

Introduction

All countries fund safety net programs for the protection of their people. Though an increasing number of safety net programs are extremely well thought out, adroitly implemented, and demonstrably effective, many others are not. This book aims to assist those concerned with social policy to understand why countries need social assistance, what kind of safety programs will serve them best and how to develop such programs for maximum effectiveness.

1.1 How Do Safety Nets Contribute to Development Policy?

Safety nets are part of a broader poverty reduction strategy—interacting with and working alongside of social insurance; health, education, and financial services; the provision of utilities and roads; and other policies aimed at reducing poverty and managing risk. Safety net programs can play four roles in development policy:

- **Safety nets redistribute income to the poorest and most vulnerable, with an immediate impact on poverty and inequality.** Most societies hold strong convictions that adequate provision for the poor is required, though they may differ in how this should be achieved.
- **Safety nets can enable households to make better investments in their future.** In this role, safety nets basically act to remedy credit market failures, allowing households to take up investment opportunities that they would otherwise miss—both in the human capital of their children and in the livelihoods of the earners.
- **Safety nets help households manage risk.** At minimum, safety net programs help households facing hard times avoid irreversible losses, allowing them to maintain the household and business assets on which their livelihoods are based, and to adequately nourish and school their children. At best, they can provide an insurance element that lets households make choices about livelihoods that yield higher earnings. Safety nets thus both protect households and promote their independence.
- **Safety nets allow governments to make choices that support efficiency and growth.** An adequate permanent social assistance system can fulfill whatever redistributive goals the society has, freeing other sectors from the role and letting them concentrate on efficient provision of services. Thus, for example, energy

sectors can price for efficiency, and trade policy can focus on growth rather than job protection. Short-term safety net programs can compensate those negatively affected by needed reforms or who may oppose and stall these reforms.

Though useful, safety nets are not a panacea, and there are real concerns over whether they are affordable and administratively feasible or desirable in light of the various negative incentives they might create. In most settings where there is political will to do so, such concerns can be managed through a number of prudent design and implementation features. Much information and innovation exist on these topics; this book summarizes, references, and builds on this knowledge base to promote well-crafted safety nets and safety net policy.

1.2 What Is a Good Safety Net?

Safety net systems are usually woven of several programs, ideally complementing each other as well as complementing other public or social policies. A good safety net system is more than a collection of well-designed and well-implemented programs, however; it also exhibits the following attributes.

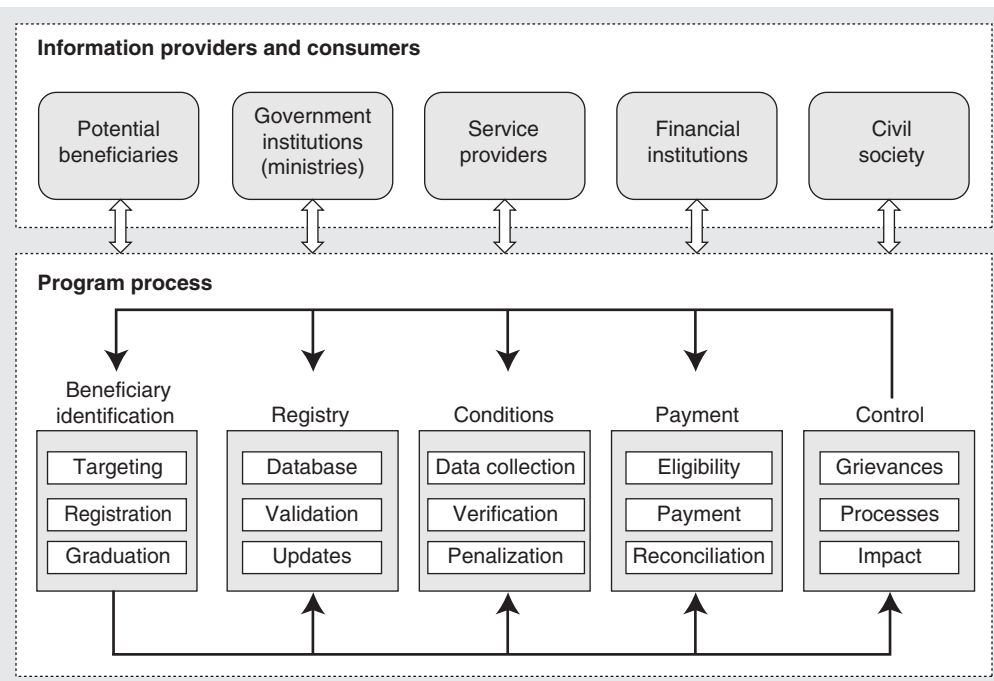
- **Appropriate.** The range of programs used and the balance between them and with the other elements of public policy should respond to the particular needs of the country. Each program should be customized for best fit with the circumstances.
- **Adequate.** The safety net system overall covers the various groups in need of assistance—the chronic poor, the transient poor, those affected by reforms, and all the various subsets of these groups. Individual programs should provide full coverage and meaningful benefits to whichever subset of the population they are meant to assist.
- **Equitable.** The safety net should treat beneficiaries in a fair and equitable way. In particular, it should aim to provide the same benefits to individuals or households that are equal in all important respects (horizontal equity) and may provide more generous benefits to the poorest beneficiaries (vertical equity).
- **Cost-effective.** Cost-effective programs channel most program resources to their intended target group. They also economize the administrative resources required to implement the program in two ways. First, at the level of the whole safety net system, they avoid fragmentation and the subsequent need to develop administrative systems without realizing economies of scale. Second, they run efficiently with the minimum resources required to achieve the desired impact, but with sufficient resources to carry out all program functions well.
- **Incentive compatible.** Safety nets can change households' behavior, for better or worse. To ensure that the balance of changes is positive, the role of safety nets should be kept to the minimum consistent with adequacy. The safety net system often may include programs that explicitly help build assets or incomes of their individual clients or communities by linking transfers to required or voluntary program elements. Public works programs can provide physical assets to commu-

