

Safety Net Responses to Rising Food Prices:



Policy Options and Potential Fiscal Consequences

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Bishkek, 25-26 June 2008

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Rising food prices hurt poor households in particular



- Poor households have constrained budgets
 - Poorest 20% spend 60% on food (KIHS 06)
- Higher food prices reduce purchasing power
 - Less food can be purchased given the same budget
 - Food items may be substituted for inferior products (reduced nutritional value)
 - Crowding out other expenditures for basic needs (health, education, shelter,...)

Role of social protection



- Part of overall policy response
 - Complementary to other sector policies (monetary and fiscal policies, agricultural policies, ...)
- Offers short-term measures to mitigate impact of food price increase on vulnerable households
 - Limit impact on poverty and inequality
 - Support food security
 - Ensure access to health and education
 - Reassure population

Policy options – general

Source: adapted from WB HDN 2008



Policy intervention	Appropriate context	Advantages	Disadvantages
Cash transfer	<ul style="list-style-type: none"> • Food market functions properly • No food shortages • Functioning safety net exists 	<ul style="list-style-type: none"> • Supports income of the poor • Lower administrative costs • Do not distort prices • Consumer sovereignty • Benefits can be adjusted 	<ul style="list-style-type: none"> • Need for targeting mechanism • Cash might be used for other purposes
Food stamps	<ul style="list-style-type: none"> • Food market functions properly • No food shortages • Reliable retail and banking system 	<ul style="list-style-type: none"> • Politically popular • Increase food consumption more than cash • Can be restricted 	<ul style="list-style-type: none"> • High initial start-up costs • Higher administrative costs • Need for targeting mechanism
In-kind food transfer	<ul style="list-style-type: none"> • Market functions poorly • Foreign aid in-kind • Need to rotate grain reserves 	<ul style="list-style-type: none"> • Effective in alleviating hunger • Can increase school attendance 	<ul style="list-style-type: none"> • Administrative costs per unit transferred higher • Logistically demanding • May distort market
Food price subsidy	<ul style="list-style-type: none"> • Prices of essential products too high • Used within defined time period 	<ul style="list-style-type: none"> • Can be introduced quickly • Politically popular 	<ul style="list-style-type: none"> • May distort local production incentives • Often regressive • Expensive • Difficult to remove
Public works	<ul style="list-style-type: none"> • High unemployment 	<ul style="list-style-type: none"> • Creation of infrastructure • Self-targeting • Politically popular 	<ul style="list-style-type: none"> • Administratively demanding • Only for able-bodied individuals • Requires additional resources

What are feasible options for the Kyrgyz Republic?



- Use the existing safety net
 - Functions relatively well
 - Existing benefits can be easily extended at relatively low administrative costs
 - Can be introduced quickly
 - Can be supplemented by targeted nutrition interventions → increase impact on certain vulnerable groups (infants, pregnant & lactating women)
- Introducing new food policy program
 - Not feasible in the short run → 9-12 months at least to introduce a new program
 - Disadvantages outweigh in most cases the advantages

Existing safety net works relatively well



- Current safety net programs:
 - Unified monthly benefit (UMB)
 - 2007: 451 thsd beneficiaries, 124 KGS avg. benefit, 695 mio KGS annually
 - Monthly social benefit (MSB)
 - 2007: 59 thsd beneficiaries, 515 KGS avg. benefit, 365 mio KGS annually
- Pro:
 - Targeted to poor households
 - Administrative and payment structures established
- Con:
 - Current benefits very low
 - Exclusion error relatively high
 - Extremely poor difficult to reach

Options within the current system



1. Increase benefit value to compensate foregone purchasing power:
 - a. Top-up UMB and MSB
 - b. Introduce annual indexation of the GMCL
 - c. Extend eligibility for UMB to all family members
2. Increase coverage:
 - a. Improve outreach of existing UMB
 - b. Expand eligibility criteria
 - Reduce bias to rural poor and/or include working age urban poor

1. Top-up existing UMB/MSB



- Partly compensate lost purchasing power of benefits
- Administratively simple
- Can be introduced quickly
- If indicated as temporary measure, withdrawal should not be politically sensitive
 - Can be phased out smoothly
- But, poor households w/o children remain uncovered (UMB)
- What amount is meaningful, c.q. affordable?
 - Assumption for simulation:
 - 1 USD (= 36 KGS) per beneficiary per month (+ 28%)
 - 2 USD (= 72 KGS) per beneficiary per month (+ 56%)

2. Introduce annual indexation of GMCL



- UMB and MSB related to GMCL
 - Real benefit value eroded over the years
- GMCL does not keep pace with CPI
 - Irregular adjustments based on fiscal space
 - GMCL: 31% of extreme poverty line in 2006
 - Latest adjustment in 2008: 200 KGS (did not fully compensate for inflation)
- Indexation as safeguard for real benefit value
- Requires re-calculation of benefits
- UMB:
 - More households may become eligible (effect difficult to predict)
 - Households w/o children remain uncovered
- May not be fiscally sustainable

3. Extend UMB to all family members



- Poverty is strongly correlated with the presence of children and household size
- Extending UMB to all family members raises average UMB received per family
- Large families would benefit more
 - 70% of additional benefits would go to poorest 40%
- Exit strategy may be politically sensitive
- Estimated costs: 36 mio KGS per month (based on average UMB of 124 KGS)



4. Expand eligibility criteria

- UMB coverage: 24% of poorest quintile (2006); 28% (2005) based on KIHBS
- Poor households w/o children excluded
- Options:
 - Include pensioner households with $y < GMCL$
 - Include all households with $y < GMCL$
- Assumption for simulation:
 - All households below extreme poverty line
 - 260 KGS per household per month (average in 2006)
 - With perfect targeting: 60% coverage of poorest quintile
- Estimated costs: additional 205 mio KGS per year

Fiscal consequences

(excluding administrative costs)



	Additional costs	Total costs	As % of GDP
Annual costs based on 2007	mio KGS	mio KGS	%
Current UMB (MLSP)	0	695	0.50
1. Top-up existing UMB			
• 36 KGS p.m.	194	889	0.64
• 72 KGS p.m.	389	1084	0.78
2. Index GMCL	139	834	0.60
3. Extend coverage	432	1127	0.81
4. Relax eligibility	205	900	0.64



Policy options – medium term

- Inside existing structure:
 - Improve targeting to reduce exclusion error
 - Expand social and labor market services for poor elderly, children and working-age poor

- Outside existing structure:
 - Child benefits:
 - nutritional deficits most harmful for pregnant women and infants < 24 months
 - 27% of the population covered
 - Leakage to non-poor (inclusion error)
 - Costs depend on benefit value
 - Conditional cash transfers:
 - Increase benefit value but tie receipt to use of public services, such as education and health

Concluding



- Kyrgyz Republic can rely on existing structures in the short-run
- Indexation of GMCL:
 - structural protection of benefit values
- UMB/MSB top-up: short-term (temporary) measure
 - Can be sustained because of low generosity of current UMB
- Increase coverage within current system
 - Improve outreach through pro-active social workers
 - Information campaign to inform public about UMB
 - Improve management information system, tracking errors and fraud
- Medium term:
 - Improve targeting methodology
 - Review existing benefit portfolio for the poor