Background Paper

From risk coping to risk management: Productive safety nets in Africa

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From risk-coping to risk-management: productive safety nets in Africa

The coverage of safety nets programs has grown rapidly in Africa, including as crisis-response mechanisms embedded in social protection systems. The main types of safety nets programs include cash transfer programs, as well as public works. Recent reviews counted over 150 public works programs and over 120 cash transfer programs in Africa. Safety nets programs provide cash or in-kind support to increase households’ consumption and to prevent them from resorting to distress sales of assets in times of crisis. Most programs focus on short-term poverty relief, as well as on facilitating risk-coping in the aftermath or shocks and crisis. The incidence of country-wide shocks has triggered the scale-up of existing programs, the roll-out of new programs and the improved coordination of social protection systems. At the same time, geographic targeting is used to target existing programs based on within-country poverty levels as well as the incidence of shocks. A key feature of safety net programs is that they target the poor or vulnerable through a range of explicit targeting mechanisms. As such, they reach the core of the population engaged in low-productivity employment, often specialized in household enterprises or in agriculture. Helping households to become more productive and diversify livelihoods is an increasingly important aspect of safety net provision in Africa. It can contribute to help household manage risk ex ante and smooth income, beyond simple risk-coping ex post.

Public works programs have the dual objective to create temporary employment and to provide or maintain public goods such as local infrastructure. Public works are first and foremost social protection programs that serve as safety nets. Their main objective is to provide a source of income through temporary employment for vulnerable households who have been exposed to shocks, or to the chronic poor. Short-term public works provide temporary employment in exchange for cash or food transfers. They can help households smooth income and cope with adverse shocks, including covariate shocks such as economic downturns or climatic shocks, as well as idiosyncratic shocks such as illness or death. Public works programs typically focus on the production or maintenance of basic infrastructure such as roads, reforestation, as well as the provision of basic social services. Longer-term labor-intensive

1 Note drafted by Patrick Premand (AFTHD) based on material from the regional report on Youth Employment in Africa.
Public work programs offer temporary employment opportunities to the poor, for instance by providing more regular and reliable sources of income during the lean agricultural season.

Public works programs that provide temporary employment opportunities are prevalent in Africa. The majority of the population in Africa lives in rural areas and is employed in agriculture, as such being exposed to seasonality and frequent weather shocks. Many governments are implementing traditional public works programs to provide cash through temporary employment to vulnerable households at times of shocks. Programs in Malawi and Tanzania are amongst the longest-standing. The Malawi Social Action Fund (MASAF) includes a public works component, which is estimated to have offered temporary employment to approximately 800,000 individuals for 12 days on average since 1995. The Tanzania Social Action Fund (TASAF) public works program offers cash transfers through short term employment mainly in infrastructure improvement projects. The labor intensive public works program has offered an average of 75 days of employment to 238,635 beneficiaries since 2000. Newest examples of short-term public works programs include cash for works programs in Sierra Leone or Liberia, which were among the programs rolled-out in 2008 to cushion the adverse impacts of the food crisis and food price increases. The Sierra Leone Cash for Work program provides short term employment for individuals to work on projects such as road rehabilitation, reforestation, terracing and other soil conservation activities, cultivation of rice in inland swamps and other alternative crop cultivation. The first phase of the program reached 16,000 beneficiaries who worked for approximately 50 days. The Liberia cash for works program offered on average 40 days of temporary employment to 17,000 households. They mostly rehabilitated public agricultural land in rural area, clean and clear roads, drains, or public spaces. Examples of longer-term public works program can be found in Ethiopia Productive Safety Net Program (PSNP), where a public works program provides regular employment opportunities. Participants work on labor-intensive projects to build community assets, such as

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soil and water conservation. These activities take place during the lean season\textsuperscript{14}, and beneficiaries can remain in the program for up to five years. The PSNP reaches more than 7 million people and operates with an annual budget of nearly 500 million U.S. dollars [tbc].

**Public works have short-term impacts on welfare, although net earning gains are less that the wage received by beneficiaries and the total cost per beneficiary.** Public works programs are designed to be labor-intensive, i.e. to have a higher share of labor in program total costs. The wage rate in employment programs is set based on estimated market rates for wage employment or minimum wage\textsuperscript{15}. Individuals’ net earnings gains from public works programs are less than the wage they receive. Indeed, participants forego earnings in other activities they would have undertaken in absence of the program. In Argentina, the net wage gain (after subtracting foregone income from other activities) was estimated as two-thirds of the benefits during the crisis, but decreased to one-third of the transfer after the economic crisis\textsuperscript{16}. In low-income African countries, nearly all individuals are employed as few can afford to be unemployed. As a result, most public works programs are oversubscribed even if wage rates are low. In this context, public works program are unlikely to increase overall employment rate, but mostly increase earnings and welfare temporarily. There are few rigorous evaluations of public works programs in Africa which accurately measure net earnings gain. An assessment from the Liberia cash-for-work program suggests a 93% earnings gain, but it does not rely on a comparison group to rigorously measure impacts. In Ethiopia, the public works program led to significant improvements in food security among household that received at least half of the intended transfers\textsuperscript{17}.

