KEY MESSAGES
Safety nets deserve a role in development policy in all countries. They mitigate extreme poverty through redistribution of resources; they help households invest in their future and manage risks; and they help governments make sound policy decisions in macro-economic, trade, labor, and many other sectors.

Safety nets face—and create—challenges to the implementing government. They compete for fiscal resources, require competent administration, and can result in negative incentives. These challenges demand prudent choices by program designers about the role, design, and implementation of safety nets. Fortunately, there are many options available to help manage the challenges.

Safety nets are never the whole or sufficient answer to poverty reduction or risk management. They must operate within the existing policy context and be balanced with existing or planned safety nets, social insurance, and other social or poverty alleviation policies. No single prescription fits all circumstances. The mix of support to the chronic poor, the transient poor, and vulnerable groups will be complex, and, until the safety net is adequate for all, the subject of difficult and controversial triage decisions.

“Nobody likes welfare—not the taxpayers who foot the bill, not the politicians who represent them, and not the poor who find welfare inadequate and personally degrading.”
—David Ellwood, Poor Support: Poverty in the American Family

Safety nets contribute to poverty reduction and social risk management. Yet their appropriate scope is a fraught subject, revealing deep ambivalence and controversy among policy makers, analysts, and the general public in many countries. The wide variation in attitudes toward safety nets can be seen in the following paraphrasings of commonly held views: “We must provide for our poor—we can’t let our children starve or the elderly beg.” “Transfers discourage work among recipients and among those taxed to support them.” “We don’t need to give people fish, we need to give them fishhooks.”

This chapter shows how to reconcile these apparently contradictory and yet partially accurate views. It outlines the various arguments for having safety nets, describes the complementary role safety nets play in the broader set of poverty reduction policies and in providing adequate risk management options for the poor and the vulnerable, and outlines some of the challenges to safety nets’ being an integral and permanent part of social policy in developing countries and how these can be managed.
2.1 Why Should Countries Have Safety Nets?

Safety nets can help achieve four objectives that are in turn part of larger poverty reduction and risk management goals.

- Safety nets and transfers have an immediate impact on inequality and extreme poverty.
- Safety nets enable households to make better investments in their future.
- Safety nets help households manage risk.
- Safety nets help governments make beneficial reforms.

As shown in figure 2.1, safety nets fit into the wider array of policies involved in poverty reduction, social risk management, and social protection. Safety nets are part, but not the whole, of each, and poverty reduction and risk management strategies overlap substantially but not entirely. Safety nets are not the only or even the principal tool for achieving any of the ends they serve, yet they can make a significant contribution. When situations are dire, they can help save lives. When situations are less dire—and programs are especially good—they can save or help build livelihoods as well.

FIGURE 2.1 Where Safety Nets Fit in Larger Development Policy

SOURCE: Authors.

NOTE: See appendix A for further explication of these concepts.
SAFETY NETS HAVE AN IMMEDIATE IMPACT ON REDUCING INEQUALITY AND EXTREME POVERTY

Safety nets can make poverty survivable or more bearable; this is their minimal function, accomplished simply by getting the transfers to the poorest.

Societies have understood and valued this function for centuries, often finding support for it in major religious teachings. For example, many of the rules set out in Deuteronomy concern social justice; chapter 15, verse 11, says, “There will always be poor people in the land. Therefore I command you to be openhanded toward your brothers and toward the poor and needy in your land.” The New Testament contains similar teachings. Luke 3:11 says, “He who has two coats, let him share with him who has none; and he who has food, let him do likewise.” The Koran enjoins (2:177) that “righteousness is that…and give away wealth out of love for Him to the near of kin and the orphans and the needy and the wayfarer and the beggars and for (the emancipation of) the captives, and keep up prayer and pay the poor-rate.”

More secular, and technical, versions of the arguments that destitution and/or inequality are to be remedied are presented by modern liberal theories of economics, which posit a social welfare function that weights the welfare of the poorer more than the welfare of the less poor. These theories say, in essence, that society benefits more if a poor person receives an extra unit of income than if a rich person does. There are many variations on the theme and numerous ways of weighting among individuals and income levels (see Barr 2004 for a discussion), but the basic notion is the moral judgment that welfare gains for the poorer are more important to society than those for the less poor.

Popular support for such views is shown in opinion polls of private citizens and in summit documents signed by their governments. For example, the 2001 Latinobarómetro public opinion survey found that in all but 1 of the 18 countries surveyed, over 80 percent of the population believes the current distribution of country income to be unfair or very unfair (figure 2.2) This public attitude is also manifest in the international decrees signed by national governments. The Universal Declaration of Human Rights (UN 1948) implies social protection and safety net policies in article 25, stating, “Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.” Article 23.3 goes further, saying, “Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.” (For a good discussion on right-based approaches to social protection, see Piron 2004.)

SAFETY NETS ENABLE HOUSEHOLDS TO MAKE BETTER INVESTMENTS IN THEIR FUTURE

Safety nets allow households to take up investment opportunities that they would otherwise miss—both with regard to the human capital of their children and the livelihoods of household earners—despite credit market failures. Specifically, safety net programs can contribute to capital accumulation among the poor by preventing the negative outcomes
of malnutrition and underinvestment in education, and by enabling investment in productive assets.

**Preventing Malnutrition**

Many children in developing countries are affected by malnutrition. In low-income countries, 43 percent of children aged 0–5 are underweight, compared to 11 percent of their peers in middle-income countries (World Bank 2006m). Within each country, the poor are disproportionately affected by malnutrition; in fact, the prevalence of malnutrition is often two to three times higher among the poorest income quintile than among the wealthiest (Wagstaff and Watanabe 2000). Malnutrition accounts for about half of the 10 million deaths each year among children aged 0–5 in developing countries (Wagstaff and Watanabe 2000). Moreover, there is strong scientific evidence that malnourished survivors are sicker, more disabled, weaker, less educated, and have a lower cognitive ability than better nourished counterparts.²

These outcomes are individually unacceptable and, in aggregate, reduce economic growth. The Food and Agriculture Organization has estimated that at least US$120 billion per year of benefits would be generated through the longer, healthier, and more productive lives of the 400 million people freed from food insecurity if the first Millennium Development Goal of halving hunger by 2015 were met (FAO 2002). The same report cites studies on India, Pakistan, and Vietnam that show that the combined effect of stunting and iodine and iron deficiencies reduced gross domestic product (GDP) by 2 to 4 percent per year. Not surprisingly, investments in reducing malnutrition are cost-effective. Behrman and
Rosenzweig (2001) estimate that every US$1 invested in an early childhood nutrition program in a developing country could potentially return at least US$3 worth of gains in academic achievement alone, without even considering the other benefits that would accrue.

Inadequate income can contribute to malnutrition by curtailing diets in quantity and quality; reducing access to services such as health, education, water, and sanitation; and affecting the knowledge and time available for and dedicated to adequate feeding of young children. The transfers inherent in safety net programs can allow households to increase the quantity and quality of food they consume. They can also help provide complementary inputs to good nutrition and alleviate constraints to adopting the behavioral changes promoted by nutritionists. They can, for example, enable households to purchase containers for transporting, storing, and treating water or to purchase water itself and soap so that promoted hygiene practices can be followed. In some cases, additional income may allow households to rearrange responsibilities so that children have more adequate caretakers, which would in turn facilitate the multiple active feeding sessions needed each day for very young and already malnourished children.

Many safety net programs have spillover effects beyond the direct transfer. The construction or maintenance of roads, markets, irrigation, drainage, domestic water supplies, schools, clinics, and the like accomplished through labor-intensive public works jobs can help improve livelihoods, food availability, and/or services for the poor. Prepared meals, take-home food rations, food stamps, and cash can all be (and often have been) linked to the use of health services, which usually include prenatal care, nutrition education, and growth monitoring; or to schools where children are then more accessible for nutrition education, deworming, vitamin supplements, or fortified school feeding.

**Preventing Underinvestment in Education**

There is ample and systematic evidence that chronically poor families are less likely to obtain adequate schooling for their children (World Bank 2005n). Children who do not have the opportunity to attend, or who are withdrawn early from school, face a lifetime of lower earnings (Hoddinott and Quisumbing 2003). Basic transfers can help households bear the direct costs of schooling—tuition and fees, transport, school supplies, uniforms. These costs can be quite substantial; a study of Bangladesh, Kenya, Nepal, Sri Lanka, Uganda, and Zambia undertaken by the United Kingdom’s Department for International Development found that education spending was second only to food expenditures (DFID 1999). School fees alone can range from 5 to 20 percent of total household consumption (World Bank 2006c). And of course on top of the direct fees, the opportunity cost of the child’s time for paid and unpaid labor must be taken into account.

Good safety net programs have been effective in helping households build human capital. The largest body of evaluation evidence comes from the new wave of conditional cash transfer (CCT) programs that condition receipt of benefits on meeting prescribed (often quite substantial) levels of service use. Evidence is very strong that these programs raise school enrollment rates (box 2.1), especially among the most disadvantaged groups, and can raise the use of health services. Social pension programs too, even though explicitly designed to protect the elderly poor, have had demonstrated effects on increasing the human capital of both children and the elderly in households (Carvalho 2000a; Case 2001; Duflo 2003).
Investing in Productive Assets

Growing evidence indicates that cash assistance can help households not only subsist but actually improve livelihoods by investing a portion of the transfers they receive. Gertler, Martinez, and Rubio-Codino (2006) report that beneficiaries of Mexico’s Oportunidades CCT program invested about 12 percent of their transfers, allowing them to raise their consumption by about a third after five and half years in the program. Earlier, Bezuneh, Deaton, and Norton (1988) found that food-for-work programs in northern Kenya during the lean season allowed households to purchase additional agricultural inputs and increase net returns from their farms by 52 percent. Sadoulet, de Janvry, and Davis (2001) note similar findings for PROCAMPO, Mexico’s Program for Direct Assistance in Agriculture, which involves a transfer to farming households meant to compensate for income losses expected from the adoption of the North American Free Trade Agreement. Households invest the funds to purchase inputs and serve as collateral for borrowing, resulting in a positive multiplier effect in the range of 1.5 to 2.6 for the program.

