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SAFETY NETS WORK: DURING CRISIS AND PROSPERITY

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Safety Nets Work: During Crisis and Prosperity

EXECUTIVE SUMMARY

1. **The recent and rapid succession of crises has not only demonstrated the urgent need for financial safety nets for economies, but equally for safety nets aimed at protecting people – especially the poorest and most vulnerable – from the ravages of different types of shocks.** With each new crisis – the drastic rise in the price of food and fuel in 2008 and again in 2011; the financial implosion and global economic contraction of 2009; the Haitian earthquake and Pakistan's floods in 2010; and drought in the Horn of Africa that begun in 2011 – the demands for policy makers to respond to shocks come fast and furiously. Well-designed social safety nets work to protect people, as a necessary complement to more macro measures aimed at stabilizing the economy. During times of prosperity, they can effectively protect the poor and offer them access to opportunities; during crises, they can be extended to also protect the newly affected. And they need to be – and can be designed to be – affordable, efficient and sustainable.

2. **Yet in many developing countries, safety nets are insufficient or non-existent, failing to provide adequate protection from risk and suffering – and there is a need to close the gap.** World Bank assessments show that in low-income countries, safety net programs are either absent, or piece-meal and uncoordinated, with uncertain financing and limited coverage. Many middle-income countries have more effective safety net structures in place, yet also experience substantial financing shortfalls, poor targeting, sub-optimal impacts, and coordination failures among multiple programs. In all countries, the challenge of responding adequately to protect people from the effects of shocks – whether from economic factors, natural disasters, or household-specific crises – is largely unmet.

3. **There is currently an unparalleled opportunity for developing countries to improve their safety nets through the right investments in systems and knowledge.** Interest is very high. Since 2009, dozens of countries have created new safety net programs, expanded old ones, and improved administrative systems to modernize governance and make their programs more efficient. Currently, 80 percent of developing countries have plans to initiate or strengthen their safety nets, according to World Bank assessments. If these countries follow through on these reforms, and share their knowledge and experience of what works and what does not, the world will be better prepared to reduce chronic poverty, manage volatility, lay the foundations for improved productivity, employment and growth, and protect the vulnerable during future crises.

4. Recent experience confirms five lessons for policymakers. First, **safety nets can be effective and necessary during systemic crises to reduce the toll of human suffering.** Crises can drive families deeper into poverty and irrevocably hurt their future – by harming their health, their education and their capacity to support themselves. Emerging evidence from recent crisis episodes show that safety nets, where they existed, were effective at avoiding irreparable damage to human lives, human livelihoods and human capital – thus preserving future growth possibilities. For example, public works programs protected families from starvation in Ethiopia; school feeding programs let poor families keep their children in school in Nicaragua; and cash transfers prevented child malnutrition in El Salvador.

5. Second, **safety nets must be available on a continuous basis to help build vulnerable people's resilience to individual shocks and to provide equality of opportunity to the poorest.** People facing deprivation and poverty on a chronic basis or due to household-specific shocks (such as the illness or death of a breadwinner, an accident or disability, or the loss of a job) far outnumber those who are affected by the type of crises that make news headlines. Experience shows that without timely, adequate assistance, people can be forced into detrimental actions such

as selling their most productive assets, postponing healthcare or pulling their children out of school. This will make it harder for them or their children to escape destitution. Responsive and well-functioning safety nets can break these cycles of poverty and can provide the necessary support to prevent families from falling into poverty in the first place – and, by protecting against downside risks, allow people to access higher risk and higher return activities. And they can contribute to gender equality – safety net payments to women in the households empower them directly, and the transfers help families to send girls to school.

6. Third, **it takes time and political will to build good safety nets, so it is important to start today, so that better safety nets are in place for crises to come**. The key tasks in non-crisis periods are to identify and develop effective safety net programs, to manage fiscal space prudently to ensure sustainable financing, and to integrate individual programs into coordinated, national systems. It is important to hold safety nets to high standards of governance and results – both to ensure that they provide the most effective assistance to populations in need, but also so that they keep the confidence of both policymakers and the public. This can be helped by the revolution in information and communication technology (ICT), which offers unique opportunities to streamline safety nets administration and improve governance.

7. Fourth, **prudent safety nets are an affordable investment.** Across the world, non-contributory safety nets rarely account for more than one to two percent of GDP, even in countries with generous social protection systems. Flagship safety net programs in Mexico or Brazil cost just around 0.5 percent of GDP. Still, affordability could be even further improved. Many countries spend significant amounts of resources in the name of protecting the poor, but channel this money to a variety of inefficient and regressive fuel or food subsidies, or poorly coordinated, temporary and not well-targeted programs. Such spending could easily fund a consolidated and permanent safety net without a call on any additional fiscal resources.

8. Fifth, **despite the dramatic improvements in safety net development over recent years, countries still have a long way to go**. There are four elements of the ongoing policy agenda: (a) *Building programs where coverage is low*: Continuing risks and continued poverty necessitates that countries – particularly low-income countries and fragile and conflict-affected states – that lack safety nets need to build them, customized to their circumstances and capacities. A key priority is putting in place the 'building blocks' of core administrative systems. (b) *Improving and coordinating programs for increased effectiveness*: Countries with existing safety nets need to focus on increasing the effectiveness of individual programs and the coherence of how their different programs in social protection and labor intermesh, to ensure effectiveness and efficiency in financing and incentives. A particularly important part of this coherence is the link between safety net programs and programs that improve access to productive jobs. (c) *Developing the crisis-readiness of safety nets*: Effective crisis response requires the ability to scale up programs rapidly, to detect who has been affected, and to provide support without discouraging work effort and enterprise and to design *ex ante* conditions under which scaled-up programs are rolled back when the crisis abates. It requires a different blend of instruments within the safety nets portfolio, links to the broader social protection system, and administrative changes to make these instruments useful both in prosperity and in crisis. (d) *Ensuring adequate data to guide policy*: In many countries, policymakers do not have adequate national and program-specific data on the reach and impact of programs. Generating this data, and making it openly available, is critical to ensuring that programs are fit to needs and delivering well.

9. **Going forward, lower-income countries would be best helped by development partners if they can provide coordinated and evidence-based multi-year support to government-implemented programs, together with catalytic resources to fund the common 'building blocks' of core safety net administrative systems.** Partners will need to coordinate to

overcome fragmentation of programs. First, partners have a role in pooling resources and expertise to build the "basic building blocks" of safety net systems (such as beneficiary identification systems and registries, targeting schemes, monitoring and evaluation arrangements, and payment infrastructure). There is a continuing need for these small, stimulative initial capital investments (such as provided by the Rapid Social Response program) that form the basis from which lower-income countries can build effective safety nets to scale. Second, these safety net systems need to be built in ways that are coherent with broader social protection policies, and rigorously and transparently evaluated so as to contribute to better results.

10. **Development partners can also promote knowledge – enhancing the evidence base of what works, supporting experimentation and learning, and helping spread that know-how.** There is an explosion of new experience from which to learn. There are many more countries and programs than usual working on safety nets – at a stage where they are eager to absorb lessons of what works and what does not.

11. **The World Bank has a unique role to play in the safety nets agenda – as a global, multi-sectoral, and knowledge-driven agency, which is able to package global technical know-how, financing and convening power.** The Bank has been an active leader in the safety nets agenda for years, and its engagements have expanded recently with a range of innovative multi-sectoral and knowledge-driven instruments (including results-based lending). The World Bank's value to client countries' work on safety nets rests in its distinctive ability to work with policymakers and practitioners in both the "architecture" and "engineering" of the agenda – from diagnostic analysis and evaluation, to strategy formulation, to the identification of policy options, to devising detailed policy and implementation measures, and finally assistance with financing, technical assistance and capacity building. The Bank has been a key partner to countries in building statistical capacity and transmitting evidence, including through South-South exchanges of knowledge – both analytical evidence and practical how-to – essential to establishing and improving safety nets.

12. **Past crises had often been the catalyst to lasting improvements in safety nets. Now is the time to ensure that the recent crises leave better systems as their legacy.**

Questions for discussion:

1. *How can the Bank best assist countries in building well-targeted, improved, coherent, crisis responsive and fiscally sustainable safety nets?*

2. *What specific measures need to be put in place for Fragile and Conflict-affected States and Low Income Countries?*

3. *What support can be given to boost knowledge and South-South learning on experience on what works in safety nets?*

SAFETY NETS WORK: DURING CRISIS AND PROSPERITY

1. **The recent and rapid succession of crises has demonstrated the urgent need for safety nets aimed at protecting people – especially the poorest and most vulnerable – from the ravages of different types of shocks.** With each new crisis – the drastic rise in the price of food and fuel in 2008 and again in 2011; the financial implosion and global economic contraction of 2009; the Haitian earthquake and Pakistan's floods in 2010; and drought in the Horn of Africa that begun in 2011 – the demands for policy makers to respond to shocks come fast and furiously.

2. **There is presently an unparalleled opportunity to help developing countries to improve their safety nets.** Currently, 80 percent of developing countries have plans to strengthen their safety nets to better respond to future crises (IEG 2011a). Indeed, since 2008, dozens of countries have created new safety net programs, expanded old ones, and improved administrative systems and governance arrangements to modernize their programs and to make them more efficient (see box 1 for the definition of safety nets used in this paper). This explosion of policy action both assists the clients and countries directly involved and can contribute to providing important global knowledge on questions important to the practice of safety nets, including: How can countries build crisis-ready programs? How can basic functions be carried out in low-capacity settings? How can safety nets be made more productive? How can new information technologies help to build sounder, lower cost administrative systems? How can better coordination and shared platforms contribute to more effective coordinated systems?

3. **Recent experience confirms five key messages for policy makers.**

i. Safety nets can reduce the toll of human suffering in the wake of crises.
ii. Safety nets are needed on a continuous basis to help poor and vulnerable people, even in times of prosperity.
iii. It takes time and political will to build good safety nets.
iv. Prudent safety nets are an affordable investment.
v. Much remains to be done in building better safety nets.

