

Customizing Safety Nets for Different Contexts

KEY MESSAGES

There is no single recipe for a safety net system, as needs and capacities differ by context. Both the program mix and the handling of individual programs should vary from place to place.

Safety nets in low-income countries will be subject to the harshest triage. They will usually focus on ameliorating the worst of destitution, trying to prevent households from suffering irreversible losses, and helping households to invest in their children. Safety net systems should be built up from a few programs maintained over time to allow institutional capacity to be developed. Individual programs may be relatively simple.

Safety net systems in middle-income countries may aspire to cover all target groups and motivations for safety nets, although they tend to focus on helping the chronically poor. Individual programs may be quite sophisticated, but innovations may not have spread to all programs in the country that might benefit from them.

Safety net systems following an economic crisis or in the face of rising food prices have two primary objectives: to protect incomes and avoid irreversible losses of physical assets and human capital and to help maintain political consensus around the policies needed to resolve the crisis. Scaling programs up quickly is difficult, so some compromises with respect to targeting, incentive compatibility, and accountability may be needed. Such compromises will be less likely if the country has a base program that it can modify and expand than if it must start from scratch.

The key role of safety nets following a natural disaster is to help households avoid irreversible losses that could ensue after the actual disaster. Effective safety net systems should be seen as a complement to larger efforts to protect livelihoods and undertake reconstruction and recovery. Again, given the difficulties of scaling up programs quickly, countries with existing safety net systems that they can modify will be better placed to deliver safety nets following natural disasters. They may need to adjust procedures during the response, and afterwards they will need mechanisms to return to normal procedures.

In relation to policy reform, safety nets can play two linked but somewhat separate roles. They can help compensate the poor for any losses suffered, and beyond that they can help engender political tolerance of the reform. Some programs with a primarily temporary political economy goal may be at a scale that is too large to sustain, and thus must have a clear sunset clause built in. Other programs with a clearer poverty focus may be meant to be permanent, and so must be designed to be sustainable. If launched quickly, they will need an enduring period of institutional development and process reform.

The main objective of this chapter is to show how to apply the principles of safety net design in different settings. As no single recipe for a safety net exists, chapter 9 advises on how to craft a safety net by outlining the process used to arrive at country-specific programs and policies. Needs differ by context, and multiple ways of addressing them are usually available. This chapter moves a step toward concreteness and specificity by discussing different types of contexts and what they may imply for sensible safety net design and implementation, with illustrations for each.

Appropriate safety net policy varies not only from place to place, but over time in the same country as the context changes. The experience of countries acceding to the European Union illustrates this well (box 10.1).

BOX 10.1 Eastern European Safety Nets: From Central Planning through Transition to Accession

Under central planning, income distribution was relatively equal, access to health care and education was free, housing markets were highly controlled, and the prices of many basic goods were subsidized. Generous pensions provided income for the elderly, and individuals with special needs were placed in special institutions. Little need therefore existed for a social assistance system to take account of income differences or special needs. The number of children made the biggest difference in determining household welfare. Family benefits in the form of child allowances were, therefore, central to social assistance, generous, and universal.

With the transition from planned to market economies, many of the constituent parts of the system changed. Open unemployment emerged, income inequality rose sharply, price subsidies were eliminated, access to health and education declined in some cases or became more reliant on fees, and the real value of child allowances often declined. Early in the transition poverty was widespread, but was often relatively shallow or transient. As reforms progressed and growth was reestablished, overall poverty rates declined, but not all prospered equally, and pockets of chronic and deep poverty emerged. These changes resulted in the need for two new kinds of assistance: unemployment benefits and needs-based social assistance. These required new capacities, and countries struggled to build the political understanding and administrative systems to handle these new programs, which continued alongside the still important child allowances.

With their accession to the European Union, these countries are now facing new challenges to their social assistance policies. Accession-related legislation does not govern social assistance, and the European Union is using the open method of coordination to harmonize policies. The European Union's social policy has ambitious goals for reducing poverty and increasing social inclusion. Policy measures are not binding or uniform, but promote the provision of a guaranteed minimum income (to all residents, not just nationals) with accompanying labor activation measures. The emphasis on social inclusion brings to the fore the need for accession countries to better integrate minorities and reintegrate those previously cared for in institutions.

SOURCE: Sipos and Ringold 2005.

In each country setting we sketch the general context using the same diagnostics: needs assessment, review of individual program capability, and safety net systems as a whole. We then discuss how the safety net might be constructed. This relates not only to the mix of programs (cash versus in kind), but also to specific details of program design features. For example, should a cash program be an entitlement or rationed? Should it be means or proxy means tested? What features should be used to limit work disincentives? Such differences are how a good deal of the accommodation to different contexts is made.

10.1 Safety Nets in Very Low-Income Countries

The idea that safety nets are an important component of economic policy in low-income countries has only started to be accepted in recent years, so practice is still relatively nascent. Even when accepted, safety nets are subject to harsh triage decisions about how to use scarce resources that characterize all policy choices in such countries. Nonetheless, a number of very poor countries are making promising progress.

GENERAL CONTEXT

In very low-income countries, incomes are low and vulnerability is high. Such countries are characterized by an extremely low per capita gross domestic product (GDP) of the order of US\$300–600 per year and a poverty rate greater than 40 percent. Growth is often slow, with little prospect of improvement in poverty rates. This situation applies to countries such as Chad, Ethiopia, Malawi, Mali, Nepal, and Niger. Many of the very low-income countries are landlocked, possess limited physical infrastructure, are facing pressures from their large populations, and are poorly endowed with natural resources. Their main challenges include the low productivity of labor working in subsistence agriculture and a lack of off-farm employment opportunities. The role of contributory social insurance schemes is extremely limited because of the small size of the formal sector. Growth is more robust in some larger low-income economies, but they still account for large numbers of the world's poorest people who are often concentrated in particular social groups or live in particular geographic areas as is the case in, for instance, Bangladesh, India, Kenya, Uganda, and Vietnam.

In addition to the widespread and generalized poverty and low asset base prevalent in very low-income countries, people living in such countries are extremely vulnerable to both idiosyncratic and covariate shocks. Risk management strategies of the traditional, informal, community-based type are largely ineffective in dealing with widespread poverty and tend to collapse during large and/or repeated covariate shocks.

Capacity

Overall government capacity is weak in most aspects in these countries, including management, accounting, and logistical and financial controls. Safety net programs will not be able to take advantage of other systems to the degree that they can in other countries: household surveys for diagnosing need and on which to piggyback the monitoring of targeting and evaluation studies will be outdated, civil registries and identification documentation will be incomplete, databases of taxes and/or incomes will be too limited for

use by targeting systems, and banking or postal banking systems will only reach urban areas and therefore be unsuitable for use as payment mechanisms.

Safety Net Systems

Most very low-income countries have minimal government-financed safety net systems that usually operate with too few resources to have an impact and have only rudimentary administrative systems. Public resources are extremely limited, especially given competing demand for other basic services. With a total tax collection of 10 to 15 percent of GDP (World Bank 2007r), a country with a per capita GDP of US\$500 per year will have US\$50 to US\$75 per year per person for all public functions, from combating malnutrition to providing schools, improving physical infrastructure, addressing low agricultural productivity, and providing all other services. In general, little help is available for families facing idiosyncratic shocks or with special vulnerabilities. Funding for programs for the destitute, and even more so for those suffering from covariate shocks, is likely to come from donors; donor management is thus a critical issue. Countries should seek long-term commitments from donors, develop only a few permanent programs, and channel support to these to build and preserve institutional capacity to realize economies of scale.

A few low-income countries, such as Bangladesh, India, and Sri Lanka, have supported domestically financed safety nets and/or have largely resolved problems of donor management and have had long-standing programs. The best of these programs have many, though sometimes not all, the features of good practice—for example, the Maharashtra Employment Guarantee Scheme and the Bangladesh Food for Education Program—but many other programs could be made more effective through reforms to their basic design and improved implementation.

Potential Role for Safety Net Systems

The huge needs and limited resources of very low-income countries mean that a severe triage of objectives and detailed attention to implementation are called for. Safety nets in these countries should, and usually do, focus on supplementing the incomes of the poorest to prevent irreversible losses of human capital or livelihoods. Even these will focus on a subset of the poorest, not everyone below the poverty line. Programs for covariate shocks may be funded intermittently, almost always by donors. Programs to address idiosyncratic shocks and social care services are usually not well developed or funded, and the informal sector tends to provide whatever support is available.

Interventions and Implementation

Workfare will be a commonly selected program because it can help build or maintain much-needed infrastructure and because it can be self-targeted. A seasonal program in rural areas can help bridge families through the hungry season, larger versions may be appropriate after droughts or floods, and operations in urban areas can assist if commodity price instabilities bring shocks to the urban economy. Public works should use labor to improve infrastructure such as roads, irrigation systems, or drainage systems that will help raise productivity. In very low-income countries, public works programs can have fairly high labor intensity and workers can be organized in traditional construction or work gangs.

A public works program could be complemented by a small transfer, possibly seasonal, to the most destitute. Because of difficulties in accurately distinguishing shades of poverty, the program might be categorically targeted—for example, aimed at widows in South Asia, orphans in southern Africa, people with disabilities anywhere. Community-based targeting may also be used, and communities often choose to focus support on such groups even when this is not a program requirement. Several low-income countries have recently implemented new proxy means tests to identify the poorest, but lessons from these are not yet clear.

Where malnutrition is an issue, the country should have a strong nutrition program, within which a transfer element may be helpful. The target group for such programs is pregnant and lactating women and children from birth to two years old, the age group for which nutrition programs can have the largest impact. If resources permit, fee waivers for health care and education for a slightly wider segment of the population will help safeguard or form human capital. The larger a program is, the more important it will be to arrange maximum links to health and education services to ensure that in addition to relieving misery, the program builds human capital.

A score or more Sub-Saharan African countries are working on proposals or pilots for new cash transfer schemes. We hope that in the coming years we will begin to see modest, but well-implemented, programs in many of these countries. Meanwhile, the Productive Safety Net Program (PSNP) in Ethiopia illustrates many of the issues pertinent to safety nets in very low-income settings.

ETHIOPIA'S PRODUCTIVE SAFETY NET PROGRAM

Since the mid-1980s, images of severe drought and large-scale starvation have become inexorably linked to Ethiopia.¹ In 1999/2000, 42.2 percent of the population lived below the national poverty line, and 22.5 percent of households were extremely poor and lived below a food poverty line of 1,650 kilocalories per person per day. Most poor households are engaged in subsistence farming on small plots of degraded land. On a daily basis they must manage hunger, extreme hardship, and multiple sources of uncertainty. Climatic variability is high. The variability in rainfall is among the highest in the world, and fluctuations in rainfall are inversely related to mean incomes: the larger the coefficient of variation in rainfall, the lower is consumption (World Bank 2005d). One risk is the failure of the rains. In addition, health risks, including both malaria and HIV/AIDS, exacerbate the vulnerability of the poor, driving many thousands of people into poverty traps.

As a result, every year for more than two decades the government of Ethiopia had to launch an international emergency appeal for food aid. This annual emergency assistance was designed to meet the consumption needs of both chronically and transiently food-insecure households.² Even though the total amount of humanitarian assistance provided was substantial (estimated to average about US\$265 million a year between 1997 and 2002) and saved many lives, evaluations have shown that it was unpredictable for both planners and households, often arriving late relative to need. The delays and uncertainties meant that the emergency aid could not be used effectively in the public works it was meant to support and thus did little to protect livelihoods, prevent environmental degradation, generate community assets, or preserve household assets (physical or human capital). Thus, despite the large food aid inflows, household-level food insecurity remained

both widespread and chronic. Indeed, chronic food insecurity had been increasing in the aftermath of repeated droughts as vulnerable households failed to manage their effects and slide deeper into poverty. As part of the same phenomenon, rural growth had also stagnated.

