



*Empowered lives.  
Resilient nations.*



# Local Government and Social Protection:

Making service delivery available for  
the most vulnerable





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# Foreword

In recent years, social protection has emerged as a key international development priority. It gained particular momentum from the recent global financial, energy and food crises, and the growing awareness of poor people's vulnerability to climate-related disasters. Interest in social protection continues to expand as policymakers strive to secure hard-won human development gains and to tackle increasing levels of territorial and individual inequality, which often threaten social and political stability.

This discussion paper conceptualizes social protection as part and parcel of overall public service delivery, and examines the role that local governments can play in implementing social protection related policies. It aims to shed light on two important questions that have not been systematically addressed in the existing literature. First, what added value can local government bring to safety net programmes? Does 'going local' improve or strengthen the effectiveness of social safety net initiatives? Secondly, and, inversely, what can safety net programmes bring to local government? Are there advantages for local governments in being more involved in the management and implementation of safety net programmes?

The UN Capital Development Fund (UNCDF) and the United Nations Development Programme (UNDP) are increasingly focused on sustaining inclusive growth and development. This includes a collective effort to accelerate progress towards the Millennium Development Goals (MDGs) in a sustainable and equitable manner. Social protection policies and programmes offer potential for fruitful cooperation based on the complementary strengths of the two organizations. This discussion paper is part of UNCDF and UNDP Asia-Pacific Regional Centre's (APRC) contribution to strengthening the capacity of countries to design and implement effective and efficient social protection initiatives. It endeavours to help countries benefit from knowledge sharing and exchange of experiences from within and outside the Asia-Pacific region.

This publication is jointly produced by UNCDF and UNDP Asia-Pacific Regional Centre. We hope it will provide useful knowledge for policymakers and development practitioners, and that it will enrich the debate on the role that local governments can play to foster more inclusive and sustainable growth across the developing world.



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# Acknowledgements

This publication was made possible through the enriching partnership and collaboration between UNCDF and UNDP Asia-Pacific Regional Centre. The technical support, substantive reviews and inputs were received from UNCDF and UNDP policy and programme staff in the Asia-Pacific Region, a number of external experts, academics, as well as the substantive discussions held during an informal workshop in Bangkok in early September 2010.

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Special appreciation is due to Roger Shotton (previously UNCDF Regional Technical Adviser), who very early on put safety nets on the local development agenda. Roger has provided invaluable guidance in thinking through the linkages between local governance and safety net programmes.

# Content

<b>1</b>	<b>Executive summary</b>	<b>1</b>
<b>2</b>	<b>Background and purpose</b>	<b>9</b>
<b>3</b>	<b>Social protection and safety nets</b>	<b>13</b>
3.1.	Social protection: Definitions and wider context	13
3.2	Social safety nets	19
3.3.	Summing up and setting the stage	47
<b>4</b>	<b>Decentralization and local governance</b>	<b>51</b>
4.1.	Types of decentralization and decentralized service delivery	51
4.2.	Local governance and local governments	54
4.3.	Going local: Implications for safety net programmes	58
<b>5</b>	<b>Decentralization, local governance and social safety nets</b>	<b>61</b>
5.1.	Financing issues	62
5.2.	Safety net policies and parameters	69
5.3.	Safety net management and administrative functions	71
5.4.	Connecting the dots – managing supply and demand	80
5.5.	Local accountability	81
5.6.	Adding value?	84
<b>6</b>	<b>Ways forward</b>	<b>93</b>
6.1.	Rationale	93
6.2.	Analysis and piloting	94
	<b>References</b>	<b>96</b>
	<b>Annex: Definitions of Social Protection</b>	<b>104</b>

# Abbreviations

CCT	conditional cash transfer
EGS	Employment Guarantee Scheme
ESSP	Education Sector Support Programme
FSP	Female Stipend Programme
IBT	increasing block tariff
ILO	International Labour Organization
JFPR	Japan Fund for Poverty Reduction
MDG	Millennium Development Goal
MIS	management information system
NREGA	National Rural Employment Guarantee Act
OECD	Organisation for Economic Cooperation and Development
PSNP	Productive Safety Nets Programme
REOPA	Rural Employment Opportunities for Public Assets
SSN	social safety net
UNCDF	UN Capital Development Fund
UNDP	United Nations Development Programme
VDC	Village Development Committee





1



# Executive summary

There are good reasons to explore stronger links between safety nets and local governments in developing countries – and no compelling reasons not to. It is clear that safety net programmes have much to offer to an overall strategy for reducing poverty and improving the lives of poor and vulnerable people. And it is equally clear that there are functions associated with the delivery of safety net programmes that local governments are well suited to handle, whether on the basis of delegation (with varying degrees of discretion) or very limited devolution. Whether or not they are intrinsically well suited to particular service delivery functions, many local governments either already play a significant role in such services or are mandated to do so. It is, therefore, important to examine ways in which this *de facto* local-level involvement can be optimized and enhanced, with a view towards improving performance and service delivery outcomes.

Social protection, of which safety nets and social assistance are a subset, has become an integral part of the current development ‘narrative’ – and for good reasons, given the degree to which safety net and social assistance programmes appear to contribute to poverty reduction and alleviation. However, and despite their considerable potential as a policy instrument for poverty reduction, safety net programmes are not in themselves a panacea for poverty eradication. They do not replace other development activities but rather serve as an essential element in a comprehensive pro-poor strategy, effectively complementing investments in health, education and other sectors; social safety net programmes both reinforce and are strengthened by other interventions and policies. In many ways safety nets strengthen the ‘demand side’ of the service delivery continuum, either by making benefit payments conditional upon the use of public services or by providing households with income supplements that improve their ability to access services. By working on the demand side, safety nets complement – but do not replace – supply-side investments in infrastructure and service delivery in a broad range of sectors.

Understanding the interface between the demand and supply side of public services is key to establishing a comprehensive social protection framework in any given country. At the same time, local governments are especially well suited to matching or articulating the supply and demand sides of social protection services since, in many cases, they are explicitly mandated to provide both types of services. Importantly, local governments can straddle both dimensions, in ways that are mutually beneficial. It is, therefore, somewhat surprising that the evolving discourse on social assistance has not included much discussion about

the linkages – both empirical and conceptual – between local governance, service delivery and safety net programmes. Moreover, and especially in developing countries, relatively little has been said about safety nets as a public service, on a conceptual par, for example, with education or health. A tendency to see safety nets as being implemented through programmes, rather than delivered as public services, may indeed explain some of the silence surrounding the linkages between local governance/government and safety nets. By conceptualizing safety nets as part and parcel of overall public service delivery (in which local governments can and do play a key role), it may become easier to explore those linkages.

This UNCDF-UNDP discussion paper aims to fill these apparent gaps and to identify further areas of analytical work and piloting that might help us to understand better the linkages between local governance, service delivery and social safety nets. This publication tries to answer two important questions. First, what added value does (or might) local government bring to safety net programmes? Can ‘going local’ improve or strengthen the effectiveness of safety nets? Second, what do (or might) safety net programmes bring to local government? Are there advantages for local governments in becoming or being involved in the management and implementation of safety net programmes?

