effective, but not all are at present

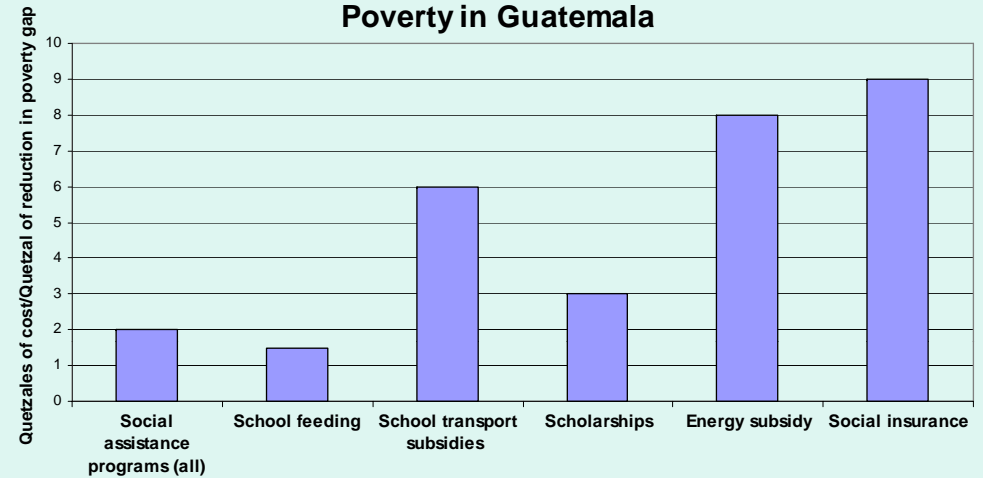
Vision of a good safety net

- Appropriate
- Adequate
- Equitable
- Cost-Effective
- Incentive Compatible
- Sustainable
- Dynamic

Improvements can come through, inter alia:

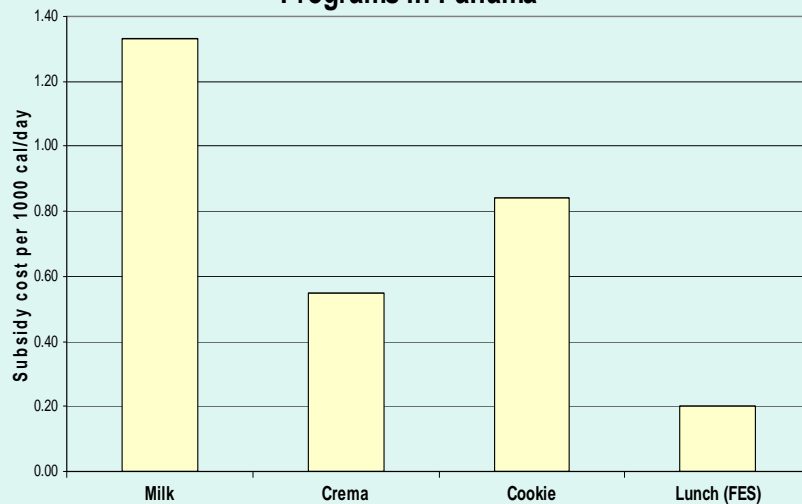
- Changes in program mix
- Improved targeting
- Stronger governance
- Improved administrative procedures