nities. Conditional cash transfer programs build the human capital of households. Links to financial, job search, training, or social care services may help households raise their incomes.

- **Sustainable.** Prudent safety net systems are financially sustainable, in that they are pursued in a balanced manner with other aspects of government expenditure. Individual programs should be both financially and politically sustainable so that stop/start cycles of programs are avoided, as these result in enormous lost opportunities for efficient administration and the achievement of programs’ promotive aspects. In low-income countries, programs started with donor support are gradually incorporated into the public sector.
- **Dynamic.** A good safety net system will evolve over time. The appropriate balance of programs will change as the economy grows and changes, as other elements of policy develop, or when shocks occur. The management of specific programs should also evolve as problems are solved and new standards set.

Much of the quality of a safety net is in the details of its implementation (figure 1.1). An adequate transfer program involves at the least a system to register clients, pay them, and eventually take them off the rolls. An exceptional program can entail much more—the minimal registry of clients is supplemented with strong outreach campaigns to ensure that errors of exclusion are low, a strong screening mechanism to ensure that ineligible people do not register, a mechanism to handle grievances, periodic monitoring of targeting

FIGURE 1.1 Processes and Stakeholders Involved in a Safety Net



SOURCE: Adapted from Arribas-Baños and Baldeón 2007.

outcomes, and so on. The payment process may become more complex with differentiated payments, more convenient or sophisticated payment mechanisms, more attention to fraud and error control, and the like. A range of noncash benefits or requirements may be added to the program to help households improve their earnings. Monitoring and evaluation functions will take on increased importance the more complex the program becomes or the larger and more long lasting. Each of these functions requires systems, data, and interactions among different agencies or groups. Figure 1.1 shows some of these interactions.

In recent years, there has been a great deal of innovation and learning in safety nets and allied programs. This book focuses on these program “how to” aspects in their myriad details. Two overarching and linked lessons are stressed:

- **The quality of implementation is vital.** Good intentions are not sufficient; real working systems need to be developed. A badly implemented program is not worth doing. While numerous good examples exist to show that worthwhile programs are possible in many settings, there are still more programs that do not deliver all they could, and some do not deliver enough to be worth the money spent.
- **Good safety net programs require investments in their administrative systems.** Excessively high overheads are obviously undesirable—but so too are insufficient systems. Developing systems that allow programs to become their most effective and deliver the most value for the money will require some investment. An important part of that investment is development over time by self-critical and proactive managers.

