

World Bank Social Safety Nets Primer Launch

The Role of Safety Nets in Social Policy: Roundtable Discussion

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Transcript of Remarks

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Introduction

On December 1, 2003 the World Bank Social Safety Net Primer Series was formally unveiled in Washington. The event was attended by more than 125 people working on safety nets around the world, including participants from country governments, NGOs, think tanks, academics and Bank staff. The agenda included a rountable discussion on the role of safety nets in broader social policy.

This paper presents the remarks of Michael Lipton, Research Professor in the Social Policy Unit, University of Sussex. All formal remarks and presentations from the launch, as well as the complete set of primer papers and notes are available on the World Bank safety nets web site: www.worldbank.org/safetynets.

Introduction

Most debates about safety nets go where the obvious problem is and then tend to look at existing safety nets and their fiscal and financial difficulties. Those existing safety nets are mostly in the formal sector. They are concentrated on providing reserve possibilities for the very needy, particularly for aging populations in transitional economies and for formal employees in developing economies.

That concentration is understandable. You go where the problem obviously presents itself and then consider the programs you have already. But that concentration doesn't do sufficient justice to the needs and the benefits and costs of safety net options for the poor. And it's on that that I want to concentrate because it's the poor to whom satisfactory and sustainable safety nets matter most, and it's also with the poor that you get not only an equity impact, but a great impact on productive efficiency in the economy if those safety nets work well. That raises three issues.

Who are the poor? And are they the proper target groups for safety nets?

What are the damaging downward fluctuations in income or health or other aspects of welfare that they suffer? Are they especially serious for the poor? How and why? And what are the main types of fluctuations that affect the poor – the issues, that is, that safety nets have to address?

And, finally, what conclusions for practical safety net work can we make? Can we say this sort of safety net works for the poor, that sort of safety net doesn't touch them so much? And how do these safety nets that do benefit the poor interact with other things that might affect their poverty, such as, let's say, agricultural technology progress or land reform? How does one's progress in those fields interact with what is happening as far as safety nets are concerned?

Who Are the Poor?

We all know, because we've all heard it very many times, that poverty is multi-dimensional; it reflects deprivation of many things that people need and want. And yet, in practice, most of our measurement of poverty concentrates on income and consumption.

And I myself think that is justified. I think the issue of ill health and bad education and so on are terribly important. They are too important to be lumped together in a single poverty index.

Let's concentrate as far as poverty is concerned on direct access to goods and services, and I don't think it's too bad to start by using – because it is internationally comparable – the dollar-a-day measure. The poor are those who have less than one dollar of constant purchasing power in prices of 1993 per day, per person, with which to buy the goods of their own country.

Now, what can we say about these 'dollar poor' – the 1.1 billion people who don't have a constant purchasing power dollar per person, per day?

First of all, 70 percent of those people are rural. Urbanization is going on rapidly, but Martin Ravallion has estimated that even by the year 2035 more than half the world's dollar poor will still be rural (Ravallion 2000). So anything that is not reaching the rural population isn't much of a safety net as far as the main needs of the dollar poor are concerned.

Second, about 60 percent of the dollar poor depend mainly on agriculture for a livelihood (International Fund for Agricultural Development (IFAD) 2001). Most of those are rural, but there are many poor urban agriculturalists as well, especially women.

The third point to be made about the poor is that a growing majority of them - except in parts of Africa and in China - get most

of their income from labor, from farm labor and employment for other people, rather than, as used to be the case even 20 years ago, from the farms they own. That again means that they are on payrolls. They are, in a sense, many of them, accessible to formal safety net procedures.

Fourth, children under 5 are heavily over-represented among the dollar poor. Something like 22 percent of all the population of the developing world are dollar poor. Something like 28 percent of all children aged under 5 are dollar poor, and these people are especially vulnerable because if they are subject even to a short period of under-nutrition, there may be damage from which they cannot recover.

Fifth, the dollar poor spend something like 70 percent of all their income, including income from subsistence farming, on food, and they get the great majority of their calories from a few staple crops--rice, wheat, maize, millet, and so on (IFAD 2001). So reaching the dollar poor and providing safety nets for the world's poor depends very heavily on securing their calorie base in terms of access to food staples and their capacity to command that calorie base with their income from work.

