Safety Nets Primer

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Levels and Patterns of Safety Net Spending in Developing and Transition Countries[1]

This paper offers a new set of data compiled from individual World Bank country reports and covering 87 developing and transition countries during 1996–2006[2]. The findings show that mean spending on safety nets is 1.9 percent of GDP and median spending is 1.4 percent of GDP across developing and transition countries. For about half of these countries, spending falls between 1 and 2 percent of GDP. Some variation is apparent. Bosnia and Herzegovina, Pakistan, and Tajikistan, for example, spend considerably less than 1 percent of GDP, while spending on social safety nets in Ethiopia and Malawi is nearly 4.5 percent of GDP because international aid is counted, but would be more like 0.5 percent if only domestically financed spending were counted. Other high-spending countries—Mauritius, South Africa, and the Slovak Republic—finance their safety nets domestically. Spending on safety nets is less variable than spending on social protection or the social sectors.

Estimating Safety Net Spending

Good measures of spending on safety nets have been elusive in the past. This paper offers a new set of data compiled from individual World Bank country reports and databanks and supplemented by the OECD social expenditure database (OECD, 2004).

Quantifying spending on safety nets is difficult because the conceptual definition does not fit within a single ministry's mandate. The International Monetary Fund's publication *Government Finance Statistics* (GFS) (IMF, 2001) is the most widely available and rigorous reference source and has formed the basis for much of the literature on social safety nets to date. GFS reports a single figure of 'social security and welfare', which covers a broader domain to which social safety nets are typically understood.

We use a definition of safety nets as non-contributory transfers targeted in some manner to the poor or vulnerable. This is a fairly commonly accepted definition, with some writers, especially in the United States, using the term "welfare" to mean roughly the same thing; others especially in Europe, equate this with "social assistance." Under this conceptual definition there are many variants of programs, the most common including cash and near cash transfers, in kind transfers, price subsidies, labor works programs, and fee waiver schemes.

This definition of social safety nets concentrates on *publicly* financed safety nets—that is, those funded by national or local government or by official international aid, rather than informal transfers between households and private agencies. Because we define safety nets rather

[1] Colin Andrews prepared this note based on Christine Weigand and Grosh, Margaret (2008). Levels and Patterns of Safety Net Spending in Developing and Transition Countries. Social Protection Discussion Paper No. 0817.

[2] The data are also provided in an Excel spreadsheet on the safety nets website *www.worldbank.org/safetynets* so that others may use them.

narrowly, their costs are lower than some people often associate with safety nets.

Methodology

To fill the gap in knowledge about safety net spending in developing countries, we compile data from World Bank public expenditure reviews and other similar analytical works. We conducted an extensive search for such analysis both using and contributing to the inventory of over 250 documents catalogued in Milazzo and Grosh (2008). We supplement this information with data for a handful of OECD countries from the OECD social expenditure database (OECD, 2004) and with data from World Bank (2007b).

We use this information to compile a summary indicator of a government's efforts to provide safety nets, measured as spending on safety nets as a percentage of GDP. In our sensitivity analysis we also broaden our measurements to consider wider concepts of spending. We define social protection as the sum of safety nets (social assistance) and social insurance (pensions, unemployment insurance). We define the social sectors as the sum of spending on social protection, health, and education.

There are three important caveats to the data. First, we have incomplete coverage. We provide data for 87 countries between 1996 and 2006.[3] Coverage varies by region. It is high for Europe and Central Asia, with 25 of the 29 countries covered (and 96 percent of the population). Coverage is much worse for Sub-Saharan Africa, with 9 of the 47 countries covered (and 18 percent of the population). Second, there are comparability issues since expenditure numbers have been calculated by different authors of many country reports. While we use the composites largely as they occur, we trust in the judgments of report authors. Finally, some caution should be taking when interpreting data. What countries eventually spend may not be equivalent to what has been stated in individual country studies, which were compiled when spending was a policy issue.

Main Findings

- Mean spending on safety nets is 1.9 percent of GDP and median spending is 1.4 percent of GDP. For about half of the countries, spending falls between 1 and 2 percent of GDP (figure 1).

- Some variation is apparent. Bosnia and Herzegovina, Pakistan, and Tajikistan, for example, spend considerably less than 1 percent of GDP, while spending on social safety nets in Ethiopia and Malawi is nearly 4.5 percent of GDP because international aid is counted, but would be more like 0.5 percent if only domestically financed spending were counted. Other high-spending countries—Mauritius, South Africa, and the Slovak Republic—finance their safety nets domestically.

- Regional patterns are about as might be expected, with the Middle East and North Africa spending the most (2.2 percent on average), followed by Europe and Central Asia (1.7 percent on average), and Latin America and the Caribbean (1.3 percent on average). The smaller number of observations makes the averages less robust for the other regions, for instance, the average of 3.5 percent for Sub-Saharan Africa is based on only six observations and also includes external financing.