Given these shortcomings of the emergency aid regime, the Ethiopian government decided that an alternative instrument was needed to support chronically food-insecure households and to address some of the major underlying causes of food insecurity. In 2005, it started implementation of a new program, the Productive Safety Net Program. The PSNP replaced the emergency humanitarian appeal system as the chief instrument in the country's safety net. It is currently operational in 234 chronically food-insecure districts (of a total of 692 districts).

The PSNP provides resources to chronically food-insecure households in two ways: through payments to the able-bodied for participation in labor-intensive public works activities and through direct grants to households composed of the elderly or those who cannot work for other reasons. Community committees decide on entrance into the program and determine which households are to participate in public works versus receiving unconditional cash transfers. Eligible households are those that face more than three months a year of food insecurity year after year. The program provides beneficiaries with up to six months of consumption support per year.

The program involved a number of reforms to the public works program to improve the value of works done, namely, earmarking 20 percent of the funds for nonlabor inputs; providing a multiyear, predictable flow of resources so that adequate planning can be undertaken and works can take place in the dry season when construction is feasible; and integrating the planning and selection of works in district development plans. Public works planning has adopted an integrated approach to watershed planning that aims to reverse the severe environmental degradation and raise agricultural incomes over the long run.

Despite various teething problems associated with capacity constraints, in 2006 the PSNP made about six rounds of payments to about 7.3 million beneficiaries. The PSNP public works are operated on a large scale and generated more than 172 million person-days of labor in 2007. Most of the works are focused on soil and water conservation activities (table 10.1). The works have been found to have already brought demonstrable benefits to the communities in the form of environmental transformation. For example, improved water conservation has led to increased agricultural productivity and an increase in groundwater recharge such that dry springs have started to flow again. In addition, the communities have enhanced income generation from area closure, and improved access to markets, education and health facilities.

A 2005 beneficiary survey found that the PSNP has had a significant positive effect on beneficiaries' well-being as calculated by both subjective and objective indicators. The survey found that three in five beneficiaries avoided having to sell assets to buy food in 2005, and according to 90 percent of the households, this was a result of their participation in the PSNP. Almost half the beneficiaries surveyed stated that they had used health care facilities more in 2005/6 than in 2004/5, and 76 percent of these households credited the PSNP with this enhanced access. More than one-third of surveyed households enrolled more of their children in school; 80 percent of them attributed this to participation in the PSNP.

TABLE 10.1 **Sample of Public Works Supported under the PSNP, 2007**

Project	Result
Soil embankment construction (kilometers)	482,542
Stone embankment construction (kilometers)	443,148
Pond construction and maintenance (number)	88,936
Spring development (number)	598
Hand-dug well construction (number)	491
Land rehab. through area enclosure (hectares)	530
Small-scale irrigation canals (kilometers)	2,679
Tree nursery site establishment (number)	285
Seedlings produced (number)	301,778,607
Seedlings planted (number)	12,883,657
Rural road construction (kilometers)	8,323
Rural road maintenance (kilometers)	20,458
School classroom construction (number)	340
Animal health post construction (number)	71
Farmer training center construction (number)	119

SOURCE: Food Security Coordination Bureau 2007.

to assistance under other parts of the Food Security Program. Food security interventions financed by donors that fall outside the PSNP are, however, as yet rarely coordinated with the PSNP at local levels, and links to basic rural services such as marketing or veterinarian services are also weak.

The transformation of the prior emergency appeal system into the PSNP illustrates many of the issues that surround safety nets in very low-income countries:

- The program is moving in a clearly beneficial direction by means of a basic design that not only seeks to use resources in ways that save lives, but also that assist in livelihoods. The progress in implementation to date suggests that this is possible even in a very low-income setting.
- The design process and implementation planning have undergone a fairly harsh triage. Even when fully realized, the program will only provide a safety net in about a third of the country. The districts selected are appropriately the poorest, but many poor people also live in the unserved districts. Even in the included districts, the eligibility threshold is low: households that have been food insecure for more than three months per year. Richer countries might have tried to serve all those who were food insecure, but in this setting, that would have been impos-

Significant work is planned to further improve implementation capacity and bring systems to a level of functioning not previously possible with fragmented and temporary programs. Work is also beginning on a contingent grant mechanism that will trigger extra resources for the safety net in affected districts where the program works in years when rainfall is particularly inadequate.

The PSNP is complemented by a larger Food Security Program that tries to help households raise their incomes by means of resettlement grants, household income-generating packages, and water harvesting. Households that benefit from the PSNP are also entitled

sible. Moreover, the program has phased its implementation. It is focusing first on consolidating the basic PSNP. It hopes to enrich it eventually in a number of dimensions, but program managers and donors have realized that everything could not be accomplished right away. Thus, for example, the contingent fund for droughts was not implemented until the third year of the PSNP. The government recognized that it needs to develop a modified version of the program for pastoralist groups, but decided to consolidate the basic program first. Household specific linkages with agriculture extension, microcredit, and other elements of the wider Food Security Program are planned but were not pursued in the first phases until both the PSNP and the Food Security Program were functioning smoothly.

- Good implementation requires diligent and sustained effort. By 2007, the program had many positive outcomes, and early qualitative assessments of its targeting and impacts are positive, but more remains to be done to consolidate implementation. Good implementation also requires flexibility and innovation. For example, the government was initially having problems with the program's monitoring system. In the interim, it deployed so-called rapid response teams to visit districts to identify and solve implementation problems. This gave managers a sense of what was going well and what was not and whether adjustments were needed in individual districts or at a more systemic level. Meanwhile, the design of the monitoring system was simplified and a pilot to computerize it is under way.
- An important part of the reform is the shift to a multidonor, multiyear framework rather than an annual emergency appeal system with each donor running a separate initiative. This is complemented by the decision to deliver the program through regular government systems rather than the special implementation units common in donor-funded programs. The multiyear framework and the reduction in fragmentation should permit the development of much more effective administrative systems. The multidonor framework should also aid in resilience, in that withdrawal or a reduced commitment by a single donor will have a less deleterious effect.

10.2 Safety Nets in Middle-Income Countries

Middle-income countries contain half the world's population and a third of the world's poor. These countries have many types of safety nets and have recently undertaken a great deal of experimentation with evaluating and learning about good design and implementation. Individual programs, and sometimes the suites of programs in some of the upper-middle-income countries, approach those in countries of the Organisation for Economic Co-operation and Development in terms of targeting, care in handling incentives to work, and evaluation and are reasonably generous. Other countries have more of a mix of programs than an integrated system and their individual programs are more basic.

GENERAL CONTEXT

The label middle income hides a great deal of heterogeneity among countries, and often within individual countries. Income per capita varies from US\$1,000 in Azerbaijan to

US\$10,000 in Antigua and Barbuda. Gini coefficients vary from 0.28 in Ukraine to 0.58 in Uruguay. On the whole, growth has been strong in recent years, with growth rates of 3.7 percent from 1995 through 2000 and nearly 5 percent from 2001 to 2005 for middle-income countries as a whole. With respect to poverty, in 11 middle-income countries, more than 40 percent of their populations live on less than US\$2 per day; in 12 countries, less than 5 percent of their populations live on less than US\$2 per day. Many other middle-income countries have strong national economies, but significant pockets of poverty among specific ethnic groups or regions (World Bank 2007d, 2007r).

Macroeconomic shocks have been a significant feature for many countries, for example, the 1997 financial crisis in East Asia and its spillover effects, crises in Russia and Turkey, and repeated debt or financial crises in Latin America. These shocks have been influential in shaping safety net policy in a number of the countries, with many current safety net programs having begun as initiatives to ameliorate crises.

Capacity

Safety net programs in middle-income countries can usually take advantage of systems developed by other institutions for other purposes. National identification systems or civil registries may be well enough developed to be used as the main identifiers for individuals within and across programs; income and property tax systems, labor registries, and utility billing mechanisms may be useful in targeting; and banking systems or postal banks are usually sufficiently developed to provide useful channels for payments. Data for understanding poverty and vulnerability are usually available, and a fair body of analysis of existing social policies and at least partial impact evaluations of some programs may be available. One or two of the flagship programs in each country may well incorporate quite sophisticated features for targeting, payment, provision of noncash benefits, fraud and error control, monitoring, and evaluation.

Safety Net Systems

Most middle-income countries have partial, but significant, safety net systems, although a great deal of diversity is apparent. In countries in the Middle East and North Africa, expenditures can be significant, and the main instruments are general food subsidies and, often, fuel subsidies. Many Latin American countries have a long tradition of truncated welfare states, with social protection systems built on contributory social insurance based on attachment to the formal labor market but large informal sectors. Because as many as half of all workers, and a much higher proportion of the poor, work in the informal sector and are not covered by social insurance, they derive little benefit from such schemes. An increasing number of these countries have begun to develop the social assistance side of the welfare state by creating conditional cash transfer (CCT) programs, several have adopted noncontributory pensions, and a few have extended health insurance or fee waivers to the poor. Countries of the former Soviet Union have moved away from the Soviet legacy of categorically based in-kind “privileges” to targeted cash transfers and child allowances. East Asian countries’ publicly supported safety nets are still quite small, and the countries tend to rely on high growth and family support to prevent poverty.

Potential Role for Safety Net Systems

Complete safety nets cover the chronic poor, those hit by shocks, and those with special vulnerabilities. Few middle-income countries have achieved full coverage in all three areas; in general, the programs for the chronic poor are the best developed.

These countries are relatively unconstrained in their choices of how to construct their safety net systems. Their selection will depend on the starting point. Many countries are introducing targeted cash transfer systems to meet the needs of the chronically poor, but for different reasons: in Europe and Central Asia to replace a system of privileges unrelated to economic need; in Latin America and the Caribbean to address the truncation of the welfare state; and in a few countries elsewhere to replace substantial, untargeted commodity subsidies. Programs aimed at vulnerable groups are increasingly a focus of attention, in Europe and Central Asia because the inherited system of institutionalized social care services yielded poor care and was unsustainably expensive, and in other regions to address needs that had previously not been met. Because more countries are developing strong base programs, when the next crises hit, something to build on may be in place, but as yet few countries have an explicit *ex ante* design for crisis management.

The safety net may include some or all of a range of other services to improve social inclusion. Often these are not fully to scale. Some countries are working to ensure coverage of ethnic minorities or indigenous groups. Social care services for people with disabilities, the elderly, children with inadequate parental care, and the like are being developed, albeit unevenly. Countries in Latin America and the Caribbean are developing programs to ensure that the poor and vulnerable have adequate documentation, especially of births, marriages, identity, social security numbers, and/or voter registration to help households take full advantage of economic opportunities or government programs.

Interventions and Implementation

Middle-income countries have been innovating extensively in relation to safety nets in recent years, contributing much to the understanding of what is desirable and feasible. Some relatively sophisticated features and programs are clearly feasible in at least some settings, and elements of the best programs should be replicated more generally, both across countries, but especially from the flagship program in each country to other programs in the same country.

Cash transfers will play a larger role in stable, middle-income countries than in other settings, in part because means testing and proxy means testing are feasible and will permit the good targeting required for significant cash transfers. The programs may use one or more features to keep labor disincentives low. For instance, they might configure benefits to be higher for households with higher dependency ratios; they might add a requirement for public service, work, or enrollment in some sort of training or job search; or they might be complemented with an earned income tax credit. In countries with extensive health and education networks but inadequate use of these, benefits might be conditional on households obtaining adequate preventive care for themselves, undertaking health education, and/or enrolling their children in school.

A needs-based cash transfer may integrate coverage of all age groups or be complemented by separate child allowances or social pensions, possibly using the same administrative apparatus. Cold countries might provide a seasonal heating allowance using es-

entially the same administrative structures, though possibly with a higher threshold for eligibility. The same targeting procedures, perhaps with a different income threshold, will grant access to subsidized health insurance or fee waivers for health care. In countries with a small informal labor force and good macroeconomic stability, a needs-based cash transfer could become an entitlement program and serve to protect not just against chronic poverty, but against shocks as well.