4. **For the World Bank, this is central to its work to improve social protection and labor systems in developing countries, as articulated in the new Social Protection and Labor strategy that is being launched during the 2012 Spring Meetings.** The strategy promotes more inclusive, responsive and productive social protection systems overall but finds significant gaps in all three of those dimensions. The strategy identifies safety nets as an integral area of intervention within the sector. Linking safety nets systems to other elements of the social protection and labor agenda is part of the central strategic focus. And improving knowledge, especially that pertinent for low income countries, is identified as a key principle of engagement. The safety nets agenda also falls within the priorities of the Post-Crisis Directions paper discussed at the Spring 2010 meetings.

1. Safety nets can reduce the toll of human suffering in the wake of crises.

5. **The recent successive waves of global financial, food, and fuel crises have taken their toll on poor people in developing countries – and even on some of those who were not at poverty levels.** Though there is yet to be a full accounting, the number of people who crossed the threshold from non-poor to poor was not as great as initially feared,[1] though poverty increased in some countries – as much as 4–6 percentage points in Guatemala, Egypt, Cambodia, Latvia, Turkey, and Kyrgyz Republic in 2009-10 compared to pre-crisis levels.[2] The pace of poverty reduction

slowed in many more countries – with poverty declining by less than it would have in the absence of the crises.[3] But not all income losses were captured by movement across the poverty threshold. A survey in Eastern Europe and Central Asian countries found that between 15 and 30 percent of population had suffered an income loss as a result of the crisis, though poverty rates increased by just a few percentage points.[4] The employment rate declined and the unemployment rate increased in most economies, with losses concentrated in particular sectors. In Zambia, for example, nearly one in four workers in the mining sector lost their jobs in 2008. In Cambodia, more than 63,000 garments jobs – a fifth of the total – were lost.[5] The shock waves spread through labor markets and

Box 1: Safety Nets and Their Role in Social Policy

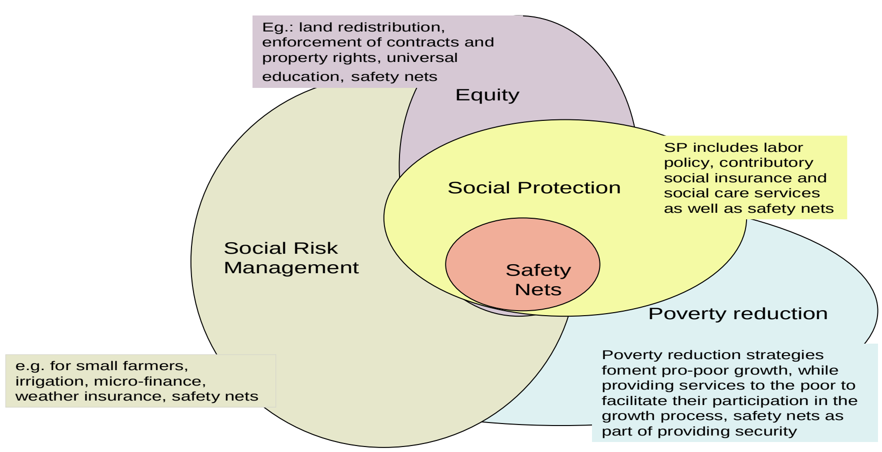
Social safety nets are transfers targeted to the poor or vulnerable in some manner. Common examples are:

- Cash transfers – unconditional or conditional; narrowly targeted to the poor or covering all people who belong to vulnerable categories in the population – such as children, the elderly or disabled.
- Transfers in kind – most commonly school feeding, but also food rations and other essential goods delivered in kind.
- Income support delivered in exchange for participation in work or training activities.
- Fee waivers for essential services such as health, education, or heating.

Safety nets are only a small part of wider social protection, poverty reduction and development strategies, as shown in the figure. A full social protection policy will include social insurance – including unemployment insurance – labor and training programs and labor regulation. A full social policy will include education and health, housing, access to utilities, as well as social protection. A full poverty reduction strategy will encompass private sector and agricultural development, and infrastructure and services to help households increase their productivity.

The coverage, shape and success of other policies will influence how large a role safety nets must play. Inclusive growth and good jobs will reduce the number of poor. Free and universal education will reduce the need for safety nets to help parents pay for the direct costs of schooling. A stable economy will reduce the need for crisis response from safety nets. Financial inclusion will allow more households to use savings and insurance to smooth income. These policies are all critical to development and must be pursued. But there are always households that fall through the cracks, even in wealthy countries and the more so in poorer ones.

Safety nets are often synergistic with other policies, for example when conditional cash transfers or school feeding help to bring children to school so that the education system can teach them, or when income support stabilizes cash flow so that households can make timely outlays for seeds or fertilizer and put to use the advice of agricultural extension agents. Safety nets are most effective and efficient when they are coherent with other social protection programs, including social insurance programs and those aimed at improving productive work.



fell disproportionately on the quality of employment, rather than on the number of jobs. A study of 44 middle income countries shows that three quarters of the decline of growth of the wage bill between December 2007 and September 2009 was due to a decline in earnings rather than a decline in employment.[6]

6. **Crises can drive vulnerable families into poverty, make those already poor even worse off, and pose permanent harm to citizens' health, education, and capacity to support themselves.** Spells of sudden impoverishment can lead to long-term consequences, especially in low-income countries.[7] Irreversible losses to children's development during crisis can undermine their future prospects in life, and previous crises have left never healing scars.[8] In the most recent string of crises, effects were dramatic in some countries[9] – studies from Bangladesh, Cambodia and Mauritania show increases in the order of 50 percent in levels of acute malnutrition of poor children younger than five.[10] Adverse impacts on human capital were found even in countries that were less poor. In Armenia, for example, households that suffered job loss, reduced hours of work or wages during the financial crisis were 15 percentage points more likely to reduce visits to doctors – and spent 14 percentage points less on medicine than a matched comparison group.[11] In Turkey, the crisis caused 75 percent of the poor to reduce children's food consumption, 29 percent to curtail health care use, and 14 percent to cut back on education spending.[12] In Vietnam, as a result of the 2008 food price rises, poor families were likely to pull their children out of school, especially those at secondary levels.[13] In Nepal, the rural poor overwhelmingly reported borrowing money to buy food, both directly (76 percent) and via pawning their assets (14 percent).[14]

7. **The *Global Monitoring Report 2010* reported that girls were more affected than boys and that more progress was lost during downturns than gained during growth periods** [15] Life expectancy of girls and boys increased by two years during good times, but decreased by seven years for girls and six years for boys during bad times. Primary education completion rates rose by 5 percent for girls and 3 percent for boys during good times, but fell by 29 percent for girls and 22 percent for boys during bad times. Female-to-male enrollment ratios fell severely during downturns, with higher drops in tertiary and secondary education than in primary education. When food was short, women often reduced their own consumption to leave more food for other household members – in a survey in Cambodia in 2008, 44 percent of households reported that women ate less, in order to save food for other family members. [16] And if families decide to pull children out of school, it is more often their daughters that are kept home.

8. **Where safety nets existed, however, they helped to save lives, provide families with a basic income, and keep children healthy and in school.** Well-timed and adequate assistance in countries with adequate safety nets prevented more poor families from suffering irreparable damage – something well documented from past crises and for which the most recent set add a few more pieces of evidence. Assistance was in the form of cash or in-kind transfers, extra income from employment on labor-intensive public works, unemployment benefits, or fee waivers for essential services including health, education, and heating. For example, the Ethiopian Productive Safety Net Program (PSNP), which was designed to create a predictable safety net for chronically poor households, has proven to be an effective means of responding to shocks. In 2008, the Government scaled-up the PSNP to provide additional transfers to 4.4 million existing beneficiaries negatively affected by the food, fuel and financial crisis and local drought. Based on this experience, the PSNP was again scaled up in response to severe droughts in the Horn of Africa in 2011, averting the famine and destitution that unfolded in neighboring countries that did not have a safety net in place. Nicaragua expanded its school feeding program response to rising food prices, and not only staved off drop-outs but slightly increased retention and attendance.[17] Due to rising food prices, stunting increased in young children in poor areas in El Salvador, but not among children in the same areas that participated in the new conditional cash transfer program.[18]

9. **When crises inevitably occur, safety nets are among the most cost-effective ways to protect vulnerable and poor people.** Of course, macroeconomic, financial and structural policies, if well-designed, well-regulated and well-coordinated, can lower the frequency and severity of the crises themselves – perhaps the best way to protect poor people from their ravages. In addition, well-functioning credit and insurance markets can help the most vulnerable people bridge occasional shocks. However, the reality is that in most situations, these optimal policies do not exist, and credit markets do not work – especially for the poorest. Traditional informal support mechanisms (including extended family networks, community mutual help, remittances) are increasingly under strain with demographic change, and increased volatility, and data show that they fail to provide support to all poor in need. [19] Good safety nets that reach the most vulnerable, therefore, are an essential part of the policy toolkit.