- Spending on safety nets is less variable than spending on social protection or the social sectors (figures 2 and 3).

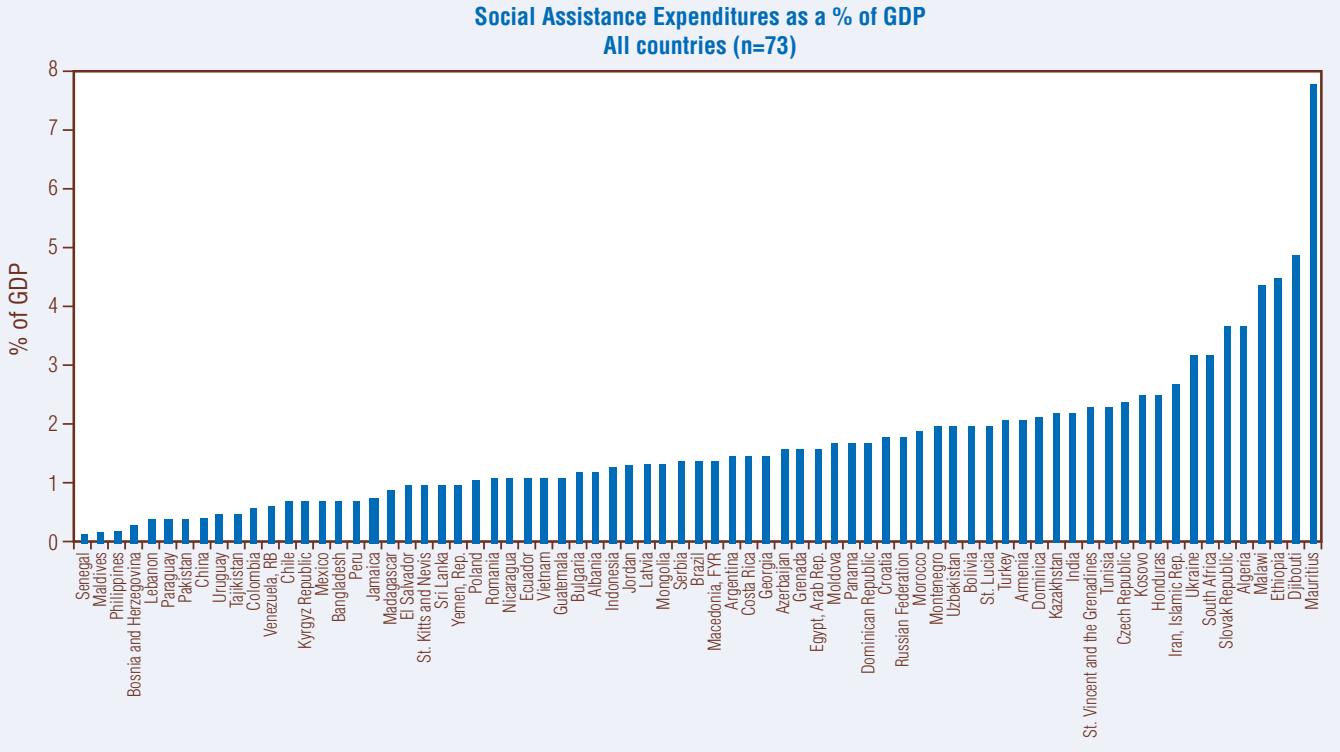
Sources of Variation in Country Social Safety Net Spending

To try to understand the sources of variation in spending patterns, we look at spending patterns and their relationship to variables typically discussed in the literature on developed countries e.g. country income, income distribution ,voice, ethnic fragmentation, democracy and attitudes about inequality.

We find that in simple correlations, most of the factors have the expected sign, but that the strength of the correlation is generally higher

[3] The dataset used excludes Iraq, an outlier that has been spending 15 percent of GDP spent on social assistance because of its unique circumstances. Also, in estimating country expenditures are rounded to the nearest half percent.

Figure 1. Social Safety Net Expenditures (*% GDP, Selected Countries and Years*)



Sources: See Annexes from Weigand and Grosh (2008) for detailed sources for developing and transition countries, OECD 2004.