## ***Going local: Implications for safety net programmes***

Local governments are formal institutions, officially mandated to deliver a variety of public goods and services at the local level. The assignment of service delivery responsibilities to local governments is largely predicated on the principle of subsidiarity, which suggests that government functions should be assigned to the lowest level of government that is capable of efficiently undertaking this function. Because local governments are proximate, they can be expected to deliver services that correspond to local priorities and in ways that genuinely meet local needs. Moreover, local governments are institutionally sustainable. It is these two key features of local governments – their proximity and institutional viability – that make them so well suited to appropriate and pro-poor service delivery. Depending on circumstances, decentralized services can be delivered in a devolved way, as delegated functions, or through de-concentration, with local governments enjoying varying degrees of discretionary decision-making powers.

Local government service delivery responsibilities (such as education or health) need to be unbundled into functions and subfunctions, some of which may be decentralized to a varying degree, others of which will be better kept under central control. It is thus not an ‘either/or’ issue, but an ‘and/or’ one. By applying the same logic to the delivery of safety nets one can ‘unbundle’ their constituent

functions and subfunctions (e.g. setting policy, defining standards, financing, planning, beneficiary selection, monitoring and evaluation, payments, etc.). In other words, safety net programmes can be 'unbundled' into a range of interrelated but analytically distinct activities, which may be handled by a single institution (such as a ministry), but which may also be assigned to different institutions, organizations and levels of government, depending on their comparative advantage. This publication argues that it is precisely by looking at safety net programmes in terms of their 'nuts and bolts' that the role of local government becomes clearer. Although local governments are unlikely to play a major role in financing safety nets and in setting overall policies and standards, they are potentially well placed to manage a number of key implementation functions (beneficiary selection, payments, monitoring, and grievance/redress).

As a second step in defining and distinguishing between subnational and national service delivery functions, it may be analytically useful to categorize different types of safety nets along two dimensions – focusing on conditionalities (conditional or unconditional) and access (universal or targeted)–of which a combination or mix may have different organizational and institutional implications. This publication argues that as safety net programmes become more targeted and more conditional, they tend to become more complex and their transaction costs rise. This, in turn, may involve more functions and subfunctions than simpler safety nets, thus providing space for more actors (including local government) to become actively involved in their implementation.

With the above in mind, it is important to acknowledge that there is no one-size-fits-all formula. Defining an appropriate set of decentralized arrangements or functional assignments for safety net services will vary from country to country, and within countries, will vary from tier to tier of the intergovernmental system. These differences in local government characteristics, structures and systems should guide the thinking about the interface between safety nets and local governments. There are also, of course, significant challenges that need to be addressed in trying to strengthen the role of local government in the delivery of safety net services. Social protection policies or strategies in many developing countries in the Asia-Pacific and Africa regions appear to officially assign either no role or a very limited role to local government in implementing safety net programmes.

Another challenge is the sometimes weak capacity of local governments and aptitude of local governments to deliver services in general, and safety nets in particular, as a tool for poverty reduction. However, the real risks associated with local government involvement in the delivery of safety net services are not just about capacity and mandate issues, but also include issues such as local-national coordination, corruption, clientelism and financial management.

Care should be exercised when reviewing local government involvement in delivering safety nets. Such care should not lead to avoidance, but should rather trigger a more focused approach, since there is still plenty of room for such involvement. Returning to the original questions, the publication establishes a variety of areas that can guide this work.

## ***What can local government bring to safety net programmes?***

There are a number of local government characteristics that are important when considering local government's role in implementing safety net programmes. This discussion paper suggests several areas where local governments can add value to the implementation of safety net programmes:

- *Better beneficiary selection (and targeting) processes.* Due to their proximity, local accountability and vital registration functions, local governments are potentially well placed to facilitate a better targeting and beneficiary selection process for safety net programmes. This could reduce inclusion and exclusion errors in safety nets.
- *Better grievance and redress processes.* Thanks again to their proximity, local governments can provide a framework for more effective grievance and redress mechanisms. This affects not only safety nets, but also overall issues of accountability and transparency.
- *More information availability and greater disclosure.* Local governments offer significant opportunities for increased availability of information and improved public disclosure about social protection services, and thus potentially greater transparency and accountability.
- *Monitoring and evaluation.* Monitoring of safety net programmes can potentially be strengthened by working through the local government system. Local-level monitoring may be qualitatively better than centrally administered monitoring, if only because local staff and offices may have a greater knowledge of the community and greater incentives to follow up on service delivery performance.
- *Taking into account local conditions and circumstances.* Because they are aware of local conditions and circumstances, local governments offer opportunities for tailoring safety net parameters and outputs. As such, they provide an institutional framework for ensuring that safety net programmes are adapted to a range of geographical and socio-economic contexts.
- *Linking supply and demand.* To the extent that local governments are responsible for providing infrastructure and service delivery, their active

involvement in the implementation of safety net programmes provides an opportunity for linking supply and demand.

- *Experimentation and adaptation.* Assuming that delegated or devolved safety net programmes allow a degree of local discretion, local governments provide a natural 'laboratory' for experimentation and innovation through heterogeneous implementation arrangements for future scale up if successful.
- *Existing arrangements.* Local governments, because they are already on the ground, can potentially reduce the administrative and management costs associated with safety net programmes.

## ***What can safety net programmes bring to local government and governance in general?***

This discussion paper argues that there are several features of safety net programmes that can bring added value to local government and to local governance, and to local service delivery and performance, in particular:

- *Addressing immediate income and human poverty.* Most important, safety nets can provide a mechanism through which local government can directly address income/consumption poverty issues. 'Regular' local government infrastructure and service delivery functions, which focus on the supply side of poverty reduction, cannot directly tackle demand-side issues.
- *Strengthening local government capacities.* The implementation of safety net programmes can, in and of itself, considerably enhance local government capacities and strengthen existing service delivery functions (such as vital registration).
- *Enhancing accountability.* To the extent that locally administered safety nets require regular interaction between local governments and their citizens, they may contribute to enhanced accountability and better local governance.
- *Demand for public services.* By generating or maintaining demand for other public services, safety net programmes (especially conditional cash transfers) can help local governments and users identify bottlenecks and other problems. In addition, safety net programmes such as conditional cash transfers may help local governments to meet other sectoral objectives, such as higher enrolment rates in schools and more frequent use of local health clinics.
- *No added fiscal burden.* Under most circumstances, involvement in the implementation of safety net programmes should not increase the fiscal burden borne by local governments: the central government should provide the funds for implementation.



- *Operations and maintenance issues.* Workfare programmes have the potential to help local governments address infrastructure maintenance.
- *Economic development and growth.* Safety net programmes may help move people up to a minimum level of income, either through direct employment programmes or through cash transfers, which may increase the potential for a larger part of the population to become economically active.

## ***Ways forward***

Three categories of activities would seem appropriate in understanding better the role of local governments in delivering safety nets and related social services.