Cost-Effectiveness of Transfers in Reducing Poverty in Guatemala



Source: World Bank, 2003

Cost-Effectiveness of Various School Feeding Programs in Panama

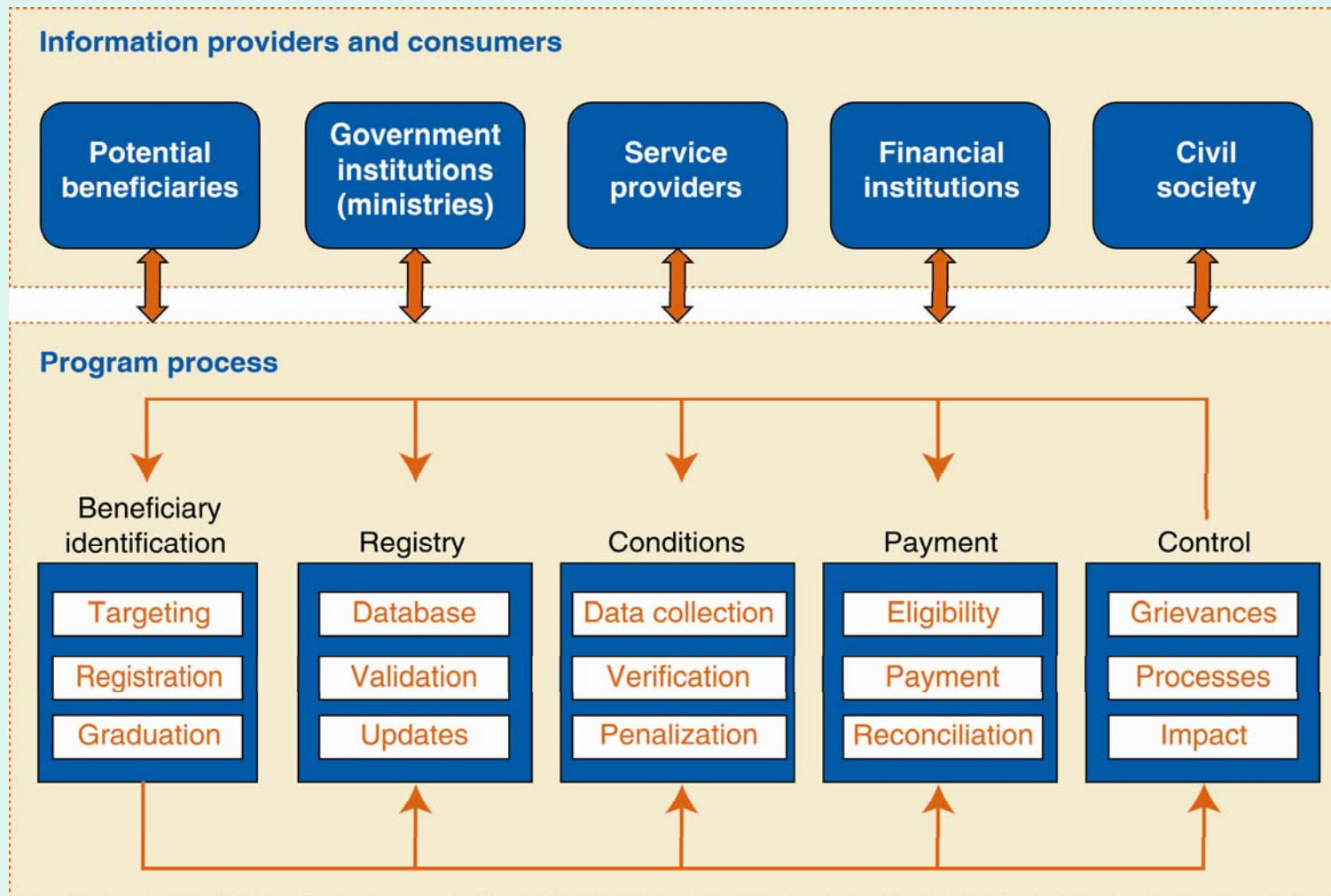


Source: World Bank, 2003