This investment effect was found in social pension schemes as well in Bolivia, Brazil, and South Africa. The schemes studied are pure transfers targeted to the elderly for consumption purposes—a classic case of programs geared exclusively at avoiding destitution. Yet they have had important welfare impacts well beyond that goal. They have reduced poverty (Case and Deaton 1998); improved access to credit, thanks to the regularity of pension payments (Ardington and Lund 1995); and resulted in higher levels of investment

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**BOX 2.1 The Motivating Force of Educational Stipends: The Bangladesh Female Secondary School Assistance Program**

Selina is 18 years old. She hails from Daragaon Village under Chunarughat Upazila of Habiganj district. Selina comes from a poor family. There are seven brothers and sisters in her family, and Selina is the third oldest. Her father, Abdur Razzak, is a retired guard of the Daragaon Tea Estate. He has a piece of land that he cultivates, but this land is too small to support his family. Abdur Razzak has always been eager to educate his children, but he has not been able to afford to educate his first two children up to secondary school certificate level. The new Female Secondary School Assistance Program renewed his optimism that he will be able to provide Selina with such an education.

Selina was enrolled in Mirpur Girls High School in 1995, which is about five kilometers from her home. She received a regular stipend while attending grades 6–10. She used a part of the stipend money to pay for her commute to school; she had to walk about 1.7 kilometers to the Kamaichauri police box, from where she would catch a bus to the school. The commute was hard for Selina, but she knew that she had to maintain 75 percent attendance in school to continue getting the stipend, so she was seldom absent. Because of her regular attendance, she was able to improve her results every year; when she was first enrolled in grade 6 she was 72nd in her class, in grade 7 she was 6th, and in grade 8 she was 5th. In 2000, Selina passed the secondary school certificate exam in humanities with a B average.

**SOURCE:** Ahmed 2004a.
in households’ physical capital (Delgado and Cardoso 2000). More recent evidence from Bolivia’s Bono Solidario program suggests that, in rural areas, pension recipients are investing their transfers in smallholder agriculture; as a result, their food consumption has gone up by twice the amount of the transfer received (Martinez 2005).

To allow households to invest, programs should offer benefits for a reasonably long period, and not withdraw them if the income or assets of the households increase slightly. It is not quite clear whether all safety net programs stimulate investment among their typically poor beneficiaries with the effect proportionate on the size of the benefit. Some (see Carter and Barrett 2006, for example) argue that there are “threshold effects”—that is, until households reach a certain minimum threshold of welfare, they cannot invest effectively. The literature on this is incipient, and the evidence is not clear (see Lentz and Barrett 2005). The idea of such a minimum is consonant with the fact that the programs for which clear investment impacts have been shown have benefit levels higher than average in developing countries. Of course this may also be, at least in part, because the measurement of such effects is difficult and effects are easier to observe if they are large.

Public works programs can help achieve the longer run welfare of households or communities through a different investment channel—the construction or maintenance of infrastructure that yields services to households. Access to roads can help households get their products to market; journey to work outside their villages; or obtain health, education, or other government services. In Bangladesh, Khandker, Bakht, and Koolwal (2006) found that certain road improvement projects led to a 27 percent increase in agricultural wages and an 11 percent increase in per capita consumption. Road improvement also led to an increase in schooling of both boys and girls.

SAFETY NETS HELP HOUSEHOLDS MANAGE RISKS

When families, especially poor families, face reductions in income or assets, they may resort to costly coping strategies that perpetuate poverty, such as selling their most productive assets. Moreover, when risk becomes too threatening, households may try to reduce it, thereby making livelihood choices that reduce their earnings. A good safety net can reduce the need for either of these strategies which can trap households in poverty.

Reducing the Incidence of Negative Coping Strategies

There is clear evidence that families that suffer from short-term shocks may be forced to cut back on the feeding or schooling of their children; deterioration in nutritional or health status is found more often than withdrawals from school. Thus, Peruvian children suffered higher infant mortality during the country’s 1988–92 economic crisis (Paxson and Schady 2004). Enrollment rates dropped during the Indonesian financial crisis, especially for the poor and those in rural areas (Frankenberg, Thomas, and Beegle 1999). Hoddinott and Kinsey (2001) trace a whole series of effects on Zimbabwean children who were 12–24 months old when affected by a drought. They show that stunted preschoolers will have lower height during adolescence, will delay school enrollment, and will reduce grade completion. The magnitudes of these impacts are quite large: the 1982–4 drought shock resulted in a loss of stature of 2.3 centimeters, 0.4 grades of schooling, and a school start delay of 3.7 months for this age group. Using estimates of the values for the returns to education and age/job experience in the Zimbabwean manufacturing sector, the re-
searchers calculate the shock impact as translating to a 7 percent loss in lifetime earnings for the affected children. Safety net programs can help prevent such losses.

In the absence of safety nets, shocks may force poor households with low coping capacity to sell their productive assets. Families that have to disinvest in their livelihoods—eating their seed grain; selling their draft animals or the tools of their small enterprise; or defaulting on rent or mortgage payments and consequently losing their homes, farms, or workshops—will find it very difficult to rebuild their earning capacities. The effect will be all the more marked if there are inadequate credit markets, and, as discussed in boxes 2.2 and 2.3, the assets required to rebuild livelihoods are relatively large or lumpy so that a family must make a big purchase before it can return to its full earnings potential (Carter and others 2004; Fafchamps, Udry, and Czukas 1998; Jalan and Ravallion 2002; Lokshin and Ravallion 2000). In the wake of Hurricane Mitch in Honduras, for example, Carter and others (2007) calculate that a loss of 10 percent of a poor household’s assets would result in a rate of growth in household income over the following 2.5 years 18 percent lower than if the assets had not been lost; a similar loss of assets would lower the growth rate of richer households by only 9 percent.

When available, safety nets have reduced the incidence of negative coping strategies. For example, in response to the financial crisis of 1998, the Indonesian government put in place a system of targeted fee waivers for public health care and scholarships for poor schoolchildren. Both programs have been evaluated to show that service use fell less among recipient households than they would have in the absence of the programs (Cameron 2002; Saadah, Pradhan, and Sparrow 2001). Children benefiting from the pilot cash transfer scheme in Kalomo District, Zambia, are eating better and are less underweight (MCDSS and GTZ 2007). CCT programs targeted to the chronic poor have helped beneficiaries affected by shocks withstand them (see de Janvry, Sadoulet, and others 2006 for a review). In Nicaragua and Honduras, beneficiary households hit by the coffee crisis were able to
maintain their children’s schooling and not increase child labor. In Nicaragua’s case, consumption did not fall as much as for nonbeneficiary families; in Honduras, adults were able to increase their labor. In Mexico, beneficiary children in households that were hit by shocks were able to maintain their school enrollments, in contrast to similarly affected nonbeneficiary families.

Managing Risks Ex Ante

Families that are so poor they cannot afford a bad year may minimize the variance of their incomes in ways that also lower the means. They may plant low-risk, low-return crops; abstain from investments in fertilizer; diversify activities rather than specialize in those with highest return; and keep savings in liquid but low-return forms. The evidence of the cost of such ex ante risk management mechanisms is hard to compile, and mostly comes from very poor rain-fed smallholder agriculture or pastoralism; intuition suggests that the issue could apply equally well to poor urban households. The calculated impact in studies to date is quite substantial (see Dercon 2006 for a review), indicating that the poor sacrifice as much as a quarter of their income in return for greater security.

The underlying problem faced by the poor in addressing risk management is a lack of insurance against risk. Some safety net programs can provide an insurance function to help households avoid taking ex ante risk management decisions that lower their incomes. If households could know that in the event of a bad year they would have reliable access to a safety net program, they could make their income and investment decisions based more on return and less on security. Walker, Singh, and Asokan (1986) quantified this effect to some extent when looking at the income streams for landless agricultural laborers in two

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BOX 2.3  A Poverty Trap in Shinyanga

In Shinyanga, cattle are a high-return investment (25 to 30 percent annually). Cattle are also a liquid asset that can be used for consumption smoothing, which makes cattle ownership attractive. But they are also a lumpy investment. Wealthier rural households have been found to specialize in cattle rearing, while poorer households derive a larger share of their income from off-farm activities. Differences in comparative advantage do not offer a convincing explanation for this phenomenon. Households specializing in off-farm activities have much lower incomes but are unlikely not to have the skills required because cattle rearing is a traditional activity in the area.

The lack of credit markets and the indivisibility of cattle imply that households must be able to put up relatively large amounts of money to invest in cattle rearing. However, poor households with low initial endowments from which only low incomes are earned find it hard to save enough to invest in cattle. That problem is exacerbated by the fact that, because of low endowments, the poor have limited ability to cope with shocks. Consequently, such households enter into safe, lower-return activities, making saving even harder. That combination of factors explains why poorer households specialize in off-farm activities (such as weeding or casual labor) that require few skills or investments but are safe. That pattern effectively traps poor households in poverty, despite the attractive investment opportunities that exist in the area.

Indian villages, one in which the statewide Maharashtra Employment Guarantee Scheme operated and one in which it did not. Households in program villages had 50 percent less variable income streams than did their nonprogram counterparts. Ravallion (1991) contrasts the high correlation of distress land sales with famines in Bangladeshi villages and the lack of such correlation in India, where public works programs were operating.