2. Safety nets are needed on a continuous basis to help poor and vulnerable people.

10. **Those suffering the daily deprivation of continuous poverty or from household-specific crises – such as the illness or death of a breadwinner, an accident or disability, or the loss of a job – far outnumber those who are affected by the type of crises that make news headlines.** In Eastern Europe and Central Asia, the region worst hit by the financial crisis, 2.8 million people lost their jobs between December 2008 and December 2009; but there were already 9.4 million unemployed before the onset of the crisis. In Pakistan, the 2010 floods affected 20 million people; but there were already 35 million Pakistanis struggling in poverty. The 2008 food price spike increased the number of undernourished by 63 million; but there were already close to 1 billion undernourished people in the world.[20]

11. **Evidence shows that safety nets can produce an impressively wide array of positive and productive effects, ranging from increased schooling to investments in household enterprises to reduced risky behaviors among teens.** Just as poverty has many negative manifestations, so safety nets can produce many positive effects. They raise incomes immediately, and rarely discourage adult labor supply, deter migration or have any undesirable impact on fertility. [21] In fact, some programs have led to noticeable increases in savings or investments in household livelihoods.[22] Transfer programs raise enrollment and attendance at school and health clinics. When services are adequate, transfers can help children achieve levels of nutrition, health and schooling that improve their odds of earning well in their adulthood, usually with gains largest among the most disadvantaged groups – girls, ethnic minorities or the poorest, improvements that would be expected to increase their earnings in adulthood.[23] Safety nets also curb risky teen behaviors, such as smoking, unsafe sex and early marriage.[24] The growing evidence suggests that the poverty relief achieved by these programs increases self-esteem, improves mental health and positively impacts on broader aspects of personal and family welfare. Each year now, up to thirty studies from an increasingly broad range of countries add to our understanding of the positive and productive dimensions of impacts from different programs.[25]

12. **Concerns about vulnerability of women and girls are central for safety net design**. Take four instances: First, most conditional cash transfer (CCT) programs and some unconditional cash transfers, scholarships and widows pensions pay the benefits directly into the hands or bank accounts of women. The evaluations of these programs show the positive impacts of this design feature on women's voice and empowerment. For example, in Mexico and Turkey it was found that women participating in the CCT programs benefited from recognition of their importance in the family, new freedom of movement, and some increased confidence, awareness and knowledge – all without paying a major price in terms of intra-household harmony.[26] Second, these programs

support girls' schooling, with all the associated positive effects; for example, a program in Punjab, Pakistan increased the chances of completing middle school for girls by 3-6 percent and the transition from middle to high school by 6 percentage points. Third, most public works programs provide equal pay to men and women, often in contrast to the market practice and sometimes pushing up significantly wages for female labor in the market. Design and implementation of these programs can also improve women's participation, through providing child care facilities at project sites (as was done in India's Maharashtra Employment Guarantee Scheme, a precursor to the current National Rural Employment Guarantee Scheme) and scheduling works/tasks in a flexible manner.[27] Fourth, safety net programs often assist their clients in obtaining identification or legal documents registering marriages and births – which in turn can help women to gain greater voice and claim their legal rights. For example, the Pakistan Benazir Income Support Program has helped register 15 million female citizens for Computerized National Identity Cards, providing these women the possibility to vote and to access banking and other services.[28]

13. **Safety nets also contribute to economic growth.** Experience shows that when it is well designed, social protection can both redistribute the gains from growth and, at the same time, contribute to higher growth.[29] This is achieved through three pathways: (i) at the level of participating individuals or households by protecting investments in their assets – especially their main productive asset, human capital – contributing to higher lifetime earnings; (ii) at the level of the community, via new community infrastructure, increased demand, and positive spillovers from beneficiaries to non-beneficiaries, and (iii) at the level of the overall economy, by acting as stabilizers of aggregate demand, improving social cohesion and making growth-enhancing reforms politically feasible. These can entail reform of inefficient and inequitable subsidies – or labor market reforms that help move from the protection of jobs to more efficient and direct protection of workers.

14. **The evidence is particularly strong for the human capital channel**. For example, participants of CCTs in Mexico and Colombia have demonstrated sustained income gains after leaving the programs.[30] But there is evidence for the other pathways as well. Ethiopia's public works part of PSNP led to the rehabilitation of over 167,000 hectares of land and 275,000 kilometers of stone and soil bund embankments, all of which will help mitigate the effects of future droughts.[31] In Malawi, the Dowa Emergency Cash Transfer increased local incomes by US$2-US$2.25 for each US$1 transferred by the program. In South Africa, cash transfers make finding new work more feasible, as recipients can afford bus fares, work clothes and funds for migration to urban areas, and at a macro level, extended labor intensive public works increased the country's GDP by 0.34 percent in 2004 while costing 0.2 percent.[32]

15. **These positive effects cannot be taken as assured – the caliber and design of implementation of safety nets affects the likelihood and magnitude of impacts.** As section 5 discusses in detail, there is much room to improve the impacts of safety nets. There are badly performing safety net programs as well as successful ones. And impacts are commonly positive but not universally so, and the magnitude of impact is often smaller than hoped.

16. **In many countries, citizens view safety nets as part of their social contract.** World Values Surveys from 32 countries (1999-2004 wave) show that 91 percent of people think that in a just society it is very important or important "to guarantee that basic needs are met for all, in terms of food, housing, clothes, education, health." The dialogue underlying safety nets has a human rights focus in countries such as India and Brazil, and for agencies such as the International Labour Organization (ILO). In 2006, the African Union issued the "Livingstone Call to Action" with 13 signatory African nations calling for social transfers to take a bigger role in social policy, for more capacity building, and long term funding commitments; more recently the ILO, WHO and other UN

bodies have called for a "Social Protection Floor" with a minimum level of access to essential services and income security for all.

17. **The last 25 years have seen a transformation in safety nets, with middle-income countries leading the way.** Conditional cash transfer programs have evolved from localized, experimental programs in Brazil and Mexico into large national flagship social programs in these and many more countries. Indeed, today there are programs in about thirty countries (most of Latin America, Jamaica and a number of other Caribbean countries, Turkey, Philippines). During this same period, China has expanded its *di Bao* into the largest (unconditional) cash transfer program in the world. Some Central and Eastern European and Central Asian countries have transformed their safety nets to better fit market economies, adding poverty-targeted cash transfers and creating fiscal space for them through reducing distortive and inequitable energy subsidies and expensive programs of categorical privileges. South Africa has popularized the deployment of non-contributory transfers to the elderly, the so-called "social pensions', now present in sixty countries.[33] More than 50 countries now have labor intensive public works programs, which are operated in response to drought or natural disaster, or as a permanent stepping stone into more secure livelihoods.[34] 'Hybrid' programs that provide income support to those in training are being used as well in increasing numbers of countries help labor market transitions for youth and works let go in crises. Sub-Saharan Africa has recently been experimenting with cash transfers as never before: a recent tally cited 123 programs in 34 countries, many still pilot or small-scale, but demonstrating interest and giving a chance to experiment with approaches to implementation in low capacity settings.[35]

18. **In this drive toward better safety nets, South-South action has been a marked feature.** From the earliest stage, developing countries have been learning from one another; for example the Mexican, Colombian and Brazilian governments have hosted many dozens of delegations from other countries eager to learn from their experiences. Brazil has a formal program of social protection technical assistance to Africa. The Russian Federation is the largest donor to the Rapid Social Response multilateral trust fund that supports South-South knowledge exchanges and investments in the building blocks of safety nets in the poorest countries. And India's grand experiment with guaranteed minimum rural transfers through public works is being emulated by other countries and being keenly watched by many more. The appetite for peer learning among the leadership of many safety net programs is demonstrated by their participation is face to face South-South conferences and regional virtual "learning circles".

19. **Safety nets play a central role in the social protection strategy of the World Bank and other international development agencies.** The Bank launched its first social protection and labor strategy in 2001, and is launching its next 10-year strategy in Spring 2012. The strategy emphasizes the need to build coherent portfolios of social protection programs – including and especially social safety nets – to improve resilience, equity and opportunity for people (see Box 2). Social protection approaches, frameworks and strategies are being formulated by the European Commission, ILO, UNICEF and other bilateral and multilateral agencies. There is now an emerging global consensus that social protection promotes pro-poor economic growth and that social protection policy – including safety nets – has a key role to play in poverty reduction.

Box 2: Resilience, Opportunity and Equity: The World Bank's Social Protection and Labor Strategy 2012-2022

This new strategy is guided by three overarching goals, a clear strategic direction, and engagement principles:

- The *overarching goals* of the strategy are to help improve resilience, equity, and opportunity for people in both low- and middle-income countries.
- The *strategic directions* are to make social protection and labor more responsive, more productive, and more inclusive of excluded groups – including the very poor, the disabled, those in the informal sector and, in many cases, women.
- The *engagement principles* for working with clients are to be country-tailored and evidence-based in operations and knowledge work; and collaborative across a range of sectors and actors.

Source: World Bank (2012)

3. It takes time and political will to build good safety nets

20. **Running a safety net program entails administrative capacity for determining eligibility, making efficient payments to beneficiaries, monitoring and evaluation, handling grievances, and transparency and accountability.** Each of these administrative functions requires decision-making to define procedures, trained staff and inputs to run them. Even "quick and dirty" emergency programs typically take six months to get off the ground, often longer, and it can take years to refine systems and capacity to make programs as cost-effective as possible.

21. **Lacking adequate and ready safety net instruments, many developing countries resorted to costlier and less-efficient responses during the recent crises, paying a high price for their lack of capacity.** During the food crisis, of the 81 countries covered by FAO's census of measures adopted by developing countries, 76 adopted import-tariff reduction measures to reduce domestic food price inflation in mid-2008. Thirty-five countries resorted to food subsidies; some countries reduced taxes on fuel or increased civil servant pay and pensions; some increased minimum wages. [36] These measures are not efficient in protecting the poor and increase risks to fiscal stability, creating distortions and increasing costs for government and businesses.

22. **This points to a clear lesson for all countries, regardless of income: Invest in safety nets today so they are in place for the crises to come.** After the East Asian crisis that began in the late 1990s, for example, the ministers of the 21 Pacific Rim countries that constitute the Asia-Pacific Economic Consortium endorsed the idea that safety nets are important in crisis response and should be built in advance of crises. Similarly, after the recent waves of crises, there have been calls to ensure that safety nets are in place to protect the poor from shocks to come.

23. **Crises have often been the catalysts to building better safety nets, as governments that were initially unprepared developed systems for future use.** For example, during the Dominican Republic's banking crisis of 2003, the government had few good instruments for response – and poverty increased by 15 percentage points and unemployment by four percentage points. In 2005, the government established the *Solidaridad* conditional cash transfer program and started to build the unified registry system. The system and structures developed then became the corner-stone to the country's response to global financial crisis in 2008-09. The government was able to quickly expand coverage of its safety net, including subsidized health insurance programs. In large part because of the government's responsiveness, despite the 2008-09 global crisis, poverty (and in particular extreme poverty) has even slightly declined since 2007. This story of one crisis leading to stronger, more responsive safety nets has been repeated in a wide range of countries from Bangladesh and India, Indonesia and Korea, Mexico and Colombia, to Ethiopia and Ghana.