Percentage of beneficiaries in poorest quintile

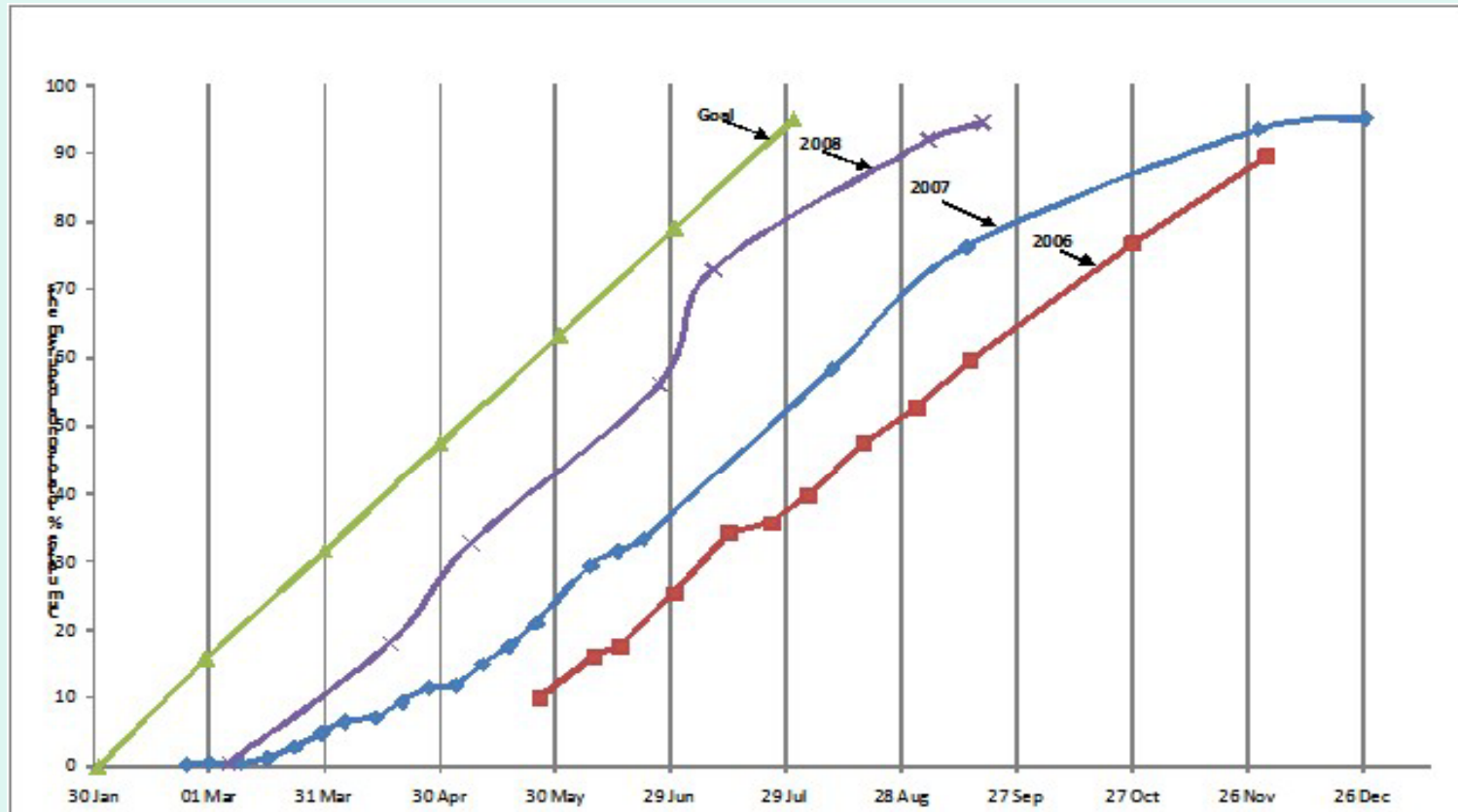


Safety nets require administrative systems



Administrative systems require money, time and managerial acumen

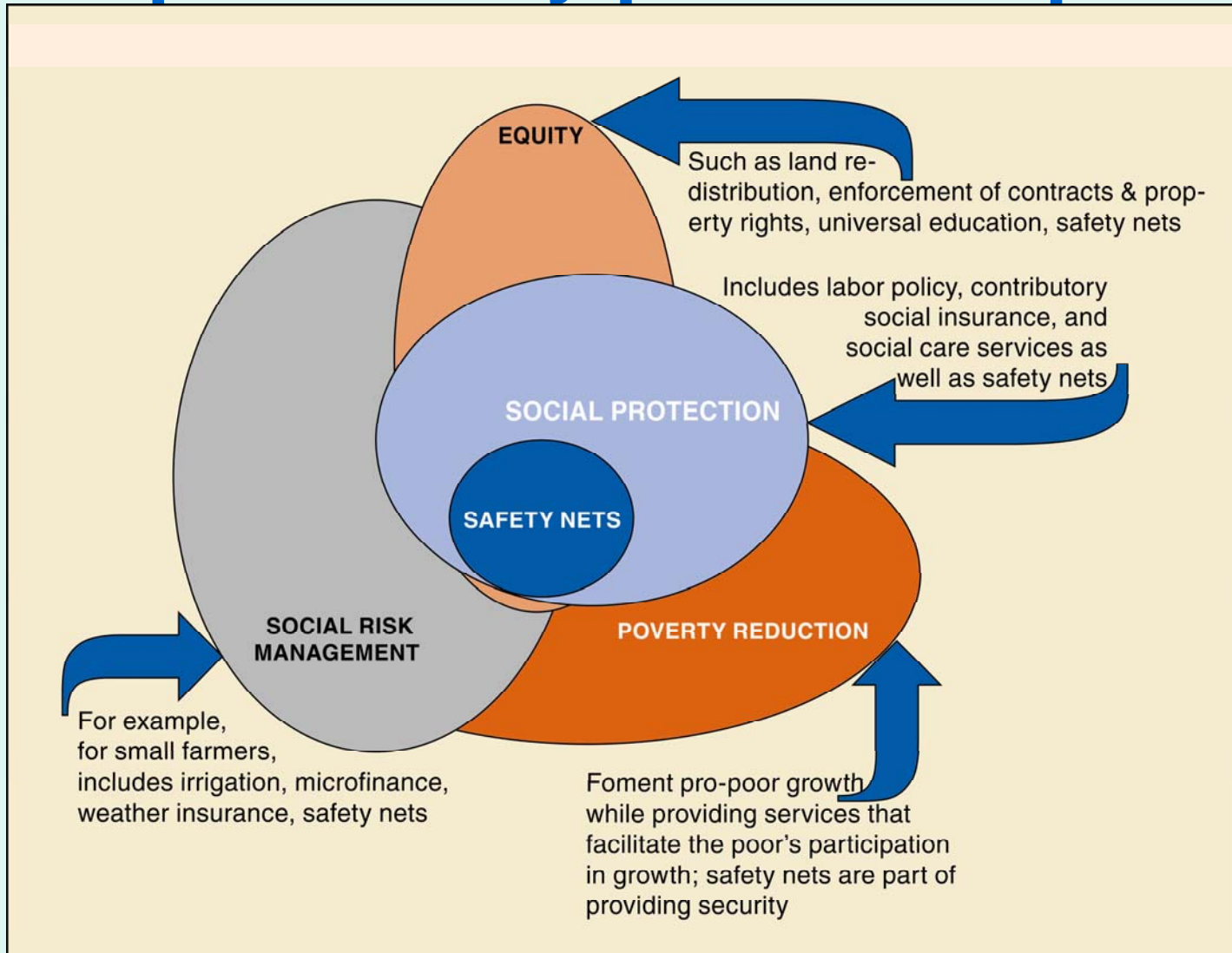
Ex: % of on-time payments in Ethiopia PSN improves year by year due to constant attention



Message 3:

Safety nets must be customized
to the time and place

The mix of programs will differ according to needs and complementary policies in place