For safety net programs to deliver this insurance effect, they must provide a credible ex ante guarantee of quick assistance in time of need—something that few programs to date have done. For example, a program could, like the Maharashtra Employment Guarantee Scheme, provide a minimum number of days of employment on a guaranteed public works initiative. India’s new National Employment Guarantee Scheme is meant to deliver such an insurance benefit, but evidence of its impact is not yet available. Another approach could be a cash transfer with a means test or other entry criterion sufficiently agile to permit new entrants to be assessed and granted benefits promptly when their incomes decline. A few Eastern European programs have managed this. Regardless of approach, the program must have an adequate budget, since the guarantee of an adequate income floor is critical to the change in risk-taking behavior sought. Because this guarantee has rarely been available to households in practice and over long enough periods for them to gain confidence in it, the role of safety nets in ex ante risk management has been largely unrealized to date.

SAFETY NETS HELP GOVERNMENTS MAKE BENEFICIAL REFORMS

Safety nets can support good social policy with varying degrees of directness. A strong social assistance program can directly replace inefficient redistributive elements in other programs. Less directly, safety nets play a role in helping governments adopt or sustain sound macroeconomic, trade, and other policies. Least directly, safety nets may reduce inequality over the short term, thus tempering the high inequality harmful to the development of sound institutions that underlie good policy and governance.

Replacing Inefficient Redistributive Elements in Other Programs

Many sectors and programs historically have intertwined equity and efficiency goals; the general thrust of recent policy has been to focus on efficiency. Recognition of the need to think explicitly about the distributional impact of these policy reforms has been manifest in the call in the development community for “poverty and social impact analysis” to be part of the policy decision process (see World Bank 2003i). The goal is to design reforms with fewer losses to the poor or that compensate them, sometimes through sector-specific compensatory mechanisms, but often through a more general safety net program as discussed below. Indeed, Kanbur (2005) and the World Bank (2005n) suggest that the use of a specialized redistributive mechanism such as a permanent transfer program is preferable to designing specific compensatory packages for each reform option.

Take the example of labor markets. The growing consensus is that for them to be efficient and play their role in an investment climate conducive to growth and poverty reduction, they must be relatively flexible. Further, they must aim to protect workers, who will likely change jobs at least once and possibly several times over the course of their lives, rather than protect jobs per se. This focus implies a lessening of the role of labor market regulation in worker protection and an improvement of income support to the unem-
ployed. Safety nets, especially in the form of workfare schemes, may be a sensible means of providing such income support. They can be used to complement unemployment insurance, as they were in Argentina and the Republic of Korea; or as substitutes for it, which was done in Bolivia and Peru (Vodopivec 2004; World Bank 2004e).

Eastern Europe and Central Asia’s experience with utility pricing provides another example of how the provision of social assistance can enable efficient policies in other sectors (Lampietti 2004; Lovei and others 2000; Saghir 2005; Shopov forthcoming; World Bank 2000b). Gas, electricity, and heat prices were set very low during the socialist era. With the transition to the market, this practice became unsustainable and by the mid-1990s could no longer go unaddressed. Utility companies could not continue to shoulder the losses, and governments lacked the resources to cover the costs of the price subsidies. Domestic utility prices had to rise, and countries experimented with ways to reform the sector for greater efficiency while protecting consumers at least partially.

Some countries chose to ensure a minimum provision of utility services explicitly via social assistance rather than implicitly through utility pricing. This approach has much to recommend it. It makes both the subsidy budget and the efficiency of the utility company more explicit and transparent. It allows for greater targeting, if that is desired, and can take advantage of eligibility and payment systems common to other social assistance programs. The approach also provides appropriate economic incentives to consumers, as they will save by reducing usage. In Bulgaria, for example, the same staff administers the heating allowances system and the Guaranteed Minimum Income Scheme, using broadly the same methods, instruments, and budget level—0.23 percent of GDP for each program. However, eligibility thresholds are higher for the heating allowance, and the benefit is paid only during the cold months of the year. Where a social assistance program exists or can feasibly be created, such as Brazil’s Auxílio Gás (Cooking Gas Grant) program, it can take the burden of social guarantees off utility companies and allow them to focus on efficient service provision.5

Facilitating Changes in the Economy Aimed at Supporting Growth

There will be less opposition to reform when there are mechanisms to compensate losers or to assist the poor who often become poorer during a downturn; less opposition to reform allows for better macroeconomic policy and growth. Rodrik (1998) provides supporting empirics for this premise, looking at the presence of mechanisms for societal conflict resolution (safety nets and social insurance among them), macroeconomic policies, and robust growth. See box 2.4 for how the U.S. Federal Reserve Board chairman recently explained the issue in a business context and box 2.5 for an account of how the British Poor Laws helped fuel the agricultural revolution which in turn fueled the industrial revolution.

Following the Latin American debt crisis of the 1970s and 1980s, many governments in the region implemented structural adjustment policies—macroeconomic and sectoral policies designed to downsize ailing branches of the economies that generated losses or that were kept afloat via costly fiscal or quasi-fiscal subsidies. These policies would allow a more efficient use of resources over the medium term. However, over the short term, workers in the affected industries would lose their jobs, suppliers to these industries would lose business, and so on. Governments soon recognized that safety nets could facilitate these reforms with immediate costs and delayed benefits. Chile, for example, instituted a
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large public employment program in 1975 which continued for several years to accompany deep reforms of its economy (Raczynski and Romaguera 1995). Bolivia instituted an Emergency Social Fund in 1987; the World Bank’s loan in support of it was the first project by the agency specifically designed to protect the poor during a macroeconomic adjustment initiative (Jorgensen, Grosh, and Schacter 1992). Such support has become widely accepted over the years. For example, Chu and Gupta (1998b, p. v) summarize the International Monetary Fund’s position on the issue, noting that “the only realistic alternative is to proceed with the necessary adjustment policies but complement them with the adoption of social safety nets.”

This logic might suggest that a safety net is a temporary solution to be implemented in the wake of a crisis. However, experience has shown that it is difficult to start a program from scratch and get it up and running during a crisis. One of the features of safety net policy most agreed on after the East Asian financial crisis was that safety net programs should be built during good times and expanded during bad; the Asian Pacific Economic Consortium’s lessons and guidelines paper notes:

BOX 2.4 A Policy Maker’s Take on Growth, Equality, and Policy

Steven Pearlstein (2007, p. D1) of the Washington Post discusses U.S. Federal Reserve Board Chairman Bernanke’s speech to the Omaha Chamber of Commerce:

Perhaps the best part of Bernanke’s speech yesterday was the graceful way he framed the tradeoff between growth and equality.

One reason the U.S. economy is the most productive, the most dynamic, the most innovative in the world, Bernanke explained, is that we offer the biggest rewards to skill, effort and ingenuity. We also have an economic framework that not only allows companies and individuals the flexibility to adapt to changes in technology or consumer tastes or competition, but rewards them handsomely when they do. Bernanke says the flip side of this dynamism has been to generate not only a higher level of inequality, but also a higher level of economic insecurity. Now, he says, the only way to make these politically acceptable is to “put some limits on the downside risks to individuals affected by economic change.”

One way to limit those risks, of course, would be to restrict trade, impose new regulations on labor and product markets, or use the tax code to massively redistribute incomes. For Bernanke, the costs in terms of slower growth and higher unemployment would be too high. The better alternative, he argued, is to preserve the political consensus for open and flexible markets by offering Americans a stronger economic safety net.

Social safety nets should be in place before a crisis occurs. Permanent, rather than ad hoc, social safety nets can more effectively protect the poor from the adverse effects of crises without compromising longer-term goals. During good economic times, social safety net instruments help to alleviate poverty among the chronically poor and those suffering from the effects of non-economic shocks (APEC 2001, p. 6).

**Fostering More Inclusive Growth**

Transfers play both direct and indirect roles in reducing inequality. Reducing inequality should help create a “virtuous circle,” leading to more inclusive institutions and thus indirectly to better policy and higher growth.
New evidence is emerging that high levels of inequality can be costly to growth and poverty reduction (see De Ferranti and others 2004 and World Bank 2005n for extensive literature reviews). High inequality slows economic growth and development itself. When political and economic inequalities are great, they can lead to the development of institutions and policy choices that favor the generation of profits to particular groups rather than a broader base of growth. This narrowing of benefits is in turn bad for the investment, innovation, and risk taking that underpin long-term growth.

As an example, Haber (2001) attributes the large economic gap that opened between the United States and Mexico during the 19th century to the difference in the competitiveness of their banking industries, which reflected the differences in political institutions in the two countries at that time. In the United States, political institutions allocated power to a broad base of people who wanted access to credit and loans, which led governments to allow free entry into banking sectors—which in turn resulted in a highly competitive market, low interest rates, and high investment rates. In contrast, Mexican political institutions granted banking monopoly rights to a cabal of political supporters, which resulted in an oligopolistic market structure and lower levels of credit and investment, but generated high profits for the select few. Initial differences reinforced themselves, resolving in the United States into a virtuous circle and in Mexico, a vicious one.