24. **But too often, attention to safety nets has faded away as crisis headlines pass and governments strive to recover fiscal balances.** Results from a recent IEG survey indicate that only 16 percent of developing countries' safety nets were well positioned to respond to the food, fuel and financial crises by being able to identify and reach affected poor households.[37]

25. **Though it may seem daunting to develop good capacity, scrimping on program administration can doom a program.** Governments in countries that deploy programs with few clients, low benefits and especially those that are temporary may invest little in core administrative systems. But without good systems, the program may be open to fraud and error (see box 3), produce poor or mediocre results, and be unable to document and display the results it does achieve. Without proof of a good impact such programs are unable to make a persuasive case in defense of their funding and remain small and ineffective, or are cancelled.

26. **Because there are significant start up costs and economies of scale in program administration it is efficient to invest in a few programs that will go to large scale and/or continue over the medium or long run, and where possible to share administrative functions across programs.** A comparison of about two dozen mostly small, young transfer programs in Africa showed administrative expenditures of over 30 percent of total costs in over half the cases[38], whereas administrative costs for mature, to-scale cash transfer programs largely in Europe and Central Asia and Latin America are more on the order of 8-15 percent.[39] Operating continuous and fewer larger programs will help keep start up costs to a reasonable fraction of running costs. Another way of achieving economies of scale is to use the same administrative platform for multiple programs. This is happening increasingly frequently with household targeting systems. Colombia's proxy means test, for example, was devised to target its subsidized health insurance in 1995. In subsequent years it has been subject to several reforms and upgrading of capacity, today the SISBEN registers 27.1 million individuals, with more than 8 institutions and 31 programs making use of it to target their benefits, making roughly 18 million transfer transactions and generating on-demand monitoring reports for management. Such common targeting platforms have been or are being developed in many countries, for example, several years ago by Georgia and Dominican Republic, very recently by Lebanon and Ghana.

Box 3: Governance and Safety Net Programs

All transfer programs are subject to some level of error, fraud and corruption; reducing it is on the policy agenda even for OECD countries. Although a few programs are notoriously deficient in these areas, technical approaches to reducing error, fraud and corruption are relatively well known. Approaches to good governance include:

- Basic design strategies: Ensure that the funding provided is commensurate with the number of people who meet eligibility criteria; allocate funds to jurisdictions based on explicit and transparent criteria such as poverty maps; use the best identification system for beneficiaries consistent with their coverage and cost; keep eligibility criteria and benefit formulae as simple as congruent with good impacts, reinforcing controls for programs with more complex criteria; use payment mechanisms that operate through financial agencies and that pay beneficiaries directly; etc.
- Develop adequate control features within the programs: Develop rigorous M&E processes such as audits, quality control mechanisms, spot checks, reconciliation of accounts, policies to ensure access to information, and formal grievance redress mechanisms.
- Develop demand-side accountability elements: engage citizens in social audits, third-party monitoring, and information provision through report cards
- Protect programs from undue political influence: prohibit changes in program rules or number of beneficiaries in the months prior to elections; prohibit electorally related activities by program staff and use of information about beneficiaries for political purposes; provide beneficiaries with information and grievance procedures outlining the independence of benefit receipt and electoral activities or voting; increase permanency of programs by basing their authorization in legislation rather than executive degree.

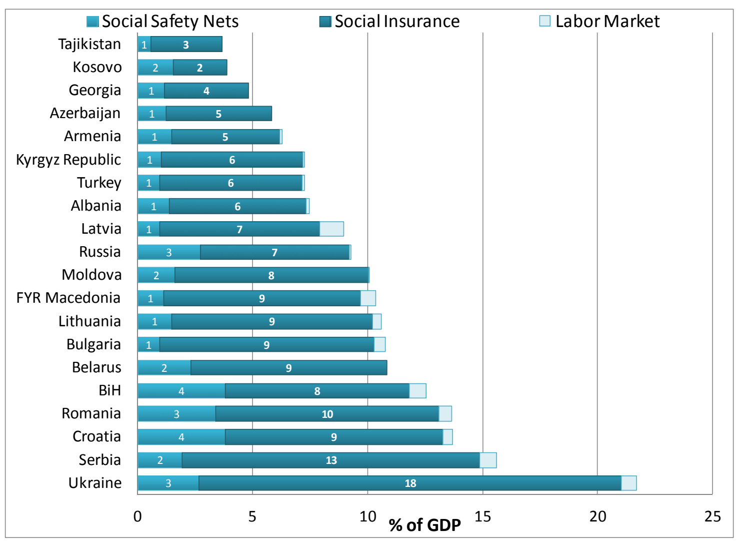
Source: Grosh et al. (2008); von Stolk and Tesliuc (2010); Bassett et al. (2012)

4. Prudent Safety Nets are an Affordable Investment

27. **Countries can not afford the absence of safety nets.** The consequences of leaving the poor without protection imposes large costs to national economies, and ultimately on the public purse. For example, the cost of malnutrition of children in high-burden countries is calculated to be about 2-3% of GDP annually for the entire working life of the affected cohorts – multiple times the cost of averting such loss.[40] And households can face years of lower earnings if, in adversity, they lose key productive assets.[41] Safety nets are not the whole answer to these problems, but can help.

28. **Because safety nets are defined as a rather narrow part of social policy, they are not very expensive.** On average, governments spend 1-2 percent of GDP on such programs[42], with some notable, large single programs such as *Bolsa Familia* costing about 0.4 percent of GDP (in 2010) and India's MGNREGA about 0.5 percent (2009-10)[43]. Even in countries with generous social protection systems (see Figure 1 for Eastern Europe GDP, and Central Asia), safety nets rarely account for a large share of GDP as compared with social insurance (especially old-age pension) programs.

Figure 1: Safety Nets Comprises a Small Fraction of Total Social Protection Spending in Eastern European and Central Asian Countries (Percent of GDP, 2007 – 2009)



Source: Europe and Central Asia Social Protection Database, World Ban

29. **Many countries already spend a surprisingly large amount on poorly targeted, loosely coordinated, temporary programs of limited effectiveness. The same amount of resources could easily fund a consolidated, efficient, and permanent safety net with better results.** For example, in common with many other African nations, Senegal has recently experienced many shocks. In response, the government has extended general price subsidies on key staples such as rice, wheat, and milk and on fuel and electricity. These policies have been expensive, rising from 0.5 percent of GDP to 3 to 4 percent of GDP. A good deal of these public expenditures benefits non-poor people. In comparison, the IMF has estimated that a comprehensive conditional cash transfer program would cost Senegal around one percent of GDP (IEG 2011a).

30. **Food or fuel subsidies, as well as broad benefits targeted to specific categories of the population, often consume large resources that could be used more equitably and efficiently for safety net programs.** For example in Burkina Faso, total spending on safety net programs over 2005-2009 averaged 0.6 percent of GDP, reaching by 2010 almost one percent of GDP. This amount is comparable or exceeds the share of GDP that Brazil, India, or Colombia spend on one of their flagship safety net programs. But Burkina Faso's resources were thinly spread across many different programs, including fuel subsidies that almost exclusively go to well-off people (IEG

2011a). Sub-Saharan African countries spend over 2 percent of their GDP on fuel subsidies – several times spending on safety nets; spending on fuel subsidies is the same order of magnitudes for East Asia and South Asia and even higher in Latin America, Eastern Europe and Central Asia and the Middle East and North Africa. [44]

31. **The political economy of reducing spending on general price subsidies is difficult, but easier where credible safety nets (including poverty-targeted fee waivers or discounts) protect part of the population.** Given the difficulties in reducing subsidies, it is perhaps especially important to avoid putting them into place to begin with. Their huge upsurge in 2008 is a troubling legacy of the crisis (IEA estimated fuel subsidies in the world at US$557 billion in 2008, representing one percent of global GDP)[45], and underscores the importance of starting to build better safety nets now so that when confronting future price increases, governments have a sounder range of solutions to offer and resort less to price subsidies.

32. **In some countries, fiscally neutral reforms may be possible by rebalancing the share of spending for poverty-targeted income supplements and other less effective programs carried out in the name of poverty reduction or allied social goals.** For example, during Eastern Europe and Central Asia's growth surge in the 2000s, many categorical programs became more generous while the role of poverty-targeted programs dwindled. This left the needs-based programs less ready to help in time of crisis than had perhaps been understood – suggesting the need for some rebalancing.[46] In countries across the world, a large share of agricultural subsidies benefit larger farmers, where reforms could focus them further on the poor.

33. **In other countries, additional resources will be required to build an adequate basic safety net.** Fortunately, in many countries where safety nets are comparatively weak or absent, economic growth is projected to be strong in the coming years. This creates fiscal space to mobilize more resources for this purpose. In Tanzania, for example, growth has accelerated to about 7 percent per year since the late 1990s, while poverty r*ates have been stagnant and government spending on safety ne*ts only about 0.3% of GDP. Recently, the Tanzanian government launched the *National Strategy for Growth and Poverty Reduction (MKUKUTA)*, which placed "adequate social protection and rights to the vulnerable and needy groups" as one of the main goals in the country's five-year development plan. Poor and vulnerable people will be served by a mix of programs, including a new seasonal public works program and a year-round conditional cash transfer program, which will use some shared administrative systems. In all such countries, however, there is a political economy and design challenge – to expand programs in line with both current and projected resources, so that the safety nets are both adequate and sustainable.

34. **The more difficult problem is in the low-income, low-growth countries with low tax collections.** For these countries, careful use of international assistance may be the best medium-term strategy. A particularly high priority would be to ensure that the programming is effective and invests in the future – for example through links to nutrition and education or to building community assets.

5. There is a large unfinished agenda on safety nets

35. **Despite the dramatic improvements in safety net development over recent years, there is still a long way to go.** According to World Bank staff institutional assessments of safety nets preparedness in 137 countries, the task of building strong safety net remains a challenge for most countries, especially the poorest countries: over 60 percent have weak capacity in safety nets, lacking coverage and administrative systems. Only 10 percent of the countries had strong capacity, and even in these there is a remaining reform agenda of improving crisis responsiveness, improving

the synergies among programs, and enhancing the ways in which they help households become independent of these support programs.