First, analysis aimed at strengthening our overall understanding of the issues related to local government implementation of safety net programmes is crucial. This might include further analysis of existing experiences, contrasting centralized and decentralized safety nets in different areas. Unbundling the implementation of different types of safety net programme into a series of functions and subfunctions can help identify those that are best suited to local government. Analytical work can also improve the understanding of how locally administered safety net programmes can be financed, by exploring the pros and cons of different financing and disbursement options.

Given that local government often manages vital registration functions, which may be crucial in identifying the recipients of safety net programmes, we should also improve our understanding of local government vital registration functions and how they interface with safety net management. Given the clear linkages between supply and demand in overall linkages between safety net service delivery and other public services (such as education, health and public works), this should also be a key area for further analysis.

It is useful to appraise payment and financial management procedures and processes at the local level, focusing on ways to use the banking system and on making manual (un-banked) payments processes more robust and corruption-proof. A particular focus of such analytical work would be further examining the linkages between cash transfers and financial inclusion measures, in addition to the potential of market-based instruments such as savings, remittances and payment services, microinsurance, in addition to broader delivery systems which can further capitalize on transfers to the very poor and often “non-bankable” groups of the population.

Second, a set of complementary piloting activities is needed. This would consist of on-the-ground piloting of different types of safety net programmes in which local governments play a more or less active role, with a view to

testing out potential improvements, appropriate institutional arrangements and generating evidence-based lessons. Such piloting would focus on the safety net and functional areas where local governments are assumed to have a comparative advantage, but would also provide opportunities to test optimal arrangements for jointly managed safety nets (with responsibilities shared by several governmental tiers). A pilot is already operational in Nepal – the ‘Human Development and Social Protection pilot’ – which focuses on improving access to education and tests innovations and linkages as outlined in the section above. This pilot is a test case for further piloting within the region, which could build knowledge to inform overall policy.

Third, the lessons learned from analytical and piloting work should inform policy-level discussions, with a view towards influencing national thinking and policies. This would include activities such as informal advocacy, information dissemination and networking. A key aim would be to provide national policymakers with information that allows them to clarify the role of local government in the implementation of safety net programmes, and ensure that this is reflected in national social protection strategies or policies.

UNCDF and UNDP are implementing these recommendations by pursuing piloting and further analytical work to develop knowledge based on practical experience, which will enable appropriate policy advice and national scale up and as a key input to the overall global agenda. UNCDF and UNDP work closely to promote inclusive finance as part of the broader efforts to extend social protection to the poor and vulnerable. Both organizations believe that access to affordable and reliable financial services is essential to poverty reduction, as it enables the poor to build assets, increase incomes and reduce their vulnerability to economic shocks and stress. In addition, an emerging regional initiative called ‘Connecting the dots: Expanding social protection through social and financial services’, builds on the experience of the Nepal pilot and takes a holistic approach to social protection.

Furthermore, local governance and social protection present an opportunity for cross-practice collaboration and joint programming between UNCDF and UNDP, which have complementary strengths in these areas. While UNCDF primarily focus on investing in the least developed countries to accelerate achievement of the Millennium Development Goals (MDGs), UNDP – through its region-wide presence – can leverage the knowledge generated by UNCDF to promote South-South exchange of experience. Close collaboration between UNCDF and UNDP can help connect social protection initiatives to a broader democratic governance agenda to build capable states through effective institutions and systems, while addressing issues of transparency and accountability.



2

# Background and purpose

In recent years there has been an explosion of interest in, and increased funding of, social safety net ('safety net') programmes in the developing world.<sup>1</sup> Social protection, of which safety nets and social assistance are a subset, has become an integral part of much of the current development narrative – and for good reasons, given the degree to which safety net and social assistance programmes appear able to contribute to poverty reduction and alleviation. Social protection interventions, especially safety net programmes, are considered by most development agencies to be key to ensuring pro-poor growth in developing countries<sup>2</sup> and as a major contributor to the attainment of the MDGs.<sup>3</sup> In April 2009, the United Nations Chief Executive Board launched the Social Protection Floor Initiative (SPF-I) as one of its nine initiatives to cope with the global financial crisis. The SPF-I corresponds to a set of basic social rights, services and facilities that the global citizen should enjoy. It can be seen as a core obligation of ensuring the realization of minimum essential levels of rights embodied in human right treaties. This UN-interagency initiative is firmly committed to promoting the expansion of social protection programmes. The SPF-I is a key pillar in overall poverty reduction strategies and in providing the poor and vulnerable with a cushion against socio-economic downturns and crises.<sup>4</sup>

It is somewhat surprising that the evolving discourse on social assistance does not include much discussion about the linkages – both empirical and conceptual – between local governance, service delivery and safety net programmes. In the literature, there are a few scattered discussions of decentralization and safety net programmes, but most are concerned with developed countries, where local governments often play a significant role in the implementation of safety net

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1 A recent issue of *The Economist* (29 July 2010), for example, featured both an editorial leader and a three-page article on conditional cash transfers.

2 See OECD (2009).

3 See World Bank (2003).

4 The SPF-I consists of two main elements that help to realize these human rights: (i) ensuring the availability, continuity and geographical and financial access to essential services, such as water and sanitation, food and adequate nutrition, health, education, housing and other social services, such as life and asset saving information; and (ii) realizing access by ensuring a basic set of essential social transfers, in cash and in kind, to provide a minimum income and livelihood security for poor and vulnerable populations and to facilitate access to essential services. It includes social transfers (but also information, entitlements and policies) to children, people in active age groups with insufficient income and older persons. See UNDG Issue Brief on Social Protection (2011).

actions. The World Bank's recent landmark study on safety nets (*"For Protection and Promotion"*), does, however, include an interesting subchapter on safety nets in a decentralized world, and provides useful examples and valuable insights.

Moreover, and especially in developing countries, relatively little has been said about safety nets as a public service, on a conceptual par, for example, with education or health. A tendency to see safety nets as implemented through temporary programmes, rather than delivered as public services on a permanent basis, may explain some of the silence surrounding the linkages between local governance/government and safety nets. By conceptualizing safety nets as part and parcel of overall public service delivery (in which local governments can and do play a key role), it may become easier to explore those linkages.

This discussion paper tries to fill these apparent gaps and to identify further areas of analytical work and piloting that might help development practitioners better understand the linkages between local governance, service delivery and social safety nets. Written largely from a local governance perspective, this discussion paper targets a wide range of audiences, including central and local government officials in developing countries, the staff of development partners in general and UNCDF and UNDP staff in particular.

Fundamentally, this publication tries to shed light on two important questions. First, what added value can local government bring to safety net programmes? Can 'going local' improve or strengthen the effectiveness of safety nets? Second (and inversely), what can safety net programmes bring to local government? Are there advantages for local governments in being involved in the management and implementation of safety net programmes?

The purpose of this discussion paper is fivefold:

- (i) to provide an overview of social protection in general and safety net programmes in particular. This is primarily aimed at local governance practitioners, many of whom may not be familiar with safety nets;
- (ii) to assess the extent to which such programmes have been (or might be) delivered through and/or with local governments;
- (iii) to look at some of the ways in which safety nets can or do strengthen local governance;
- (iv) to outline some of the potential ways forward in strengthening linkages between local governance, service delivery and social safety net programmes; and
- (v) to establish the foundations for a framework for policy-relevant piloting.