Figure 2. Social Assistance and Social Insurance
(*% GDP by Region, Selected Years*)

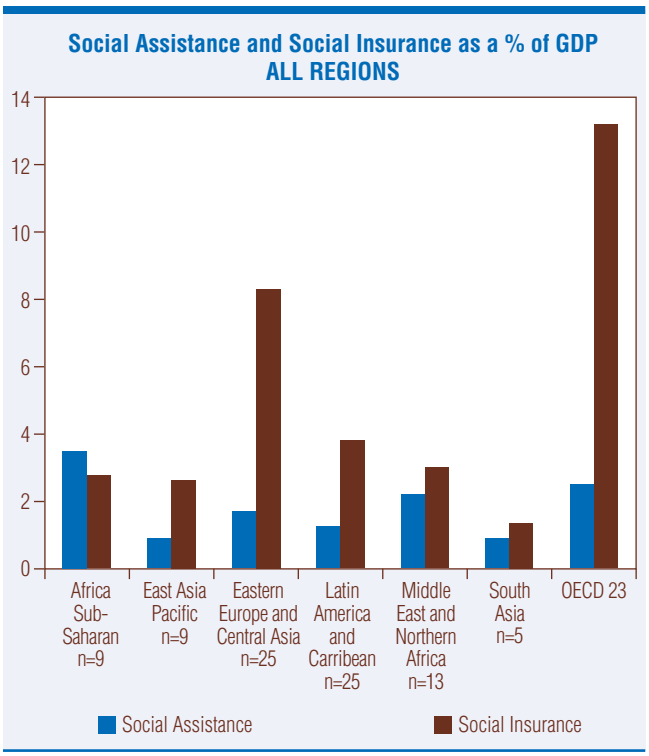
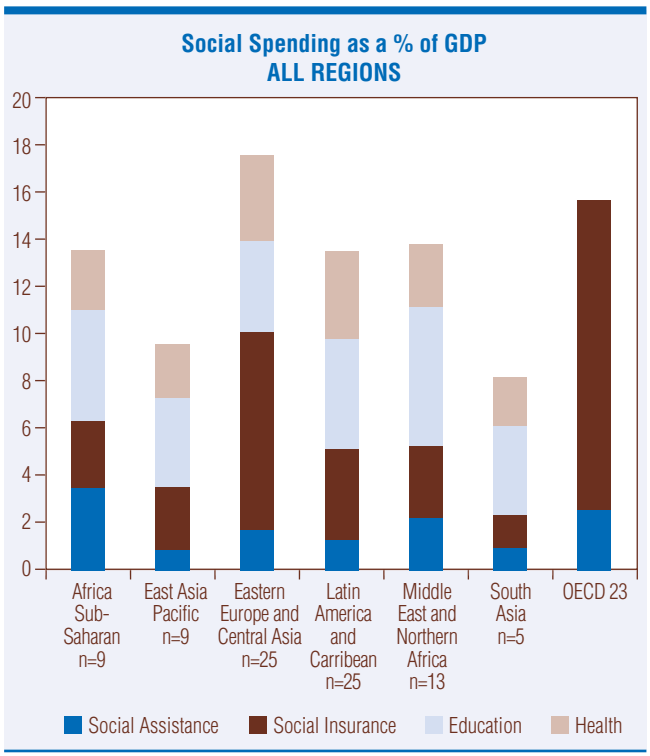


Figure 3. Social Assistance, Social Insurance and Social Sector Spending
(*% GDP by Region, Selected Years*)



Sources: See Annexes from Weigand and Grosh (2008) for detailed sources for developing and transition countries, OECD 2004.

Table 1: Correlations between Spending on Social Sectors and Other Factors

Factor	Safety Nets as a percentage of GDP	Social protection as a percentage of GDP	Social sectors as a percentage of GDP
Per capita GDP (purchasing power parity)	0.0768	0.5045**	0.5460**
Gini coefficient	–0.1104	–0.3410**	–0.2686*
Voice	0.0678	0.2294**	0.2607**
Ethnic fragmentation	0.1628	–0.0204	–0.0972
Democracy	0.1733	–0.0533	0.1907
Attitudes about inequality	0.1234	–0.1694	–0.1559

Source: Authors' calculations.
Note: * indicates that coefficients are significant at the 10 percent level or better.
** indicates that coefficients are significant at the 5 percent level or better.

the broader the concept of spending used. For spending on safety nets alone, none of the factors examined correlate significantly. As concerns spending on social protection and the social sectors however, it is significantly higher where income or voice is higher and lower where inequality is higher.

Conclusions

We interpret the pattern of results—that the correlates of social spending viewed broadly are more definitive than the determinants of spending on safety nets—to mean that societies agree that a certain floor of safety nets is required, but that they also have reservations about making the safety net too large.

Safety net spending as a share of GDP is not too diverse, with most countries concentrated in the 1 to 2 percent range. There may be a case for those much below this range to move into it and for higher spending in low-income countries, but clearly for many countries, the most pressing question will not be changing the size of the budget envelope devoted to safety nets, but making the most of that spending.

The World Bank Social Safety Nets Primer series is intended to provide a practical resource for those engaged in the design and implementation of safety net programs around the world. Readers will find information on good practices for a variety of types of interventions, country contexts, themes and target groups, as well as current thinking on the role of social safety nets in the broader development agenda.

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