**Safety nets can facilitate risk-coping in the short-term though direct consumption support or protection against the use of adverse coping mechanisms.** One of the core objectives of safety nets program is to facilitate ex post coping by providing short-term protection after shocks have realized. Evidence has shown that interventions such as public works, food aid or cash transfers can provide short-term protection against shocks\textsuperscript{18}. In Ethiopia, a study shows that food transfers help households smooth consumption by reducing the impact of negative shocks through risk-sharing within villages\textsuperscript{19}. Food aid also affected child growth positively and offset


\textsuperscript{18} IEG. "Evidence and Lessons Learned from Impact Evaluations of Social Safety Nets." 2011.

the negative effects of shocks in communities that received food aid. Safety nets program can also limit households’ reliance on adverse risk-coping mechanisms. In Malawi, a cash transfer program led to changes in the use of self-reported coping mechanisms, including a reduction in households begging for food or money, or pulling children out of school in order to work. Receipt of private in cash or in kind transfers also decreased, suggesting lower reliance on informal networks for insurance purposes. In Mexico, Progresa was shown to limits depletion of human capital in the aftermath of shocks. Overall, there is solid evidence to support the scale-up of safety nets to serve an ex post relief and mitigation in the events of shocks and crisis.

The evidence on impact of cash transfers on household risk strategies beyond short-term mitigation is more limited, however. In Mexico, a study on consumption smoothing in PROGRESA find that the program “did not replace or reinforce any pre-existing risk sharing among households within villages or lead to any substantial changes in how households cope with shocks”, and that “households eligible for the PROGRESA benefits in the treatment villages were able to insulate their consumption from fluctuations in income better than their counterparts in control villages”, although evidence on the latter remains weak. Another study documented spill-over effects from PROGRESA households to ineligible households in the same communities, which may be partly driven by insurance and risk-sharing.

Still, the highest cost of risk might not be incurred ex-post, but rather ex-ante. Ex ante risk might induce larger welfare costs that the realization of shocks ex post. An important study based on data from rural Zimbabwe estimates that risk substantially reduces growth, with a mean capital stock lower by 46 percent than in the absence of risk. Importantly, about two-thirds of the impact of risk is incurred ex ante. Policies focusing on risk-coping would not address this costly source of ex ante risk. In this context, “policy interventions (...) that help households manage risk could be much more effective than is commonly thought”.

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the potential large ex ante cost of risk, there is much less evidence on the role of safety nets in providing ex ante prevention through reduction of exposure to shocks, including through income-smoothing.

**Improvements in households’ ability to manage risk ex ante is likely to hinge on opportunities to smooth income and diversify livelihoods.** A growing number of safety nets, both public works and cash transfers, include productive interventions.

**Besides providing short-term income support and temporary employment, new “public works plus” programs attempt to build pathways to other types of employment after graduation**. “Public works plus” programs aim not only to provide short-term temporary employment, but also to facilitate graduation through facilitating entry in new income-generating activities such as non-farm self-employment or household enterprises. This includes delivering complementary services to beneficiaries from public works program, such as building linkages to financial services or providing training in a range of skills.

**An increasing number of public works program aim to strengthen financial inclusion or build linkages to other intermediate services.** Several programs explicitly encourage participants to save part of their earnings, or directly link them with financial institutions to open bank accounts or facilitate to access credit. For instance, beneficiaries in the Rwanda’s Vision Umurenge Programme (VUP) are encouraged to save some of their wage earnings and are given access to bank accounts. In Tanzania, beneficiaries of the Productive Safety Net Program can participate in small community saving promotion groups. The objective is to increase their ability to save for their future needs and investments. Community saving promotion is also being discussed in the development of a new public works program in Mozambique. The Cote d’Ivoire emergency youth employment project includes a public works component, which also aims to foster youth’s savings by delivering payment to bank accounts. During its pilot phase, the program also included a matching grant, which participants would receive if they had saved enough during the duration of the program. In Ethiopia, participants to the public works program are linked to the Household Asset Building program to help them to increase productivity of their farms in an attempt to increase their long-term food security. “Beneficiaries receive at least one of several productivity-enhancing transfers or services, including access to credit, agricultural extension services, technology transfer (such as advice on food crop production, cash cropping, livestock production, and soil and water conservation),

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and irrigation and water harvesting schemes”\textsuperscript{28}. Support to such asset building strategies aim to help households graduate from poverty.