1.3 What Is a Safety Net?

In this book, the terms “safety nets” or “social assistance” is used to refer to noncontributory transfer programs targeted in some manner to the poor or vulnerable; this is a fairly commonly accepted definition (box 1.1). Some writers, especially in the United States, equate this with welfare. Sometimes, especially in Europe, social assistance connotes only means-tested cash transfer programs, but we use the term much more broadly and often substitute the term safety nets to recognize the varied forms the programs take in the developing world. We recognize that safety net is not a particularly apt metaphor. In the circus, a safety net catches those who are falling from a height; in social policy, safety net programs are meant both to help catch those falling downward economically before they land into destitution and to provide assistance or a minimum income to those more permanently poor.

The programs we here include as common elements in a safety net follow:

- Cash transfers or food stamps, whether means tested or categorical as in child allowances or social pensions
- In-kind transfers, with food via school feeding programs or mother/child supplement programs being the most common, but also of take-home food rations, school supplies and uniforms, and so on

BOX 1.1 Definitions of Safety Nets and Social Assistance

- The **Asian Development Bank** defines social assistance as programs designed to assist the most vulnerable individuals, households, and communities meet a subsistence floor and improve living standards (Howell 2001).
- The U.K. **Department for International Development** defines social assistance as noncontributory transfers to those deemed eligible by society on the basis of their vulnerability or poverty. Examples include social transfers and initiatives such as fee waivers for education and health, and school meals (DFID 2005).
- **The International Labour Organization** defines social assistance as tax-financed benefits to those with low incomes (ILO 2000).
- The **International Monetary Fund** defines safety nets as instruments aimed at mitigating possible adverse effects of reform measures on the poor (Chu and Gupta 1998a).
- The **Organisation for Economic Co-operation and Development** defines social assistance as support targeted to households that are clustered within the lower segment of the income distribution and provided to prevent extreme hardship among those with no other resources, reduce social exclusion, minimize disincentives to paid employment, and promote self-sufficiency (Adema 2006).
- The **Food and Agriculture Organization** defines social safety nets as cash or in-kind transfer programs that seek to reduce poverty by redistributing wealth and/or protect households against income shocks. Social safety nets seek to ensure a minimum level of well-being, a minimum level of nutrition, or help households manage risk (FAO 2003).

- Price subsidies meant to benefit households, often for food or energy
- Jobs on labor-intensive public works schemes, sometimes called workfare
- In-cash or in-kind transfers to poor households, subject to compliance to specific conditionalities on education or health
- Fee waivers for essential services, health care, schooling, utilities, or transport

The following further clarifies what this book does and does not consider under the rubric of safety nets.

- **Social protection.** As used here, safety nets do not include the rest of social protection—that is, social insurance programs such as pensions and unemployment insurance. To the extent that these schemes deliver benefits based on contributions of their own members, they are not safety nets; rather, they might be thought of as deferred compensation packages for affiliated employees.
- **Labor.** The extensive regulatory aspects of labor are separate from safety nets. Active labor market policies and income support to the unemployed are closely related to—and, indeed, sometimes directly overlap with—safety nets, but most of the programs used to these purposes are well covered elsewhere and are not discussed here.

- **Social policy.** In our nomenclature, safety nets are complemented by social insurance contributory programs such as pensions and unemployment insurance, and more broadly by the rest of social policy, especially in health and education, sometimes with important elements of housing or utility policy.

Because we define safety nets rather narrowly, their costs are lower than some people associate with safety nets. In Uruguay, for example, total social sector expenditure (social assistance, social insurance, health, education, and other) is quite high—accounting for between 20 and 25 percent of gross domestic product (GDP) between 2000 and 2005—but expenditures on safety nets per se are only 0.5 percent of GDP (World Bank 2007g). On average, expenditures on safety nets as we define them account for 1 to 2 percent of GDP, though sometimes much less or much more.

Finally, note that our definition concentrates on *publicly* financed safety nets—that is, those funded by national or local government or by official international aid. Most often, such safety nets are delivered by the state, although nongovernmental organizations may be used as well and certain functions contracted to the private sector. Even though private action via interhousehold transfers, community support arrangements, private religious contributions, private contributions to nongovernmental organizations, and other forms of charity may involve substantial flows of resources (indeed, sometimes exceeding public funds), and while the policy maker must understand the scope and shape of these privately financed safety nets, the main realm of public action is via publicly financed programs. Thus, this book focuses on the public sector.