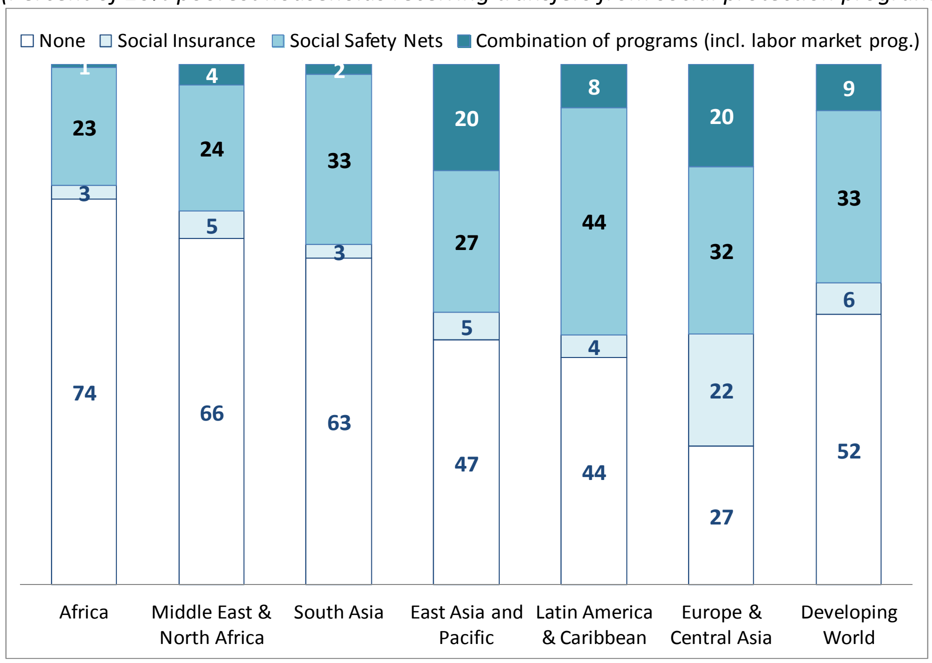
36. **The agenda is in four parts: (a) building safety nets where they are missing; (b) improving programs for increased effectiveness; (c) improving crisis-readiness of safety net programs, and (d) ensuring adequate data to guide policy.**

A. Building safety nets where they are missing

37. **Those in need are not covered in many places, especially in low income countries**. For example, a review of Africa's safety nets found that most programs had fewer than 50,000 estimated beneficiaries, and that they typically covered individuals or households within a limited geographic area.[47] Social protection of any sort reaches less than a quarter of the poorest quintile of households in Africa. Despite South Asia's longer history of locally owned safety net programs, just over 40 percent of the poorest quintile of the populations in these countries (see Figure 2) is reached by any sort of social protection.

Figure 2: Safety Nets as well as Other Forms of Social Protection Available to a Small Fraction of the Poor Population in Many Regions

(Percent of 20% poorest households receiving transfers from social protection program)



Source: Forthcoming World Bank SP Atlas of Social Protection (ASPIRE) *weighted by population*

38. **A good starting point for poor countries with few programs, weak design and low coverage is to focus on building a few sound programs for the long run.** For instance, Angola, Benin, Cameroon, Chad, Comoros, Equatorial Guinea, Gabon, The Gambia, Guinea, Guinea-Bissau, Madagascar, and Mauritania have no significant cash transfer program at the moment. Many other countries have a multiplicity of small programs, but none to significant scale or any degree of modernity. These countries need to halt stop/start cycles that stunt the development of capacity to run programs well, and develop core administrative systems of eligibility, information management and recourse for grievances. Because existing programs are so small, building new programs afresh with modern design and implementation principles is an excellent option in these countries. Pakistan was in this category five years ago, and has taken bold action with the Benazir Income Support Program (BISP) on all these fronts. Similarly, Yemen has built core systems of sound public works and cash transfer programs under its Social Welfare Fund. Ghana, Sierra Leone, and Liberia are investing in their start-up social safety net programs, establishing essential sub-systems that will allow eventual scale up in the coverage of their poor and vulnerable population. This agenda

can be greatly helped in low-income countries by mechanisms such as the Rapid Social Response (RSR) Trust Funds that are designed to provide the small, stimulative initial "capital investment" in these systems, to provide a platform for well-functioning scaled up programs (see Box 4).

39. **Building capacity for well-governed safety nets in low and lower middle income countries is especially challenging, but the recent wave of programming should offer lessons that it is important to capture.** There are several routes to solving capacity problems. The most straightforward is significant investment in systems, staff and inputs, guided by close monitoring of processes to see where initial capacity building efforts need reinforcement. This is best achieved in programs with significant scale and a medium to long term time horizon. This is the story of Ethiopia's building capacity in the PSNP, and in the Philippines' 4Ps program. Many countries are experimenting with a range of ways to partner with communities for traditional administrative functions that are more traditionally done by government. Communities, for example, play a prominent role in targeting in many low-capacity contexts. Countries such as Tanzania, Ghana, Rwanda, Lesotho, India, Bangladesh and Indonesia rely on communities to identify beneficiaries of main cash transfer programs (often in combination with administrative methods). It results in mobilization of communities, greater awareness of programs and their objectives and increased accountability. Another technique is to take advantage of administrative capacity in government agencies other that the Ministry of Welfare. In Pakistan, the National Database and Registration Authority not only handles the issuance of identity documents as per its mandate, but was used to collect the information used in the proxy means test for the BISP cash transfer program; in

Box 4: The Rapid Social Response (RSR) Trust Funds Help Build Safety Net Capacity in Low Income Countries

The RSR trust funds' primary mission is to help IDA-eligible countries to design and establish the "building blocks" of their safety nets: beneficiary identification systems and registries, targeting schemes, monitoring and evaluation arrangements, and contracting and payment arrangements for providers. These initial investments provide the basic infrastructure for countries to run effective and transparent safety net programs.

The RSR provides resources in relatively small amounts, with grants ranging from US$40,000 to US$3 million per project. Since 2009, the RSR has been supported by the Russian Federation (US$50m), Norway (US$8.5m) and the UK, (US$3.2m). 92 percent of funds have been used for country/region-specific direct technical assistance and pilot projects, with the remainder used for knowledge generation and sharing among multiple countries. Sub-Saharan Africa absorbs almost 50 percent of RSR trust fund resources. IEG has praised the RSR as one of the keys to increasing engagement in low income countries (IEG 2011a).

- In Rwanda, for example, RSR is supporting the development of beneficiary and administrative databases necessary for the expansion of the Vision 2020 Umurenge Program, the country's flagship social protection program consisting of public works and cash transfers.
- In earthquake-torn Haiti, an RSR-funded project is helping the Government to establish and pilot-test a mechanism to better coordinate a complex web of services provided through many different donors and NGOs in order to protect the country's poor and vulnerable more efficiently.
- In Tajikistan, RSR is supporting the pilot-reform of social assistance in two districts and the planning for the reform's nation-wide rollout.
- In Cameroon, Burkina Faso and Liberia, RSR is assisting their governments to carry out comprehensive reviews of their social protection systems and to design reforms.
- The RSR has also supported knowledge sharing through face to face global events and through support to virtual learning circles and discussion fora.

The RSR plays a catalytic role by effectively supporting system-building efforts. These systems then channel resources from direct domestic financing, international assistance or borrowing via IDA. In 24 of 43 countries that have been supported, RSR trust funds have been associated with IDA funding worth about US$1 billion.

Indonesia the statistical agency played a vital role in targeting the temporary cash transfer program used in 2005 and 2009 to compensate for fuel price increases. The growing experience means that we are on the brink of having clearer answers about how well and how to run safety nets can be run in challenging settings.

40. **The revolution in Information and Communication Technologies (ICT) presents an opportunity to "leapfrog" historical sequences of developing safety net systems.** The ICT revolution is making things possible today unimaginable 20 years ago – cell phone payments, toll-free call centers for citizens to request information or file grievances, management information systems that are detailed, integrated and fast, and so on. Biometric technology is increasingly being used to register beneficiaries and deliver social services, often through strong collaboration with the private sector. It has been used to scan and identify beneficiaries of the Disarmament, Demobilization and Reintegration project in the Democratic Republic of Congo. India's unique identification scheme has already enrolled 200 million people and expects to reach 400 million – a third of all Indians – by the end of 2012.[48] Another example from a low-income setting is from Kenya, where cell phones to enable customers with no access to conventional banking to receive benefit payments. The system currently serves 4 million customers who would otherwise be difficult or extremely costly to reach.[49]

B. Improving and coordinating existing programs for increased effectiveness

41. **Countries with established programs may need to improve their effectiveness.** All too many programs deliver far less than they could. Sometimes adjustments are needed to the mix of programs, sometimes to the design parameters of specific programs, and often improvements in administrative systems can improve targeting, transparency and impact. For example, Kenya modified the targeting procedures for its Orphans and Vulnerable Children cash transfer program to target it more effectively. Ethiopia's experience shows that investments in administration increased the percentage of households being paid on time, and that this was critical to the program's impact. Peru tweaked features of the design and implementation of its *Juntos* program to increase its impact on nutrition.

42. **Even where programs provide reasonable coverage, benefits may be inadequate or poorly structured.** Over all programs and countries for which data are available in the World

Box 5: Characteristics of a Good Safety Net

Expenditures are only warranted if safety nets perform well. The same characteristics that are sought at the level of individual programs also apply to the net woven from the thread of different programs. Safety nets as a whole and as individual programs should be:

- **Appropriate:** The range and balance of programs responds to needs and policy context; each program is appropriately customized.
- **Adequate:** Coverage of the various target groups is high, level of benefits is meaningful.
- **Equitable:** equals should be treated equally, the needier should get benefits as high or higher than the less needy.
- **Cost-Effective:** the maximum effect is obtained for low resources –which implies that administrative costs are justified through improvements in program impacts
- **Incentive Compatible:** that negative incentives (eg to reduce work effort) are kept in check and/or that positive incentives (to build human capital, to work or invest) are reinforced.
- **Sustainable**: That programs can be maintained over time fiscally, administratively and politically.
- **Dynamic:** That the size and shape of programs change over time as conditions warrant, that management of individual programs evolves as problems are solved or new standards set.