Public works programs in middle-income countries should be designed to accommodate the complexity of their infrastructure and their larger formal labor markets. To accommodate the generally more adequate infrastructure, such programs usually select works at the local government level and may have a lower labor content so that more equipment and/or more materials are used to construct higher-quality or more complex works. Alternatively, the labor hours may be used for a completely different range of public service activities. For example, beneficiaries may work in parks, in libraries, in schools, or in hospitals or may act as home aides for the elderly or those with disabilities. This usually means that workers are allocated across many different agencies rather than working in large labor gangs on a few construction sites. Where the labor market is mostly formal, public works programs sometimes subsidize employment in private firms or count training or job search as labor effort. Such programs add the goal of improved future earnings to the more modest goal of immediate income support typical of public works programs. All these variations to the basic public works scheme make supervising the labor effort, finding suitable placements for workers, monitoring the program, evaluating it on its multiple objectives, and the like much more difficult.

FOOD SUBSIDIES IN THE ARAB REPUBLIC OF EGYPT: AS ENDURING AS THE PYRAMIDS

Egypt's story is one of entrenchment and the difficulty of making lasting changes to subsidy systems.³ Egypt is a middle-income country with a per capita GDP of US\$1,250, a Gini coefficient of 0.35, and a poverty headcount of about 20 percent. Poverty is fairly shallow, so extreme hardship is uncommon. At the same time, many households are just above the poverty line and are vulnerable to falling into poverty as the result of small, negative shocks. The most important correlations of poverty are location (poverty is higher in Upper Egypt than in Lower Egypt and is higher in rural areas than in urban areas), low educational attainment of the head of household, and work in agriculture or construction activities. As an oil-producing nation, Egypt looks to redistribute commodity revenues for the public good. This objective, combined with the country's tendency toward governments with long political tenure, favors the maintenance of a safety net system based on general subsidies.

Energy subsidies have come to dominate redistributive spending, accounting for 8 percent of GDP in fiscal 2004. The largest subsidies are for natural gas, diesel, and liquefied petroleum gas. In the 1980s and early 1990s, the government raised energy prices gradually but significantly to reduce energy subsidies, then did not raise domestic prices at all between 1997 and 2004. Not surprisingly, the subsidies are not well targeted: the richest quintile of the population receives about three times the value than the poorest quintile. Moreover, the subsidy reduces incentives to conserve energy, which leads to high consumption, pollution, and lower export revenues.

Egypt is perhaps the iconic case of food subsidies, as these dominate the social assistance budget. Today they account for about 1.6 percent of GDP, compared with 0.12 percent for social assistance defined more traditionally. Expenditures on the Social Fund run another 0.16 percent. The government put the food subsidy system in place in 1941 to avert famine during World War II. It did not immediately repeal it after the war, but the subsidy remained relatively small throughout the 1960s. Anwar Sadat greatly increased subsidies and the range of subsidized commodities, especially after 1977. Major and politically difficult reforms in the 1980s limited the range of commodities covered, reduced the fiscal cost of the subsidies, and improved targeting.

Baladi and *shami* breads, which are made from two grades of wheat flour, are subsidized in unlimited quantities and to a substantial extent (47 to 67 percent of the price). Cooking oil, sugar, tea, ghee, beans, lentils, rice, and pasta are subsidized in defined quantities and mostly with lower subsidy rates per item than for bread. In principal, all households are eligible for a subsidy ration card, which can be either green (high rate of subsidy) or red (low rate). The red cards are available to those who meet any one of 18 criteria. Of these criteria, three are pro-poor: eligibility for other targeted programs, divorced homemakers, and seasonal and temporary agricultural laborers. All the other criteria are regressive; for example, recipients must be public sector employees or pensioners. More than 80 percent of the value of the subsidy accrues to nonpoor households, and 25 percent of the poor do not benefit. The benefit is equivalent to about 8 percent of consumption expenditure, and about 5 percent of the population is lifted out of poverty as a result of the program. Recent increases in the world price of wheat have reversed the reduction in costs achieved by means of prior reform efforts, which underscores the difficulties of managing subsidy systems.

Reform of Egypt's food subsidy system is a perennial topic on the agenda of the international community, with suggestions offered on ways to improve it by changing the eligibility criteria, the mix of commodities and the subsidy rates on them, the regional targeting of subsidized food stocks, and the self-targeting by means of the location of ration shops, and so on or replacing it with various alternative safety net elements. The program has, however, been politically sensitive and enduring. Reform rather than replacement seems more likely, and even that is much easier to envision technically than politically.

The social assistance program is small and rather underdeveloped. Fewer than 12 percent of the poor participate and transfers are relatively small—for example, equivalent to about 8 percent of the poverty line for a family with two adults and three children in rural Upper Egypt. Administrative structures are basic. Serious reductions in the general food or energy subsidies would require a much larger and better developed social assistance program, possibly based on the existing program or complemented by other programs yet to be determined.

The Egyptian case illustrates three general lessons about safety net policy. The first is how hard reform can be, especially of general subsidy systems. The second is that not all expenditures made in the name of safety nets are equally efficient or defensible. The third is the “chicken and egg” conundrum that is common to safety nets. The social assistance program is small and has long played a marginal role in the overall system, so the government has not invested in its administrative systems and the program has not demonstrated its effectiveness persuasively. Because it has not done so, it does not inspire the confidence of policy makers or the public as being worthy of expansion or improvement.

BULGARIA: SAFETY NET POLICY IN A NEW MEMBER STATE OF THE EUROPEAN UNION

Bulgaria offers an example of a comprehensive safety net that is well embedded in the larger social protection system.

Changing Safety Nets for Changing Times

Bulgaria is a middle-sized, middle-income country with a population of 7.7 million and a GDP of about US\$31 billion in 2006 (approximately US\$79.05 billion in purchasing power parity terms) (World Bank 2007r). GDP per capita was about US\$4,000 at the official exchange rate and US\$10,000 in purchasing power parity terms. In part a heritage of the country's socialist past and its strong redistributive policies, inequality is low to moderate; the Gini index of per capita consumption was 0.3 in 2003. The extent of redistribution is substantial. Government revenues represent about 40 percent of GDP and are used to finance a wide range of public policies, notably in the areas of health, education, social protection, and infrastructure. The key social protection issue that confronts Bulgaria is providing adequate pensions for the elderly, the unemployed, and the poor. The elderly represent about 17 percent of the population (in 2005), the national poverty headcount is estimated at around 14 percent (in 2003), and the unemployment rate is around 12 percent (in 2006).

The social protection system consists of three main categories of programs: (1) social insurance programs, including pensions and benefits to cover such risks as death of the breadwinner, illness, and disability, plus benefits for pregnant women; (2) passive and active labor market measures; and (3) safety net programs. Social protection programs redistribute a large share of GDP and cover a sizable proportion of the population. In 2005, social protection spending amounted to 10.5 percent of GDP, or about a quarter of total government spending. The coverage of the social protection system was extremely broad, with 76 percent of the population benefiting from some form of social protection transfer in 2003, either directly or indirectly through the sharing of benefits within the household. Eighty-seven percent of the poorest decile received some form of cash support. About 90 percent of social protection spending covers pensions and unemployment benefits, while safety net programs account for the remaining 10 percent, equivalent to 1.2 percent of GDP.

The core safety net system consists of five programs for low-income and vulnerable households. The main programs include the Guaranteed Minimum Income (GMI) Program, which is a cash benefit paid to low-income households below a particular income threshold; an energy benefit that consists of cash benefits paid to low-income households during the winter heating season; a family benefit paid under the Birth Promotion Act that includes child allowances, maternity leave, and birth grants for uninsured households; cash and in-kind benefits for the disabled, which include medical and transportation benefits; and social care services and institutions. The GMI Program, energy benefits, and child allowances are means tested. A temporary workfare program has been operating since 2003 with the objective of placing able-bodied, long-term GMI Program beneficiaries in the labor market.

The main role of the safety net programs is to close the coverage gap in social protection programs for the poor, as well as help beneficiaries reenter the labor market or gain

access to essential basic services. For example, the GMI Program covers only 20 percent of the poorest decile, even though everybody in the poorest decile is eligible. The rest of the poorest decile is covered by other social protection programs, notably, unemployment benefits and pensions (including social pensions), which are more generous than the GMI Program. In relative terms, safety net spending represents only 2 to 3 percent of total governmental spending.

Institutional Actors and Roles

The design and implementation of the three means-tested safety net programs is centralized. The Ministry of Labor and Social Protection formulates and oversees policy that is implemented by the Social Assistance Agency through its 28 regional and 272 municipal directorates. The administrative systems for the three programs are based on the same procedures, although thresholds and benefit levels vary. Applicants must present detailed information, including certificates relating to their income and assets, to their local social assistance directorate. The information is verified by an interview; a home visit; and cross-checks with other institutions, including the tax authorities, employment bureaus, social insurance offices, and other state and municipal institutions. Recertification is done annually, with the beneficiary responsible for notifying the local social assistance directorate of changes in the interim. Payments are made monthly in cash, with most being made directly to recipients' bank accounts and the remainder paid out by the local social assistance directorates.

Distributional Outcomes

The outcomes of the safety net program are good, especially for the GMI Program (table 10.2): about 50 percent of the program's benefits go to the poorest decile. Errors of exclusion are low. The generosity of the program is adequate: it supplies about half of the income of the poorest decile. The program's administrative costs are reasonable, estimated at 10 percent of total program costs.

Lessons from Two Decades of Economic Transition

In the last two decades, Bulgaria has engineered a major shift in its economic system, breaking with the socialist model in 1989, navigating through a difficult transition period until 1997, and then entering a period of recovery and stabilization. In the early 1990s, the economy declined dramatically, first because of the loss of traditional export markets in the former Soviet Union, and then because of a hesitant reform agenda that triggered a severe economic and financial crisis in early 1997.⁴ During 1990 to 1997, the country experienced negative growth for six of the eight years, resulting in GDP being 40 percent less than its level before transition. In 1997, the government adopted a comprehensive economic reform program as a response to the crisis, supported by international financial institutions and other development partners that included major trade and price liberalization; social sector reform; and restructuring of the financial, enterprise, agriculture, and energy sectors, including the divestiture of state-owned enterprises. The country then entered a period of steady economic growth that averaged 5 percent per year in per capita terms. In January 2007, Bulgaria joined the European Union.

TABLE 10.2 Targeting Outcomes of the GMI Program, Bulgaria, 2003

Quantile	Share participating (%)			Share of accrued benefits (%)			Generosity (program benefits as % of recipient household consumption)		
	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural
Poorest quintile	8	7	10	58	57	58	47	41	54
2nd poorest quintile	3	2	4	19	19	18	21	21	21
3rd poorest quintile	2	1	3	14	11	17	16	14	17
4th poorest quintile	0	0	1	3	2	5	14	6	17
Richest quintile	1	1	0	7	11	1	12	13	9
Total	3	2	4	100	100	100	35	31	39
Poorest decile	13	11	15	47	44	50	54	50	60

SOURCE: Tesliuc and others forthcoming.

NOTE: Household consumption is determined as the average for a given group. Quantiles are based on per capita household consumption.

At the outset of the transition, Bulgaria had little poverty. It rose thereafter, initially slowly, affecting 5.5 percent of the population by 1995, and then rapidly, affecting 36.0 percent of the population by the time of the 1997 crisis (World Bank 1999a). It declined continuously thereafter, falling to about 12.9 percent of the population by 2001 and about 10.0 percent by 2003 (C. Tesliuc 2004).⁵ These changes in overall poverty mirrored changes in the profile of the poor. At the peak of the crisis, poverty affected a large number of able-bodied adults with a good education and labor market skills. After the crisis, higher wage incomes and pensions lifted most of the active population and the elderly out of poverty, leaving poverty concentrated among ethnic minorities, notably Roma, and in rural areas. The large discrepancy between the welfare of the Roma and the rest of the population brought this issue to the forefront of European domestic and regional policy (Ringold, Orenstein, and Wilkens 2005).