A last point on terminology: Throughout the book, it is presumed that readers are familiar with policy areas such as social protection, social risk management, or poverty reduction, and the distinct but related concepts of poverty, vulnerability to poverty, vulnerable groups; social risk management instruments or arrangements; safety nets, social protection or social policy. For those who are not, a briefing is provided in appendix A.

1.4 How Is This Book Organized?

In designing and implementing effective safety nets, the big picture and the details have to fit together and so must both be kept in mind simultaneously. The traditional metaphor for this is to look at the big picture and then to zoom in on some detail within it. In the case of safety nets, the more appropriate metaphor might be a “picture in a picture” computer display where the big picture is kept crisp while the display with the finer detail is equally crisp as well. This presents something of a dilemma in writing a book which must be presented, if not necessarily read, linearly.

We have chosen to present the big picture at the beginning and end of the book, in chapters 2, 3, 9, and 10. Chapters 2 and 3 make the case for safety nets and their financing. Chapters 4 through 6 are the “how to” key processes of all safety nets; chapters 7 and 8 summarize design features and choices of specific interventions. Thus chapters 4 through 8 supply information that can help in assessing choices, culminating in a treatment in chapter 9 of principals to be used in “weaving” the safety net and fitting it into broader social policy. Chapter 10 illustrates how those principals lead to different variations of safety net systems and programs in different country circumstances. While this structure

may make it seem that the big picture is initially left incomplete, the big decisions cannot be made wisely without a good understanding of the details involved.

We recognize that some readers will approach the material sequentially while others may sample different chapters or subchapters according to their interests. To assist both sets of readers, key messages for each chapter are presented at its beginning, and the following describes the main themes of each:

Chapter 2: The Case for Safety Nets. This chapter describes and illustrates the reasons for having safety nets—how they provide immediate redistribution and poverty reduction, how they allow households to invest in their children and their livelihoods, how they help households manage risk, and how the provision of safety nets can handle redistributive concerns thoroughly, thereby enabling governments to make more efficient policy choices in other sectors. The chapter then describes how safety nets fit within the broader policy agendas for poverty reduction, risk management, and social sectors. It also describes the principal challenges to the acceptance and use of safety nets, especially in low-income countries, and provides cross-references to other parts of the book where the details of overcoming these challenges are elaborated. The chapter emphasizes that safety nets are never the whole or sufficient answer to poverty reduction or risk management, but must be fitted appropriately into the existing policy context.

Chapter 3: Financing of and Spending on Safety Nets. Financing safety net programs is not theoretically different from financing any other government program and is therefore seldom discussed in the safety net literature, yet policy makers concerned with implementing or reforming safety nets face a constant stream of challenges regarding their finance. This chapter is targeted to this audience, providing a brief synopsis of some of the pertinent public finance literature with illustrations from safety net programs. The first section focuses on the theory of how much governments should spend on safety nets. This is followed by a review of special considerations about each of the possible sources of funds for safety nets—reallocations from other expenditures, increased tax revenues, grants, and loans. The chapter also discusses how to secure countercyclical finance, findings from the literature on whether expenditures on the welfare state impede economic growth, and new data on how much developing countries spend in order to allow benchmarking. The chapter concludes with a discussion of how to share finance among levels of government.

Chapter 4: Enrolling the Client: Targeting, Eligibility, and Intake. This chapter is the first of three on the processes common to all safety net programs. It briefly reviews the benefits and costs of targeting and the choice of targeting method. It then details how to implement four important steps that determine who is actually in the beneficiary group: precisely defining the eligibility criteria, conducting outreach to ensure low errors of exclusion, screening to ensure low errors of inclusion, and rescreening or exit policies to ensure that people move out of the program as appropriate. It concludes with a discussion of the administrative requirements to carry out these tasks. The chapter is a summary of a much wider body of literature and refers the reader to several other pertinent comparative studies.