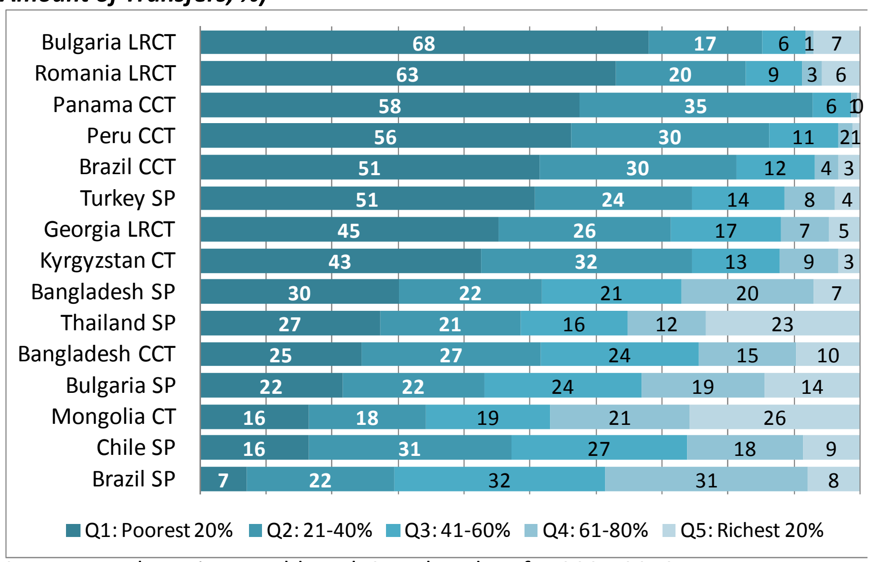
Source: Grosh, et al. 2008

Bank's forthcoming SP Atlas (based on household-level data), social assistance transfers raise the income of participating households by only 10 percent. The transfers are higher in some countries – on the order of 20 percent in Bangladesh, Pakistan, and Mexico. But they are only on the order of 5 percent in countries such as the Kyrgyz, Republic, Yemen or Kenya. Moreover benefits formulae are often too simple to provide the best results. Many programs have a flat benefit per household, which implies less income support per capita to those in larger households, an unfortunate design since larger households tend to be poorer and have higher ratios of members not of working age. A minority of conditional cash transfer or scholarship programs pay higher benefits to girls or other groups with especially lagging enrollment. Very few programs outside of Eastern Europe and Central Asia differentiate benefits by level of poverty; differentiation by geographic area or local prices is also very rare.

43. **The significant variation in targeting outcomes suggests that the progressivity of incidence could probably be increased in some programs.** Figure 2 shows the share of benefits accruing to the poorest quintile of population from a selection of cash transfer programs around the world. Targeting instruments are never perfect and it is particularly difficult to detect who is poorest in poor and relatively equal countries. But on top of irreducible targeting errors, programs vary greatly in how assiduous they are both in reaching out to the very poor who may not know about the program and/or find it difficult to apply for it and in screening out the non-poor. These differences are reflected in the different degrees of targeting even in a single region or type of program. The fact that results are so different suggests that the less sharply targeted programs could be made more progressive if countries wanted to do so.

Figure 3: Benefit Incidence of Various Cash Transfers Programs

(Transfers Received by the Population in Each Quintile Relative to the Total Amount of Transfers, %)



Source: Forthcoming World Bank SP Atlas, data for 2007-2010

Note: LRCT –last resort cash transfers, SP- social pension, CT- cash transfer, CCT- conditional cash transfer.

44. **The productive elements of safety nets can often be strengthened.** Some of the most common safety nets – public works, school feeding and conditional cash transfers – are meant to have productive features, but often these operate less well than they could. To produce infrastructure or services with the labor used on 'workfare' implies some serious administrative processes to select worthy tasks and to oversee their implementation, as well as a suitable allowance for non-wage costs to fund this administration, tools and materials. School feeding programs will be most productive if they feed children early in the school day so as to enhance short term concentration on school work, if their logistics are arranged so as not to distract teachers from their teaching duties, and if they include fortified foods, micronutrient supplements and/or de-worming appropriate to the epidemiological profile of the country. Conditional cash transfer programs will produce the highest impacts on nutrition, health and learning when the

services they are tied to are of adequate quality and when the conditions or "co-responsibilities" are well focused. The required design features of each of these kinds of programs are well known, but the practice is often imperfect.[50]

45. **Countries with substantial expenditures, but with fragmented programs, will need to face issues of coordination or integration across safety nets, or between safety nets and other social protection programs.** Because programs are typically scattered over many agencies and multiple levels of government, fragmentation and lack of overall sectoral leadership are endemic. Consolidation of programs or processes – through unified administrative systems for identification, registry, payments, grievance and redress – can improve governance and impact and lower administration and transactions costs. Armenia took such action in 1999 when it merged 28 categorical programs into a single poverty targeted Family Benefit. Brazil acted similarly in 2003, when it merged four programs to create the *Bolsa Familia.* Mexico is working to use the same payment mechanisms for the *70 y Más* social pension as for the *Oportunidades* conditional cash transfer, and in cross-referring those eligible for *Oportunidades* to subsidized health insurance under *Seguro Popular*. Indonesia, Philippines, and Lebanon are developing targeting systems to be used across programs.

46. **As programs grow in coverage, generosity and integration, it is important to ensure that safety net programs contribute to cover multiple risks and encourage rather than discourage work effort or enterprise.** In many countries and programs benefits are so low or targeted to those not expected to work (the young, the elderly, the severely disabled) that work disincentives are rarely observed.[51] Safety nets provide a small, predictable income supplement that empowers the poor, extends the horizon for planning decisions and allows them to take on higher return opportunities. But where benefits are larger – from single programs or the combined benefit from multiple programs such as cash assistance and subsidized health insurance are targeted to the same households through a single tool – work disincentives must be taken seriously. Eligibility and benefit formulae may be devised in such way to slowly withdraw benefits as income rises rather than creating 'notches' or 'traps' that discourage work effort. In addition, programs can also take positive actions to help households raise incomes from their own efforts.

47. **Safety net programs have to be placed within the context of broader social protection programs, improving coordination and links with social insurance and labor market programs and those aimed at improving productive work and "graduation" of beneficiaries.** In rural areas and less formal economies, households in receipt of social assistance benefits may be linked to agricultural extension, small business development or financial services. In more urban or more formal economies, coordination between social assistance and job training, certification, apprenticeship, job search or social care programs for those receiving social assistance can build the skills and work experience needed to move into productive employment. . This is the set of challenges being addressed by Chile with *Chile Solidario*, which seeks to link the poorest into the wide panoply of social protection and labor market services; and by Brazil, where the *Brasil Sem Miseria* strategy seeks to link households and communities to a still wider range of services. This is a recent agenda without yet as much codified practice as needed.

C. Improving crisis readiness of safety net programs

48. **Recent experience shows that even middle-income countries with large-scale programs renowned for effectively assisting their poor populations may not be crisis-ready.** Crisis-readiness requires programs that can supply more than small income supplements and that can be scaled up and down readily in response to changing needs.

49. **The particular nature of a crisis will shape who is most affected, and so to be fully crisis-ready a country will need to be able to reach diverse groups.** The three types of recent crisis illustrate the issue:

- The rise in *food prices* affected most those who had food as a large share of the consumption basket and who could least afford to reduce food expenditures – virtually all of the chronic poor. All the urban poor were affected, though some poor households in rural areas were spared to the degree that they were also food producers.
- The quick-onset *natural disasters* such as cyclones, tsunamis, earthquakes and floods affect specific geographic areas, and within these, households across a wide range of the income spectrum. But the proportional losses and the need for assistance tend to be greatest among poor households. This is because poor people are less like*ly to have hous*ing built to a standard to withstand natural disasters, to have insurance, or to have off-site savings.
- The impact on households of the global *financial crisis* (and similar macroeconomic crises before it) left many workers without jobs, while others saw their earnings or remittances fall. The relative size of the two groups was quite different from country to country. In Latvia, the big hit was to unemployment, which rose almost 150 percent to 20 percent of the population with youth unemployment rocketing to 40 percent. In contrast, in Bulgaria, six times as many workers took home smaller paychecks than lost their jobs.

50. **The recent crises highlighted the importance of safety nets that cover urban areas**. A number well-established safety net programs only serve people in rural areas, and often only the very poorest rural regions. This may be a prudent way to allocate scarce resources in 'normal' times, but can leave the country only partially covered during crises in which urban poor are especially vulnerable. Thus in 2008/9 Bangladesh mounted a temporary program of subsidized food sales, and Mexico transformed its *Oportunidades* and Food Assistance Program to cover urban areas much more fully than before the crisis.

51. **Systemic crises also require administrative processes that allow for a seamless updating of beneficiary rosters both for expansion in times of need and for contraction as crises pass.** The crisis underscored the value of continuous open enrollment processes, where any household can apply for a program it feels it needs. These processes are the norm in Eastern Europe and Central Asia, but cannot be taken for granted elsewhere. They are found in about half of Latin America's conditional cash transfer programs, but not in all. They are in India's Mahatma Gandhi Rural Employment Guarantee Scheme, but not its Public Distribution System. And they are rare among African cash transfer programs. Conversely, regular recertification exercises will help move those households who have since regained some prosperity off of public assistance. Programs with an element of self-targeting such as the low wages on labor intensive public works may accomplish the same objectives by expanding and shrinking the amount of work done.

