

# Social Safety Net Policy Priorities

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# Outline

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- Review existing safety nets in Iraq and recent policy initiatives;
- Short-term priorities (within 1 year);
- Longer-term priorities (2-5 years)
- Program targeting methods
- Examples of country reforms



# Goals of Safety Nets

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- To help vulnerable individuals and families cope with the consequences of economic, natural, and other shocks, and to provide support to the poor (redistribution and risk coping);
- To help the poor and vulnerable to improve income paths and human capital accumulation by encouraging beneficial risk taking (springboard);



# Types of Public Safety Nets Programs

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(in Iraq)

- Price and tax subsidies;
- In-kind transfers;
- Cash transfers;
- Targeted human development (conditional transfers);
- Public works;
- Food and nutrition interventions;
- Fee waivers;



# Main Safety Net Programs (2005)

	Expenditure (billions of ID)	Est. Coverage (millions)
PDS food	6,000	27
Family Care Allowance	57	1
Demobilization Grant	375	0.3
In-kind	?	0.006



# Existing Safety Net

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- PDS subsidy is the primary safety net
- Cash transfers are small relative to government budget and provide very limited benefits.
- Cash targeting is largely categorical and may “leak” a large share of benefits to the nonpoor.



# Current Government Initiatives

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- Reduce both PDS and energy subsidies immediately (up to 25% in 2006, or to be phased over several years)
  - Cut nonessential items from basket (soap, detergent); and/or
  - Raise consumer prices of energy products (already in Baghdad); and/or
  - Exclude higher income civil servants from PDS eligibility;
- Phase I: expand current cash-based program, labor market interventions
  - MOLSA allocated US \$250 million beginning 2006 for expansion and reform
  - Expand Family Care Allowance from 2 to 7 million individuals 60% of pop dependent on PDS (16 million)
  - MOLSA undertaking preliminary internal needs assessment;
- Phase II: implement targeted cash safety net, phase out most subsidies
  - PDS monetization pilots under consideration;



# Concerns and Considerations

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- Fast reduction in subsidies, particularly PDS and energy subsidies may create hardship for the poor and political difficulty
  - Estimates vary, but up to 25% of population dependent on PDS for basic foodstuffs.
  - If new cash-based safety net does not adequately compensate needy and/or does not reach them,
  - Nearly entire population receives PDS ration – political economy considerations
- Targeting mechanisms for expanded Family Allowance is not clear, may result in high leakages to non-poor
  - Categorical criteria may not correspond to those most in need
  - Coordination with other benefits – Demobilization Allowance, pension payments, nongovernmental charities, etc.
- Administrative and physical capacity may be too limited to implement revisions in near future
  - Limited means to transfer cash (banks, postal service);
  - Information and IT requirements to manage system;
  - Staffing;



# Short-term Priorities

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- Improve targeting of existing subsidies and cash transfers
- Improve information for policy design
  - Assess likely effects of subsidy reductions on poor
  - Assess poverty and vulnerability;
  - Assess existing safety net programs (coverage, adequacy, efficiency)
  - Develop social protection strategy
- Enhance institutional capacity and coordination (interministerial committee, focused training);
- Address administrative and IT/hardware limitations;
- Design and pilot new safety net (targeting mechanisms, administration, evaluation)



# Longer-term Priorities

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- Further improve data collection and administrative capacities;
- Consolidate safety net programs and enhance coordination across ministries and between government and non-government providers;
- Replace general subsidies with cash-based interventions that emphasize human capital development and productivity
  - conditional transfers,
  - public works