The current social protection system is a mix of old and new programs that are continuously being reformed in response to changing social needs and opportunities to provide social transfers or services more efficiently. Some of these programs were inherited from the socialist period, such as pensions and family benefits. Other programs have been added since, such as unemployment benefits, which were initiated during the 1990s to meet the needs of a market economy, and needs-based social assistance programs. Prior to 1991, guaranteed employment served as the main safety net mechanism. Social assistance

had a relatively small role, with limited programs for those who were unable to work, such as the elderly and those with disabilities. With the economic restructuring and reforms of the late 1990s, the social protection system expanded to encompass welfare programs that explicitly help households cope with the new risks of poverty and unemployment (box 10.1). The GMI Program was initiated in 1992 and energy benefits were introduced in 1995.

The 1997 crisis was a turning point not only for economic policy, but also for safety net policy. The first response to the crisis was to expand those safety net programs with the most accurate targeting—the GMI Program and energy benefits—and to increase the programs' generosity. At that time, concerns about labor disincentives were minimal, and programs were dominated by the need to provide protection from poverty as rapidly and efficiently as possible. The government was able to respond quickly to the crisis because it had a number of programs in place that it could scale up.

Once the crisis was over, successive governments promoted a number of reforms that increased the effectiveness and efficiency of the safety net system and programs. In 1997, the GMI Program and energy benefits were consolidated under the same agency and operated under similar procedures except for eligibility criteria and benefit levels. In 2002, eligibility for the universal child allowance program, which had been established in 1986, became means tested and conditional on school enrollment. The child allowance program used the same administrative procedures and institutional framework as the GMI and energy benefit programs. After 2000, with the economy thriving, concerns about benefit dependency began to dominate the policy debate. The government responded with the temporary workfare program described earlier.

One of the government's experiments in its search for a more efficient safety net policy was less successful: its attempts to decentralize the financing of the GMI Program. From 1998 to 2003, the government experimented with different cost-sharing formulas between the central and local authorities. In 1999, the cost-sharing arrangement called for a 50 percent contribution by the central government and 50 percent by local authorities, but this arrangement led to arrears or to partial payment of benefits because some local governments did not contribute their share. By the end of 1999, arrears represented 10 percent of the entitlements. In 2002, the cost-sharing rule was changed to 75 percent by the central government and 25 percent by local authorities, but the arrears continued. A new social assistance law in 2003 centralized the financing and implementation of means-tested programs and the arrears ended.

The key factors that determined the success of the safety net system in Bulgaria, especially of the means-tested programs, can be divided into the following two categories:

- **Overall design features.** The centralization of the design, administration, and financing of the system has been crucial. In addition, the different aspects of social protection are well coordinated. The design of the GMI Program benefit balances protection of the poor while rewarding work effort, as the benefit is worth less than the minimum wage or unemployment compensation. Complementary programs seek to help the unemployed find work.
- **Good implementation.** Procedures are developed and staff are well trained and sufficient. Social protection agencies cooperate by exchanging information about

their clients. Errors of inclusion are reduced through the assiduous use of home visits and verification of information. Errors of exclusion are reduced by lowering transaction costs for beneficiaries: the required documents are all free, much information is obtained directly from other sources rather than requiring applicants to present certificates, and payment through bank accounts or post offices is convenient.

10.3 Safety Nets for an Economic Crisis Situation

In times of crisis governments are galvanized to provide safety nets, even in countries that have been unwilling to fund them in stable times. Without a base to build on, the response to a crisis will be constrained, although crisis responses are often the start of more permanent safety nets. Even with a base to build on in a crisis, the speed and scale of action needed to address the crisis may entail temporary compromises in relation to the usual standards for targeting, incentive compatibility, and accountability.

GENERAL CONTEXT

Economic crises can disproportionately affect the poor, and substantially raise poverty rates as a result of increasing unemployment or declining wages, relative price changes such as increased food prices, and lower returns on physical and financial assets. Cuts in public spending in the social sectors often exacerbate the reduction in households' autonomous incomes. Decreased use of health services is common, malnutrition and other health outcomes may worsen, and poor children may drop out of school. These conditions tend to aggravate chronic poverty and may lead to irreversible losses in human capital among the poor and vulnerable, undermining an economy's ability to recover and sustain growth. The increases in poverty can also lead to longer-term erosion of social capital within communities marked by deteriorating political consensus and increasing crime and violence.

Capacity

Few of the countries facing recent macroeconomic and financial crises in Asia (1997–9), Europe (Russia 1998, Turkey 2001), and Latin American (the debt crises of the 1980s and the financial crises of 1994–5, 1999, 2001–2) had strong safety nets in place before the crisis. Thus countries had to choose among imperfect options. The first was to expand whatever existed regardless of how good or bad it was and what target group it served. Mexico chose this response in reaction to the so-called tequila crisis when it scaled up retraining and employment programs and targeted food distribution. The second option was to start up new programs in a hurry, which runs the inevitable risk of poor initial implementation, as occurred in Indonesia's JPS Padat Karya (Labor-Intensive Public Works) program, and/or a delay of many months between the onset of the crisis and the time the program is operational on a fairly large scale, as occurred in Colombia's Familias en Acción program. Many more countries now have some elements of a safety net system in place, usually to serve the chronically poor. However, countries have had little experience as yet with how to modify their programs during a crisis or how well they can be modified, though some indications from the Central American coffee crisis of 1998–2001

suggest that preexisting CCT programs helped beneficiary households accommodate the shock to their incomes.

Potential Role for Safety Net Systems

The primary objectives of safety nets in times of crisis are to protect incomes and avoid irreversible losses of physical assets and human capital and to help maintain political consensus around the policies needed to resolve the crisis. Permanent and appropriately financed programs can also act as automatic fiscal stabilizers, although programs with permanency, appropriate finance, and guaranteed countercyclical finance are rare (see chapter 3, section 3).

A perennial issue in relation to safety nets for postcrisis situations is whether to target the chronically poor or those most affected by the crisis. The logic of a postcrisis program is to address the income losses caused by the crisis, but while the newly poor are often politically vocal, they are not necessarily the poorest. The chronically poor are likely to become poorer as a result of the crisis and may be most at risk of suffering irreversible losses. Countries' fiscal constraints mean that not all can be served as much as needed, giving rise to competing pressures. Even though the philosophical disputes underlying the debate as to which options to choose can be intense, the practicalities of limited targeting options often render any debate somewhat moot.

Interventions and Implementation

Where countries operate fully needs-based cash transfers, as in much of Europe and Central Asia, a separate crisis response program will not be needed. The number of beneficiaries will automatically expand as more households fall into poverty and become eligible for the program. The main adjustment needed is to ensure that funding will be available to cover the increased number of beneficiaries and higher level of benefits where benefits are differentiated by beneficiaries' degree of poverty. Supplemental staffing may also be needed to handle the larger than usual number of applicants.

In countries without a well-developed unemployment insurance program, public works are a commonly used response to economic crises and have been employed in such situations by, for example, Argentina, Bolivia, Chile, Colombia, Indonesia, the Republic of Korea, and Peru. The self-targeting through a low wage is a highly desirable feature that is especially valuable in a postcrisis setting. Where unemployment is high, public works programs are a logical response to some of the social, as well as economic, issues for newly unemployed workers. However, such programs often encounter difficulties in absorbing enough labor to fully address the problems. Argentina's *Trabajar* workfare program devised in response to the 1996 crisis was successful in terms of targeting, impact on workers' incomes, and value of works done, but was relatively small, covering only 1.6 percent of the economically active population. During the next crisis, Argentina implemented the *Jefes de Hogar* (Heads of Household) program on a much larger scale, reaching about 13 percent of the economically active population at its peak, but could not effectively enforce the work requirement for so many people, so the value of the works done was less and the targeting not as excellent, though it was still good.

Public works programs are less applicable where labor adjustments that occur as a result of a shock are mostly through a widespread reduction in wages rather than through

unemployment. This was the case in Mexico's tequila crisis, and thus public works programs were a limited part of the response and were included more because some existing programs could easily be expanded than because they were the single best answer. Public works programs may also be difficult to implement quickly and at high labor intensity where infrastructure is well developed or sophisticated, as the works tend to be more complex, involve longer planning horizons, and be more capital intensive. This was a problem Argentina and Colombia faced in their large cities.

In addition to public works programs, crisis responses usually include as much protection as possible for the budgets for basic health and education services and sometimes include new scholarship or fee waiver programs to help avoid irreversible losses of human capital. Colombia's Familias en Acción CCT program, Indonesia's JPS Scholarship and Grant Program, and Zimbabwe's Basic Education Assistance Module of school fee waivers all started under such circumstances.

The crisis itself is likely to make targeting difficult. Even countries with well developed survey capacity and information on poverty will find that their data quickly become out of date and of limited use after a crisis hits, as was the case in Argentina, Indonesia, and Mexico. Means tests would have to be readministered every few months to keep pace with changing household circumstances, a feat that few countries could manage. Moreover, the informal economy almost always grows during a crisis, so the reliability of the means test will decline as those who lose their formal jobs take up informal activities. Proxy means tests are geared toward indicators of chronic poverty and will not usually identify the newly poor, who may still live in a decent house and neighborhood, but now have no money to put food on the table, buy medicine, or pay school fees. Occasionally categorical targeting is possible by giving assistance to those laid off from formal enterprises, but these are often not the most poor, plus such programs are usually limited to severance pay for those in downsized state-owned industries. Self-targeting is thus a highly desirable option and is most viable via public works programs, which is why they are so commonly used in postcrisis settings. Community-based targeting may also be applicable.

Exit strategies, often for entire programs, must be considered from the outset for both political and administrative reasons. For example, when their economies improved, Argentina and Korea closed down their postcrisis public works programs. This is sometimes appropriate, but has some disadvantages. The closure of programs means that most of the institutional capacity to run them is lost, and if a new crisis hits, the whole start-up process will have to be repeated. Moreover, safety net programs initiated in response to a crisis will often serve those who are suffering from idiosyncratic shocks and/or some of the chronically poor as well, therefore scaling down a program is often more desirable than eliminating it altogether. This requires thinking about exit strategies for individual households. These may be automatic, for example, when households recover their economic activity they may no longer accept public works jobs, or they may require explicit design or implementation actions, for example, through recertification by a means or proxy means test or by having established a time limit for the benefit early on.

ARGENTINA'S RESPONSE TO THE 2002 CRISIS

In 2002, a severe financial crisis hit Argentina following three years of economic slowdown.⁶ Real output fell by 11 percent after a cumulative decline in real GDP of more

than 9 percent during the previous three years. Unemployment soared to 22 percent, and the share of those working in the informal sector increased while the quality of jobs deteriorated. The main impact of the crisis was on real wages, which collapsed by nearly 30 percent as a result of uncontrolled inflation. Overall poverty increased by 50 percentage points during 1998–2002, more than during any other previous crisis, peaking with 58 percent of the population classified as poor by the end of 2002. This outcome was accompanied by a deterioration in basic services that reflected an increased demand for health services by the larger number of uninsured and a decline in the rate of collection of utility fees.

The government's response to the crisis was a combination of restoring macroeconomic stability and protecting key social programs. While overall real government spending fell by 38 percent during the crisis and social spending fell by 32 percent, spending on targeted pro-poor programs increased by 21 percent. This increase was insufficient to stabilize the real value of this spending per poor person because of the dramatic increase in poverty; thus spending per poor person fell by 16 percent.

In April 2002, the government created a massive new workfare program as part of its emergency response—the *Jefes de Hogar* program—spending 7 percent of the federal budget on it. The program transferred about US\$50 per month to its beneficiaries. Participants had to meet four eligibility criteria: be unemployed; be a head of household; (3) live in a household with a child under age 18, a pregnant woman, or a person with disabilities; and work or participate in education or training activities for four to six hours per day. The program was scaled up relatively rapidly, and by May 2003 had 2 million participants. Incidence and coverage were both good, with about 80 percent of the benefits concentrated among the two poorest quintiles of the population. A third of those in the poorest quintile participated.