52. **Countries will need a range of different instruments for responses for different groups and different situations over time.** Some existing safety net instruments, such as cash transfers and public works, can be adapted to respond during crises – by changing their parameters for targeting, scale, duration and level of benefits. Other social protection instruments – outside the traditional scope of social safety nets as defined in box 1 earlier – are helpful as complements to safety nets for specific types of crises. For example, in times of job loss for countries with primarily formal sector workers, unemployment insurance, unemployment insurance savings accounts, employment services and active labor market programs can be most helpful – as was used in Eastern Europe and Central Asia during the financial crises. After natural disasters, programs to rebuild assets are critical – as was the case for public works aimed at clearing debris after Hurricane Mitch in the Honduras or the recent earthquake in Haiti. Weather insurance can be

helpful for loss of crops or livestock. It is because different instruments are needed for different purposes and groups that social protection systems need to be woven from multiple and complementary strands.

53. **The most effective safety nets have pre-established crisis-response procedures in place, including well-defined triggers for returning (once temporary shocks have passed) to normal benefits, coverage and rules.** For example, public works programs can keep rolling lists of projects amenable to funding, should the need for temporary income support increase. Cash transfer programs should have agile means to increase benefits and identify new beneficiaries when warranted. Programs that can be brought into disaster response may specify the type of benefits and targeting mechanisms to be used during crisis, and/or special guidelines with respect to changes in administrative procedures. Among complementary social protection programs, unemployment benefit programs can specify the extension of the duration of benefits when overall unemployment levels rise above threshold levels. A critical element in these procedures are rules that indicate how and under what circumstances the programs should be rolled back once the crises have passed, so that the program's long run sustainability and governance are not jeopardized.

54. **Effective crisis response requires the ability to increase funding quickly and to step it back down afterward**. Entitlement programs guarantee that budgets respond fully and adequately to cover all eligible applicants, and are the conceptual ideal from the point of view of supporting affected households. However, long histories of fiscal difficulties and macro instability have left many governments wary of the fiscal risks that entitlements pose – and so such mechanisms are rare in low and middle income countries. Thus in most countries, administrative or legislative action is needed to increase budgets to serve more needy and more numerous people. Even when forthcoming, such action may take some months, and thus hamper crisis response. When crisis response depends upon increased international assistance it can be still slower. Actions to increase funding for crisis may need to build in ways to reduce it once crises have passed. This is automatic with entitlement programs, but may not be when executive or legislative action is used instead.

55. **The ability to increase funding in crisis requires fiscal prudence in non-crisis periods as well.** In contrast to prior crises, a number of countries had more fiscal space available in 2008-09. They were thus able to mount significant responses, including safety net and broader social protection elements. Of the total fiscal stimulus of about 3.9 percent of world's GDP in 2008 (ranging from 13 percent of GDP in China to 0.2 percent in Sri Lanka), about 25 percent was spent on social protection measures, with richer countries generally spending more on additional social protection measures. For example, Bangladesh allocated 0.2 per cent of GDP to stimulus-related social protection, Kenya 0.4 per cent, Vietnam 1.6 per cent, South African 2.3 percent, Honduras 2.5 percent and China 3 per cent.[52] Fiscal space in 2012 is still projected to be much more constrained in most countries than in 2008, with fiscal deficits in low income countries projected at -2.8 percent of GDP in 2011 and 2012, more than double the pre-crisis figure.[53] This presents countries with the double challenge of re-establishing their fiscal position while keeping the development of adequate safety nets on the policy agenda.

D. Ensuring adequate data to guide policy

56. **Governments need information systems to inform them about the scale and nature of the need a safety net needs to serve.** Household surveys remain the backbone of efforts to monitor employment and poverty but surveys are still lacking in many places. Only 36 (mostly high income) countries have labor force surveys quarterly or more frequently, 50 countries have them

annually, and 117 countries have no regular labor force survey of all.[54] Among 129 developing countries, half still do not collect survey data on monetary poverty even at least once every three years. And even where there are such surveys, they often do not include data on whether households participate in social programs – only 45 countries produce such data, and even then only for a fraction of the programs important in their policy and even these often lack clear information on major social protection programs.[55] Not all important data come from household surveys. Information on weather, crop production and prices can help forecast food security problems. Administrative data on use of key social services – such as schooling or health care – can indicate whether service use is declining and human capital formation is at risk. Though often collected, these data are rarely compiled and processed in a timely or complete enough manner to aid in crisis monitoring. Without information on needs and coverage, it is difficult to shape and track the basic features of safety net policy.

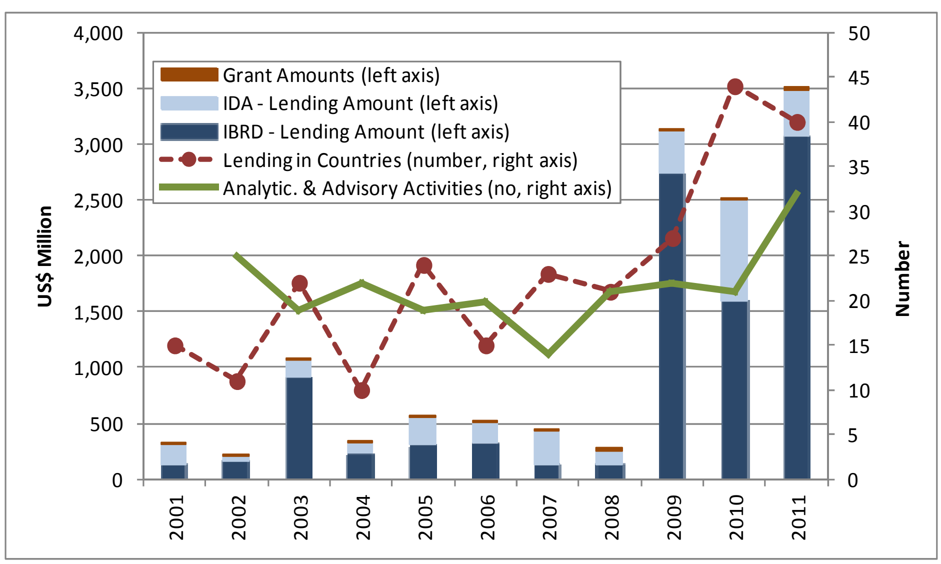
57. **Governments need information from monitoring systems, from process evaluations and from impact evaluations to judge how well their programs are running and make adjustments as required.** Safety net programs need strong internal monitoring systems and periodic process evaluations to understand whether their administrative functions are operating smoothly and effectively. Impact evaluations will help to judge whether desired impacts are achieved, and if designed with sufficient sophistication, may be able to determine which features of the program are most important to its success or failure. Evaluation should be seen as a continuous process with different questions answered over time as they are pertinent, rather than something that happens once.

6. Going forward – the agenda for developing countries and for development partners

58. **Continuing global volatility and persistent poverty increase the urgency for developing countries to build safety nets and improve future crisis preparedness.** This work involves strong partnership among all partners in development: governments, bilateral agencies, and international financial and knowledge agencies such as the World Bank.

59. **Developing countries must take the lead in building sound safety nets.** The *first* step is to have a clear national strategy or action plan in place. Some countries already have or are in the midst of formulating comprehensive visions and strategies for safety nets and how they fit into social policy; other countries are in an exploratory phase testing ideas and programs. An updated stock-taking or understanding of what programming exists and its strengths and gaps is an important

Figure 4: World Bank Portfolio of Safety Nets Activities, FY1998-2011



Source: World Bank Business Warehouse database foundation for formulating concrete and proximate actions on which to work. *Second*, countries must make a reasonable effort to provide domestic financing for safety nets. Even if it must be supplemented by significant international financing, local budgetary contributions anchor safety net programs among government responsibilities, and improve ownership and sustainability. *Third*, countries must build sound basic administrative systems for safety nets, thereby achieving good governance, cost-effectiveness and making safety nets credible in the always-difficult competition for resources.

60. **External funding partners need to get behind countries' plans for building safety nets in a cohesive and coordinated fashion through resources, advocacy, capacity building tools, and knowledge of what works.** Agencies, including the World Bank, need to coordinate their resources and advice to avoid contributing to fragmentation, and to help develop social safety net programs to scale rather than as isolated pilots. In particular, programs of multi-year support, often by multiple agencies, to unified government-implemented programs are essential to halt the fragmented and stop-start programs that make it difficult to build administrative capacity. Providing access to additional resources in time of crisis, so as to mount counter-cyclical response, is also necessary – especially in low-income countries. International partners must work to enhance the evidence base of what works, to support experimentation and learning, and to spread that knowledge to the complex web of decision-makers, opinion-shapers, program implementers and the general public that support safety nets.

61. **The Bank has been actively engaged in the safety nets agenda for years, with a large boost in demand since 2008.** The Bank's support for safety nets covers a wide spectrum of programs including unconditional and conditional cash transfers, public works programs, school feeding, other in-kind programs, fee waivers, and technical assistance.

62. **The Bank's mix of connecting services, policy analysis, and lending varies by country and over time, depending on country needs.** Analytic and advisory services have played a very important role in supporting countries to improve their safety nets, and have been recognized by independent evaluatorsfor high quality and impact (see, for instance, IEG 2011a). The recent evaluation of the Bank's work on social safety nets by IEG concluded that "*Bank support … focused on helping countries build SSN systems and institutions to respond better to poverty, risk, and vulnerability. The Bank's support to SSNs throughout the decade has relied strongly on both lending and knowledge sharing to engage clients.*" The Bank has also contributed a great deal to the knowledge agenda with many publications, a variety of tools, and a sustained support for training and South-South learning. The crisis years saw an increase in all forms of engagement in safety nets. The number of projects increased and many countries that had not engaged with the Bank for safety nets entered into a fruitful dialogue, often – especially low-income countries – spurred by the Rapid Social Response program. Lending soared, including a huge increase in the volume of IBRD lending, with especially large loans to a few countries – with Mexico, Philippines, Turkey, Colombia, Indonesia, Poland and Argentina driving the totals (see Figure 4). The volume of lending will likely recede as recovery allows middle income countries to resume wholly domestic financing of their programs, but the World Bank will continue to support the development of sound safety nets in all client countries, in times of crisis and in times of prosperity.