**Many public work programs also provide training of short duration, including in basic literacy, skills for microenterprise development, technical skills or life skills.** In the Sierra Leone Cash for Works Project, skills training is provided to a limited number of individuals interested in pursuing careers as a small works contractor. In South Africa’s Expanded Public Works Program, beneficiaries receive two days of training per month in literacy and numeracy, vocational skills and business skills. In Cote d’Ivoire, the public works program implemented by the national roads agency includes basic sensitization on HIV/AIDS, hygiene, and civism, as well as basic literacy training and business skills training. The training ranges from 40-72 hours, and is delivered by specialized trainers over the six months participants take part in the program. In Liberia, the Youth Employment and Skills (YES) Project’s community works component also provides life skills through short add-on training modules. Beneficiaries participate in 8 days of life skills training over their 40 days in the program\textsuperscript{29}.

**Cash transfers program are also increasingly been used with the objective to facilitate entry into productive activities.** Some cash transfer programs are designed to encompass productive components as accompanying measures. This includes linkages to financial services through access to bank accounts for beneficiaries, or other accompanying measures to facilitate savings. In Niger, a process evaluation suggested that safety nets beneficiaries saved a substantial share of their earnings through saving groups. In a new cash transfer program in Cameroon, beneficiaries are encouraged to participate in awareness and training activities to learn about income generation, accessing micro-finance, and business skills.

**Despite the potential of safety nets to increase productivity and facilitate entry in new employment opportunities among the poor in Africa, few rigorous impact evaluations have shown that “public works plus” can lead to employment or productivity gains after graduation.** There is suggestive evidence that traditional public works can open pathways to employment in new activities. In Ethiopia, beneficiaries from the public works program were more likely to have nonfarm business activities (and reduced entry into the wage labor market)\textsuperscript{30}. In Liberia, participants reported using 14.2% of income was used for both farm and non-farm investments. Anectodal evidence from Sierra Leone suggests that beneficiaries save


\textsuperscript{29} Each day of training is a classroom-based session of two to three hours, led by one trainer for each 25 trainees. The life skills training covers six modules: Myself and My Community, Making a Living, Managing Money, My Workplace, My Health, and My Future.

part of their earnings to invest in household enterprises. Despite their potential, the evidence on post-graduation gains from traditional public works remains thin. Ethiopia. Households who had access to both the public works program and the complementary productive intervention were “more likely to be food secure, and are more likely to borrow for productive purposes, use improved agricultural technologies, and operate nonfarm own business activities.” It also led to income growth and less frequent distress sales of assets. Beneficiaries also increased the number of trees planted. Further evidence on the productive impacts of public works program in Africa is limited. In particular, there is limited evidence on the effectiveness of short add-on training module, of linkages to financial services, or on productivity gains stemming from infrastructure improvements aiming to facilitate access to markets...

Some productive impacts of cash transfers have been documented, including in Africa. Cash transfers have also been shown to lead to investment in productive assets and diversification of economic activities in Mexico, as well as investment in agricultural assets and livestock, and reduction of adult participation in low skilled labor in Malawi. Food aid distributed after a drought in Ethiopia was shown to have a positive impact on consumption and consumption growth 12 months later. Simulations also suggest productive impacts of cash transfers on the local economy, including in Lesotho. The effectiveness of complementary productive interventions in cash transfer programs have not yet been ascertained in Africa. However, an impact evaluation in rural Nicaragua shows that the addition of business grants or skills training to cash transfers led to entry into non-agricultural self-employment two years after the end of

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32 Pilots developing grants to beneficiaries have shown large impacts on employment and earnings. It remains unclear how impacts from public works program would compare to delivering cash amounting to the labor and capital costs of public works program to beneficiaries.
the transfer\textsuperscript{39}. A series of graduation pilots for the ultra-poor currently being tested in 10 countries including Ghana and Ethiopia takes a similar approach of adding productive interventions to basic transfers. Early impact evaluation results on the effectiveness of the whole package suggest substantial productive impacts in the short-term\textsuperscript{40}.

**Diversification of economic activities can enhance households’ ability to manage risk ex ante.** Sustained impact of cash transfers on diversification of economic activities or accumulation of productive assets may in turn help households manage risk and cope with shocks beyond the life of the program. There is limited evidence linking productive impacts of transfer programs on savings and asset creation to improved risk-management. A recent study from rural Nicaragua presents evidence on a program that successfully improved households’ risk-management through income diversification\textsuperscript{41}. It shows that a cash transfer alone had no impact on consumption smoothing two years after the intervention. By contrast, productive interventions including small business grants and vocational skills training delivered in addition to the cash transfer provided full protection against drought shocks two years after the end of the intervention. The complementary interventions led to diversification of economic activities, income-smoothing and better protection from shocks compared to beneficiaries of the basic conditional cash transfer. These results show that that combining safety nets with productive interventions can help households manage future risks through portfolio diversification.