The good incidence was achieved despite some problematic features of the program. First, the government could not completely enforce the eligibility criteria. The program ran cross-checks against lists of contributors to social security, but only half of employment in Argentina was formal, so this was not fully effective in ensuring that participants really were unemployed. Moreover, the scale of the program, its rapid expansion, and some lapses in accountability meant that the work requirement was not fully enforced. In 2004, only 70 percent of participants fulfilled their work requirement, and in the first half of 2005, only 55 percent did so. Applicants also self-reported whether they were household heads, and subsequent research showed that some 40 percent of the beneficiaries were women who had entered the labor market as additional family earners and were probably not the head of household as usually defined. To go to scale quickly, the registration process allowed civil society groups to nominate participants, which resulted in some highly controversial registrants and affected the program's reputation.

The program was designed with a sunset clause, meaning that it would remain in effect only for as long as the emergency continued, but the emergency decree was extended each time the program was due to expire. A new government came to power in May 2003. It closed registration for the program and made some significant improvements to its administration that resulted in the dropping of about 300,000 beneficiaries (about 15 percent of the peak number). The government also developed a three-pronged strategy to transition out of the program, whereby (1) some participants were expected to move off the rolls as they found formal employment opportunities; (2) families living

in any of 400 large municipalities with two or more children would move to a new CCT program that would offer similar levels of support; and (3) others could move to a new noncontributory training and unemployment insurance program that was gradually being rolled out and that offered slightly higher benefit levels for up to two years. By early 2008, the number of beneficiaries had declined to about 700,000, about a third of the peak level, because of a combination of further administrative improvements, a strengthened economy that led to participants withdrawing from the program as they found jobs, and the implementation of the transition strategy.

The government succeeded in moving rapidly, facilitated in part by its experience with the Trabajar program. Even though the latter had been discontinued, some of the same people who had worked on the Trabajar program were still available in the central ministry and municipalities, so not all the capacity had been lost. The other factor that facilitated the speed of response was the design compromises made in relation to targeting criteria and enforcement of the work requirements.

The government might have been able to avoid some of the considerable controversy around the Jefes de Hogar program by making a few minor design changes that would have aligned the program's rules and practices more closely—for example, by having as its announced target group households with families and without formal jobs and rationing participation to one person per household. It could have called itself by some name other than the Jefes de Hogar program and run a publicity campaign to emphasize that it was intended for the poor working in the informal sector. The outcomes would probably have been much the same, as these changes would merely have announced the criteria that the program did actually enforce, but the changes might have eliminated the criticism that the program did not follow its own rules with the implication that it might be massively corrupt in a much worse sense than giving a benefit to poor secondary earners rather than poor principal earners. With such changes, the program's reputation might have been much better. For such a large program to enforce its work requirement would still have been difficult, although given the requisite political will, the rate of compliance could have increased over time as the agencies built capacity.

Argentina's experience with the Jefes de Hogar program illustrates some common features of safety nets in postcrisis settings: finding a practical targeting mechanism to reach those who the government really wants to target can be difficult, scaling up a program quickly and still maintaining all the desired quality control features can be hard, and considering exit policies from the outset is important.

10.4 Safety Nets after Natural Disasters

Until fairly recently, safety nets were not thought of as part of the response to disasters beyond the immediate humanitarian relief phase. Once that was over, attention turned largely to reconstructing public infrastructure and restoring service delivery, with less attention paid to helping households safeguard or reestablish their livelihoods. Policy makers are increasingly recognizing the role of safety nets following natural disasters, but practice is still relatively underdeveloped. As for responses to economic crises, safety nets following natural disasters are more feasible where a base to build on exists and when temporary compromises in systems and standards are made if necessary.

GENERAL CONTEXT

Natural disasters can affect both the poor and the nonpoor. Earthquakes, floods, and hurricanes can cause significant losses of life and wreak significant physical destruction. These and slower-onset shocks such as droughts can lead to regional health and food price shocks and significantly increase poverty. The poor are particularly exposed to natural disasters and have limited access to risk management instruments, but many nonpoor will be affected as well, especially by rapid-onset disasters.

The economic impact of disasters varies, depending on the extent of the damage relative to the size of the economy, the geographic scope of the damage, the initial level of economic development, and the success of crisis response actions. The social impact may also vary depending on the extent of displacement, of postdisaster trauma (especially among children), of damage to social capital and informal coping mechanisms, and of disability.

Capacity

As natural disasters occur worldwide, the initial safety net base is highly varied. Running a good transfer program is a demanding task and setting systems up takes time. It is impossible to do well, or often at all, overnight, and even more difficult when regular communications, transport systems, and markets are disrupted. The easiest approach is to respond to a disaster by modifying an existing program. For example, the government may scale up a public works program in affected areas, shortcut certain elements of the planning and selection process for works, and eliminate the local funding requirement for nonlabor inputs. For a cash transfer program the government may increase payments to existing beneficiaries, add temporary beneficiaries in affected areas using specially adapted targeting procedures, and alter payment procedures temporarily where systems are disrupted. For existing programs to have contingency plans in place for scaling up would be useful, but is uncommon.

Informal coping mechanisms tend to collapse during large shocks. Natural disasters during the last two decades and the economic and social consequences that have affected many countries in Central America, East Asia, and South Asia have demonstrated that informal and group-based coping mechanisms that form the backbone of traditional community- and family-based safety nets tend to be insufficient and may be unsustainable in the face of such large covariate shocks. Examples of such disasters include Hurricane Mitch in Honduras in 1998, repeated floods in Bangladesh, the 2004 tsunami in Indonesia, and the 2005 earthquake in Pakistan.

Potential Role for Safety Net Systems

The key role of safety nets following a natural disaster is to help households avoid irreversible losses that could ensue after the actual disaster. Effective safety net systems should be seen as part of and as a complement to the larger efforts pertaining to livelihood protection, reconstruction, and recovery.

Ideally, disaster management strategies are part of larger government or development policy and balance *ex ante* and *ex post* actions. For example, *ex ante* prevention (such as dikes, dams, or irrigation works) or mitigation (for example, insurance) may decrease the

probability of crop loss or replace income lost because of crop loss. Ex post interventions provide mechanisms for coping after a disaster. Effective disaster management strategies are based on a good understanding of who is exposed and the role of potential instruments and the political will to take action ahead of time. In general, ex ante natural disaster management tends to be insufficient, focusing more on infrastructure, and with much less thought given to how to safeguard livelihoods.

Ex post interventions can be divided into three categories. In the immediate aftermath of the disaster, search and recovery operations and humanitarian assistance may be needed, especially for rapid-onset events such as earthquakes or typhoons. This kind of specialized assistance is beyond the scope of this book. In the medium term, households will require support to prevent the further loss of assets and to allow them to start reinvesting in their livelihoods. Safety nets of the sort discussed in this book can play a role here. The longer-term response will focus on reconstructing public infrastructure and services.

Interventions and Implementation

Immediate assistance after rapid-onset disasters is often humanitarian and in kind, for instance, food, water, blankets, and tents. How long this period lasts will depend on the severity of the disaster and the extent to which it disrupts markets. Once transport systems and markets begin to function again, transfers can be in cash, which provides households with greater flexibility and can be provided with fewer logistical complications. Public works are also particularly attractive for both ex ante (for example, protecting watersheds and installing flood controls) and ex post (including reconstruction and rehabilitation of basic community infrastructure) parts of a crisis management strategy.

Following a disaster, the speed of the response is critical, thus there is little time to set up complex systems. Targeting criteria are therefore one or a combination of the following: geographic, meaning assistance is provided to everyone in defined areas; categorical, with categories defined by the extent of loss of life or disability, of total or partial damage to dwellings, and of other physical losses; and/or self-targeting, whereby public works jobs or feeding are provided to all who come to feeding centers.

Needs can change rapidly in the aftermath of a disaster if bad weather further affects those without shelter, if epidemics develop, or if the scale of the response is greater than expected. Planning and responses thus have to be flexible. Monitoring systems need to be agile and be based on statistics from sentinel sites or on qualitative methods. Coordination will involve a large number of actors: national and local governments, many sectors, and probably many nongovernmental organizations and international agencies.

After a disaster, large amounts of funds and food aid flow through hastily improvised channels. This can bring with it challenges in relation to controlling corruption. Strong political leadership, community involvement, close coordination, and a transparent monitoring system with proper oversight and fraud control are crucial, and yet must not be so onerous as to slow the response.

BANGLADESH'S "FLOOD OF THE CENTURY"

In September 1998, Bangladesh was inundated by a huge flood.⁷ At its peak, the flood covered two-thirds of the country, causing severe damage to the rice crop that was due to be harvested in November and December. Total rice production losses exceeded 2 million

tons, or about 10 percent of annual consumption. Despite the damage to the rice harvest and the major disruption of the rural economy and employment opportunities, in marked contrast to the famine that followed the 1974 flood, no major food crisis occurred. The flood did exact a heavy cost in terms of increased private debt because of extensive borrowing in private markets, a major coping strategy of the poor.

The government used two major instruments to respond to the disaster: it allowed large-scale, private rice imports and it provided direct transfers to households. Both these responses were possible because of groundwork laid in the years preceding the flood.

By 1998, the private rice market was well established. The government had liberalized trade in the early 1990s, and this was followed by an expansion in the number of traders; in the size of the market; in investments in infrastructure (roads, bridges, electricity, and telecommunications); and in an easing of restrictions on private sector trade including, for example, the lifting of a ban on commercial bank credit for the food grain trade. The government had also begun to encourage increased rice imports from India early in 1998 when the first harvest of the year had been somewhat poor, and stepped up the policy as the damage caused by the flood became apparent. The private sector imported 2.4 million tons of rice during July 1998 to April 1999. Price increases were thus held to 12 percent, and price variations across regions remained small.

The second leg of the response consisted in the use of two existing, albeit dormant and not well-funded, transfer programs. The first was an immediate relief effort, the Gratuitous Relief Program, designed to provide emergency relief to disaster victims from August to September 1998. The second was a medium-term program, the Vulnerable Group Feeding Program, which ran from September 1998 through April 1999.

The Gratuitous Relief Program provided immediate transfers of 50,000 tons of rice targeted by location to flood-affected households. The Vulnerable Group Feeding Program covered the entire country and was administratively targeted to poor households that were selected by local committees. The program provided 4 million households with an allotment of 16 kilograms of grain per month, half rice and half wheat in October and all wheat thereafter. It was not well targeted to households directly affected by the flood, but it was relatively well targeted to poor households. The two programs did help, but were small relative to need. The Food for Work Program began on a large scale only in December 1998, when the soil was dry enough to permit manual construction of earthworks.

The Bangladesh example underscores two main messages about safety nets in post-disaster settings. First, effective action is feasible if its basis has been laid earlier. Second, even when the worst outcomes, such as famine, are avoided, more subtle issues may arise, such as increased debt, from which households may take a long time to recover.

HURRICANE MITCH AND THE HONDURAN SOCIAL FUND

On October 30, 1998, Mitch, a massive, slow-moving hurricane, hit Honduras.⁸ Three weeks of rain had already soaked the countryside before the storm pounded the country for three days. Torrential winds, floodwaters, and mudslides destroyed villages, shattered social and economic infrastructure, paralyzed production, and left up to three feet of mud and debris throughout the country. Communities cut off from economic activity and basic services faced immediate health concerns and security risks. Some 6,000 people died, 8,000 were missing, 13,000 were wounded, and more than a million were left homeless.

Honduras called upon its Social Fund, its main social protection instrument at the time, for the response. The Social Fund had been operational for eight years and was well established. The fund took advantage of the flexibility of its legal framework and lean structure to change operating procedures for its crisis response. It established 11 temporary regional offices and delegated responsibilities and resources to senior staff appointed as regional directors. Its technical experts were in northern Honduras within hours of receiving news of the hurricane's impact to assess the damage from mudslides that had buried extensive areas. Regional offices worked closely with community members and municipal representatives to assess immediate needs for cleaning up mud and debris and repairing or replacing water and sanitation systems, access roads, bridges, health centers, and schools. Recognizing the need for quick action, the Social Fund simplified its subproject cycle, reducing the required number of steps from 50 to 8, and increased its use of standardized subprojects and simplified procurement methods. It also established safeguards in each of the regional offices to ensure accountability and transparency.