63. **The World Bank will continue to play its unique role as a global, multi-sectoral, and knowledge-driven agency, which is able to package global technical know-how, financing and convening power – each critically important for the safety nets agenda.** The World Bank responds to demands from policymakers and practitioners in both the 'architecture' and 'engineering' of building social safety nets. This ranges from diagnostic analysis and evaluation, to strategy formulation, to the identification of policy options, to devising detailed policy and implementation measures, and finally assistance with financing, technical assistance and capacity

building. The World Bank sometimes works with clients over the whole range of these services over many years, as with Colombia or the Philippines as they built their conditional cash transfer programs -- or on highly specific and customized portions of the spectrum, as when it provides analytic studies to China for its nationally financed *di Bao* program or temporary financial support to Mexico for its *Oportunidades* program during the global financial crisis.

64. **Going forward, integrated approaches to systems building and transferring knowledge will be central to Bank's work to** improve **safety nets systems and their alignment with broader social protection and labor systems, as articulated in the new Social Protection and Labor strategy that is being launched during the 2012 Spring Meetings.** Building on growing empirical evidence and the last decade of operational experience, this renewed strategy lays out an evidence-based collaborative approach, tailored to help countries move from fragmented approaches to harmonized systems to cover multiple risks. This 'systems' approach aims at reducing coverage gaps in low-income countries or fragile contexts and for vulnerable groups (including the very poor, women and the disabled) and to promote opportunity through enhanced human capital, better jobs and higher productivity, especially for young people. It also paves the way to greater resilience to shocks and crises.

65. **To help countries making better decisions regarding their safety nets, the Bank is investing in statistical capacity.** In many cases, Bank project teams have been heavily involved in the process of designing and conducting household surveys. However, these are rarely Bank-led activities, but very complex national endeavors, where Bank support involves funding (in many cases through trust funds), technical assistance and capacity building. This also includes support to the open data initiative, making data accessible to decision makers and public, including through the new Atlas of Social Protection Indicators of Resilience and Equity (ASPIRE), based on household-level surveys.

66. **The Bank has been a key partner in building and transmitting evidence, including through South-South exchanges of knowledge – both analytical evidence and practical how-to – which are essential to establishing and improving safety nets**. South-South knowledge sharing has included formalized networks of practitioners in the areas of social funds and conditional cash transfers (notably in Latin America and the Caribbean), a series of highly-attended annual South-South learning conferences on social protection, learning partnerships with leading think tanks, numerous study tours, and vibrant communities of practice.

67. **All parties – countries as well as development partners – need to boost their support to the knowledge agenda and find mechanisms to support learning.** Especially valuable and urgent is the transfer of knowledge between those countries that have innovated most in the area of safety nets, and their low-income and middle-income peers. There is both an extraordinary amount of experience to learn from and many more countries at a stage where they are eager to absorb those lessons. It is important to take advantage of this window of opportunity, documenting practice and costs and conducting process evaluations. There is also an enormous opportunity and need to continue the practice of rigorous impact evaluation, deriving baselines before programs expand to national levels in the countries making new starts – and understanding the medium and longer term impacts in countries with more established programs.

68. **Past crises had often been the catalyst to lasting improvements in safety nets. Now is the time to invest in tomorrow – and to ensure that the recent crises leave better systems as their legacy.** This is not an easy task – past experience has proved that for every success in building strong safety nets, there have been other opportunities that have been missed or squandered. But there is an unique opportunity today to bring together the lessons of success. What is required is improved learning and knowledge from recent and past experiences with the

clear successes and acknowledged challenges of building safety nets (including South-South knowledge exchanges), together with focused and evidence-based catalytic investments into building and improving safety nets adapted to specific country circumstances.

69. **Questions for discussion:**

1. *How can the Bank best assist countries in building well-targeted, improved, coherent, crisis responsive and fiscally sustainable safety nets?*

2. *What specific measures need to be put in place for Fragile and Conflict-affected States and Low Income Countries?*

3. *What support can be given to boost knowledge and South-South learning on experience on what works in safety nets?*

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Notes

[1] World Bank 2012b. Projections have put the toll of the food crisis in 2008 at between 63 and 150 million people falling into poverty compared to non-crisis uninterrupted poverty reduction scenario (Ivanic and Martin 2008 and Ivanic et al. 2011). At the onset of the global financial crisis, it was estimated 89 million more people will fall below US$1.25 a day compared to a scenario of uninterrupted economic expansion without the crisis as the demand for labor at home and abroad declines, jobs disappear, earning fall, and remittances shrink (Chen and Ravallion (2009)). These estimates did not take into account policy responces to the crisis deployed by governments which mitigated against some of the effects on living standards. The presence of scalable safety nets in particular was a strong countervailing factor that most projections did not take into account.

[2] See IEG 2011, Bidani and Sulla 2011 for ECA and World Bank 2011f for Egypt and Bruni et al . 2011 for Cambodia.

[3] For example, in Eastern Europe and Central Asia the poverty rate did not increase in 2009 relative to 2008, but the loss in terms of the potential for poverty reduction in the region was significant: close to 11 million people who would otherwise probably have escaped extreme or moderate poverty were unable to do so because of the crisis (Bidani and Sulla 2011).

[4] See IEG 2011, Dasgupta and Ajwad 2011.

[5] Te Welde et al 2010.

[6] Khanna et al 2010 and World Bank 2010a.

[7] Ferreira and Schady 2008.

[8] The 1988-1992 Peruvian economic crisis is estimated to have led to 17,000 additional infant deaths (Paxson and Schady 2005), The 1997-98 financial crisis in Indonesia increased infant mortality risks by 3.2 percentage points; anaemia rose from 52% to 70% in just 1.5 years. The largest declines were for cohorts born or conceived during the crisis, who never recovered from the shocks , remaining shorter, less educated, more prone to disease (Block et al. 2004). A drought in Zimbabwe in early 2000s seriously affected the lives of infants. These children had significantly lower height during adolescence, delayed school enrollment, and reduced grade completion equivalent to a 7 percent loss in lifetime earnings for the affected children (Alderman et al 2006).

[9] Woldehanna 2010.

[10] Compton et al 2011. Globally food price crisis and its economic circumstances undermined progress in reducing child malnutrition (von Braun and Tadesse 2012), and increased hunger (Headeay 2011). The actual impact may be more widesperad than what is visible in the availbale data. The main coping strategy for households in response to the higher food prices or loss of income is reducing food quality (dietary diversity), which may not lead to visible immediate consequences, but trigger long term effects, yet to surface, such as micronutirent deficiency leading to increase in stunting in the future for the affected cohort.

[11] Dasgupta and Ajwad 2011.

[12] TEPAV UNICEF and Wolrd Bank 2009.

[13] Oxfam and Action Aid Vietnam 2008.

[14] WFP Nepal/NDRI 2008.

[15] World Bank 2010b.

[16] Compton et al. 2011.

[17] World Bank, year, 2011d.

[18] de Brauw and Murrugarra, 2011.

[19] According to global data, provided by SP Atlas for the World Bank, by 2008-09 only 13 percent of the world poorest fifth of popultion were receiving monetary transfers as part of informal safety nets. Emirical studies at country level confirm that patchy coverage. In Armenia, a country which relies heavily on remittances (20 percent of GDP), only 25 percent of households receive them and these households are primarily not poor (World Bank 2010b). Even including in-kind support, sharing meals etc. as part of the infomral safety nets in African countries, studies find that only 25-40 percent of households in need receive support (Swan et al 2009).

[20] FA0, 2010; von Braun and Tadesse 2012.

[21] Grosh; et al.

[22] Gertler, Martinez and Rubio-Codina (2007), Bezuneh, Deaton, and Norton (1988), Ardington et al (2009)

[23] Fiszbein and Schady, 2009, IEG 2011b.
[24] Baird et al 2010.
[25] IEG 2011b.
[26] Adato et al, 2000. Adato et al. 2007.
[27] In a tally of 52 public works programs in mostly low-income developing countries, 44 percent of workers were women – see Subarrao et al. forthcoming.
[28]World Bank 2012c.
[29] EC 2010; Barreintos and Scott 2008; Alderman and Yemtsov 2012.
[30] IEG 2011.
[31] Subbarao et al. Forthcoming.
[32] Ardington et al. 2009; South Africa' program started in 2004 to deal with increasing unemployment which by 2002 had reached 30.7%. Between 2004 and 2009 the EPWP provided 1.67 million work opportunities and 7.2 million person-days of training. The program has set a new target of 4.5 million work opportunities by 2014 (EPWP Five-Year Report 2004/05 -2008/09). For the macro evidence, see Alderman and Yemtsov 2012.
[33] Help Age Pensions Watch, 2012.
[34] Subbarao et al, 2012.
[35] Garcia and Moore, 2011.
[36] FAO 2009.
[37] IEG 2011a.
[38] World Bank, 2012, table 8.4; in Kenya's transfer for vulnerable children they were as high as 40 % in the pilot stage when it was scaled up to 400,000 beneficiaires, the share dropped to 25% (Garcia and Moore 2011).
[39] Grosh et al., 2008, annex to chapter 9.
[40] World Bank 2006.
[41] Carter et al. 2007.
[42] Weigand and Grosh, 2008.
[43] OECD2010, World Bank LAC Social Protection Data Base.
[44] Coady et al. 2010.
[45] IEA 2010; IEA et al 2010.
[46] Isik-ikmelik, 2011.
[47] Garcia and Moore, 2011.
[48] *The Economist* January 14, 2012 issue has two articles on India's biometric identity system.
[49] The initiative called M-PESA was launched by Safaricom (working with Vodafone) and is co-funded by the UK Department for International Development (DFID). Africa Social Protection Strategy, World Bank 2012
[50] See Subbarao, et al., forthcoming, Bundy et al 2009 on school feeding, and Fiszbein and Schady 2009 on conditional cash transfers.
[51] See Grosh et al, 2008, chapter 2, section 3 for a literature review on labor disincentives. IEG 2011b provides a review of over 130 studies on the impact of safety nets to show that most of the programs that are not expected to directly affect labor supply appear to have no impact. For example, none of the four CCTs evaluated from this point of view discourage beneficiaries from working.
[52] Calculations by Zhang et al 2010 for 48 countries.
[53] IMF Fiscal Monitor, Jan 2012.
[54] Margolis and Weber 2011.
[55] SP Atlas and POVCALNET, World Bank.