This discussion paper begins by introducing the concept of social protection and safety net programmes, describing their purpose and main typologies, and highlighting some key issues. Second, the paper offers background information on what is meant by 'local government': what local government does, its service delivery functions and its variants in the Africa and Asia-Pacific regions. Third, the paper includes an analytical section, in which it examines the actual or potential role of local government in financing, managing and implementing safety net programmes. Fourth, this paper provides a general discussion of some of the options for strengthening the links between local governance/government and the delivery of safety net programmes. This includes an overview of the role that can be played by UNCDF and UNDP, including potential entry points for collaboration.



3

# Social protection and safety nets

This section describes social protection and provides background information on safety net programmes, which are a subset of social protection. The discussion is brief and aimed primarily at those who are relatively unfamiliar with safety net programmes, principles and issues.

## 3.1. Social protection: Definitions and wider context

### 3.1.1. What is social protection and what are safety nets?

Although different agencies and governments have different definitions of social protection (see Annex for an overview of the most commonly used definitions), this discussion paper defines social protection as public and private interventions to support and enable individuals, households and specific groups in their efforts to prevent, manage and overcome a defined set of risks and vulnerabilities, aimed at reducing extreme and chronic poverty.

This broad definition could, however, include actions (such as flood defences or immunization) that are not generally considered social protection. Thus, the definition must be narrowed to delimit social protection as a *subset* of public actions that help address risk, vulnerability and chronic poverty. These comprise three sets of instruments (although wide-ranging variations are possible):<sup>5</sup>

- **Social insurance** refers to the pooling of contributions by individuals in state or private organizations so that if they suffer a shock or change in circumstances, they receive financial support;
- **Minimum standards**, which are set and enforced to help protect citizens within the workplace;
- **Social safety nets** (sometimes referred to as part of social assistance) are non-contributory transfers that are given to targeted individuals on the basis of their vulnerability or level of poverty.

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5 See DFID (2006).

These different forms of social protection are briefly described below.

### ***Social insurance***

Social insurance schemes are contributory programmes in which beneficiaries make regular financial contributions in order to join a scheme that will reduce risk in the event of a shock, or provides them with deferred benefits. Examples include health insurance schemes, pension funds and unemployment insurance.

Although many social insurance programmes are seen as too costly (financially and in terms of transaction costs) to be useful to the poor, there are examples of innovative insurance schemes that are probably accessible to the relatively poor (if not to the ultra-poor). Of note here are pro-poor microfinance products such as 'index insurance' schemes, which can, for example, provide farmers and pastoralists with relatively inexpensive insurance-based compensation in the event of crop failures or livestock losses.<sup>6</sup> The role of the state in such schemes is not necessarily a primary one. The state ensures the legal framework, and may also subsidize the establishment of social insurance schemes, but may not be involved in the actual operation of the insurance. These insurance schemes may be regional or local, rather than national, and have a close relationship with subnational governments.

### ***Workplace or labour market interventions***

Workplace or labour market interventions are intended to protect or advance the interests of those who are able to work. Such interventions cover the rules that govern working conditions and industrial relations. They range from core labour standards – such as freedom of association, freedom from forced labour, the abolition of child labour and no discrimination in employment – to more specific rights that are part of national laws, such as the minimum wage, paid maternity leave or health and safety standards. This discussion paper does not examine such workplace or labour market interventions, partly because many of them apply to the formal sector, and partly because few of them are amenable to management or administration by local governments in developing countries.

### ***Safety nets***

This paper focuses on publicly funded safety net or social assistance programmes as a subset of social protection; they can also be referred to as social transfer programmes. In line with the World Bank, the term 'safety nets' refer to "non-contributory transfer programs targeted in some manner to the poor or vulnerable."<sup>7</sup> Thus safety net programmes are defined here as "interventions

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6 See Hellmuth et al (2009).

7 See World Bank (2009c).

that are (i) designed for the most poor and vulnerable poor and (ii) are non-contributory... by contrast to social insurance schemes, which rely on prior contributions from the recipient.”<sup>8</sup>

Examples of safety net interventions include unconditional cash (or near cash) transfers (such as pensions, family allowances and certain types of subsidy); income-generating schemes (such workfare, or food and cash for work); and programmes aimed at protecting or promoting human capital (such as conditional cash transfers and fee waivers for core social services). Safety nets focus on providing social assistance to the poor and the vulnerable, and are better suited to integration into local government service delivery mechanisms than social insurance and workplace interventions.

### 3.1.2. Safety nets in a wider context

It is helpful to situate social protection, particularly safety net programmes, within the overall context of poverty reduction, attainment of the MDGs and other development goals.

Safety net programmes can play a vital role in assisting the chronically poor and highly vulnerable, and in helping the poor from falling further below the poverty line due to shocks and stresses. Without robust safety nets to bolster their incomes and stabilize their consumption, the poor and the vulnerable are unlikely to build assets and improve their economic livelihoods. Safety nets also help those on the edge of extreme poverty, by providing them with a cushion against shocks and their consequences (e.g. asset depletion). By so doing, safety nets help the poor to access some of the opportunities of economic growth.

Importantly, social safety net interventions can also foster economic development. They may – under the right conditions – represent an investment in future growth by contributing to the accumulation and protection of human capital, which is a core driver of economic growth. They also have the potential to level out inequality – a growing problem in many developing economies – by helping the most disadvantaged to attain a minimum level of social security and well-being. In addition, safety nets can help households ‘ride’ the shocks and challenges of an unpredictable context, enabling them to plan and strategize, rather than just react. This, in itself, is important to economic development. The particular role of safety net programmes in protecting poor and vulnerable people during periods of economic crisis has been underlined in recent years. Safety nets also contribute to MDG attainment (box 1).

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8 Ibid.



## Box 1: Safety nets and the MDGs

### **MDG 1: Eradicate extreme poverty**

- Pensions reduce poverty among the old and disabled;
- Safety nets smooth/raise income, thereby directly affecting poverty;
- Fee waivers for health and education allow families to obtain services without impoverishing themselves;
- Transfers targeting children can help reduce current as well as intergenerational transmission of poverty;
- Public works programmes provide temporary employment especially in times of economic stress and also contribute towards infrastructure development.

### **MDG 2: Achieve universal primary education**

- By smoothing household income (protects from shocks), safety nets increase children's school enrolment/attendance and lower the incidence of child labour;
- Benefits (cash/food) conditioned on school enrolment create incentives for families to send children (especially girls) to school;
- Increased incomes can reduce child labour and increase school enrolment;
- Child allowances or other assistance provide income and consumption smoothing for parents and caregivers.

### **MDG 3: Promote gender equality and empower women**

- Girls' enrolment may be especially sensitive to income or price, and safety net interventions can address both;
- Social safety nets payments are often paid out to the mother or the equivalent and to the extent that women can control such benefits directly, the payments may have a direct and positive effect on their empowerment and self-reliance.