The final point which is especially relevant to the existence and use of safety nets: in a typical year, anything up to half of the world's dollar poor are what's called transient poor (for example, see Binswanger 1982 and Antle 1989, among others). That is, they have been pushed down below the poverty line by events, by some form of ill luck, a harvest failure, illness, or whatever.

The Causes of Poverty

In most years, many of the poor are not dollar poor. That means that if you could stabilize fluctuations over time, you would take a very large proportion of the dollar poor above the poverty line.

Now, damaging fluctuations and shocks present special problems to the dollar poor. Usually, they are especially exposed to damaging fluctuations. Who is it that has to live on a geological fault because they can't get a home elsewhere or afford a home elsewhere, or work elsewhere? It's not the rich. Who is it who has to stay farming drought-prone areas without water control? It's not the rich. So the poor are especially exposed to damaging downward fluctuations in their income (Jodha 1990).

They are also especially vulnerable to seeing a given downward fluctuation in income reflected as damage to welfare or health because they have less to begin with. They have no safety net, they have no buffer, few stores; it's difficult for them to borrow and difficult for them to access credit or savings.

Finally, among the special problems presented to the poor by fluctuations are the problems created by risk aversion. Risk aversion is the proneness to change one's behavior in order to avoid damage rather than to seek the best possible outcome.

If you are very poor, you have a very high aversion from risk typically, and that means you will specialize in robust crops that don't have a very high value but that are safe. You will not take the risk of looking for new sorts of work because if the risk goes wrong, you can't stand it.

So the high risk aversion of the poor means that safety nets which make them less scared of the consequences of risk – as they are now rightly scared of the consequences of risk - will have a production benefit. That is, there will not only be a well-being benefit but a production benefit because the poor will be stimulated to take risks that they can now afford because they know that ultimately there is a safety net.

For example, the work in Burkina Faso by Thomas Reardon and Edward Taylor

shows that it's the poor who are reluctant to diversify into the promising rural non-farm activities in which the rich tend to specialize over time because the poor just cannot afford the risk of making that move (Reardon and Taylor 1996). Provide some safety net and you will get those diversifying responses. So it's efficient as well as equitable to select safety nets that focus on benefiting the poor.

Now, the poor, in particular, and most people in developing countries in general, face six main types of downward fluctuation:

- violence, whether domestic or criminal or wars or civil conflict;
- natural disasters;
- loss of gainful work;
- illness or injury, of oneself or a relative;
- harvest fluctuations; and
- a worsening in the terms of trade between my labor (that I can sell) and the staple foods (that I need to buy).

The poor have little to sell, except their labor, and they spend most of their income on food, and particularly food staples. So these are the six main issues.

I'll say a little about a few of them. I'll then come on to a few other issues, and then finally I'll home in on one or two of types of downward fluctuation.

Violence Domestic violence is more common among the poor, and abuse of women in the household more frequent among the poor than among better-off people. There's evidence from Chile and Nicaragua about that (Morrison and Orlando 1999).

Civil violence, civil war or war against other countries particularly harms the poor because it makes migration constrained. Either you have to migrate because you have to retreat in front of the advancing

army or you can't migrate where you want to go for work because it's too dangerous, so that one of the main safety nets of the private poor is heavily affected and damaged by civil violence.

Between 1970 and 1990, Frances Stewart and colleagues have looked at the 16 countries with the most severe wars or civil conflicts (Stewart, Humphrey, Lea 1997). Those didn't only suffer large cuts in per-person gross domestic product and food expenditure; they also suffered cuts in private savings and public expenditure. In other words, those countries with conflicts, with the most need for safety nets, also drove out the provision, private and public, for those safety nets.

Natural disasters Many poor people -- in the Philippines this has been shown by Havlick's work (Havlick 1986) — have to migrate to areas that are prone to landslides or floods, or even earthquakes, because these are the only areas where they can afford land and homes.

Wherever the poor end up, they tend to have - you will notice Hernando de Soto's work on Colombia (de Soto 2000) and elsewhere - insecure property rights. And if you have insecure property rights, you don't invest in protection against earthquake or flood or anything else because if you invest, your landlord might chuck you out and you don't have those property rights tomorrow.