The details of specific programs should be adapted to local circumstances

		Conditions	
		Education and Health	Education Only
Program size/target	Nationwide	<i>Bolsa Familia</i> (Brazil) <i>Oportunidades</i> (Mexico) <i>Bono de Desarrollo Humano</i> (Ecuador) <i>Familias en Acción</i> (Colombia) Program of Advancement through Health and Education (Jamaica)	<i>Bolsa Escola</i> (Brazil) <i>Jaring Pengamanan Sosial</i> (Indonesia)
	Niche (regional or narrow target population)	<i>Chile Solidario</i> Social Risk Management Project (Turkey)	Female Secondary School Assistance Program (Bangladesh) Japan Fund for Poverty Reduction Girls Scholarship Program (Cambodia) Education Sector Support Project (Cambodia) Basic Education Development Project (Yemen)
	Small scale/pilot	<i>Programa de Asignación Familiar</i> (Honduras) Cash Transfer for Orphans and Vulnerable Children (Kenya) <i>Atención a Crisis</i> (Nicaragua) <i>Red de Protección Social</i> (Nicaragua)	<i>Subsidio Condicionado a la Asistencia Escolar - Bogota</i> (Colombia) <i>Tayssir</i> (Morocco) Punjab Education Sector Reform Program (Pakistan)

Illustrations with respect to CCTs

Conditional Cash Transfers

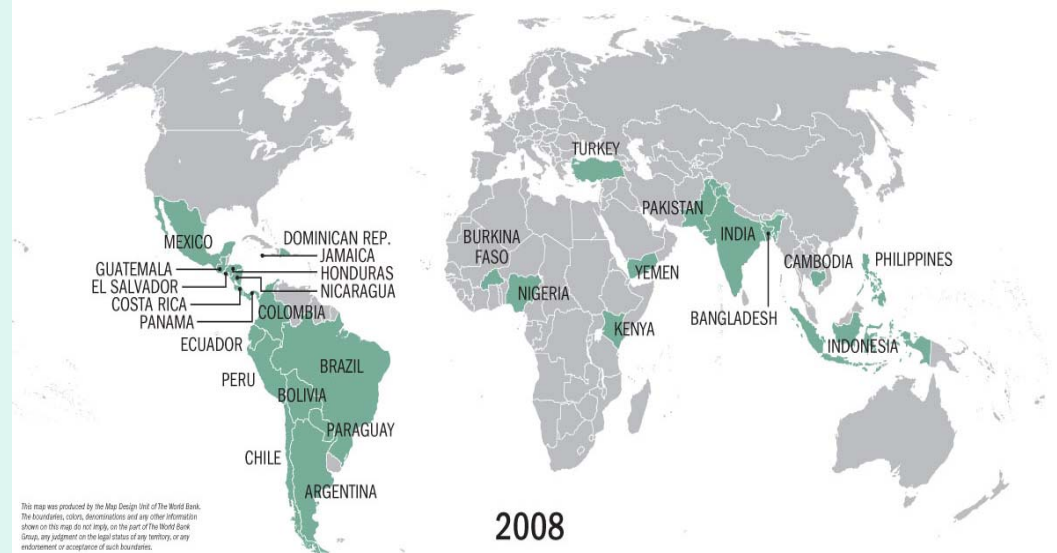
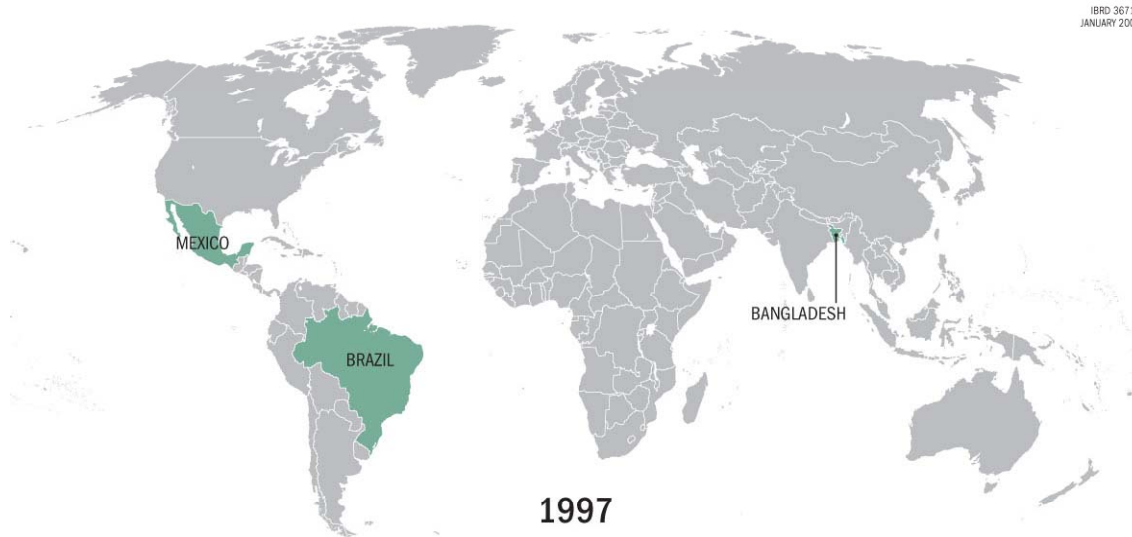
Programs vary, but all share some basic characteristics:

1. They transfer cash*
2. They ask that households comply with a series of conditions—generally, school enrollment and attendance, often also attendance at health centers for young children
3. They are targeted to the poor

“Twin objective” promise of programs:

1. Reduce current consumption poverty
2. Promote accumulation of human capital

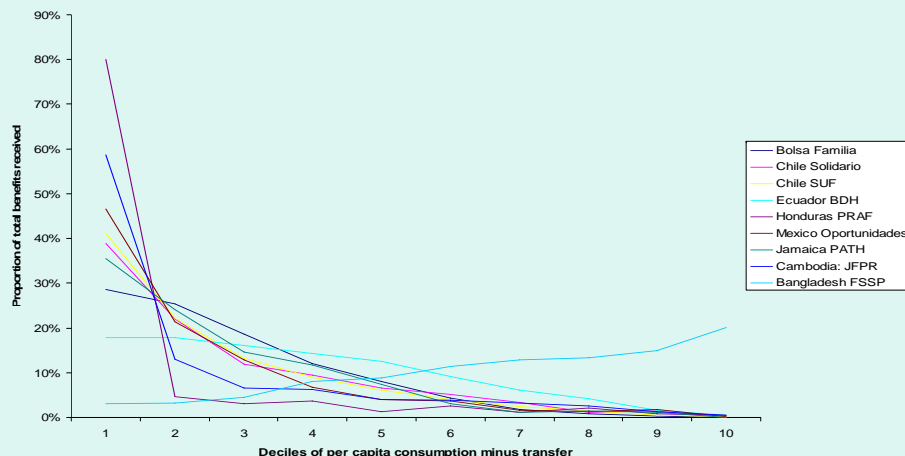
CCTs are spreading rapidly



CCTs have impacts on poverty in keeping with their scale and generosity

	Mexico (1999)	Nicaragua (2002)	Colombia (2006)	Honduras (2002)
Average transfer (% of per capita consumption)	20%	30%	13%	11%
Impact on per capita consumption (%)	8.3%**	20.6%**	10%**	7%*
Impact: headcount index (% points)	1.3**	5.3**	2.9*	--
Impact: poverty gap (% points)	3.0**	9.0**	7.0**	2.0*
Impact: sqd. poverty gap (% points)	3.4**	8.6**	2.2**	2.0*

- They are well-targeted
- Have not reduced adult labor market participation
- They have not generally crowded out other transfers, and have not had substantial (local) general equilibrium effects
- Transfers (which are generally made to women) have also changed the composition of consumption
- More expenditures on food, and on higher-quality sources of calories