### **MDG 4: Reduce child mortality; MDG 5: Improve maternal health; MDG 6: Combat HIV/AIDS, malaria and other diseases**

- Income smoothing helps protect health status in times of stress;
- Cash/food transfer programmes can reward use of preventive health care;
- Income support increases access to health care;
- Safety nets for orphans and vulnerable children can help cope with impacts of diseases, and protect them from HIV.

Source: adapted from World Bank (2003)

Another – and recently recognized<sup>9</sup> – aspect of safety nets is their relevance to climate change adaptation. For many developing countries, the consequences of climate change are numerous: changes in precipitation; more frequent, unpredictable and severe flooding; rises in temperature and their knock-on effects; rising sea levels (and, as a consequence, salinization); and more intense and prolonged drought. These consequences of climate change directly affect people (particularly the poorest) by intensifying shocks and stresses and making livelihoods more vulnerable. Given safety nets' ability to help poor people better cope with the consequences of stresses and shocks, it is clear that they can play an important role in adaptation to climate change.<sup>10</sup>

Despite their considerable potential as a policy instrument for poverty reduction in developing countries, safety net programmes are not in themselves a panacea for poverty eradication. They do not replace other development activities but are instead an essential element of a pro-poor strategy, effectively complementing investments in health, education and other sectors.<sup>11</sup> Safety nets strengthen the demand side of the service delivery continuum, either by making benefit payments conditional upon the use of public services or by providing households with income supplements that improve their ability to access services. By working on the demand side, safety nets complement – but do not replace – supply-side investments in infrastructure and service delivery in a broad range of sectors. Safety nets cannot substitute for economic growth in general. Social safety net programmes both reinforce and are strengthened by other interventions and policies. Indeed, a broad definition of social protection, such as that used in the UN's Social Protection Floor Initiative, includes both the supply side (services) and the demand side (transfers), underscoring the way in which safety nets dovetail into a holistic approach to poverty reduction.<sup>12</sup>

Although safety nets significantly contribute to reducing income/consumption poverty, they are not intended to single-handedly enable poor people to raise their incomes and consumption levels to a point where they become non-vulnerable. Safety nets (as illustrated in the diagram below) act as a floor, helping

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9 See OECD (2009).

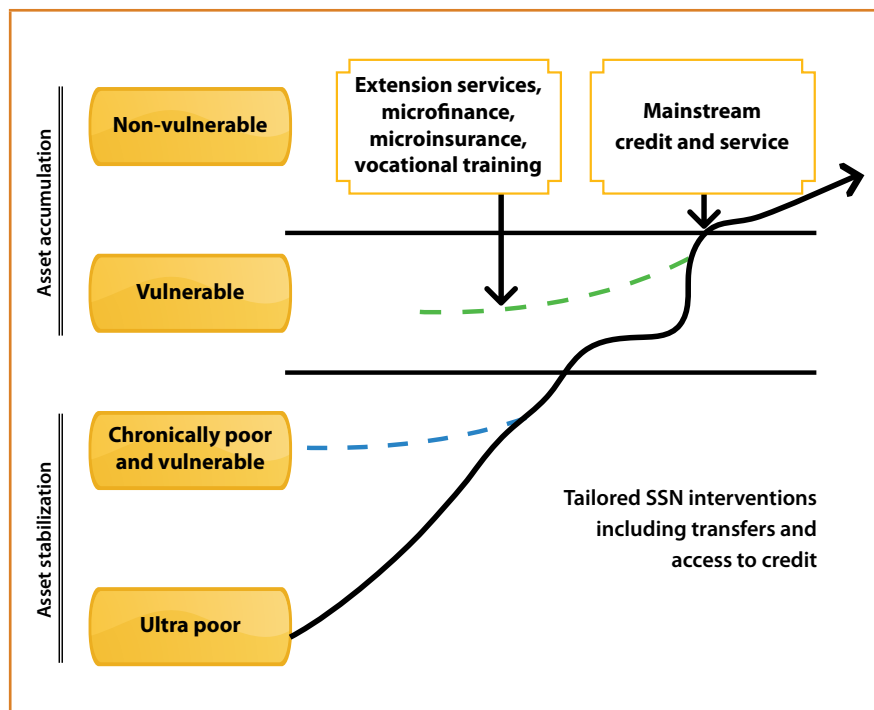
10 Interestingly, the World Bank's Social Development Department is intensifying its work on the linkages between climate change resilience, disaster risk reduction, and social protection. This will include reviewing Bank-supported work across this nexus to date, making contributions to the World Bank's Africa Region strategy for social protection (which is expected to include a stronger focus on these issues), preparing for a major conference in Addis Ababa in 2011 as a forum for South-South learning on the broad topic, and providing specific operational support in several regions (Robin Mearns, personal communication).

11 See EPRI (2006).

12 See UN (2009) [SPFI Fact Sheet].

people to better manage risks; seize opportunities (such as microfinance, microinsurance and agricultural extension services); and increase their incomes and build their assets.

**Figure 1: Safety nets and the wider poverty reduction context**



Source: adapted from Government of Ethiopia, Ministry of Agriculture and Rural Development (2009); and World Bank (2009f).

Figure 1 can be seen as either: (i) schematically depicting an individual household's graduation from chronic poverty or extreme vulnerability to reduced vulnerability (by accessing different types of services, from safety nets to extension); or (ii) as a synchronous snapshot of the kinds of intervention appropriate to households of varying degrees of poverty/vulnerability in a particular location. It is, however, important to note that 'graduation' may only apply to certain households; other households may require continued long-term support, like specific vulnerable group such as the elderly and disabled, which one should not expect to graduate.

## 3.2. Social safety nets

### 3.2.1. Informal safety nets and assistance in the past

This discussion paper focuses on publicly funded safety net programmes in developing countries. Nonetheless, it is worth bearing in mind that contemporary social safety nets are not always publicly funded, but are instead embedded in regular social processes and structures – these are sometimes referred to as ‘traditional’ or informal safety nets. Moreover, publicly funded safety nets have a long history. This section provides a brief overview of some informal (or traditional) safety nets and some examples of historically important public safety net programmes or initiatives.

#### ***Informal or socially embedded safety nets***

‘Traditional’ rural societies, in which people are regularly faced with livelihood-related risks and shocks (crop failure, drought, disease, and the like), are often characterized by coping mechanisms and other risk-sharing or risk-pooling strategies. Kinship-based networks and institutions, for example, assist individuals in times of stress or need. The ancestral halls and other associations established by the Chinese diaspora in South-East Asia are a striking example, often providing their members with an informal social safety net. Likewise, traditionally in Europe, early social protection schemes were either provided by churches, or at least partially motivated by religious movements. In other societies, there are well-entrenched norms about providing community members with assistance in the face of economic or other misfortune. In many parts of South Asia, the regular and significant remittances that migrant labourer send to their extended families can also constitute an important safety net. There are also numerous examples of traditional or socially embedded safety nets in sub-Saharan African societies.