High levels of inequality can also hamper the ability to manage economic volatility and worsen the quality of macroeconomic response to shocks. With higher inequality, the institutions responsible for sharing the burdens of adjustment work less well, and definitive policies are harder to establish. The sluggish growth performance in Latin America following the oil shock of 1973 is explained, in a cross-country regression setting, by the higher income and land inequality and higher murder rate during that period (Rodrik

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**BOX 2.5 The Developmental Effects of the Elizabethan Poor Laws**

The famous British Poor Laws were written in 1598 and 1601. They provided a system of social security—relief in kind for the “helpless” poor (the ill, the elderly, children), workfare or wage subsidies to the able-bodied, apprenticeships to children, and foster care for orphans. The poor laws were centrally mandated, but wholly financed by local property taxes and implemented at the parish level. Of course, their application varied from place to place and over the centuries. The World Bank provides an interesting view of their impacts on economic development:

The comprehensive social security system provided by the Poor Laws had a number of highly significant economic consequences. In combination with laws (dating from the thirteenth century) granting complete alienability of land, it encouraged labor mobility and reduced the attachment to land holding as the only form of security for peasants. Individuals had a relative certainty of being provided for, wherever they moved to work in the economy, no matter what their property-ownership status. Landlords and farmers could reap the economic gains to be had from increased farm sizes, from enclosure, and from laying off workers or changing their labor contracts to more efficient weekly or day labor, without provoking the same degree of peasant protest as occurred on the continent. But equally, employers in England had a strong incentive only to do this if it made economic sense because, through the Poor Law, they would also have to reckon with their liability to pay for the families of the laid-off workers (World Bank 2005n, p. 120).
High levels of inequality may make violent crime more pervasive, and crime is bad for growth. In Jamaica, a 1 percent increase in youth violence was estimated to decrease tourism revenue by 4 percent (World Bank 2003b).

The direct role of transfers in redistribution is obvious and can be effective. Brazil’s Bolsa Familia (Family Grant) and Mexico’s Oportunidades programs each reach about a quarter of the national population with benefits of about a quarter of household base income. They lower the respective countries’ Gini coefficients by 2.7 points, or about 5 percent. These unusually large impacts are due to the size and relative generosity of the programs involved. In Latin America as a whole, the full tax and transfer system reduces the Gini for incomes by only 2 points; in Europe, the Gini for disposable incomes is 15 points lower than that for market incomes (Perry and others 2006). This finding suggests that there is more room for tax and transfer policies in reducing high inequality in Latin America, and likely in many countries outside the region with similarly high levels of inequality.

Additional Empowerment Effects

Indications—albeit tending more toward anecdotal than econometric evidence—that safety nets may have empowerment effects that go beyond the transfer of income are beginning to emerge. These effects seem to stem from the way programs can pull their participants into new roles. CCTs, for example, have been shown to increase enrollments, especially in secondary school. In the long run, the increase in education achieved should lower inequalities in education, thereby lowering inequality in autonomous incomes. It should also ensure nation-building benefits of shared education and, if schools offer a sense of connectedness, help youth steer clear of costly risky behaviors. The impacts on enrollment are greatest for the most disadvantaged beneficiaries—the poor, females, and ethnic minorities—which should imply that the empowerment effects will be greatest for them too (World Bank forthcoming).

There are intriguing, if not yet well-documented, indications that some CCT programs may have even farther-reaching subtle and qualitative effects. In Colombia, mothers have to go to their children’s schools regularly to handle the associated paperwork. Program officials report that this increased frequency of contact is breaking down traditional status-based barriers to teacher-parent communication (Combariza 2006). Levy (2006) reports that in Mexico, communities are now putting greater pressure on teachers to reduce their absenteeism. Participation in community groups is giving poor women new experiences in leadership and community action. In Turkey, women are registering marriages and children who would otherwise have been undocumented and are thus gaining protection under family law; they are also going to government offices, banks, and town centers to handle program-related paperwork—a type of errand many of the Kurdish mothers have never performed (Ahmed and others 2007). Voter turnout among the poor was higher in Brazil’s 2006 presidential run-off than expected, which some analysts attribute to the workings of Bolsa Familia (Hunter and Power 2007), indicating that political power is being shifted along with economic power. These indirect effects of safety net programs seem to work toward increasing the inclusion or voice of the poor in ways that complement and reinforce the increase in income and may contribute to the formation of a virtuous circle.
SAFETY NETS FOR PROTECTION AND PROMOTION

The role of safety nets and their objectives show that they can have a protection and promotion function. They protect the poor from the worst of destitution and from falling deeper into poverty when faced with an economic shock. They also promote independence, allowing households to invest and thereby improve their livelihoods, and allowing governments to choose more efficient policies, which result in stronger growth and possibly higher levels of consumption for all households.

To meet these various roles, objectives, and functions, safety nets must incorporate specific design features (table 2.1). For a safety net to be able to protect the extreme or chronic poor from the full burden of their poverty, the net transfer (excluding the taxes that finance the transfer) must be redistributive, and its effects will be greater for more marked degrees of redistribution. Individual households facing shocks can be protected from irreversible losses if they gain access to the program in time; thus, program entry criteria and processes must be sufficiently open. Benefits will be proportional to the number of needy served—even if some cannot be accommodated, protection will be effective for those who are. The requirements are more demanding for safety nets to help households manage risk ex ante, since households must have a credible guarantee that assistance will be available when needed. Thus, both the intake processes and budget must be flexible and sufficiently demonstrated for households to trust the program. Promotion via assistance to sound government policy choices will be best achieved through a safety net that is permanent, but that can expand or add elements as needed to deal with specific shocks or reforms.

<table>
<thead>
<tr>
<th>Safety net role/objective</th>
<th>Nature of benefit</th>
<th>Design elements required to deliver benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide transfers that can accomplish redistribution</td>
<td>Protection: X</td>
<td>Progressive redistribution at least, often narrow targeting is chosen</td>
</tr>
<tr>
<td></td>
<td>Promotion: X</td>
<td></td>
</tr>
<tr>
<td>Enable households to make better investment in their future</td>
<td></td>
<td>May be inherent; evidence unclear whether any size transfer is enough for a promotive effect or whether transfers must move a household above a certain threshold to realize this effect</td>
</tr>
<tr>
<td>Help households manage risks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Avoid irreversible losses</td>
<td>Protection: X</td>
<td>• Easy access once need is felt</td>
</tr>
<tr>
<td>• Allow higher risk/return activities</td>
<td>Promotion: X</td>
<td>• Credible guarantee that help will be available when needed</td>
</tr>
<tr>
<td>Help government make sound choices</td>
<td>Protection: X</td>
<td>Base safety net would be permanent; may be supplemented in times of covariate shock or with temporary compensatory programs to accompany some reforms</td>
</tr>
</tbody>
</table>

SOURCE: Authors.
Various arguments suggest that good safety nets should contribute to growth. This is, however, a difficult claim to substantiate with robust empirical evidence. Where effects should be direct—for example, safety nets allowing households to overcome credit market deficiencies and make productive investments—there is evidence at the household level but not at the community or macroeconomic level. Even if household effects are large, the weight of these households in total production is small, so the macroeconomic effects may not be large in aggregate, although clearly important in poverty reduction. A more substantial aggregate effect on efficiency or growth might be expected where social assistance enables sectoral, trade, or macroeconomic reforms. However, because the causal chain is rather long and indirect, it remains impossible to quantify the full benefits of safety net policy.

It must also be acknowledged that many safety net programs and systems operated today do not meet all the requirements to deliver their potential benefits. Few programs operate with credible guarantees and so are unlikely to change household ex ante risk management decisions. Many offer insufficient coverage or benefits to yield large protection or promotion effects. And a few are admittedly outright failures of administration. Nonetheless, the general trend is toward more substantial safety nets, more sophisticated understandings of how to run them, and more credible estimates of their impacts. In 10 years, both safety net practices and the evidence of their worth will likely be much stronger than is the case today.

In the interim, it is probably safe to say that relatively few policy makers or voters fully perceive the efficiency-enhancing role of safety nets, and base their support primarily on the redistributive rationale. This undervaluation of safety nets probably leads to their underprovision.

### 2.2 How Do Safety Nets Fit in Wider Development Policy?

Safety nets, while extremely useful, are never the only or wholly sufficient solution to poverty and risk. Rather, they are part of a country’s development policy. To determine the parameters of their role and see how safety nets fit in with the other instruments a government uses to address poverty and risk, it is useful to examine which groups of households can and should benefit from safety net programs.

Safety nets may serve one or a combination of the following groups:

- **Chronic poor.** Members of this group lack the assets (broadly defined) to earn sufficient income, even in “good” years. The Chronic Poverty Research Centre (2004) estimates that between 300 and 420 million people are chronically poor. This is a substantial subset of the 1 billion people—18 percent of the world’s population—who live on less than US$1 per day (Chen and Ravallion 2007).[^6]

- **Transitory poor.** Members of this group earn sufficient income in good years but fall into poverty, at least temporarily, as a result of idiosyncratic or covariate shocks ranging from an illness in the household or the loss of a job to drought or macroeconomic crisis. Transient poverty is apparently very substantial. Baulch and Hoddinott (2000) review a number of studies that show that, in a typical year, anything up to half of the US$1 per day poor may be “transient” poor,
meaning that their stay in poverty will be relatively short—less than one, two, or five years, depending on the study.

- **Vulnerable groups.** Membership in these groups overlaps with the chronic and transient poor since these same individuals may also have low assets or face shocks. However, some individuals within these groups will not be poor, especially where the vulnerability is an individual one and the individual is part of a nonpoor family or community. Some large vulnerable groups commonly served by safety nets are listed below; there will be others that are locally pertinent, such as minority ethnic groups.

  - **People with disabilities.** Statistics are problematic, but 10 to 15 percent of the world’s population may be disabled, with 2 to 3 percent with severe disabilities that put them in need of income support (Mont 2007; WHO 2008).
  
  - **Elderly.** People aged 60 and above account for about 10 percent of the global population at present; this proportion is projected to reach about 21 percent by 2050. About 12 percent of this elderly population is older than 80; this proportion is expected to increase to about 19 percent by 2050 (UN 2002).
  