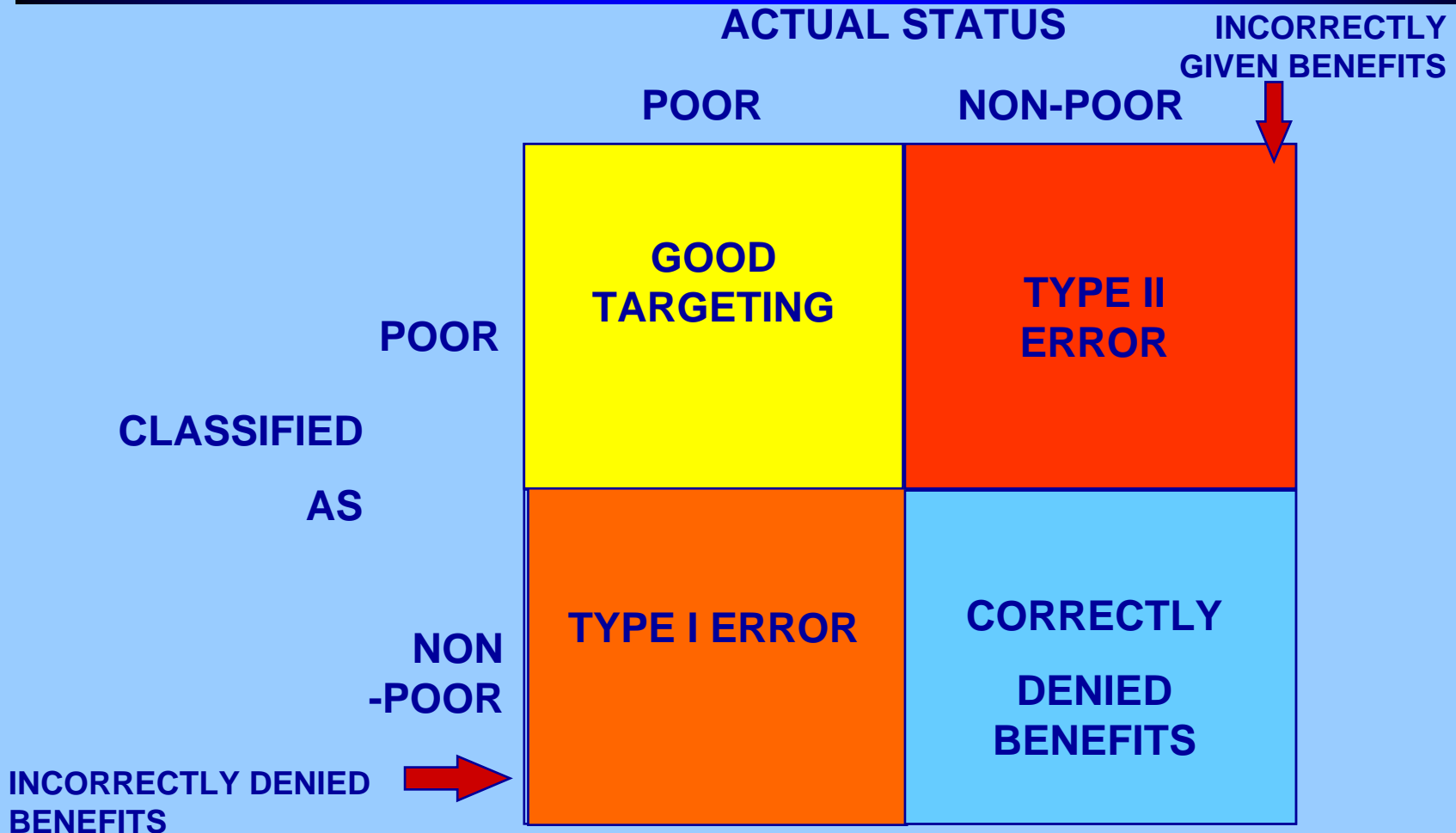
# Program Targeting

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- Targeting is a tool, not a goal
- Objective is to concentrate resources on the intended population (usually poor). Implication is that some people get benefits and others do not, and the neediest tend to get larger benefits than the less needy
- But there are costs – administrative, political, efficiency private and social
- Implementation and circumstances matter a lot – almost more important than method chosen



# Targeting Errors and Accuracy



# Menu of Options

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- Individual Assessment
  - Means (3<sup>rd</sup> party verification; in-office, none)
  - Proxy means
  - Non-statistical
- Categorical/Group
  - Geographic
  - Demographic (kids, elderly, women)
  - Other



# Menu of Options

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- Self-Selection
  - By purchase of commodity
  - Work requirement
  - Community Bidding
- Community Based
  - Use existing local actor (teacher, nurse, clergyman) or new civic committee to decide who qualifies



# Targeting Options -- Means Testing

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- Means testing
  - closest to “needs-based” ideal
  - series of complexities
    - Whose income to count? What income to count? How to measure non-formal income? How to adjust for family composition?
    - In Latin America, get reasonable results with crude means tests using home visits
    - In FSU have relied more more on office-based paper trail, but changing.