What is the upshot of this? In Dhaka, the capital of Bangladesh, in the late 1980s, one-quarter of all the urban squatters had been driven to Dhaka by floods or cyclones, by natural disaster elsewhere (Shakur 1987).

I was in Andhra Pradesh in 1977 during the cyclone, and work done there later on showed what happened to mortality in the villages by the coast near Bapatla which were worst hit by the cyclone. One-quarter of all the small and marginal farmers, landless, and fisherman's households died.

This was a terrible event. But among large farmers and officials, only 1 to 3 percent died - about 2 percent.

By 1981, the large farmers had recovered from the cyclone and their income was at better levels than before it. But the small and marginal farmers and the landless were still worse off four years later than they had been before the cyclone. So natural disasters discriminate against the poor in a number of ways.

Mostly in respect to all these shocks, the poor face more exposure, greater vulnerability, and a greater penalty on normal productive activity because they have to protect themselves against the risk of these shocks.

Social Safety Nets That Work

In designing safety nets, a prior requirement is to look at these six groups of main shock. If you have the six groups under control, most of the terrible things that happen to the poor will be to some extent ameliorated. Ask which is important and how cost-effectively the proposed safety net will, in effect, shield the poor either by preventing the damage in advance or by mitigating it after the event or by helping in coping mechanisms. The key is how effectively these things will shield the poor from natural disasters, harvest fluctuations, illness and injury, and so on, the main sorts of damage to which they are prone.

Now, I'm going to close by looking in a little more detail at two of these sorts of damage: illness and injury, and harvest downturn. And, finally, I'm going to say something about one sort of safety net - rural public works - in dealing with these things.

Illness and injury There are some rather dramatic numbers here. If you look at the most vulnerable group, the group with highest death rates (after the first few weeks after birth) it is people between the

age of six months, when you lose passive immunity from the womb, and 36 months, by which time you've gained active immunity. Between six months and 36 months is when infection and under-nutrition kill (Timaeus and Lush 1995)..

The demographic and health surveys in Africa, and some other countries, too, have extremely good data for mortality in these age groups. If you take the lowest asset-owning group and the highest asset-owning group and compare them, the lowest asset-owning group has a mortality rate for these children that is between two and ten times as high as has the highest asset-owning group. So access to assets, which you can sell in times of need, is a powerful safety net and enables you to escape the worst of this damage. Migrants face the worst damage from illness and injury, and rural areas are usually worse in this respect, even worse than urban slums.

Risks from illness and injury are highly covariate with other risks. They get worse at the same time as a severe food shortage. De Waal in 1991 wrote about the famine in Darfour, Sudan: "The principal way to save lives during famine is to supply health security well in advance" (de Waal 1991).

In other words, having in place the system by which people who suffer from food shortages can deal with ill health in normal times - either without cost or at affordable cost - is an essential component, not just of dealing with illness but of dealing with famine and the other risks that are covariate with illness for the poor.

Gender bias, incidentally, is much worse at times of extreme stress, times of downward fluctuations, and among poor groups. And let me emphasize once again that it is the group aged naught to five years - and especially those aged six months to 36 months - who are at most risk.

Types of safety net that go only to adults, or where you can't be sure of benefits penetrating to children, therefore need to be checked very carefully before you can be sure that they are doing the most important things.

Harvest Downturns Poor people, as I've mentioned, have much less grain in store. Sometimes, they have none. They find it harder to borrow because it's difficult to monitor repayments. They seldom can afford to save, and therefore they have few assets, such as livestock, to sell if there is a harvest downturn.

If you're well off and the harvest is not so good, at least the price of what you have to sell tends to be a bit higher. So that compensates. But if you're a poor farm laborer with little or no land, you face low output, low employment, and little or no food all at once. So they all strike you as a triple whammy, and that destabilizes the poorest.

If you're a farm laborer, you find that you are the first person to be dismissed or not to be employed. The small farmer will find that, with less harvest, he or she does the work for himself or herself and doesn't need a farm laborer.

The season just before the harvest is the time when there is most work, least food, and general depression of the living standards and bodily conditions of the poor. If you then get a bad harvest as well and those conditions continue, the seasonal agricultural poor will suffer most, and there's a lot of evidence of that.