However, the effectiveness of socially embedded, or traditional, safety nets in dealing with risks, shocks and chronic poverty is limited. Some traditional mechanisms are not particularly well suited to reducing chronic poverty, which, after all, has been an abiding feature of many Asian and African societies. Indeed, the chronically poor may simply not have access to informal safety net arrangements. Additionally, traditional safety nets may involve costs, such as expectations of reciprocal assistance at a later date or the establishment of patron-client relationships. Informal safety nets may offer short-term relief from shocks or stress, but may – in the longer term – reinforce social systems and structures that sustain inequalities and poverty. Finally, while informal safety nets may help in handling ‘idiosyncratic’ (or household-specific) risks/crises, they are usually inadequate in the face of ‘co-variant’ (or system-wide) crises, such as major economic downturns, widespread natural disasters or food price

inflation,<sup>13</sup> when very large numbers of people are vulnerable or at risk (and thus unable to help others). These inherent weaknesses in informal, or socially embedded, safety nets support the case for publicly funded social assistance. Nonetheless, public safety net programmes should recognize the existence of informal social assistance mechanisms and avoid undermining them.<sup>14</sup>

Box 2 provides an illustration of one of the better known traditional safety nets in Africa, as well as a sense of its limitations.

### **Box 2: Habbanae livestock reconstitution among the Wodaabe of Niger**

The livelihoods of Wodaabe nomadic pastoralists in Niger are largely dependent on livestock assets and production. Livestock provide the Wodaabe with directly consumable products, as well as a source of cash (through livestock sales) with which to purchase other food items and goods. Wodaabe livestock holdings, however, are vulnerable to drought and disease, which can decimate the herds and flocks of individual households. In the event of significant livestock losses, Wodaabe households use a variety of coping mechanisms, of which one of the most important is *habbanae*. *Habbanae* is a traditional system through which a household whose livestock holdings have been depleted through drought or disease is able to 'borrow' cattle from other kin for a period equivalent to three calvings, after which the cows are returned to their owners. The recipient household not only benefits from the milk produced by the borrowed cows, but is also entitled to keep the three calves in order to reconstitute its livestock assets. As such, *habbanae* is a traditional safety net mechanism that helps the transient poor to rebuild assets and, at the same time, meet some of their immediate consumption needs. The *habbanae* system, however, is more than a safety net: as a system of collective rights and obligations, it also creates and strengthens bonds and linkages between households and clans, and is thus a way of investing in social capital. In this respect, it is worth noting that young people (in most cases, young men) can also use the *habbanae* system to establish their own herds, prior to inheriting livestock from their parents.

Nevertheless, the *Habbanae* system is limited as a safety net. In the event of catastrophic drought and widespread livestock losses, there are simply fewer animals to be borrowed. The *habbanae* system is also explicitly based on deferred reciprocity: those who benefit now are expected to reciprocate at a later date. Finally, chronically and ultra poor households may have difficulties in accessing *habbanae* networks and benefits – they are typically the weakest links in any networks of social solidarity and may thus be excluded or distanced from existing social networks.

Source: Bonfiglioli, A. (1988): *Dudal. Histoire de famille et histoire de troupeau chez un groupe de Wodaabe du Niger*, Cambridge/Paris, Cambridge University Press and Editions de la Maison des Sciences de l'Homme).

13 See Cooke (2009); CARD, WFP and World Bank (2009); and, Morduch and Sharma (2002).

14 There is, however, little empirical evidence that publicly funded safety nets 'crowd out' informal mechanisms (see World Bank, 2009c).



### ***Safety net programmes – historical antecedents***

Despite the recent spate of publications on social assistance in the development literature, publicly funded safety nets are not new. Indeed, they were used – often extensively – in the past. One of the oldest on record is the *Alimenta*, established by Trajan, Roman Emperor from AD 98 to AD 117. The *Alimenta* system provided low-interest loans to farmers and subsistence allowances to poor children in Italy.

Some of the better known pre-modern safety nets were established in late medieval and early modern England. These safety nets were governed by the Old Poor Law, a series of acts dating back to the Elizabethan era. The Poor Law Act of 1601 made parishes responsible for the care and employment of the poor, the cost of which was to be borne by a form of local taxation known as the ‘poor rate’. Through the Old Poor Law, some 15,000 English parishes were expected to provide social assistance to the ‘impotent’ poor (the elderly, disabled, sick) and to provide work for the able-bodied, who were, by law, to be accommodated and fed in ‘houses of industry’ or ‘workhouses’.

The English Poor Laws had parallels elsewhere in early modern and more recent history, especially in the 20th Century, as ‘warfare’ states in Europe and North America gradually became ‘welfare’ states.<sup>15</sup> The German *Sozialpolitik* in the 1880s, under Chancellor Bismarck, laid the foundation for continental European social welfare systems and is considered the most significant role model for such systems worldwide. The socialist movement of the late 19th Century also played an important role in the development of the welfare state. Notably, the initiatives and work of social democratic city governments in Central and Northern Europe in the early 20th Century have become core features of the modern welfare state and is arguably a key reason why social protection came to be seen as a core state function over the past decade.

The examples are numerous: the establishment of welfare states in Scandinavia in the mid-1930s; Britain’s post-war welfare reforms, which led, among other things, to the National Health Service; US government interventions, such as the Tennessee Valley Authority during the 1930s and the first US federal food stamp programme, which began in 1939. Most Organisation for Economic Cooperation and Development (OECD) countries established their current social assistance programmes during the inter-war decades of the 20th Century – often in reaction to the economic shock of the Great Depression of the 1930s. Indeed, the development of modern welfare states in Europe and North America provides many examples of the different rationales underlying social assistance policies and programmes, and of the ways in which particular programmes have evolved into regular and rights-based public services.

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15 See Ferguson (2001).

### 3.2.2. Safety nets in general

This subsection examines some of the broad features and attributes of safety net programmes.

#### ***What do safety nets do?***

Well-designed and effectively implemented safety net programmes can achieve a number of important things.

Perhaps most obvious and important, they can immediately and tangibly contribute to the alleviation of extreme and chronic poverty by simply making it easier for the poorest and most vulnerable to survive and to access and use public services that they could not otherwise afford. A poor person in a poor country like Nepal or Uganda struggles to live on less than a dollar a day, and almost any sensible social transfer can make some contribution to alleviating those levels of poverty. In many countries, and especially in agrarian economies, the poor are subject to regular lean seasons, when food stocks are low and food prices are high. In conditions such as these, safety nets provide a degree of security.

More specifically, well-designed and properly implemented safety nets can:

- Help poor people better cope with the consequences of shocks and stresses, and thus ensure that they do not fall further into poverty. Whether in the form of longer term cash transfers or seasonal public works schemes, safety nets can help protect the poor and the vulnerable against the potentially crippling effects of crises and calamities.
- Help poor people gradually build up their assets. By bolstering incomes and/or directly providing assets, and by stabilizing consumption, safety nets allow households and individuals to increase their physical and human capital. Through safety nets and the cash or in-kind benefits that they provide, people become better able to cope with shocks and stresses, as well as more likely to access opportunities for increasing their income. The insurance provided by safety nets can help households avoid ex ante risk management decisions (such as planting low-risk but low-yielding crops) that ultimately lower their incomes.
- Safety nets also help people avoid recourse to negative coping strategies (such as withdrawing their children from school, cutting back on feeding their children, selling assets such as livestock or seed). By smoothing incomes and consumption levels during periods of stress, safety nets provide poor households with a floor, thus enabling them to maintain their present and future physical and human assets.