Within 100 days, the fund had approved 2,100 projects with a total value of US\$40 million. By the end of 1999, about 3,400 emergency subprojects had been financed, representing an implementation rate four times higher than the average before Mitch. The fund's immediate focus on restoring economic activity and basic social services prevented the emergency from aggravating poverty. Indeed, because it financed highly labor-intensive projects (labor accounted for 25 to 30 percent of the value of most subprojects and as much as 70 percent of cleanup activities), the fund generated temporary employment in precisely those communities where productive activities had been disrupted. The Social Fund created about 100,000 person-months of employment during the first three months, on a par with workfare programs in other countries, such as Argentina's Trabajar program.

The following are among the specific lessons learned from the Social Fund's work in the wake of Hurricane Mitch:

- A strong partnership with municipalities and communities is invaluable.
- The ability to decentralize and delegate is essential.
- The establishment of contingency procedures (and agreeing on them with financing agencies) ahead of time is wise. Many social funds now have contingency manuals.
- The use of streamlined institutional procedures, less complete documentation, and longer working hours may be appropriate during emergencies, but may not be desirable over the longer term.
- The rapid deployment of Social Fund staff and the changes in subproject processing procedures created some confusion and undermined some of the advances that had been made under prior institutional strengthening. Thus social funds should attempt to isolate their emergency responses so that they can return to normal operations as quickly as possible. Nicaragua's Emergency Social Investment Fund was able to reestablish normal operating procedures after Hurricane Mitch much more quickly, because it allocated a specific amount of money (US\$12 million) for a set period of time (three months) to emergency activities.
- The urgent and immediate needs that arise following a natural disaster can affect long-term goals because of trade-offs between quick response times and long-term

quality of investments. In addition, users cannot always be thoroughly trained in operations and maintenance during emergencies.

- The full gamut of social needs will not be met by cleanup and reconstruction activities, although these can provide temporary employment in the hardest hit areas.

10.5 Safety Nets to Facilitate Reforms

The need for compensation for a reform commonly arises when a country has operated a program or policy with intertwined equity and efficiency goals. Such policies often result in conflicting objectives and inefficiencies, and so de-linking the two objectives and using different instruments to address them is often preferable. For example, rather than having a utility company subsidize residential consumers so that they can stay warm in the winter, allowing the utility company to price at cost and providing transfers or vouchers to poor consumers through a social assistance framework may be much more efficient. The same holds true for general food subsidies, fertilizer subsidies, and the like. Indeed, Kanbur (2005) and World Bank (2005c) suggest that the use of a generalized redistributive mechanism is preferable to having to design specific compensatory packages for each reform option. During the 1990s, all the transition economies inherited heating subsidies that they replaced in some cases with targeted heating allowances as in Bulgaria and Romania or basic social assistance programs as in Armenia. General fuel subsidies are common around the world, and periodically countries reduce or eliminate them and use targeted cash transfers as compensation. Indonesia provides a recent example. Replacing general food subsidies with targeted subsidies is also common.

GENERAL CONTEXT

The need for compensation will depend in part on the pattern of benefits of the program to be reformed—that is, who it reached and how important the program was to them. In the case of food subsidy reforms, the poor often receive a low share of the absolute benefits, but these low benefits are nonetheless an improvement in their welfare. Sometimes, however, the poor have benefited little from the subsidy to be reduced, for example, if electricity were subsidized but the poor were not connected to the grid. An indirect feature of the needs assessment (see chapter 9 for guidance on how to carry out a needs assessment) concerns the political economy of reform. Is there consensus on the need for reform or not? Who opposes it and why? Would a compensatory targeted cash transfer help make the reform more acceptable?

Capacity

Such reforms are applicable in a diverse range of contexts: in both high- and low-income countries, in times of relative stability or crisis, and so on. A possible common feature is a high degree of state intervention in the economy.

Safety Net Systems

Often countries that need to provide compensation for reforms do not have good poverty-based cash transfer programs in place. Indeed, the lack of such a program may have been

what led the government to try to accomplish its redistributive goals through other less efficient instruments. In these cases, a major addition to the safety net system may be required. In some cases governments slowly and methodically build up the compensatory system as they gradually dismantle the old one. Mexico's replacement of food subsidies with the PROGRESA (now known as Oportunidades) initiative is such a case. Probably more often, however, the government mounts its compensatory program in a rush, giving itself little time to develop adequate systems before beginning large-scale operations. Where such programs become permanent, they will need to be refined over time.

Where a poverty-based cash transfer program is already in place, introducing compensatory measures may be simpler. Jamaica already had a progressively targeted food stamp program in operation in 1995, thus when the government eliminated kerosene subsidies, it was able to boost the value of the food stamp benefit as a compensatory measure for the poor and did not have to mount a separate program.

Potential Role for Safety Net Systems

In supporting policy reforms, safety nets can play two linked, but somewhat separate, roles. They can help compensate the poor for any losses suffered; beyond that, they can help engender political tolerance of the reform. In the case of reforms of general price subsidies, such as for fuel, utilities, or food, the loser is the general public—or at least the large share of it that benefited from the subsidy. The art of compensation is to provide an alternative benefit to a subset of beneficiaries that is large enough to calm opposition to the reform. Helping the poor lowers their direct opposition and also weakens the arguments that elites with a self-interest in maintaining the status quo can make on behalf of the poor. For instance, energy producers or millers may not gain much sympathy if they say they are afraid of having to become efficient, but may gain much attention if they say they are concerned about the poor and that that is what keeps them from being competitive. A direct transfer to protect the poor will disarm such arguments.

Compensation may also be due when the eligibility criteria for a program are changed. These kinds of reforms commonly convert categorically targeted benefits to poverty-based criteria. In this setting the losers are clearly defined, and the compensation process is less costly, but possibly still important. It may take the form of grandfathering such beneficiaries into the new program for a defined period.

Interventions and Implementation

The compensation policies for which this book is pertinent are mostly cash transfers or near cash transfers such as food stamps or heating vouchers. Other compensatory mechanisms, such as lifeline utility pricing for low-volume users or training programs for workers laid off from state enterprise reform, are common elements accompanying such reforms, but are outside the scope of this book.

In designing cash transfer programs as part of a reform package, governments may take either of two approaches. In one, the government moves directly to a benefit targeted to the poor that is expected to have a long duration and is designed accordingly. Several prominent safety net programs, including Brazil's Bolsa Familia (Family Grant) program and Mexico's Oportunidades had their roots in compensatory programs. In Brazil, the

Bolsa Familia program was created by combining four prior programs, one of which, Auxilio Gás (Cooking Gas Grant), was a transfer designed to compensate poor households for the removal of subsidies on cooking gas. In Mexico, the aim was to redirect monies spent on less efficient food distribution programs. In the other approach, the government uses a more generous definition of poverty than usual for its target population. When this is the case, such programs should be instituted on a temporary basis whereby they are gradually discontinued, become more narrowly targeted, or announce their sunset rules up front as in the case of Indonesia's fuel subsidy reform.

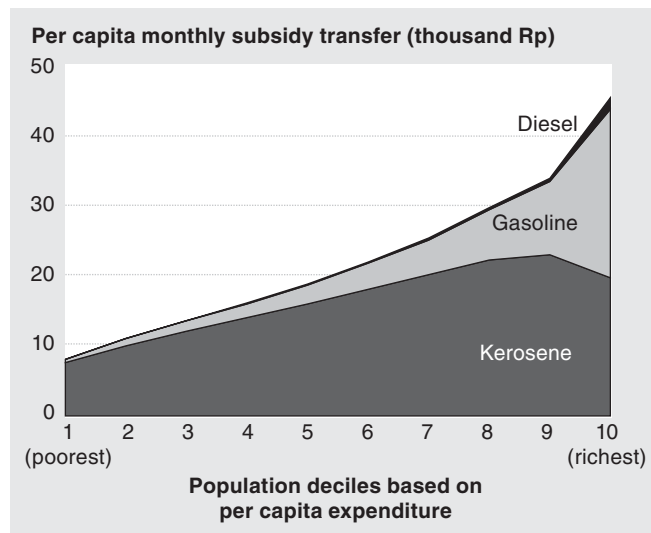
REFORM OF FUEL SUBSIDIES IN INDONESIA

Indonesia has traditionally had little in the way of targeted safety nets.⁹ For many years, Indonesia had universal price subsidies on fuel, with price levels fixed well below world prices. By 2005, with the rise in world fuel prices, the cost of the subsidy was equivalent to 5 percent of GDP. Between 1998 and 2005, fuel subsidies averaged three-quarters of the social protection system's total subsidies and transfers. As common with such subsidies, they were highly regressive (figure 10.1).

The government introduced the first large programs following the 1998 financial crisis. Some of these remain, but coverage of the scholarship and health card programs is quite low and the targeting is mediocre. Coverage of the rice subsidy is higher, but it has significant cost-effectiveness issues.

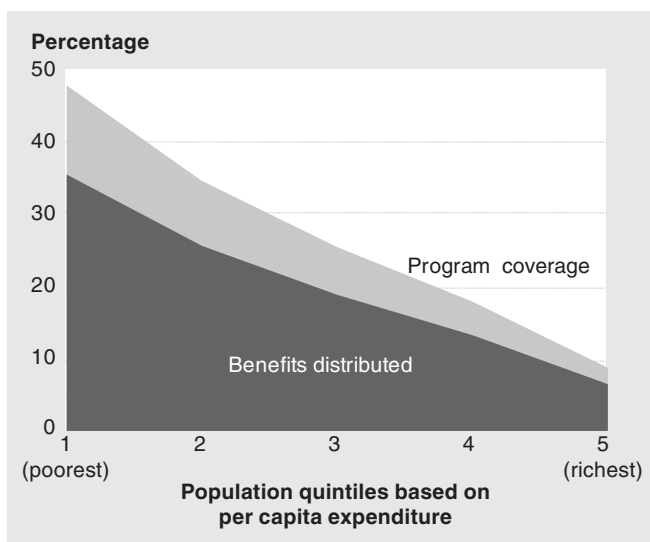
In 2005, the government reduced fuel subsidies by about US\$10 billion. It reduced total expenditures by half that amount. A quarter of the funds were used to fund a targeted, unconditional cash transfer program; and the remainder was used for block grants to schools, basic health care and health insurance for the poor, and a village improvement program. Given the concentration of people just above the poverty line, the government decided to target the cash transfer not just to the 16 percent who fall under the poverty line, but to the near poor as well. The cash transfer program thus reached 19 million poor and near poor households, or 28 percent of the population. Under the program, each beneficiary family received about US\$10 per month paid quarterly. The benefit was equivalent to about 17 percent of per capita consumption of the poorest decile.

FIGURE 10.1 Incidence of Diesel, Gasoline, and Kerosene Subsidies, Indonesia, 2004



SOURCE: World Bank 2006f.

FIGURE 10.2 Coverage and Incidence of the Unconditional Cash Transfer Program, Indonesia, 2005



SOURCE: World Bank 2006f.

The cash transfer program was rolled out rapidly, with the basic decision to implement the program being taken in August 2005 and the first quarterly payment being made in October. As expected with such a rapid rollout, some initial difficulties arose. The targeting was progressive and a dramatic improvement over the prior regressive fuel subsidies, but the haste with which the program was set up showed up in moderately high errors of inclusion (figure 10.2).

Early reports also showed

that information provided to the public and participants about the program's purpose and procedures was less than optimal, and channels for handling complaints were not well defined. The government worked on these issues, starting with an initial assessment of the program after the first payment in 2005, and initiated actions to improve program administration. Significant fuel price increases, including for kerosene, were implemented without major public protests.

The compensation was intended to last just one year, and did last just that long. However, the experience led to interest in adding an element to Indonesia's antipoverty policy, which has had little in the way of safety nets and no poverty-targeted cash transfers. In 2007, the authorities began piloting a CCT program that would build and improve on the former cash transfer program.