Safety Nets and Efficiency

This leads to risk aversion. Because these consequences are so grim, the poor sensibly act to avoid them. If you look at the behavior of rice farmers in villages in south India, the villages covered by the famous ICRISAT panel surveys, you will find that they use far less than the best amounts of fertilizer. That's because if

things go wrong and there's a bad harvest, they won't be able to pay the debts on their fertilizer and they won't have any extra surplus to sell.

So poor rice farmers under-fertilize, and in many other ways as well the poor adopt less efficient practices because of risk aversion. In the absence of adequate safety nets, you are actually forcing the poor to take inefficient action to deal with risk.

In the same way, we all want globalization to be good for the poor. We know, in principle, it ought to be. Globalization means developing countries specialize in things that have a lot of what they have got plenty of, which is usually unskilled labor. That means a rise in the demand for the labor of the poor. We know that should be good for the poor.

Yet, we know that, in practice, the poor have increased risk from globalization. And because of that, they don't have the mobility or the capacity to take risks so that they get the upside. Very often, they get the downside. So there are big efficiency advantages from appropriate safety nets response.

I'd like to conclude by looking at the extent to which one sort of safety net - rural public works - can help the poor. And I'd like to point out that both directly on the social-safety-nets team—(Subbarao 2003) and in the resources available to the team elsewhere in the World Bank more broadly, people like Ravillion, are some leading specialists in the way that rural public works work and what goes right and what goes wrong and how these things can be tuned so that they are efficient safety nets for the poor.

Rural public works in many cases have turned into employment guarantee schemes by which the state says we will guarantee to provide work of some sort within reasonable distance of their homes for anybody who applies for it. It will not be at a very high wage, because we can't

afford that and so that the work is an employment safety net for the poor.

I'd like to make a few additional points about rural public works, which are an extremely powerful, and have proved in many cases a very effective, safety net.

First, there are huge differences even within governments in which department has the capacity to organize things. Is there on hand a list of good projects that are suitable for public works? Can funding be made stable for a rural public works agency? Can you avoid a situation where the money is wasted either on expensive capital rather than on labor, or else on bribes to gang managers to get the jobs for people rather than in pay to the poor people who do get the jobs?

These systems have worked extremely well in Maharashtra India, in Bolivia, and in Botswana. I will be very much more hesitant about recommending public works as a safety net for the poor in many other countries, and indeed in some states of India. Nevertheless, they have worked very well in some cases, and in Maharashtra there have been massive gains to the rural poor, despite certain criticisms (see Subbarao 2003 for a discussion).

What about the wage rate? If you have a low wage rate, just the market wage, or even a little lower, you will target only the very poorest because only they will seek that work. However, you need to be careful that you are providing sufficient income that there is food for the people on these projects to work properly and safety with regard to their own health. A pre-work meal may be quite crucial in that regard.

You need to be careful because the beneficiaries from rural public works, and indeed urban public works, are able-bodied adults, and if you're not careful, able-bodied men only. It's sometimes

difficult for women to participate fully in some of this work.

Of course, children, the old, the young, do gain to the extent that they are relatives of people on public works schemes. But you must be careful to be sure that you are getting to the people in real need through this targeting.

And finally - and this is a general lesson which applies to all safety nets - you need to look at the effects on the poor not only directly from rural public works, but indirectly through what they do in other markets. For example, rural public works tend to bid up somewhat the price of labor. That means workers on private farms also get a bit more, which is good for the poor - but it may also mean that private farmers employ fewer workers, which in turn is bad for the poor. Those are the balances you have to strike, the issues you have to be aware of.

It is therefore particularly important to concentrate public works at the times of year and in years of bad harvest or in slack seasons when there is little work available from the private sector. Those are the times when the poor need rural public works as a safety net most and the times when there will be least risk of damaging side effects in private markets.

I have tried to give you some idea of the basic issues. If there's one thought I'd like to leave you with, it's that a lot of the pressures within governments on safety net analysis, financing, and so forth, are to set right safety nets that are presently benefiting mainly the middle classes. The real need for safety nets and the real possibility for enormous production and efficiency gains - in addition to equity and health gains - will come from making appropriate safety nets available to the poor.

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