- Help poor people by strengthening their ability to escape from inequitable patron-client relationships. By providing a floor, safety nets can provide poor people with a more secure basis upon which to negotiate the terms of their relationship with others (such as landlords and employers).

### ***Who benefits from safety nets?***

Depending on their design and purpose, safety nets typically benefit:

- The chronically poor, who have very limited assets. Such people are highly vulnerable to any shock or stress and face enormous challenges in trying to build up their assets. Safety nets provide the chronically poor with income and consumption support, and can reduce their vulnerability and help them to build assets or avoid their recourse to coping strategies that make them poorer.
- The transient poor, who face regular and/or seasonal lean periods, or who have been pushed into poverty by a sudden shock. Safety nets can provide the transient poor with access to short-term relief, enabling them to survive a lean period without selling their assets or to rebuild their livelihoods

following calamity or disaster. Safety nets, if appropriately designed, can also help people on the edge of the poverty line avoid falling further into poverty due to shocks and stresses.

- Vulnerable groups, such as the elderly, the disabled, and orphans. Such groups have very limited opportunities to gain an income or maintain their consumption levels, largely because they are unable to work or have very few assets. Safety nets help vulnerable groups by providing them with a floor – a basic transfer (in cash or in-kind) that enables them to obtain food and other essential items.

Safety nets, then, are intended to stop those who are falling downward economically from becoming destitute, and to provide basic assistance or support to the chronically poor. They provide poor and vulnerable people with a cushion against shocks and stresses.

One of the key features of most safety net programmes is that they provide direct income and consumption support to the poor and vulnerable. This is what distinguishes them from other publicly funded pro-poor interventions, such as the many programmes that promote income-generating activities<sup>16</sup> through microfinance, producer group formation or revolving funds. Such income generation programmes<sup>17</sup> are unlikely to reach the poorest and most vulnerable, and often benefit only those who are in a position to seize economic opportunities. Precisely because poor and vulnerable people are typically excluded from group activities and are averse to taking risks by engaging in new activities or taking on credit, they are unlikely to benefit from income-generating activity programmes. Well-designed and properly implemented safety nets, on the other hand, can provide assistance to the poorest people and, over time, help them take modest risks and seize economic opportunities.

### 3.2.3. Safety net programmes in developing countries: categories and examples

This subsection provides a taxonomy of safety net programmes, along with some brief examples from the Asia-Pacific and Africa regions. It uses the basic taxonomy of safety nets that underpins the World Bank's recent overview of such programmes. Table 1 summarizes that taxonomy and some of the characteristics of each type of safety net.

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16 Such income-generating activities should be distinguished from safety nets that generate income or income proxies in the form of wages or in-kind remuneration, such as public works programmes. These types of safety nets are discussed below.

17 See Hobley and Paudyal (2008) for a critical, evidence-based, assessment of income-generating activities in Nepal.

**Table 1: A typology of safety nets**

Broad type of safety net	Objective	Examples		Typical beneficiaries	Features and attributes
		Generic	Country examples		
Social transfers	Aimed at boosting the incomes of poor and vulnerable people or providing them with free or subsidized access to food and/or other basic consumption items	Cash (or near cash) transfers (non-contributory pensions, food vouchers, disability and child allowances)	Nepal — pensions, child grants, single women's allowances	Disabled Elderly Children	<ul style="list-style-type: none"> <li>Usually categorical and unconditional; not inevitably pro-poor and subject to inclusion of non-poor; rights-based</li> <li>Easy to administer</li> <li>Assume that beneficiaries will spend allowances on food or basic services</li> <li>Not well suited to highly transient poverty</li> <li>Relatively high fiscal burden and low level of benefits per recipient</li> </ul>
		In-kind transfers (school feeding schemes, provision of food supplements)	World Food Programme-funded programmes	Poor households Children	<ul style="list-style-type: none"> <li>Direct benefits meet basic needs</li> <li>Inflexible benefits</li> <li>Organizationally complex</li> <li>Often include non-poor</li> </ul>
		General subsidies (for food, fuel, housing, utilities)	South Africa — municipal water utility subsidies; Middle Eastern and many Asian countries — energy and food subsidies	Poor households (but also many others since e.g. fuel subsidies will benefit all with a vehicle)	<ul style="list-style-type: none"> <li>Often include non-poor</li> <li>May not reach the poor (especially fuel and utilities subsidies)</li> <li>May create market distortions</li> <li>Often politically motivated</li> </ul>

Broad type of safety net	Objective	Examples		Typical beneficiaries	Features and attributes
		Generic	Country examples		
Income-generating schemes	<p>1. To create wage employment and thus provide cash incomes or in-kind remuneration to workers.</p> <p>2. To build or maintain useful public infrastructure (roads, soil and water conservation measures, flood control bunds, etc.) thus making a longer-term contribution to poverty reduction.</p>	Public works programmes with cash wages paid to workers	<p>Bangladesh – Rural Employment Opportunities for Public Assets;</p> <p>Ethiopia – Productive Safety Nets Programme;</p> <p>India – National Rural Employment Guarantee Act</p>	Unemployed Seasonally under-employed Poor households	<ul style="list-style-type: none"> <li>• Self-targeting in most cases</li> <li>• Contributes to creation or maintenance of public assets</li> <li>• Assume that beneficiaries will spend earnings on food or basic services</li> <li>• Usually only able-bodied poor and households with 'spare' labour can benefit</li> <li>• Organizationally complex</li> <li>• Seasonal in rural areas and well-suited to transient poverty</li> </ul>
		Food-for-work programmes with food rations used to remunerate workers	World Food Programme-funded programmes	Unemployed Seasonally under-employed Poor households	<ul style="list-style-type: none"> <li>• Self-targeting in most cases</li> <li>• Contributes to creation or maintenance of public assets</li> <li>• Provision of food as wages impacts directly on consumption deficits</li> <li>• Usually only able-bodied poor and households with 'spare' labour can benefit</li> <li>• Organizationally complex and logistically demanding</li> <li>• Seasonal in rural areas and well-suited to transient poverty</li> </ul>



Broad type of safety net	Objective	Examples		Typical beneficiaries	Features and attributes
		Generic	Country examples		
Schemes that protect and enhance human capital and access to basic services	To reduce both immediate income/consumption poverty and – by promoting household investments in human capital – inter-generational poverty	Conditional transfers through which poor households receive cash or in-kind transfers on condition that they comply with certain requirements (e.g. children's school attendance)	Cambodia – Education Sector Support Programme; Bangladesh – Female Stipend Programme	Children Mothers Poor households	<ul style="list-style-type: none"> <li>• Contributes to both long-term investments in human capital development and short-term support for consumption</li> <li>• Targeted at poorer households (with scope for exclusion/inclusion errors)</li> <li>• Not well suited to highly transient poverty</li> <li>• Organizationally complex</li> <li>• Relatively high benefit levels per recipient</li> </ul>
		Fee waivers, which ensure access to health or education services (e.g. school vouchers, educational stipends)	Vietnam – health waivers	Elderly Poor households	<ul style="list-style-type: none"> <li>• Linked directly to use of public services</li> <li>• Inflexible direct benefits</li> <li>• Targeted (with potential inclusion/exclusion errors)</li> <li>• Can be organizationally complex</li> </ul>

Sources: Adapted from: World Bank (2009c); Howell (2001); and UNCDF (2009).

