Designing Effective Safety Net Programs

Successful programs encourage self-selection, but also provide incentives for the poorest to participate.

Safety net programs that target assistance to the poor vary in terms of their effectiveness. One main factor determining a program's success is design: is it tailored to the particular needs and characteristics of the poor in a given country? Does it take into account local budget and administrative constraints? Is it sustainable, and politically acceptable?

A new World Bank sourcebook, *Safety Net Programs and Poverty Reduction: Lessons from Cross-Country Experience*, provides a series of “best practice” guidelines for program designers, based on an extensive analysis of experiences in different countries. The book discusses optimal safety-net programs that nations may use to ameliorate the social costs that often accompany structural adjustment and macroeconomic stabilization measures. In developing countries, as well in Eastern Europe and former Soviet Union, periods of macroeconomic adjustment and transition have, in the short term, lowered the living standards of vulnerable groups. With so many countries introducing poverty-intervention programs, or attempting to reform existing programs, a thorough examination of lessons learned to date becomes highly relevant.

Direct poverty-targeted programs and indirect growth-promoting activities tend inevitably to conflict in most national situations. Such conflict may be reduced if a country adopts a growth-oriented adjustment program which is sufficiently broad-based to include the poor in productive activities. Often, safety-nets that transfer benefits directly to vulnerable groups can be successfully combined with longer-run programs that provide the poor with assets (e.g., education) that enhance their own capacity to generate income.

What is Good Design?

Appropriate program design is paramount in successfully and efficiently reaching the poor. Six “principal messages” stand out from cross-country experience:

- Particular subsets among the poor (e.g., women, indigenous groups) are often inadequately served by safety nets; innovative design and delivery mechanisms may be required to reach these groups;
- Maintaining program cost (as a percent of total budget) at a low level ensures sustainability;
- Keeping the transaction costs of participation low for the poor helps avoid eroding the net value of program benefits;
- Open, general subsidies (e.g., food) have proven to be unsustainable, inefficient, and distortionary;
- All social assistance transfers trigger behavioral responses that raise the program’s real economic costs; the best way to minimize these “incentive costs” is to keep the amount of the transfer modest;
- Screening out the poorest through targeting is a bigger problem than including the non-poor; the poorest may actually lose from too much fine-tuning in targeting.

Choosing Program Type

Turning from general principles to program specifics, the sourcebook provides a framework for choosing between four program types: Cash Transfers, Food Transfers, Public Works and Credit. Country-specific factors, such as the extent of poverty, administrative capacity, and fiscal and delivery constraints, will determine the type of program most appropriate for a given setting.

Cash Transfers are an effective means of providing poverty relief where programs are relatively small and the poorest easily identifiable. Targeting cash transfers according to an easily-observable characteristic, such as family size, reduces the need for sophisticated administration and increases targeting effectiveness.

When family size does not adequately reflect welfare level, program eligibility must be determined based on other characteristics that are more difficult to determine, such as income. Gathering this type of information requires considerably more work, and may not be culturally acceptable. In these cases, a cash transfer program with a work requirement or an in-kind transfer program --
such as targeted nutrition intervention—
may be more appropriate.

Targeting according to a simple
mechanism such as family size does
increase the risk of leakage to the non-
poor, and of not reaching all the poor
(coverage). Balancing the cost of
more refined targeting with the cost of
these inefficiencies will help create an
optimum cash transfer program. Finally,
cash transfers may lead to adverse labor
supply decisions; minimizing the disin-
tenics to work should be part of pro-
gram planning.

**In-Kind Transfers** include price sub-
sidies for food, housing and energy.
Food subsidy programs include ration-
ing, food stamps, and supplementary
feeding programs. Targeting is critical
to such programs; untarred subsidies
are bound to be fiscally unsustainable,
and should be avoided. In general, pro-
grams that impose an obligation on the
recipient (such as a labor or time re-
quirement) are best in screening the
needy. But as such obligations may
impose unacceptable transaction costs
on the poorest, the specific characteris-
tics of the poor in each setting should
determine the type of obligation.
A switch towards basic, less costly (but
equally nutritious) foods that are con-
sumed disproportionately by the poor
has lowered program costs, promoted
self-targeting and gained political ac-
ceptability. Targeted supplementary
feeding programs to high-risk individua-
als (e.g., pregnant or lactating women)
can be a very effective means of sup-
porting the poor with minimal dis-
tortions, but do require highly developed
administrative and delivery systems.

Food stamps, on the other hand, are
easier to distribute. But they are prone
to urban bias (they only work in areas
where the poor rely on market purchases
to obtain food); they are of limited use
in high-inflation situations; and they
may also create consumption distortions
disincentives to labor supply.

**Public Works** programs can be an
extremely effective form of intervention
for countries where income variability is
high and infrastructure inadequate. The
program is also relevant for countries in
transition or emerging from conflicts or
risks. In addition to complementing
economic growth by creating socially-
useful infrastructure (e.g., new roads),
public works programs can smooth con-
sumption by generating income-earning
opportunities for vulnerable groups.

The most important design element is
the decision regarding wage rate. The
program wage must remain close to the
prevailing market wage for unskilled
laborers, in order both to minimize dis-
tortions to the labor market and to self-
target the program to the poorest.
Programs can also attempt more refined
targeting by concentrating projects in
regions that have been hard-hit by crisis,
and by providing employment condi-
tions that attract a particularly needy
group of participants (e.g., by providing
mothers with day care).

However, public works function only
as a temporary safety-net; they are
costly to administer, and at their highest
points of activity are likely to employ
only a small proportion of the labor
force. By no means do they offer a
permanent solution to poverty.

**Credit Programs** contain several de-
sirable features. First, they make credit
available to groups traditionally ex-
cluded from borrowing opportunities.
Second, they complement economic
growth by promoting income-
generating activities. Last, they gener-
ate savings, reduce risks to lenders and
borrowers, and minimize transaction
costs to the poor. There are drawbacks,
however. Funds lent may be used to
support consumption rather than in-
vestment activities. The program will
also require specialized financial and
administrative capacities in order to
function. Finally, the poorest may be
excluded from the program due to low
levels of literacy.

Key lessons learned from existing
credit programs are that interest rates
should never be subsidized; NGOs and
other local groups, rather than credit
managers, should be used to identify
potential beneficiaries; and all program
rules should be easy to understand,
clearly written, and disseminated to par-
ticipants.

**Summary**

Cross-country evidence from social
assistance programs indicates that good
design incorporates both general and
country-specific principles. While there
is no model program on which all pro-
gram can be based, most well-designed
programs share a few general principles.
Better programs foster activities that
complement economic growth. They
have cost structures that are sustainable
vis-à-vis the national budget, and keep
administrative requirements in line with
national capacities. The programs that
are most successful encourage self-
selection, while also providing particu-
ar incentives for the poorest to partici-
pate. Arguably, programs err most
egregiously when they exclude the
poorest from participation.

Source: Subbarao, Kalanidhi, and Aniuddha
Bornerjee, Jeanine Braithwaite, Soniya Carvalho, Kene Ezenemari,
Carol Graham, and Alan Thompson. 1996. Safety net
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