Indonesia's experience illustrates some of the lessons of safety nets in reform settings and in general. First, cash transfer programs can be useful for compensating households so that they do not suffer sharp changes in welfare. Second, they can reduce opposition to reform. Third, while mounting a program quickly is possible, perfecting it is likely to take longer.

10.6 Safety Nets for Rising Food Prices

As this book was going to press, the world's attention began to focus on dramatic increases in food prices.¹⁰ Newspapers around the world were full of coverage of the issue, many countries saw food riots, and governments and the international agencies that work with them went into overdrive trying to address the problem. This crisis underscores the need for safety nets and the importance of building them during stable times so that they are available in times of crisis.

GENERAL CONTEXT

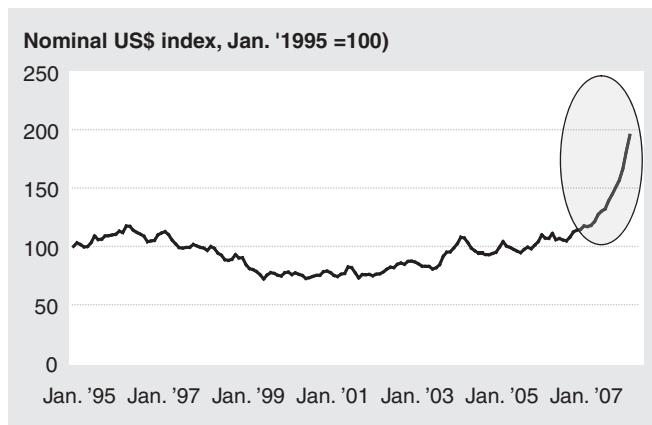
Food grain prices have more than doubled since January 2006 (figure 10.3), with more than 60 percent of this increase occurring since January 2008 alone. This spike in prices has had few parallels in the last 50 years: only in the early 1970s did a sharper rise in the real prices of cereals such as wheat and corn occur. Several structural factors, such as the increased use of biofuels, the weak U.S. dollar, and the shifts taking place in diets, are key drivers of the trend. The recent sharp increase in the international market price of rice may also have been driven by policy factors, including restrictions on rice exports by some exporters and large-scale tenders by rice importers in a currently thin market (World Bank 2008a).

The observed increase in food prices is unlikely to be a temporary phenomenon, but to persist in the medium term. Food crop prices are expected to remain high in 2008 and 2009 and then begin to decline as supply and demand respond to high prices; however, for most food crops, prices are likely to remain well above 2004 levels through 2015 (World Bank 2008d).

The rising food prices may have a negative impact on human development by increasing poverty, worsening nutrition, reducing the use of education and health services, and depleting the productive assets of the poor. As argued in chapter 2, disinvestment by the poor in their human and physical capital will have large and lasting effects of a kind that are well documented and quantified in the development literature. These effects can be ameliorated if governments can provide a positive policy response, primarily through direct income transfers.

As a result of the current increases in food prices, many of the 2.3 billion people living on less than US\$2 a day will become poorer, and another 100 million will fall into poverty (Ivanic and Martin 2008). The immediate impact of rising food prices on the number of poor and the depth of poverty in each country will depend on the consumption patterns of the poor, their economic activity (especially whether they are net consumers or net producers of those commodities whose prices are rising), their location, and the prices they face. In urban areas, the poor are almost all net consumers, and those on fixed incomes are especially vulnerable. In rural areas, the majority of the poor in most countries are net consumers of staple commodities, including grains. Higher food prices will reduce the real incomes of these groups of poor over the short to medium term. While wages tend to adjust over time, empirical evidence shows that they typically do not mitigate the full impact of price increases or are slow in responding. In many contexts the very poorest groups—rural landless households and people in households that lack labor—will be

FIGURE 10.3 Food Prices



SOURCE: World Bank 2008c.

among the most severely affected. The consequences of increased food prices will differ across countries depending on the extent of price increases and initial conditions. Where both are unfavorable, the need for action is the most urgent.

Capacity

Rising food prices are affecting countries of all income levels, including countries spanning the full gamut of existing capacity, in terms of both general government systems and administration of safety net programs. A particularly important element is countries' capacity to confront the costs of good policy responses to rising food prices. At the start of the crisis, some countries, such as Indonesia, Mexico, and Tunisia, had a strong fiscal stance and do not face a terms of trade problem. Some had a reasonably good fiscal stance, but suffered terms of trade shocks (including Burkina Faso, Ethiopia, and Honduras) and/or political crises (including Kenya and Pakistan). Some countries, such as Mongolia and Zambia, had a weak fiscal stance but have experienced favorable terms of trade movement. Finally, some countries such as Burundi, Eritrea, Grenada, Haiti, Jamaica, and Nepal had weak fiscal positions that have now been compounded by terms of trade shocks (World Bank 2008a).

Role of Safety Net Systems

The overall policy response to rising food prices should be multisectoral and should generally encompass improving grain price policies; production, transport, and logistics; safety nets to improve food security at the household level; nutrition programs; and management of the macroeconomic consequences of both the food price increase and the costs of responding to it.

Safety net programs play a triple role in response to rising food prices:

- Safety nets partially forestall the increases in poverty and inequality that would result from the price increases.
- In so doing, safety nets help households maintain their access to food and the essential health and education services that are critical to the well-being and human capital of their children.
- Safety nets can be important in maintaining social equilibrium and thereby help governments avoid having to quell social pressures with policies that would further aggravate the problem.

Countries differ significantly in the types of safety nets they employ. Countries with well-designed programs can mitigate the impact of the crisis on poor consumers by expanding their transfer programs in one way or another—for example, by ensuring funding so that all families that meet the established eligibility threshold can participate, by raising the eligibility threshold, or by increasing the benefit level. In some cases, the changes are “stroke of the pen” actions that imply few changes in program administration. In other cases, the program's capacity may need to increase to deal with new claimants. Countries such as Brazil, Bulgaria, Ethiopia, Mexico, South Africa, and Ukraine can increase coverage quite easily. They have programs that already have good coverage of the poor and mechanisms that could allow new applicants into the programs with relatively minor changes in rules and capacity. For the subset of countries with such programs in place and

with relatively good fiscal capacity, the safety net part of the response to rising food prices should be relatively straightforward.

Unfortunately, many more countries have much less adequate initial safety nets. Their systems provide partial, fragmented, or inefficient safety nets as in Haiti and Malawi. Some countries, such as Mozambique and Sierra Leone, may have little in the way of existing safety nets. In such cases adequate responses are much more constrained and are likely to involve significant trade-offs between speed of response and coverage and other desirable features of good safety nets, especially equity, efficiency, and sustainability.

Interventions and Implementation

The short-run response is to scale up existing programs. Countries with sound and comprehensive systems already in place will be in a good position to react to the food price increases by increasing the value and/or coverage of benefits. Countries with poor systems will have to scramble to start programs quickly and in the interim will have to either leave needs unmet or use costly, distortive, regressive, and difficult-to-remove general pricing or tax measures.

The medium-term response is to work toward a sound safety net system if it does not already exist. Many countries are finding their policy responses constrained to mediocre programs or undesirable policies because they do not have good safety net programs or a household targeting system in place. Those countries that took quick but inefficient action, such as reducing tariffs or value added taxes or increasing or instituting general food price subsidies, will want to work their way out of these altogether or they may want to change their mix of programs, for example, increasing the role of targeted cash transfers relative to school feeding programs. Or having implemented “quick and dirty” programs, they may need work on various elements of implementation, for example, targeting systems, accountability, monitoring, and management, especially for programs that will remain in place in the long run.

Short-run responses should try to avoid actions that will work against the medium- to long-run development of a sounder social protection system. For example, in the absence of social protection programs that can be scaled up, many governments are resorting to general food price subsidies, which are usually distortive and regressive and well-known to be hard to remove. Avoiding or minimizing reliance on these is worthwhile, and where they are used, the government should announce up front that they are temporary. Countries should also avoid setting up household targeting systems so quickly that the targeting errors and the political backlash resulting from them are so high that they damage the prospects of developing a sound household targeting system over time. Initially using combinations of geographic, demographic, and self-targeting mechanisms until a good household targeting system can be built might be preferable.

The decision as to which programs to scale up should be made based on a quick assessment of three criteria: Which are “good” or “best” (according to the criteria used throughout this book and explained in full in chapter 9)? Which have administrative capacity for a quick scale up? Which have sources of funding amenable to a quick scale up? Often an adequate short-term response will require compromises in relation to targeting accuracy and the quality of implementation, and will in general be less concerned with incentive compatibility and sustainability than will the core elements of safety nets in more stable times.

Policy responses must be chosen based on country context, but there is a loose ranking of programs for the short-run response.

- Targeted cash transfers of adequate coverage, generosity, and quality are the best option.
- Increasing the benefits for non-earnings-linked social pensions, survivorship pensions, disability pensions, unemployment benefits, and the like can be helpful where they cover the poor.
- Food stamps have slightly higher administrative costs than cash, but can be politically popular.
- In-kind food distribution is appropriate where markets are functioning poorly, where foreign assistance is only available in kind, or where strategic grain reserves need to be rotated. Elsewhere, in-kind programs will have higher than necessary administrative costs per unit of value transferred but can be a vehicle for significant income transfer. Among them are the following:
 - Take-home rations can be targeted at the household level and serve much like cash transfers; they also have lower administrative costs than on-site feeding.
 - School feeding programs generally can be targeted only at the school level and not at the household level; thus, if they have wide coverage, they will involve high errors of inclusion, but may improve children's concentration and therefore learning.
 - Distribution of fortified, calorically dense weaning food for children 6–24 months old, especially as part of a nutrition education program, can be an important nutrition intervention.
 - On-site feeding through health centers is logistically complex and imposes high transaction costs on beneficiaries to come to the centers for meals. This type of program is usually best reserved for children who are severely or moderately malnourished.
 - Targeted market sales can be used for more general income transfers when other programs do not exist.
- Fee waivers or vouchers for health and scholarships for education help households maintain access to services even if they are poorer.
- Public works programs rarely achieve coverage sufficient to be the whole response to rising food prices. Where public works programs exist, increasing their benefit or coverage may help.
- Where conditional cash transfer programs already exist, increasing their benefit or coverage may be a key part of the response. However, establishing new CCTs may take too long and exclude the neediest in low income countries or fragile states
- General food price subsidies are regressive, distortive, costly, and hard to eliminate.

In some cases, scaling back on social protection interventions will be appropriate as food prices find their new long-term level and households adjust to it. Where the response to increased food prices results in improvements to grossly insufficient or inefficient safety net programs, leaving these improvements in place in the medium and long run—and

indeed, building on them—may be desirable. Where the response results in coverage or benefit levels above prudent long-run levels, programs may need to be scaled down. Those countries that use less preferable policies or programs in their short-term response may need to replace them with better ones.

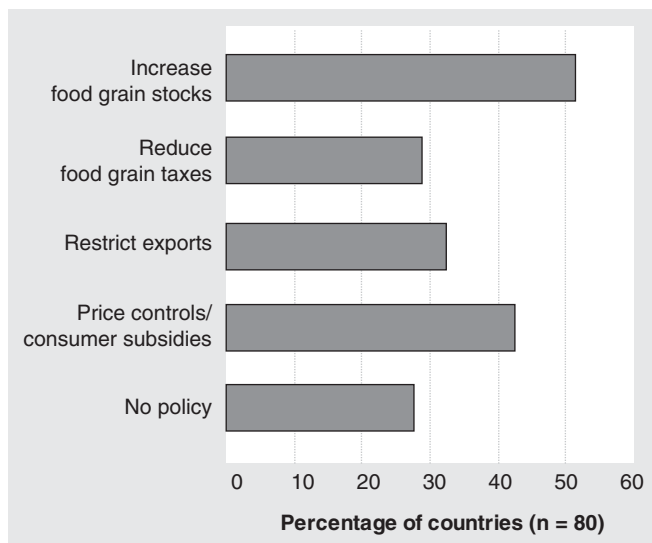
Countries can scale down short-run responses in various ways. One option is to announce up front that entire programs, top-up benefits, or relaxed eligibility criteria are temporary and then discontinue them on schedule. For poverty-targeted programs, recertification every year or every two years will gradually reduce the number of beneficiaries as the economy and households adjust to changes in food prices. For self-targeted programs, households will voluntarily withdraw as their needs become less acute. Benefits set in nominal terms will gradually erode away, which may be a sufficient exit strategy for top-up benefits. For stand-alone benefits, the decline in benefits will minimize people’s concerns about canceling a whole program, but bureaucratic interests may dictate its continuation. This can result in programs with benefits that are too small to substantially improve welfare and inefficiently high administrative costs as a portion of total costs.