  - **Orphans.** There are 143 million orphans (children who have lost one or both parents) in Asia, Sub-Saharan Africa, and Latin America and the Caribbean; of these, 16 million are double orphans who have lost both parents. In some countries, as many as 15 percent of all children are orphans (UNAIDS/UNICEF/USAID 2004).

- **Losers in reforms.** The number of losers, and the extent of their loss, is very reform specific. Global numbers for this category are thus unavailable, and analysis must be conducted for each case. Policy makers can then determine how broadly or narrowly to focus compensation and how much is required.

Because transitory poverty can be as high as half of total poverty, most societies will feel the need for safety nets both to help households cope with shocks and to provide some sort of assistance for the chronically poor. These two groups overlap incompletely with those with specific vulnerabilities, making the triage process yet more complex. Transfer policy also is often motivated by a desire to compensate losers in the reform of other schemes that have affected patterns of income or welfare. The losers may not be poor, but transfers may be called upon to compensate them.

The challenge is to strike the right balance among groups to serve, the reasons for doing so, and the instruments to use. Table 2.2 carries through the logic of the chapter, showing different goals that safety nets can help to achieve, the groups that can be reached, the specific roles/objectives of safety nets and some of the complementary policies for that group.

The role of safety nets within the overall development policy mix has grown over the last 20 or more years, for two reasons. First, the move to markets and liberalization—not only in the centrally planned economies of Eastern Europe, the former Soviet Union, and
### Table 2.2 Possible Target Groups, the Role of Safety Nets, and Complementary Policies

<table>
<thead>
<tr>
<th>Motivation/goal</th>
<th>Group</th>
<th>Role/objective of safety net</th>
<th>Design element required</th>
<th>Complementary policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mitigation of poverty</td>
<td>Chronic poor/ extreme poor</td>
<td>Provide transfers and support to reduce inequality and unacceptable deprivation</td>
<td>Progressive, possibly narrowly targeted, redistribution</td>
<td>Labor-intensive growth; access to adequate health, education, water, electricity and transportation services, microfinance and agricultural extension, and so on</td>
</tr>
<tr>
<td></td>
<td>Vulnerable groups, including the elderly, orphans, disabled, displaced, groups suffering from discrimination</td>
<td></td>
<td></td>
<td>Interventions to encourage inclusion in society and work opportunities; family law may help protect widows, divorcees, and orphans; social care services</td>
</tr>
<tr>
<td>Increase household human capital and livelihoods</td>
<td>Chronic poor/ extreme poor</td>
<td>Foment investments in human capital and livelihoods</td>
<td>Some level is automatic, possible threshold effects</td>
<td>Same as above; also health and education policies (such as community health project)</td>
</tr>
<tr>
<td>Help households manage risks</td>
<td>Those vulnerable to shocks (often the poorer among them)</td>
<td>Prevent losses to livelihoods or human capital</td>
<td>Timely entry required to avoid losses after shock</td>
<td>Stable economies, well-functioning labor markets, and social insurance programs to mitigate risks of sickness, disability, unemployment, or retirement to reduce number and severity of episodes of transitory poverty, especially for workers in the formal sector</td>
</tr>
<tr>
<td></td>
<td>Chronic poor or chronically exposed to high risks</td>
<td>Allow adoption of higher risk–higher return livelihood strategies</td>
<td>Guarantee required to promote ex ante changes</td>
<td>For those engaged in agriculture, especially smallholder or rain-fed agriculture, irrigation, microfinance weather insurance, or well-developed markets and access to supplemental nonfarm income</td>
</tr>
<tr>
<td>Help governments make sound choices</td>
<td>Lower quarter or half of income distribution</td>
<td>Provide compensation for reforms or provide alternative vehicle for redistributional objectives</td>
<td>Targeting either to specific losers, or lower portion of income distribution</td>
<td></td>
</tr>
</tbody>
</table>

SOURCE: Authors.
China but also in Latin America and India—has meant that the basic distributional or protection role has been increasingly allocated to safety nets as prices are freed, employment less protected, and services less guaranteed. Second, the understanding that safety nets assist in promotion as well as protection is increasing, if still not universal. Safety nets thus enter more in the discourse everywhere, perhaps most notably in lower-income countries and in Sub-Saharan Africa.

Instead of grouping populations by degree of poverty, policy makers and the public may use other ways to classify those who may need support. A common alternative categorization is to look at the population along the life cycle. Table 2.3 provides examples of programs serving segments of the population based on age groups from infancy to old age. Regardless of how the population is disaggregated, it remains evident that safety nets are only part of the policies needed to support each group.

### Table 2.3 Examples of Social Protection Programs by Life Cycle

<table>
<thead>
<tr>
<th>Group served</th>
<th>Complementary policy or service</th>
<th>Social protection policy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Regulation</td>
</tr>
<tr>
<td>Nonworking young</td>
<td>• Health care</td>
<td>• Child labor laws</td>
</tr>
<tr>
<td></td>
<td>• Education</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Family law</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Working poor or unemployed</td>
<td>• Labor-intensive growth</td>
<td>• Minimum wage laws</td>
</tr>
<tr>
<td></td>
<td>• Economic stability</td>
<td>• Job security regulations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Severance pay</td>
</tr>
<tr>
<td>Nonworking elderly</td>
<td>• Financial system to facilitate savings</td>
<td>• Retirement age</td>
</tr>
<tr>
<td>Special groups</td>
<td>• Health care and traffic safety to prevent disability</td>
<td>• Affirmative action or compensatory investments for minorities, worker safety laws to prevent disability, family law to protect assets of widows and orphans</td>
</tr>
</tbody>
</table>

SOURCE: Authors.
2.3 What Are the Challenges to Safety Nets?

Despite the many arguments in favor of publicly provided safety nets, there are still some reservations in the development community about their feasibility and desirability. This section summarizes these concerns and briefly explains how various program design and implementation features can be used to help address these issues so that, on balance, good programs will be beneficial in most settings.

The qualifiers in that sentence are important. Much safety net practice around the world over the last 20 years has not been particularly good, and what works in one setting may not succeed in another. Fortunately, a recent explosion of innovations in safety net programs makes for many highly promising options, and there are numerous successful programs from which future initiatives can learn.

Managing the challenges is complex, often requiring actions on multiple dimensions of design and implementation. The following discussion offers only brief summaries of these issues, with more detailed information provided as indicated throughout the rest of the book.

CAN DEVELOPING COUNTRIES AFFORD SAFETY NETS?

The premier reason safety nets are not a headline social policy on the development agenda is concern over whether countries—especially poor countries—can afford to transfer meaningful resources to their poor. This is a complex issue, which involves many nuances and trade-offs; chapter 3 provides a comprehensive treatment of the financing of safety nets.

In the poorest countries, the sheer magnitude of spending that would be required to provide an adequate safety net is quite daunting when viewed relative to the size of the economy as a whole. This discussion focuses on long-term safety net programs to aid the chronic poor and those households facing idiosyncratic shocks because these needs are permanent, the expenditures ongoing, and the related budget constraints most apparent. But safety nets are also needed to handle large covariate shocks such as an economic recession or natural disaster. Because such requirements are temporary and consequently less onerous, national governments and international agencies readily agree that safety nets are needed in these cases; indeed, humanitarian assistance usually is offered to countries in times of need.

For example, consider the extreme case of Ethiopia, where annual per capita income is about US$100 (World Bank 2004a). To provide adequate food for all the inhabitants whose consumption is below the food poverty line would require an annual expenditure of about US$810 million—12 percent of GDP, or about one-third of all public spending. This expenditure would obviously compete for resources against many other unmet needs, since only 52 percent of appropriately aged Ethiopian children are in primary school, infant mortality is 117 per 1,000 live births (one of the highest rates in the world), and water supply coverage is only 24 percent (the lowest in Sub-Saharan Africa). It would be difficult to say that safety nets should be funded, or fully funded, when the opportunity cost is primary education, primary health care, or water supply systems.

High Cost of Inaction

The flip side of the high cost of providing adequate safety nets in poor countries is the high cost of inaction. How much will an economy lose by not providing safety nets? Mal-
nutrition, for example, can cost (based on lost productivity) at least 2 to 3 percent of GDP (Horton 1999 on low-income Asian countries), and lock affected children in a cycle of impaired cognitive development and physical growth, lower productivity, less education, lower earnings, and higher health care needs—in short, the intergenerational transmission of poverty. In Ethiopia, stunting affects 46.5 percent of children under the age of five (World Bank 2007). To not address the issue essentially condemns the nation as a whole to poverty for at least the next generation.

Malnutrition per se may not be a concern in less poor countries, but there may be issues of low or late school enrollment, repetition, high dropout rates, and child labor or issues of social inclusion and cohesion in general. Each of these problems is more prevalent among the poor than the nonpoor, and to ignore them ensures impoverishment of the children over their lifetime and perpetuates the causes of social division.

**Trade-offs and Balances**

The stark apparent trade-off between, say, vaccinations or schools and safety nets may be something of an exaggeration, or at least a mislabeling of the choice. Safety nets are often (and can usually be) composed in ways that complement traditional development spending for human capital or infrastructure. So the issue is not so much one of transfers versus human capital or productive investments, but of balancing the use of tools to achieve these. How much should be spent to get teachers and classrooms ready for students versus on getting students fit for and in school? Should some of infrastructure construction and maintenance be organized in ways that provide safety net services in addition to infrastructure? These issues of fitting safety nets into other antipoverty and social policy are discussed in chapter 9. It is also worth noting that the large welfare states in Europe do not fund social protection instead of education or infrastructure but in addition to them. They thus have larger government sectors and apparently with no big cost to growth, a theme taken up in chapter 3.