# Proxy means test

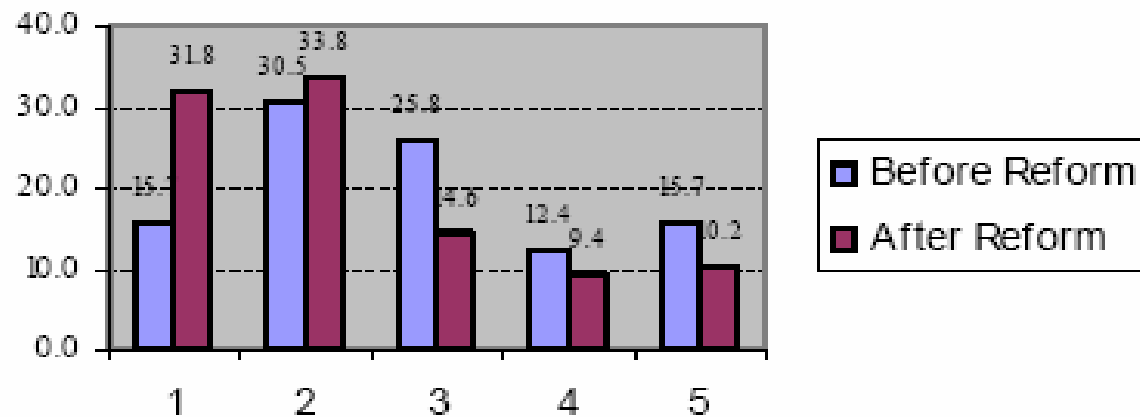
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- Increasingly popular
- A scoring system to rank “need” based on relatively easy to collect information, with indicators and weights based on statistical analysis of household survey data
- But complicated implementation
- Indicators tend to be static



# Armenia: Poor Benefited After Introduction of a Proxy Means Test

Fraction of the Social Assistance Budget Captured by Each Consumption Quintile



# Categorical targeting

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- Age (child allowances, non-contributory pensions)
- Disability, unemployment
- Ethnicity (scheduled castes in India, Natives in Canada)
- Fairly easy administration
- May not be very precise



# Geographic

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- More accurate the smaller the unit used
- But a limit based on data, service delivery system, politics
- More viable for services used daily than yearly
- New tool merging census and survey data may make more accurate