COUNTRIES’ EXPERIENCES

A great many countries are mobilizing a wide variety of policy responses to rising food prices, but because the crisis is so recent, we can only discuss how countries have begun to confront it and not how their safety net policies will be affected in the long run. To date, countries’ policy responses are tilted heavily toward general subsidies rather than targeted safety nets. A poll of World Bank country economists taken at the beginning of March 2008 shows that the most common short-run responses to household food insecurity in 80 countries have been price changes or market restrictions rather than more targeted safety nets (figure 10.4). Economists generally consider these kinds of across-the-board measures to be inefficient and distortive, and thus the least favored. Their predominance points to the need to build safety net capacity immediately so that countries using them have a way to back out of them as soon as possible.

Chile’s response illustrates a “first-best” response made possible by a good preexisting social protection system. Chile is an upper-middle-income country with per capita GDP of about US\$6,000 and low poverty. By February 2008, food price inflation had risen to 16 per-

FIGURE 10.4 **Types of Mitigating Policies Adopted by Selected Countries, Early March 2008**



SOURCE: Zaman and others forthcoming.

cent year-on-year, with total inflation of 8 percent. The government moved swiftly, announcing a special one-time cash payment of Ch\$20,000 (about US\$45) to 1.4 million poor households on April 9, with immediate congressional approval and with the funds being received by households in May. The 1.4 million households include three groups: current participants in Chile Solidario, a CCT program intended to help the poorest 5 percent of the population combat various barriers to social exclusion (300,000 families); participants in the Subsidio Unitario Familiar (Unified Family Subsidy), a family allowance for the poor (516,000 families); and families that receive a family allowance for those who are employed but whose monthly income is equal to or less than Ch\$250,000 (US\$555) per month (600,000 families). In all, the cash payment benefited 5.6 million people, the bottom 40 percent of the income distribution, at a total cost of US\$62 million.

Ethiopia was also able to respond quickly, but based only in part on its existing rural safety net.¹¹ Food price inflation in April 2008 reached approximately 40 percent year-on-year, raising serious concerns about the impact on the poor. The government took a three-pronged approach as follows, relying on assistance from donors and accelerated disbursements from World Bank credits to finance the responses:

- At the national level, the government suspended the value added tax and turnover taxes on all cereals.
- In rural areas, the government is relying on its Productive Safety Net Program, a cash and food-for-work program and the mainstay of Ethiopia's safety net system. The program covers 7.3 million food-insecure people and is targeted geographically and to the most food-insecure households in the participating rural districts. The cash wage rate was increased by 33 percent in January 2008, raising the annual transfer to food-insecure households in rural areas to an average of US\$120 per year. Donors are supporting the government by bringing in additional maize from outside the country to ensure the availability of grain for the food transfers made under the program.
- In urban areas, the government has started providing subsidized wheat to households. The subsidy amounts to more than US\$75 per household per year in urban areas. Current estimates indicate that about 4.5 million people (900,000 households) are benefiting. This scheme, while operating exclusively in urban areas, is meant to stabilize wheat prices in both urban and rural areas.

Political pressures in Haiti dictated the use of a general rice subsidy in addition to scaling up existing social protection instruments.¹² By March 2008, year-on-year inflation had doubled to 16 percent and food inflation had tripled to 20 percent. As the prices of basic food staples rose in early 2008, public protests grew large and violent. An attempt to storm the presidential palace in April 2008, thwarted by United Nations peacekeepers, led the Senate to vote the prime minister and his cabinet out of office. Prior to the riots, a multisectoral working group chaired by the prime minister and supported by the international community had been developing a strategy to deal with rising food prices, including, for the short-term, generating employment through labor-intensive public works programs; providing agricultural inputs to revitalize production; and expanding food assistance programs, including feeding programs for schoolchildren, mothers, and infants.

The riots indicated a need for more immediate and visible action. Thus in April, the government announced a temporary subsidy to reduce the price of rice. Analysis of the most recent available data (from 2001) shows that almost all Haitian households (86 percent) consume rice, that rice expenditure as a percentage of income is much higher among the poorest Haitians, and that the 76 percent of the population living on less than US\$2 a day consumes roughly 70 percent of the rice. The subsidy is close to distributionally neutral—that is, less sharply targeted than most good safety net programs—but less regressive than is usual for commodity subsidies. Moreover, errors of exclusion are lower than would be expected from the employment generation, agricultural input, and food assistance programs, as these often do not reach the poorest households in Haiti.

The government set up a working group to develop a plan for gradually moving back to market prices and initiated work with donors on complementary efforts to strengthen agricultural productivity and improve the targeting and coverage of social protection instruments. The first step in relation to social protection is to design a household targeting system that will eventually underpin more streamlined programs.

Romania's experience a decade ago shows how a country can successfully navigate from a short-term response to a permanent and effective safety net (Tesliuc, Pop, and Tesliuc 2001). Until February 17, 1997, 70 percent of the bread produced was price controlled, with controls enforced from wheat production, distribution, and intermediate products (flour) to bread and other bakery products. At that time, the government liberalized wheat, flour, and bread prices despite considerable uncertainty about the level of inflation (including for bread) that would follow. The price of bread rose by 80 percentage points in March compared with February, against a backdrop of consumer inflation of 31 percent.

As bread is the major staple in the food basket of urban consumers, the government was concerned that a rise in the price of bread would hurt the poor and the middle class and that their opposition would undermine the reforms. To win support for the price liberalization and avoid a costly policy reversal that might be necessitated by social unrest, it offered temporary compensation to a population group substantially larger than the number of poor, over and above the existing, well-woven, safety net.

The government implemented the bread compensation program between April and September 1997, to facilitate the adjustment to the new relative price of bread for the poor and middle-class consumers. The introduction of temporary bread compensation was feasible because an effective safety net was already in place. The poorest quintile of the population was already covered by survivors' pensions and a variety of social protection programs for the elderly, people with disabilities, and the unemployed and by the Guaranteed Minimum Income Program before the price liberalization. To protect the purchasing power of the poor, the generosity of this safety net was maintained by indexing the cash benefits to overall inflation.

The bread compensation program provided a fixed subsidy of lei 13,500 (approximately US\$2) per month to all those earning less than lei 600,000 (US\$85) per month; all pensioners with pensions of less than lei 450,000 (US\$65) per month; and all those who were unemployed, had disabilities, or were beneficiaries of the social assistance program of last resort (the GMI Program). The eligibility threshold for employees and pensioners was almost twice as high as the prevailing poverty line, and the target group was almost double

the poverty headcount (slightly more than half the population, compared with a poverty headcount of 19.4 percent).

A simulation of the distributional impact of the bread compensation under the assumption of perfect implementation showed that it was weakly pro-poor and that a substantial share of the benefits went to middle-class households (Tesliuc, Pop, and Tesliuc 2001). However, the bread compensation was more progressive than the former bread price controls and cost the government less.

10.7 Summary

One of the core messages of this book is that no single recipe for a safety net is available. Appropriate policy is context specific, and this chapter illustrates how safety net solutions vary across contexts. The variation is apparent in the mix of programs, in how each is customized, and in the expectations for each.

Thus program mix varies from setting to setting. Egypt, for example, has massive food and energy subsidies. Indonesia is moving away from such subsidies, replacing general price supports with a targeted price subsidy for rice, reducing massive fuel subsidies alongside providing compensation via a temporary cash transfer program, and introducing a pilot for a CCT program. Bulgaria has also moved from primary subsidies to a means-tested cash transfer complemented by a seasonal heating allowance.

Context affects how programs are implemented. In several of the cases presented in this chapter, governments used public works programs, but customized the approach to the setting. In Ethiopia's PSNP, the work is seasonal and rationed by means of community-based selection of who is most food insecure. The works involve heavy manual labor, and much of the labor is used for soil and water conservation projects. The program is intended for the long run; consequently, the selection of works is being integrated into district-level planning. By contrast, Argentina's Jefes de Hogar program has open-ended and self-targeted benefits. While some projects use heavy manual labor with workers organized in traditional work gangs, a good deal of work is physically lighter unskilled labor, with small groups of workers working in schools, hospitals, and parks, caring for the elderly, and the like. The program was started quickly, so planning for the use of labor was more rudimentary than in Ethiopia, but as in Ethiopia, was left to the local level. Honduras's response to Hurricane Mitch also employed public works as a key piece of the response, where they were used both for cleanup and reconstruction and as a temporary financial support for households whose livelihoods had been impaired. Participation was self-targeted, but rationed. The institutional homes of the programs are also different: the Ministry of Labor in Argentina, the Food Security Bureau in Ethiopia, and the Social Fund in Honduras. These various accommodations fit the programs to the needs of the countries.

The most sophisticated programs and systems are in stable, middle-income countries or in transition countries that have been working on developing systems for some time. In very low-income settings, systems will be constrained and greater simplicity will be sensible. Following economic shocks or natural disasters, the speed of response is critical as the situation changes rapidly, thus compromises in design and implementation standards will be needed.

A final lesson emerges from the settings and cases presented: safety net systems and programs should be dynamic. The mix and design of programs should respond as needs change, and the implementation of individual programs should involve a constant search for improvements. Bulgaria presents a clear example of such dynamics, with the balance and implementation of programs changing significantly over time. Ethiopia's program has evolved in ways meant to remedy past deficiencies. Even Egypt's food subsidies, which seem to be enduring, have changed over the years to become somewhat more effective than they were at their height. Responses to crises, natural disasters, and policy reforms are, of course, inherently dynamic.

Notes

1. This subsection is based on World Bank (2006n).
2. Food insecurity is defined as a lack of access to enough food for an active, healthy life. Chronic food insecurity refers to the persistence of this situation over time, even in the absence of idiosyncratic or covariate shocks.
3. This portion is taken largely from Sadowski (1991) and World Bank (2005c).
4. In July 1997, after several months of chaos involving a sharp decline in GDP and per capita incomes, the collapse of the banking sector, and a major foreign exchange crisis, Bulgaria adopted a currency board arrangement.
5. According to the National Statistical Institute, nearly 14 percent of the population was living below the poverty line in 2003. The institute defined the national poverty line as an income equivalent to the cost of 60 percent of the overall monthly consumer expenses per person in a household (about €52). This figure differs from the 4.5 percent of the population below the poverty line of US\$2.15 (purchasing power parity) per day and from the calculations based on the World Bank poverty lines used in a series of poverty assessments in 1999, 2002, and 2005 and reported in the text. The World Bank poverty levels are the only ones comparable across time.
6. This subsection draws heavily on Baldacci (2006) and World Bank (2006b).
7. This subsection is based on del Ninno, Dorosh, and Smith (2003).
8. This subsection is drawn from Warren (2003).
9. This subsection draws on Arulpragasam (2006a), Indrawati (2005), and World Bank (2006f).
10. This section is drawn from World Bank (2003a, 2008a, 2008c, 2008d).
11. Briefing provided May 22, 2008, by Trina Haque, Sunil Rajkumar, and William Wiseman of the World Bank Africa Region, Human Development Department, Social Protection Sector.
12. Briefing provided May 28, 2008, by David Warren of the World Bank Latin America and the Caribbean Region, Human Development Department, Social Protection Sector.