In this regard, the stunning poverty of Ethiopia represents an extreme case. More typical is a country like Brazil. In Brazil, the income gap constitutes 1.6 percent of GDP, less than 5 percent of the income of the wealthiest 10 percent of Brazilians, and is small in comparison with total social spending in the country. Thus, theoretically and in the aggregate, Brazil has the resources necessary for solving its poverty problems through redistributive transfers alone, without raising taxes (World Bank 2001b). Similar situations exist for other high-inequality countries—Argentina, the Philippines, the Russian Federation, and South Africa, among others—though of course such calculations abstract from the very real issues of targeting, administration, incentives, and political economy within safety nets, and from the issues of the opportunity costs of other uses of the funds.

Recent years have seen a growing consensus among scholars regarding the productive role that safety nets can play in low-income countries both on their own terms and in complementing other efforts to achieve growth and human capital formation (Devereux 2002a; Lipton 1997; Sinha and Lipton 1999; Smith and Subbarao 2003). For example:

An astonishing feature of the developing consensus about poverty, given the strong tide of anti-State sentiment in the 1980s, has been the widespread agreement that even very low-income countries can and should “afford” some types of public provision for
poor people whose health or age prevents work, or who are made unemployed by the
vagaries of climate or market demand (Lipton 1997, p. 1006).

**Safety Net Spending May Replace Other Less Effective Spending**

Safety nets may serve as more efficient ways of redistributing income than alternative
policies. For example, when Sri Lanka began its Food Stamp Program in the 1980s, it was
not additional to existing policy, but a more cost-efficient replacement of the general food
price subsidies previously in place. Similarly, Indonesia’s new cash transfer program is not
an additional burden on the budget but a lower-cost substitute for energy subsidies.

The discussion of whether countries can afford safety nets has been implicitly
couched in terms of pitting one set of high priority, pro-poor or pro-growth expenditures
against another. This orientation puts the matter in the harshest possible light, since few
governments spend so efficiently. All governments make a certain number of idiosyncratic
funding decisions, and all exhibit patterns of sometimes large and unproductive expendi-
tures. Subsidies to manufacturing are not uncommon; these are of limited value in pro-
ducing growth or jobs and can sometimes be costly. Brazil, for example, gave tax incentives
to auto manufacturers that cost over US$200,000 per job created; India did the same with
a cost of over US$400,000 per job created. In the Philippines, the effective corporate tax
rate declines from the nominal 47 percent to 21 percent once fiscal incentives to firms are
considered; in Thailand, the effect is even larger, a decline from 46 percent to 7 percent
(World Bank 2004e). Military expenditures represent another large use of funds that is
never linked to development. Vietnam spends 7.1 percent of its GDP on defense, Cape
Verde 3.2 percent, and Mali 2.3 percent (Chamberlin 2004); yet each country is poor with
underdeveloped safety nets.

**Redistribution to the Rich versus Redistribution to the Poor**

The idea that governments cannot afford to redistribute income to the poor must be con-
trasted with the evidence that they regularly redistribute income to the nonpoor. Energy
subsidies are highly regressive and often more costly than safety nets. The Arab Republic
of Egypt spent 8 percent of its GDP on several energy subsidies in 2004 (World Bank
2005c), and Indonesia spent up to 4 percent of GDP between 2001 and 2005 on fuel sub-
sidies (World Bank 2007r). Similarly, countries dedicate resources to bailouts of insolvent
contributory pension funds by transferring general revenues to support them. The expa-
sion of Brazil’s well-targeted CCT program Bolsa Familia to cover the bottom quintile of
the population is raising some questions as to whether the country can afford to redistrib-
ute so much. The program cost 0.4 percent of GDP in 2006. In contrast, the deficit in the
main federal pension program covered from general revenues is 3.7 percent of GDP and
delivers over 50 percent of its benefits to the country’s richest quintile (Lindert, Skoufias,
and Shapiro 2006). This pattern is not unusual, at least in Latin America. Figure 2.3
shows the distribution of general revenue–financed transfers for several countries in ab-
solute terms. Safety nets are progressive, but their cost is small compared to that of the
general revenue used to finance the deficits in nominally contributory pension systems.

Another example of where governments have found money to assist the rich but not
the poor is the bailouts made to financial sectors. In the East Asian financial crisis, Indo-
nesia’s bank bailout cost 50 percent of GDP (Honohan and Klingebiel 2000); spending
FIGURE 2.3 Distribution of General Revenue–Financed Transfers for Selected Countries by Population Quintile


NOTE: PPP = purchasing power parity. Quintile 1 is poorest; quintile 5 richest.
on the accompanying safety net for the poor was about 2.4 percent of GDP in 1998/99, including food subsidies, public works, targeted scholarships, and fee waivers for health care (APEC 2001). In Korea, the bank bailout cost 27 percent of GDP (Honohan and Klingebiel 2000), while the spending on the safety net tripled from about 0.6 percent in 1997 to nearly 2 percent in 1999 (APEC 2001).

**Bottom Line on Finding Budget for Safety Nets**

Even where safety nets have a place at the table when resources are allocated, they will face budget constraints so tight that policy makers will have to make difficult triage decisions about how to allocate money insufficient to meet reasonable needs. There are typically three approaches that may be taken in different combinations in response to the dilemma.

- Keep the role of safety nets small relative to possible statements of need. Benefits may be limited to only a portion of the poor, either by defining specific subcategories of individuals (usually those in the traditional especially vulnerable groups); using an eligibility threshold well below the poverty line; or providing only seasonal benefits (during the hungry season in agricultural economies or the heating season in cold climates).
- Insofar as possible, ensure complementarities with building physical and human capital. This approach will provide twice the “bang for the buck” by helping the poor survive today and by reducing causes of poverty in future years. Prime examples of this type of approach are workfare and CCT programs.
- In very low-income countries, international assistance may be used to finance social assistance. Indeed, there is increasing willingness on the part of donors and countries to use aid in such ways.

**CONCERN OVER REDUCING WORK EFFORT**

One of the most common stumbling blocks for political support of safety nets is concern over the labor disincentives of welfare dependency (box 2.6). The fear is that potential beneficiaries will either work less after receiving the benefits or, if eligibility is tied to earned incomes or unemployment, will reduce their work efforts in order to qualify for the transfer. Both arguments and the evidence differ substantially across groups of countries, classes of programs, and types of beneficiaries.

The theoretical arguments are intuitive. Transfers provide unearned income and thus inherently will lower the incentives for recipients to work, as beneficiaries may trade some of the extra income for more leisure. This outcome is sometimes referred to as the “income effect.” Transfers may also change a recipient’s effective wage rate if their size is based on the recipient’s income. This situation arises for verified means-tested programs, where the benefit level is reduced by a fraction of a currency unit for each additional currency unit in earnings; the implicit tax on earnings is called the marginal tax rate of the program. This outcome is sometimes referred to as the “price effect.” In the hypothetical perfectly means-tested guaranteed minimum income program where the size of the benefit is adequate to a decent minimum living standard and is reduced as income rises, the recipient whose initial income is below the guaranteed income has no incentive to work.
Developed Countries

Concerns about labor disincentives have traditionally been strongest in wealthy countries with generous safety nets and high unemployment rates. However, the evidence shows that participation in safety net programs has only small or moderate effects on employment or hours worked. In Ontario, Canada, in the 1990s, beneficiaries of a rather generous safety net program reduced their work effort by 3 to 5 percent when benefits tripled from Can$185 to Can$507 (Lemieux and Milligan 2008). The bulk of the evidence comes from only one country, the United States. Here, for the numerous initiatives providing small benefits, such as food stamp, nutrition, and child care subsidy programs, most studies have found no evidence of reduced work effort. Similar results were obtained for in-kind programs, such as housing programs or Medicaid (health insurance coverage for the poor) (Moffitt 2003). More generous pilot programs, such as the negative income tax experiments, did moderately reduce the work effort of participants. Male earners ben-
efiting from the negative income tax experiments reduced employment and earnings by 7 percent on average; for wives, only 17 percent of whom were employed, employment and earnings dropped by 17 percent (Burtless 1986). Among nonexperimental U.S. programs, only one—Aid for Families with Dependent Children—was shown to be associated with large reductions in work effort. Moffitt (2002b) found evidence that single mothers benefiting from the program had reduced their work effort by 10 to 50 percent; however, he also found that the program contained specific features that would make it especially susceptible to labor disincentives. (See box 5.3.) Consequently, extrapolating results from the Aid for Families with Dependent Children program to other safety net programs in developed countries would not be advisable.

**Developing Countries**

The theoretical model predicts that reduction in work efforts will be proportional to the size of the benefit (income effect) and the implicit marginal tax rate on earnings of the program (price effect). The theory thus supports the view that the impact of safety net programs on work disincentives should be smaller in developing countries, for four reasons:

- Programs are less generous in developing countries; most safety net programs complement, rather than substitute for, the earnings of able-bodied beneficiaries.
- Very few programs in developing countries use and are able to enforce effectively benefit formulas with marginal tax rates and frequent recertification of household income.
- Many developing countries target their programs only to households without able-bodied adults (for example, Zambia’s Kalomo scheme and Ethiopia’s Direct Support program) or require able-bodied beneficiaries to work in return for benefits (all workfare programs, but also some cash transfer programs).
- The static model does not take into account the fact that transfers help households make productive investments in their future.