Chapter 5: Benefit Levels and Delivery Mechanisms. This chapter brings together a dispersed body of knowledge on the conceptual and practical details of program benefits and payments. It covers how to determine what benefit levels might be and how to structure them, reviews issues of labor disincentives and how they can be handled via the benefit structure, describes program elements designed to move households toward inde-

pendence through required or optional linkages to actions or services that are likely to help in that effort, and discusses how to handle payment mechanisms.

Chapter 6: Using Monitoring and Evaluation to Improve Programs. This chapter discusses the value added by and the know-how involved in developing and using monitoring and evaluation systems for safety net programs. A monitoring system is an essential management tool that regularly supplies information about how well a program is working so that program managers can take action to improve the program's implementation. Program evaluation refers to an external assessment of program effectiveness that uses specialized methods to ascertain whether a program meets some standards, to estimate its net results or impact, and/or to identify whether the benefits the program generates outweigh its costs to society. The chapter focuses on the most frequent types of evaluation used for safety net programs: process evaluation, assessment of targeting accuracy, and impact evaluation. For each type, guidance is given regarding the value of such an evaluation and how it should be conducted.

Chapter 7: Understanding Common Interventions. Because there is no single recipe for a safety net, policy makers must clearly understand the range of options they face. This chapter presents that menu of options: cash transfers of various sorts, food transfers, general price subsidies, public works, conditional cash transfers, and fee waivers for access to critical services. For each option, it describes key design features, outcomes, advantages, disadvantages, and lessons. The chapter emphasizes that even within a given type of program, there are many variations in detail and that how these are handled can modify the program for different circumstances and determine its degree of success. The chapter summarizes a vast literature and provides references to it. Many of the basic messages are not new, but many examples are fresh and the synthesis mature and useful.

Chapter 8: Assisting Traditionally Vulnerable Groups. This chapter outlines the issues concerned with assisting people with disabilities, the elderly, and orphans and vulnerable children. While the specifics vary somewhat, there are common themes in thinking about how to serve these groups via safety nets. A key issue is whether to have special programs for these groups or to serve them within the social assistance programs designed for the wider population. This is problematic, since the members of the groups are not all poor, yet the group as a whole is poorer than average and the members have some specific vulnerabilities. If they are to be helped by general social assistance programs, these programs may need to be modified somewhat. Moreover, income support is not the only public action needed to support these groups, and often it is not even the most important. Thus, the *coordination* of policy—or, in some cases, the integration of transfers and services—is even more important for these groups than social policy broadly speaking.

Chapter 9: Weaving the Safety Net. The objective of this chapter is to help policy makers and sector specialists choose the right mix of safety net policies and programs to meet national goals. The weaving of the safety net consists of two interrelated components: fitting individual programs into a congruent whole and ensuring that the safety net sector complements the country's other social policies. The chapter presents a four-step process to assess the safety net sector: (1) diagnosing the sources of poverty and vulnerability, (2) evaluating the effectiveness and efficiency of individual safety net interventions, (3) determining how to improve the safety net program mix, and (4) devising a concrete plan to implement the chosen strategy.

Chapter 10: Customizing Safety Nets for Different Contexts. This chapter discusses different country contexts and what they may imply for sensible safety net design and implementation. Six settings are covered—low income, middle income, in or following an economic crisis, following natural disasters, using safety nets to facilitate reform, and for rising food prices. For each setting, the chapter discusses how the safety net might be composed in terms of both the mix of programs and their specific tailoring to the situation at hand. Actual program examples are provided throughout.

The book also features two appendixes and a glossary. **Appendix A: Basic Concepts of Poverty and Social Risk Management** reviews social policy concepts used throughout the book to ensure a common understanding of key terminology and ideas. **Appendix B: Main Features of Selected Safety Net Programs** describes salient features of many of the programs from around the world discussed and used as illustrations throughout the book. It is intended as a selective reference on individual safety net programs.

With regard to these programs, a word of explanation is in order as to how we are referring to them throughout the book. In general, we here use the names by which the programs are most commonly known in the literature, regardless of whether that term is English, non-English, or an acronym. Thus, we refer to Argentina's Trabajar program, Indonesia's various JPS (Jaringan Pengaman Sosial, or Social Safety Net) programs, Jamaica's PATH initiative, and Mexico's PROGRESA, generally without translation or explication beyond an indication of their relevance to the discussion at hand. All of these programs are fully described, and their names and acronyms translated as necessary, in appendix B.

