



Discussion Paper BRIEFS

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Discussion Paper 172

Designing and Evaluating Social Safety Nets: Theory, Evidence, and Policy Conclusions

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Developing countries urgently require a more effective poverty alleviation strategy. The emerging consensus is that renewed broad-based economic growth is a necessary condition for alleviating poverty, but in isolation this is insufficient. Effective social safety nets are also important components of any comprehensive poverty alleviation strategy. Existing social safety nets, however, suffer from shortcomings: they often fail to reach the intended target group, they fail to generate a sustained decrease in poverty, they often involve many uncoordinated or duplicative transfer programs, they can be inefficient and costly, and the transfers are often too small.

This paper reviews issues highlighted in the literature on the performance of commonly found social safety net programs in developing countries. It makes particular reference to food subsidies (universal and administratively targeted), public works schemes, and targeted human capital subsidies. Although this set of programs is not exhaustive, it does account for a large proportion of program types, and many of the issues raised here apply equally to other social expenditures.

The Analytical Framework

The author uses a simple yet general evaluation framework in which the welfare impact of alternative policy interventions may be understood and compared from the perspective of their distributional impact. It begins with a very simple model comprising two groups—households and government—and incorporates the various policy instruments under consideration: cash transfers, food subsidies, subsidized rations, public goods, and public works. The author derives the welfare impact of each policy instrument by simply differentiating with respect to the relevant policy parameter. This provides a set of analytical equations to structure the review of the empirical evidence.

Results and Discussion

The evidence clearly shows that universal food subsidies are not very cost-effective ways of transferring resources to the poor. This reflects the fact that they are

rarely progressive and are often associated with large consumption and production efficiency costs. For this reason, they are often viewed as stopgap policies until more cost-effective transfer instruments can be developed.

Although targeting food subsidies can greatly increase their benefit incidence and reduce the associated inefficiencies, in practice they often suffer from both high leakages to the nonpoor, high costs associated with distributing food, and corruption. Achieving good performance requires that adequate resources be devoted to separate administrative tasks of screening, delivery, and monitoring. If the transport costs associated with distributing food cannot be reduced substantially, it may be that use of cash is a more attractive option.

Although well-designed and well-implemented public works programs appear to have great potential for targeting poor households, they are also a relatively costly way of dealing with current poverty. The high non-wage costs and forgone earnings mean that the cost per unit (net) income transferred to poor households is relatively high. But certain design features can reduce such costs, e.g., low wages, good geographic targeting, and selection of labor-intensive projects.

On the asset creation side, since there is likely to be a trade-off with the objective of reducing current poverty, it is important that the assets actually get created and benefit poor communities. There is some evidence that promoting community involvement in selection, design, and implementation of projects can lead to substantial improvements in these areas. However, there is also

evidence consistent with community involvement only working well when there are good governance structures and active participation of civil society in these structures.

Public works are particularly effective at addressing the issue of vulnerability to poverty and in crisis situations. Such programs must be flexible at expanding and contracting in response to economic conditions, which

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may have implications for the outputs that can be sensibly produced. Thus, the choice of labor-intensive projects requiring low management skills and paying relatively low wages would appear to be a precondition for public works to be effective at addressing both current poverty and vulnerability. Their combined emphasis on short- and long-term poverty alleviation, through wages and infrastructure development, may also make such programs appealing in post-conflict situations. But experience with social funds suggests that the greater the emphasis on generating quality investments, the more difficult it will be to reach the extreme poor.

There is a need for further evaluations of public works programs to identify ways of avoiding some of the shortcomings of existing programs, especially with regard to the nature and magnitude of any general equilibrium effects, the potential for substantially decreasing forgone incomes, the role of good management and project selection in decreasing non-wage costs, and the trade-offs between the longer-term output and shorter-term income objectives.

A recent program innovation in developing countries, particularly Latin America, is targeted transfers conditioned on investments by beneficiary households in the human capital (i.e., health, nutrition, and education status) of their children. These are a promising approach to addressing structural poverty and add a “promotional” dimension to the traditional “prevention” role of social safety nets. Invariably, household-level data in many developing countries show that the poorest households are not only poor in terms of income and consumption levels, but also in terms of human capital. These new human capital programs are attractive because they can help address many of the shortcomings of existing social safety nets. They use a

combination of targeting methods, they are often centrally designed and implemented (avoiding unnecessary bureaucracy and opportunities for corruption), they integrate many previously duplicative programs under one coherent umbrella program, and they can help break the intergenerational transmission of poverty through improved human capital status of children.

The fact that these targeted human capital subsidy programs have been successful in some poor countries suggests that they have potential for success elsewhere. However, the design of these programs will need to reflect local conditions, including the quality of education and health care, the existing level of access to these services by poor households, the capacity to implement and monitor such programs, and the potential role for community actors.

Other economic policies must also be conducive to generating broad-based growth capable of absorbing this more skilled labor force. Although by themselves these programs are not a panacea for all development problems, their proven performance justifies their serious consideration as an important component of an overall poverty alleviation system.

Keywords: safety nets, poverty alleviation

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