The evidence supports the view that, in developing countries, safety net programs do not often reduce labor effort substantially. In Mexico, adult earners benefiting from the CCT initiative PROGRESA (now known as Oportunidades) worked as much as those in a randomized control group; at the same time, the program achieved its objective of increasing schooling and reduced child labor by 15 percent (Parker and Skoufias 2000; Skoufias and di Maro 2006). In Brazil, Leite (2006a) simulated the potential impact of Bolsa Familia on adult work effort and found that the transfer amounts would have very little impact. In Armenia, the employment rate and hours worked by adults in the Family Poverty Benefits Program were similar to those for a matched sample of nonparticipants (Posarac, Tesliuc, and Urdinola forthcoming). In Romania, a qualitative review of the Guaranteed Minimum Income Program found little evidence of an adverse impact on labor force participation; conversely, “because there is a small bonus for employment, there may be a small positive impact on participation compared with more traditional systems of aid” (Birks Sinclair & Associates Ltd. 2004). On the other hand, in Sri Lanka, Sahn and Alderman (1995) studied a rice subsidy program that induces labor disincentives through income effects; they found labor reductions on the order of 10 percent.
Measures to Foment Work Effort

There is increasing evidence, especially from developed countries, that measures to counteract welfare dependency exist and can be effective. In the United States, a number of welfare-to-work experiments reviewed by Hamilton (2002) and Greenberg and others (2002) found that a combination of work requirements, financial incentives for work, and/or services supporting welfare recipients increased earnings and employment on average from 6 to 10 percent. Grogger and Karoly (2006) showed that welfare recipients (single mothers) respond to financial incentives and workfare tests in the way predicted by the static labor supply decision model. In Canada, beneficiaries of the Self-Sufficiency Project increased their full-time employment and earnings by 15 percentage points. In the United Kingdom, the welfare-to-work measures introduced under the New Deal for adults reduced the unemployment rate by 6 to 10 percent.

Policy makers and administrators have a variety of tools at their disposal to manage labor disincentives, including the following:

- Limit programs to those who traditionally are not expected to work anyway—the very young, the very old, those with disabilities, and so on, often referred to as the “deserving” poor. Although this limitation is a fairly common one, it results in only a partial safety net. (See chapters 8 and 9.)

- Choose a targeting mechanism not directly tied to earnings—this leaves the rewards to working intact. Few developing countries use a means test or minimum income guarantee, though many transition countries do. Infrequent recertification will also mute the labor disincentives. Most programs outside of Europe recertify only once every two or three years; some even less frequently. (See chapter 4.)

- Set benefit levels to maintain work incentives. Most programs in developing countries have very low benefits, often equivalent in amount to only a few percentage points of the poverty line. Thus they inherently leave plenty of incentive to work. The low benefits proffered are usually due more to fiscal constraints than concern over work disincentives, but the result is the same. In countries with a full suite of social protection programs, social assistance payments should be less than unemployment insurance and the minimum pension provided by the contributory pension system. (See chapter 5, section 1.)

- When benefit levels are customized to earnings, ensure that there is still incentive to work—set exit thresholds higher than entrance thresholds, use sliding withdrawals of benefits as incomes rise or earned income tax credits to help make work pay. Alternatively or additionally, provide lump sum graduation benefits, or pay for allied benefits such as child care or transportation allowances for a period after work starts. Admittedly, these options are administratively demanding and will result in those above the poverty line receiving some program benefits. (See chapter 5, section 1.)

- Link transfers to program elements, such as job training or placement, education, microcredit, social support services, meant to help households move out of assistance and toward independence. Such links also may be administratively
demanding, but they are fully consistent with broad social policy objectives. (See chapter 5, section 2.)

Concerns over reduction in work effort will be strongest when programs are most generous and eligibility or benefit levels depend more on recent or current earnings. Since generous programs with customized benefit levels are becoming more common, features to manage work effort may be needed more often as well. But it is usually the middle- and upper-middle-income countries where program generosity is sufficiently great to make work effort a concern, and these are the countries most likely to manage the sophisticated program elements to mitigate the problem. Concern over work effort should thus lead the policy maker to consider various features of program design and of the balance across social assistance of last resort, unemployment insurance, and contributory pension programs carefully, but should rarely imply abandoning social assistance as a policy tool.

CROWDING OUT PRIVATE TRANSFERS

Private transfers are important to the informal safety nets that arise when official public action is limited or nonexistent. If public safety nets are put in place, these private transfers might be diminished—a consideration that must be weighed in determining how and whether to implement the public program.

To make this determination, policy makers must understand the adequacy of private social protection systems in a particular setting. In some countries or among some groups, they can be quite substantial and appear to exhibit the same features as a good public social protection system—they go from richer to poorer households and to those facing shocks such as illness or unemployment. For example, Cox and Jimenez (1997) found that 40 percent of black South Africans reported either receiving or giving cash transfers. Though undoubtedly helpful, informal insurance and interhousehold transfers are not sufficient safety nets. Many people are left out of such networks, and even for those who receive some assistance, it may not be enough to avoid poverty traps and the intergenerational transmission of poverty. Moreover, the entire support network may be affected by widespread shocks and thus unable to provide support to all members when it is most needed. Finally, private support can sometimes be part of a larger set of patron-client relationships that are not conducive to the client’s long-term income growth (Glewwe and Hall 1998; Morduch 1999; Skoufias 2003).

Next, policy makers must understand the extent to which the introduction of public transfers might affect private ones. One of the most credible investigations of this question is Jensen’s 1998 examination of the effects of the expansion of the South African old-age pension program to Africans. Though means tested, the eligibility threshold and benefit levels in this program are quite generous. Jensen estimates that for those households receiving private transfers, every publicly provided rand led to a reduction of 0.2 to 0.4 rands in private transfers to the elderly. This reduction in the burden of private support indirectly raises the income of poor donors. The South African social pension program is quite unusual in the generosity of its benefit—more than twice the median per capita monthly household income of Africans. The Nicaraguan and Mexican CCT programs are also relatively generous, though their benefits are only about 15 to 25 percent of household income. In the Nicaragua program, the probability that program households
will receive interhousehold food transfers is lowered by about 10 percent. In Honduras, where the CCT program benefit is only about 4 percent of annual household expenditures, no such crowding out of private transfers is found. In none of the three countries did remittance to the households fall (Nielsen and Olinto 2006; Teruel and Davis 2000). Program generosity would appear to affect the degree of crowding out, but the results may be rather context specific. Lentz and Barrett (2005) find no evidence that food aid receipt crowds out private transfers in pastoralist households in southern Ethiopia and northern Kenya. Gibson, Olivia, and Rozzelle (2006) found little evidence of crowding-out effects in China, Indonesia, Papua New Guinea, and Vietnam, concluding that crowding-out problems are, in fact, not a significant policy concern.

To address issues associated with the crowding out of private transfers, public transfer programs should be designed as follows.

- Programs should be of sufficient scope to cover people missed in the private system. They should be permanent and reliable programs so as to not undermine private systems without providing a better alternative.
- If eligibility is determined through a means test, the income from private transfers may be excluded in whole or part from the calculation of income, or the income of the full household or even of nonresident parents or children may be considered in the calculation. Such adaptations help preserve incentives for the continued transfer of income within families, but they can be administratively complex and lead to errors of inclusion.
- If possible, consider how to use public systems to reinforce private systems. In Zimbabwe, the traditional chief sets aside community land to be farmed by community/volunteer labor so the resultant crops can be distributed to the needy in the village. Public subsidies to nonlabor inputs for the scheme should improve the yield and assist the private safety net system.

POSSIBLE EFFECTS ON FERTILITY

Economic theory holds that the demand for children is a function of individual preference and the cost of children, under an income constraint. Social assistance alters the income constraint and, depending on how benefits are set, may lower the direct costs of raising children. This theory raises the possibility that social assistance programs might result in higher fertility.

Empirical evidence that social assistance increases fertility is scant. Gauthier and Hatzius (1997) look at family benefits and fertility among Organisation for Economic Co-operation and Development (OECD) countries and conclude that, while there is an effect on fertility, it is of a small magnitude: a 25 percent increase in family benefits would increase fertility on the order of 0.07 children per woman. Stecklov and others (2006) provide estimates of impacts on fertility of the Honduran and Nicaraguan CCT programs. They find significant though small positive effects in the former, but not in the latter. In Turkey, Ahmed and others (2007) show that the CCT program reduces fertility by 2 to 3 percent. Box 2.7 reports the reactions of this program’s beneficiaries when evaluators held discussion groups aimed at understanding the impact of the program’s pregnancy benefit.
There are several actions programs can take to contain any possible side effects related to fertility; some may have unintended side effects of their own:

- Keep benefits reasonably low or temporary. Given the total psychic, time, and monetary investment implicit in child bearing and rearing, low-level benefits from safety nets are unlikely to have much impact on fertility decisions. Public opinion surveys in OECD countries, which feature relatively more stable and generous assistance programs than others worldwide, revealed that this support might help families achieve desired family size, but would not increase it (Gauthier and Hatzius 1997).

- Keep benefits flat per household, or, if given on a per capita or per child basis, cap the total benefit or number of children. While this approach will minimize the incentives for fertility, it will also reduce the poverty targeting of the benefit as larger families are often poorer (even with appropriate treatment of economies of scale). Also, where there are marked differences in family size across ethnic groups, such caps may carry a political dimension far more important than the possible effect on fertility.

- Introduce elements in the program that would tend to reduce fertility. The welfare-to-work reforms in OECD countries increase women’s labor force participation, which usually discourages fertility. CCT programs require women to get minimal preventive health care and health education, which usually includes opportunities to deliver messages about the health benefits of breastfeeding and birth spacing, as well as family planning services. The availability of this information may reduce unwanted fertility among adults. Also, the increased educational level of the female children in these programs will likely serve to lower their family size when they become adults.

