Protecting the poor in a crisis—and beyond

A well-designed public safety net can provide aid to the poor in times of need. This note offers basic guidelines for designing an effective safety net, taking into account its potential role during normal times as well as crises.

What is the best way to protect the poor during a crisis? The crisis could be a natural disaster, a famine, a drought, a macroeconomic accident, an external shock, a deep structural change in the economy, or some combination of these. Most responses to such crises include the development or expansion of a safety net for the poor.

This note begins by identifying the main aims of safety nets. It then describes common problems with safety nets in practice. Finally, it sketches what an affordable permanent safety net might look like, drawing on my experience advising on and researching safety nets in Argentina, Bangladesh, Brazil, China, India, and Indonesia. At least as important, it also draws on a large literature on this topic and on discussions with many colleagues within and outside the World Bank. For a reasonably representative sampling of the literature and further discussion of most of the issues raised here, see Ravallion (1991, 1998).

Principles for safety net policy

Two basic principles should guide safety net policies. First, safety nets should efficiently insure the poor; to do so they must respond flexibly to the needs of the poor. Second, safety nets should be an intrinsic part of longer-term development goals.

Insuring the poor

A public safety net is only one element of a comprehensive strategy for fighting poverty; economic growth and investment in people are also needed. The special role of a safety net is that it insures poor people against risk. Poor people are already actively engaged in self-insurance, both on their own and in groups, such as through village-based risk sharing. But the best means available to them are often inefficient. Outmoded agricultural technologies persist because they are less risky and credit is scarce. Credit-constrained households are forced to hold unproductive liquid wealth such as high foodgrain stocks. Poor families must pull their children out of school to provide labor when there is an income shortfall. If people are averse to risk, they are willing to incur a cost of insuring against it—but for poor people that cost can be high.

The key issue for policy is whether the current costs of insurance for the poor can be lowered to provide gains to those currently insured and to broaden coverage. It is sometimes argued that public safety nets should avoid displacing indigenous arrangements for risk sharing and smoothing. That is the wrong way to think about it. If existing arrangements are more costly than a publicly provided alternative, displacement is a good thing.

Responding flexibly to the needs of the poor

Few safety nets appear to serve the insurance function well. They rely on adminis-
There can be gains from integrating relief efforts with other development programs.

Common problems with safety nets
Safety nets are plagued by three common problems. Governments are unready, unable, or unwilling to respond to the needs of the poor. Coverage is inadequate. And relief is often poorly coordinated with other efforts to aid the poor.

Inadequate government response
Governments implementing crisis relief efforts are often unprepared, poorly informed, slow to take action, and unresponsive to the needs of the poor. A new public administrative apparatus is often set up in response to the crisis, and this takes time. Special funding allocations are required, sometimes at a time of overall fiscal contraction. There is uncertainty about how bad the crisis is, further dulling the response. International responses are often even slower. People in need of relief often have little influence over the relief effort and are poorly informed about it. The costs of a sluggish response can be high, both to the poor and the public budget.

Making a long-term investment
Safety nets are often seen as being at best neutral to long-term prospects of escaping poverty—and possibly harmful. The World Bank has traditionally drawn a sharp distinction between “relief” and “development” programs. This approach needs to be rethought.

Safety nets are a long-term investment. Crises of various sorts will always be with us. Yet governments and international agencies often take a myopic and ad hoc approach to each crisis, behaving as though it is the first. Slow response is common and can lead to inefficient safety nets in which help arrives too late. Given the (potentially high) costs of existing private safety nets, an effective public safety net can promote pro-poor growth and so is legitimately part of the long-term development agenda.

Weaving a sound safety net
Many things have been tried in the name of protecting the poor during a crisis. The following proposal draws on the best features of actual programs in numerous developing countries and regions.

Workfare programs have been widely used and are a promising starting point. The basic idea is that those seeking relief must work to obtain support, and the work rebuilds affected areas after a disaster or develops badly needed public works. Workfare programs can be effective when they are adequately funded and well designed; specific requirements for success are discussed below. But workfare is not enough. Complementary targeted transfers are also needed to
reach those who cannot or should not participate in workfare programs. Loans to rebuild the productive base can sometimes help, though in the past such loans have generally failed to reach the poor. Unlike in workfare and transfer programs (see below), it is often hard to prevent the gains in credit from being captured by the nonpoor.