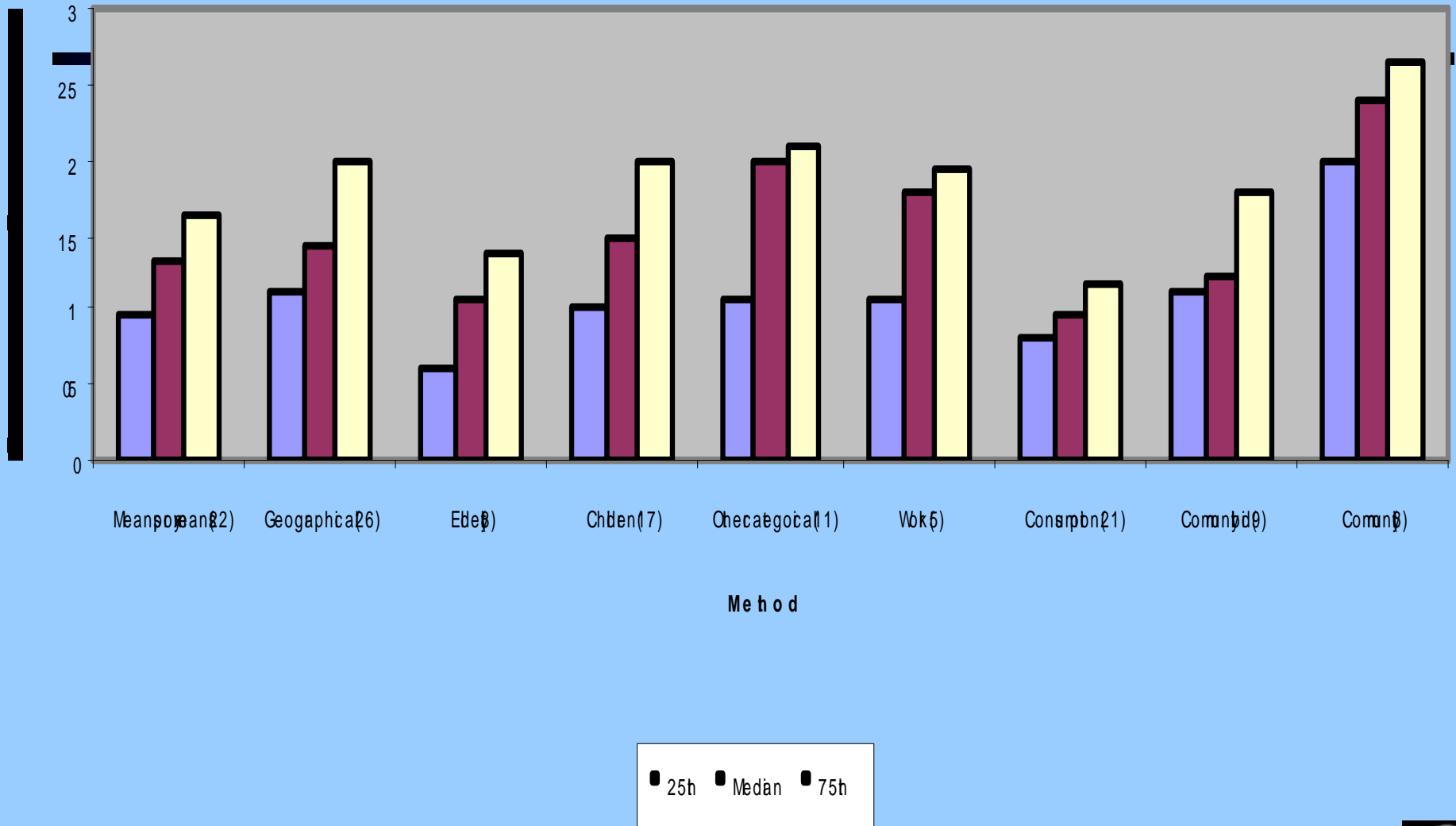
# Community-Based Targeting

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- Use existing local actor (teacher, nurse, religious leader) or new civic committee to determine eligibility
  - local actor may have best information, but
  - structure may impinge on actors' performance in their original local roles,
  - may generate conflict
  - capture by local elites still possible
  - little empirical evidence so far (Uzbekistan Mahalla)



Figure 4.2: Targeting performance by method (alpha measure)



# Program Targeting Lessons

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- Targeting can work well
  - Mean targeted program gives a quarter more benefits to poor than their population share (from study of 100 programs)
- But doesn't always
  - One quarter of programs are regressive
- No clearly preferred method
  - 80% of variation within method
- A weak ranking developed:
  - Means, geographic, work requirement – generally good performance
  - Proxy means, community based, demographic targeting to kids – potentially good, but variable performance
  - Demographic targeting to elderly, community bidding, self-selection of commodities – limited potential



# Targeting Options for Iraq?

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- Analysis is needed for both targeting subsidies and targeting cash (DFID mini survey, IMIRA, other COSIT)
- But potential options may include:
  - Geographic targeting with categorical targeting
  - Proxy means test
  - Self-targeting for subsidies using quality differentiation
  - Community targeting (but elite capture could be a problem)
- Depends on distribution of poverty across locations and groups as well as administrative capacity (data, eligibility verification, etc.)



# Examples of Reform Efforts: Tunisia

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Reform of subsidies in the mid 1990s relied on 4 elements:

- Improved targeting by quality differentiation;
- Progressively reducing and eliminating subsidies on certain products
- Cutting production and distribution costs for subsidized products;
- Introducing public awareness campaign and monitoring of reform efforts

Resulted in drop in expenditure from 4% of GDP in 1984 to 1.5% in 1998. Poor benefit more than rich in absolute and relative terms:



# Examples of Reform Efforts: Mexico

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Reform of subsidies in response to ineffective safety net response to macroeconomic crisis (1994 Tequila Crisis):

- Pilot conditional cash transfer program started in 1997. Rigorously evaluated, very positive findings on children's health, nutrition, education and limiting work;
- Program expanded nationally and used to eliminate the tortilla subsidy (type of bread);
- In 2002, program reached 20% of Mexican population at a cost of 0.3% of GDP;



# When Subsidies are Removed Too Quickly without Alternatives in Place

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- **Yemen:** rioting in 2005 has forced reconsideration of announced fuel price increases;
- **Jordan:** street protests in 1996 following 200 percent increase in price of bread and other items; similar attempt to increase prices in 1989 helped to bring down the government;
- **Indonesia:** protests forced rollback of energy prices in 2000 (and again in 2005?);
- **Nigeria:** protests and riots after government announced a 50% increase in price of gasoline in 2000.



# Lessons from Recent International Experience on Subsidy Reforms

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- Understand the likely effects of subsidy reforms before changing policy;
- Build political support for change through public education campaigns;
- Reduce subsidies gradually and predictably unless political will exists for rapid change; and
- Have alternative safety net interventions in place before reducing subsidies.