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**BOX 2.7 Women’s Reactions to Questions about Transfers and Fertility**

The Turkish CCT program includes a small cash benefit for pregnant women. Both quantitative and qualitative studies were done to understand how the program might affect fertility. The quantitative study showed the small decrease already cited. A complementary survey found that 97 percent of respondents said that women would not get pregnant because of the benefit. In fact, many thought such a question to be strange, humorous, absurd, or offensive. One woman (Illyaskoy, Sengul G.) said, “Allah, were there women that got pregnant just for this money, really? Ha ha ha!...of course you have to ask these questions, this is your duty! But mothers have to think about their children’s futures as well” (Ahmed and others 2007, p. 61).

Adato and others (2007, p. 135) report that women understand that bearing children has many costs and that these go far beyond what a small cash transfer can alleviate. They also document the reasons that many children are desired, including powerful cultural factors in favor of large family size. One woman (Nafia S. Beyüzümü, Van) summed it up this way: “I don’t think a woman can give birth to get money...If a woman gives birth it is because first God, second her husband, and third her husband’s mother want her to.”
Doubts about Administrative Feasibility and Program Management

While concerns over administrative capacity are not trivial, there are often ways to deliver some sort of safety net program if due creativity is brought to bear on the issue. Taking advantage of existing public systems outside the welfare agency, contracting out to private firms, simplifying design, and prudently guarding against the perfect becoming the enemy of the adequate will usually result in a feasible program. Chapter 7 contains many examples of acceptably administered programs in a wide range of countries and circumstances. Chapters 4 to 6 go into much more detail about different facets of program implementation and administration, outlining requirements and different ways of fulfilling them, again with examples from a broad range of countries.

Two politically charged concerns may hide under the more neutral term “administrative feasibility.” Both have to do with who really benefits from programs carried out in the name of the poor or vulnerable.

The first concern has to do with targeting and doubts about whether it can really be accomplished well, especially in low-income or low-capacity settings. (This theme is taken up in detail in chapter 4.) On average, targeting results are better for middle-income than low-income developing countries, but there have been successful cases of the use of all sorts of targeting instruments in low-income settings (Coady, Grosh, and Hoddinott 2004). The overall poor results are at least partially due to the nature of the programs chosen (general food subsidies) and to the stop-and-go nature of many other interventions, which makes it difficult to develop good systems.

A second concern has to do with the potential for misuse of funds. Some believe that safety net programs should not be funded on the grounds that resources will leak away from intended beneficiaries. A number of safety net programs have famously suffered from graft and corruption, and, in some countries, the track record is rather poor. But a blanket abandonment of safety net policy would be akin to forsaking infrastructure projects because of reports of occasional contractor kickbacks and takeoffs. The solution instead lies in determining how to minimize such problems, about which much is already known.

In addition to the broad government-wide governance agenda of due process, transparency, and accountability which is being increasingly explored and applied, there are a number of design and administrative features specific to social assistance programs that can help prevent fraud, error, and corruption. Key measures are summarized below.

- Use program design to minimize incentives and opportunities for misuse of funds.
  - Ensure that program budgets are consistent with eligibility criteria. If funding is adequate to serve all those eligible, applicants will have little reason to offer bribes to get into the program. If program slots are rationed so that only a small portion of eligible applicants can be admitted, there is ample motivation for bribery and kickbacks.
  - Consider carefully the eligibility criteria. The simpler they are, and the less discretion they offer to eligibility intake officers, the less opportunity there will be for corruption. Where complex criteria are needed, reinforce mechanisms of control. (See chapter 3, section 6, and chapter 4.)
Consider the benefit level for a participant with respect to the salary of intake officers. Ineligible applicants may offer a cut of their benefits in return for entry into the program. If such an offer is low relative to officers’ base earnings, it will be less attractive.

Conditionalities such as requirements for recipients to obtain health care, attend school, or work may help guard against “ghost” beneficiaries. In programs with no conditionality, an intake worker can easily register ghost beneficiaries. With conditionality, another official in the health clinic, school, or worksite would have to collude with the officer by providing certification of attendance. Public posting of the list of beneficiaries is another means of exposing invented beneficiaries.

Use payment mechanisms that move benefits from the treasury to the individual recipient with as few intermediaries as possible, as each additional link in the chain increases the potential for diversion of funds. (See chapter 5, section 4.)

Set up adequate administrative procedures.
- Ensure that administrative processes are clearly defined, and that staff and other resources are adequate to carry them out. A culture of compliance can only be created where rules are clear and reasonable. (See chapters 4 and 5.)
- Institute a range of quality control procedures to ensure that eligibility criteria are respected, payments are audited, information systems have appropriate safeguards, and so on. (See chapter 6.)
- Establish sensible tolerances in quality control procedures. For example, given the difficulty in measuring income, an initial eligibility evaluation and subsequent recheck might arrive at slightly varying estimates of income. Only if the difference is substantial and larger than the expected measurement error should this variation be considered fraud. Such an approach also facilitates respect for rules and makes efforts to enforce them more cost-effective. (See chapter 6.)
- Set up adequate grievance, appeal, and “whistle-blowing” procedures for applicants who believe they are eligible but were denied entry, for beneficiaries who are receiving incorrect payments or are requested to pay kickbacks, for program workers who suspect fraud by their coworkers, and for the general public that suspects irregularities of any sort. (See chapter 4, section 4.)
- Take action against miscreants with meaningful penalties.

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Use transparency and communications well.
- Ensure that the eligibility criteria, benefit levels, and rules are clear to both the public and beneficiaries. People can only seek redress when they understand what is due. Conversely, clarity can help eliminate unwarranted appeals or claims of malfeasance.
- Publicize cases of detected fraud and the penalties imposed.

Some of these techniques involve trade-offs with other desirable features of safety net policy. For example, although the stratagem of fully funding safety nets should eliminate a source of corruption, it is not always feasible to do so given budget constraints. Keeping eligibility criteria and payment structures simple will reduce the probabilities of fraud, error, and corruption, but it will make programs less precise in their targeting and lower the
impact on poverty per currency unit spent on legitimate beneficiaries. Policy makers may need to forego some of the design options for minimizing fraud, error, and corruption, but will need to develop correspondingly more sophisticated administrative procedures as an alternative means of keeping problems in check. Because such systems take time to develop, they are more feasible or effective in permanent programs.

SUMMARY
Table 2.4 summarizes how the various challenges posed by safety nets discussed in this section may be handled.

<table>
<thead>
<tr>
<th>Challenge to safety net</th>
<th>Management strategy</th>
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<tbody>
<tr>
<td>Affordability</td>
<td>• Consider the costs of inaction</td>
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<td></td>
<td>• Keep safety nets lean</td>
</tr>
<tr>
<td></td>
<td>• Leverage improvements in physical or human capital if possible</td>
</tr>
<tr>
<td>Reduction in work effort</td>
<td>• Craft eligibility criteria, benefit levels and structures, countervailing conditionalities appropriately</td>
</tr>
<tr>
<td>Crowding out of private transfers</td>
<td>• Some is inevitable and not necessarily bad</td>
</tr>
<tr>
<td></td>
<td>• Some mitigating measures may be feasible</td>
</tr>
<tr>
<td>Incentives for fertility</td>
<td>• Craft benefit structure to minimize</td>
</tr>
<tr>
<td></td>
<td>• Build in elements to shift preference for family size</td>
</tr>
<tr>
<td>Administrative feasibility and accountability</td>
<td>• Employ design elements that minimize opportunities for corruption</td>
</tr>
<tr>
<td></td>
<td>• Develop administrative systems</td>
</tr>
<tr>
<td></td>
<td>• Use communications and transparency</td>
</tr>
</tbody>
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SOURCE: Authors.

Notes
1. Social risk management refers to how society manages risks (not to how to manage social risks), a conceptual framework introduced by Holzmann and Jorgensen (2000). See appendix A for a brief exposition.
2. Low birthweight and malnutrition among young children are well established as being linked with higher child mortality and higher risk of illness (with attendant costs for medical care and time requirements for caregiving) and, later in the life cycle, with lower cognitive development, lower schooling, and lower physical productivity. Iodine deficiency hinders cognitive development and increases child mortality. Vitamin A deficiency can increase morbidity and mortality and, in severe cases, cause blindness. In children, iron deficiency can reduce cognitive capacity and affect schooling and future productivity; in adults, it can impede hard work. Zinc has an appreciable impact on growth in children (Behrman, Alderman, and Hoddinott 2004; Webb and Rogers 2003; World Bank 2005n).
3. Adequate access to credit can help families avoid negative coping strategies, but the poor often lack access to credit or have access only on particularly onerous terms (for example, from
moneylenders). Where credit is available, it can lead to large indebtedness, which can have repercussions on family welfare for years to come.

4. The underlying problem is uninsured risk. One means of addressing it is to improve insurance against the risk being directly faced. For example, weather insurance is being considered as a new option for reducing the income risks to small farmers of too much or too little rainfall, thus freeing them to adopt income-maximizing rather than risk-minimizing choices of crops and inputs. Though theoretically attractive, weather insurance has not yet been implemented anywhere at a large scale or long enough to see how much of the problem it solves.

5. Other sector-specific policies have been tried in various places, beginning with lax collections or “no disconnection” policies; these provided little predictability to the consumer, greater benefits to the nonpoor than the poor, and erratic revenue flows to the utility. Across-the-board subsidies, life-line or block pricing, and burden limit programs were also introduced; these too had efficiency drawbacks and, except for the across-the-board subsidies, not inconsiderable administrative requirements.

6. The US$1/day rate was found by Chen and Ravallion to be representative of the poverty lines found among low-income countries in the first years such calculations of global poverty were done. These calculations attempt to express in a common currency the purchasing power of varied domestic currencies; such purchasing power parity comparisons, while useful, are inexact. US$2/day is more representative of poverty in middle-income countries.

7. The predictions that increased transfers will reduce the labor supply of beneficiary households are based on the static labor supply model (Moffitt 2002b).