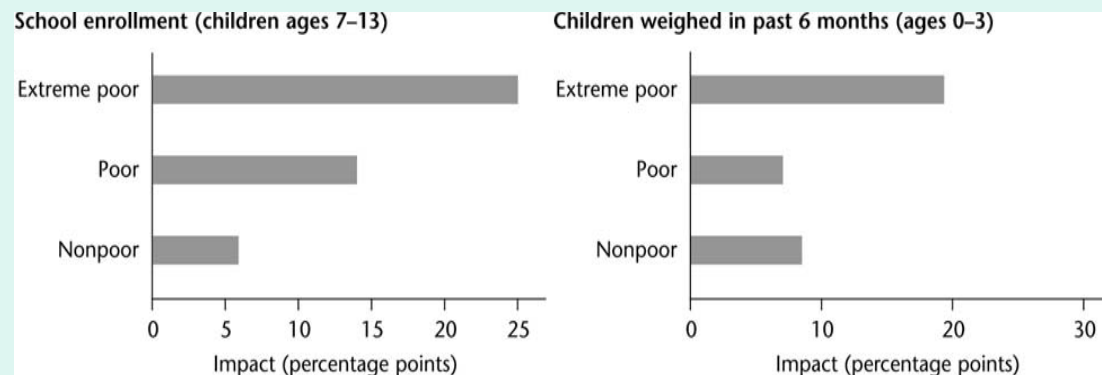
CCTs have resulted in substantial increases in the utilization of education and health services – especially among poor households

Examples — **health**:

- In **Colombia**, Familias en Acción increased the proportion of children who had growth monitoring by 20-30% points
- In **Honduras**, PRAF increased the proportion of children who had at least one preventive health visit by 20% points

Examples — **education**:

- In **Mexico**, Oportunidades decreased dropout between 6th and 7th grade by 9% points
- In **Pakistan**, the Punjab Education RSP increased the school enrollment of 10-14 year-old girls by 11% points
- In **Cambodia**, two pilot programs reduced the dropout between 6th and 7th grade by 20-30% points
- In **Nicaragua**:



Source: Maluccio and Flores 2005.

CCTs have had only mixed success in terms of improving final outcomes

Education

- Increases in school enrollment and years of completed schooling have not come hand-in-hand with improved learning outcomes

Health

- Some programs, but by no means all, have improved child nutrition (as measured by height-for-age, hemoglobin status)

Complementary actions are needed to improve the supply of health and education services

CCTs are at the forefront of the modernization of social assistance

- CCTs have led the way in the design of well-run administrative structures for beneficiary selection, payments, monitoring systems, self-critique, transparency
- CCTs have been groundbreaking in terms of the importance they have given to impact evaluation with credible counterfactuals

CCTs and Social Protection

- CCTs can be an important component of a social protection system, but they need to be complemented with other safety net programs
 - CCTs cannot be the right instrument for all poor households
 - CCTs are a better instrument for structural than transient poverty
 - CCTs complement programs like workfare, unemployment insurance, social pensions
 - Important design issues: target population, size of transfer, entry/exit rules

Thoughts on Safety Nets and Micro-Finance

Safety Nets and Micro-Finance are more complements than substitutes

- In fiscal sense everything is a substitute (though MFI largely self-financing), but
- SSN serve several purposes, only partly motivated by credit market failures
- The target groups only partly overlap
- The timeline of benefits is somewhat different

the 'graduation' agenda is prominent in SSN community

- How to raise recipient households' autonomous incomes?
- Interest in countries of all levels of income
- Micro-finance prominently on that agenda,
 - in both MIC and LIC,
 - VGD taken as example
- Plans, pilots in many countries
 - Eg CGAP/Ford pilots, Brazil Bolsa Familia, Ecuador Bono de Desarrollo Humano, Salvador Red Solidaria, Ethiopia Productive Safety Net, etc.
-

How to Link SSN and MF?

Ideas for discussion

1. Each program must be done well,
Each is complex, therefore:

Link separate programs and agencies rather than combining into one program

2. Not all SSN clients likely MFI clients, so
Make links/referrals voluntary

3. Think what it takes to make SSN client a successful entrepreneur

Provide savings, training, phased support

Big agenda for collaboration and learning

- Best designs for and impacts of linkages
- On process
 - Of linkages
 - CCTs can learn from MFIs on payments