The central element of the proposed safety net for developing countries is a public guarantee of low-wage work on community-initiated projects. Under this approach the federal or state government announces that it is willing to finance, say, 15 days a month of work on community projects at a wage rate no higher than, say, 90 percent of the market wage rate for unskilled manual labor in a normal year. The work is available to any adult at any time, crisis or not. This approach would extend the coverage of the public works schemes often found in current relief efforts to include normal times when demand is much lower, but almost certainly not zero. It would also relax the eligibility restrictions often found on relief work. There would be only minimal administrative discretion on access to the safety net—either in turning it on and off or determining who gets help. If the guarantee is credible, it will also help lower the longer-term costs of risks facing the poor (see above). Thus this type of program can help fight chronic poverty as well as transient poverty in a crisis.

Work should be performed only on technically feasible projects proposed by bona fide community groups, to help ensure that the relief effort responds to the needs of local communities. Local community groups would propose a project, documenting exactly what would be done, at what cost, and how many workers would be employed under the safety net program. To allow flexibility and help respond to idiosyncratic risk, workers need not come from the community proposing the project. Proposals would be submitted to a central agency that simply assesses whether the project qualifies under the rules of the safety net program, with full public disclosure. The center should only contribute to nonwage costs if the community making the proposal is a designated poor area, as indicated by a credible poverty map. (Such maps are becoming common and can be produced by the government’s statistics office, with technical assistance if required; see PREMnote 5.) Nonpoor areas should finance their own nonwage costs.

The center should help communities set up community groups and design projects. If the project is in a poor area then the center can also help secure extra funding for nonwage costs beyond that available through the safety net program; such funds might come from other public programs or from the private sector. Projects can include training in basic literacy and numeracy for adults as well as appropriate specialized knowledge such as drought mitigation lessons for farmers. The wage rate for training should be set somewhat lower than that for other work.

Setting the right wage rate is a key to success. A low wage rate ensures that the work reaches those in need, and as many as possible. A low wage also maintains the incentive to take up regular work when available. In most countries a wage slightly lower than the wage for unskilled agricultural labor in a normal year is a good benchmark. The definition of a normal year, however, will depend on the nature of the crisis. If a crisis is a short-lived event, such as a drought, then the wage rate in the last normal agricultural year would be a good guide. If a crisis is associated with deeper structural change then the normal year could well be in the future if the pre-crisis wage is unsustainable. In that case an assessment will have to be made of what the sustainable wage rate will be coming out of the crisis. That might not be easy. Initially it would be safer to err on the side of too low a wage, because it is easier to raise a wage than to lower it. When the crisis is over, most workers should no longer need the safety net. Provided the wage rate is low, they will automatically return to regular work.

A low wage rate should not, however, be used as a means of cutting the budget allocation for the relief effort. The budget must
be sufficient to ensure that anyone who wants work at that wage rate and is signed up to a viable community works project will get work. The attraction of a workfare program as insurance is lost if the work must be rationed.

In addition to workfare, complementary transfers in cash or food should be targeted to groups who either cannot work or should not be taken out of other activities—notably school—to join relief work. Those who cannot work can be fairly easily identified, and food-for-education programs in poor areas can help keep poor children in school. These transfer schemes will need to be allocated administratively and turned off and on according to indicators of crisis. The demand for relief work can provide a useful signal for this purpose. A rapid increase in demand for low-wage relief work is a good signal that other transfers need to kick in.

The safety net should become a permanent institution, dealing simultaneously with crises and the more routine problems of transient poverty, idiosyncratic risk, and poor-area development in normal years. Making a safety net permanent will also constrain the political pressure to increase the wage rate at key times, such as before an election. Local community groups (non-governmental community councils) should maintain a roster of useful projects in poor areas. With widespread public knowledge of the existence of a federal employment guarantee for community work, and the permanent councils ready with a roster of projects, the basis for a rapid response would be generated from the bottom up rather than rely on administrative discretion from the top down.

The budgetary cost of such a program need not be higher than existing schemes, though in many settings current spending on safety nets may be too low. The budget outlay will be highly variable over time, though possibly no more so than for poorly designed relief operations in which large sums of money have to be injected into an overdue response. To cover the variability in disbursements, a central safety net fund can be established into which regular payments are made. There will no doubt be low-probability events—such as a sequence of harvest failures or an unusual natural disaster—for which extra help will be needed. However, the fund should be sufficient to cover normal shocks as well as modest demand in normal years.

Further reading

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If you are interested in similar topics, consider joining the Safety Nets Thematic Group. Contact Kalanidhi Subbarao, x33898, or click on Thematic Groups on PREMnet.