These broad categories of safety net programme are described in more detail below.

***(i) Social transfers (cash or in-kind)***

Social transfers (cash or near cash transfers) are regular and predictable grants that are provided to vulnerable households or individuals.<sup>18</sup> Such transfers can take a variety of forms. For example, cash transfers can come in the form of pensions, widow allowances, disability allowances and child grants, while non-cash transfers can take the form of public subsidies for specific consumables (such as food or utilities), which indirectly increase the income available to poor households for spending on similar or other items. Social transfers can be either general (non-targeted) or targeted, and/or conditional or unconditional. Very broadly, social transfers are aimed at boosting the incomes of poor and vulnerable people or providing them with free or subsidized access to food and/or other basic consumption items.

Box 3 provides an example of non-contributory pensions and other types of social assistance in Nepal, while box 4 provides a brief summary of how municipalities in South Africa subsidize utilities as a way of providing poor households with less costly access to water.

**Box 3: Non-contributory pensions and other social assistance in Nepal**

There are relatively few unconditional and universal safety net programmes in the Asia-Pacific region, probably because such schemes are usually assumed to be unaffordable to low-income countries. Despite being one of the poorest countries in the region, Nepal has a publicly funded (non-contributory) old-age pension scheme that is intended to be unconditional and universal<sup>19</sup> – all people over the age of 70 are entitled to receive a monthly pension of NRs 500, or US\$ 7 (delivered in three instalments every year), with a lower eligibility age (60) for Dalits throughout the country and all citizens in the Karnali region.<sup>20</sup>

18 DFID UK (2005).

19 For more detailed descriptions and analyses of Nepal's old-age pension and other safety net programmes, see Ayala (2009); HelpAge (2009); Holmes and Upadhyaya (2009); and, World Bank (2004).

20 *Dalits* are low caste. The five districts that make up the Karnali region are considered the poorest in Nepal.

In addition to the old-age pension scheme, Nepal also operates three other unconditional cash transfer programmes: one for all unmarried women over the age of 60 (NRs. 500/month); one for all household members of a number of 'endangered' ethnic groups (NRs 500-1,000/month); and one for the fully and partially disabled (respectively NRs 1,000 and NRs 300 per month). Recently, the Government introduced a child grant of NRs 200/month for a maximum of two children (aged 0-5), for which all households in the Karnali region and all poor *Dalit* households are eligible. Finally, the Government recently decided to provide cash transfers to all poor single women under the age of 60.

These safety net programmes are fully funded from the Government's budget; the total cost of the old age pension scheme in 2006/07 (before it was significantly expanded by the Government in 2008/09) represented about 0.23 percent of gross domestic product. Nepal's old age pension scheme is implemented through the local government system, with Village Development Committees (VDCs) being responsible for enrolment, registration and payments.

Of the various social assistance schemes, the non-contributory pension is the best documented. A number of aspects of Nepal's safety net for the elderly can be highlighted:

- First, it is a relatively rare example of a safety net that is largely administered by local governments. As such, it provides a window through which to assess decentralized safety net implementation.
- Second, while it is clear that non-contributory pensions do reach the poor, their universal nature and intrinsic characteristics imply that there are large exclusion and inclusion errors. In other words, many of the poor do not benefit and it is not just the poor who do benefit: "The correlation between poverty and age in Nepal however is not a strong one ... the exclusion rate of the poor [is high] due to the high age limit and low life expectancy of the poor. [One author] estimates that only 10% of the pension population are poor."<sup>21</sup>
- Third, due to budgetary constraints and other administrative problems, it is by no means clear that the pension is genuinely universal – and there is considerable evidence that eligible beneficiaries are excluded as a consequence. VDCs do not always receive enough funds to provide universal coverage and are thus obliged to screen out (or, inversely, target) beneficiaries in non-transparent ways. It is estimated that only 76 percent of eligible older people received pensions in 2006.

Sources: Ayala (2009); LGCDP/DFID/UNCDF (2010); Holmes and Upadhyaya (2009)); Boland, J. and Whittington, D. (2003); and, UNDESA (2008).

21 See Holmes and Upadhyaya (2009).

#### Box 4: South African municipalities – Utility subsidies in urban areas

Most South African municipalities (and many municipalities in other countries) deliberately try to subsidize the delivery of water supply to the poor. This is frequently done through a tariff system known as ‘increasing block tariffs’ (IBTs), whereby consumers pay for their water based on consumption ‘blocks’, with the first block being free or less costly (per unit of water consumed) than subsequent blocks. In South Africa, the first block (per meter) covers water consumption up to 6,000 litres/month, and is free. Moreover, an IBT system usually differentiates between types of water-user, with residential users billed at lower unit rates than commercial or industrial users. One of the aims of such IBT tariff structures is to cross-subsidize the use of water by poorer households through the higher tariffs levied on those who consume more water (e.g. middle- and upper-middle- class households, commercial and manufacturing companies). This amounts to a form of social transfer.

The use of IBTs as a way of subsidizing municipal water supplies for the relatively poor has been criticized on a number of grounds:

- The IBT subsidy misses its mark, given that many poor households are not linked to the billable water supply system, and rely instead on wells, surface water and other sources for their water needs. The IBT subsidy can, therefore, be seen as redundant.
- For political economy reasons, the upper limit of the first block is often set at a level that benefits not only the poor (who do not consume much water), but also a good proportion of the middle class (who consume a great deal more water). If that is the case, then IBT systems are subject to a significant inclusion error.
- Because poor households may have shared connections to the water supply system, with several families using the same metered outlet (thus pushing consumption levels into the second or subsequent tariff blocks), they may actually pay more (per unit) for their water. If several households are sharing a metered connection and an IBT is in effect, water use by the group of households can quickly exceed the volume in the initial block, pushing water use into the higher priced blocks. To the extent that households sharing water connections are more likely to be poor than households with a private, metered connection, the IBT will have precisely the opposite effect from that intended: the poor will pay higher average prices for water than the rich.

Municipal IBTs in the water supply sector underline the classic problems associated with all systems of pro-poor subsidization: they may not actually benefit the poor, and – more often than not – they also benefit many of the non-poor.

Sources: Boland and Whittington (2003); UNDESA (2008); and, David Savage (personal communication).

## ***(ii) Income-generating programmes***

This type of safety net programme generally takes the form of labour-intensive public works, or workfare. The objectives are typically: (i) to create wage employment and provide cash incomes or in-kind remuneration to workers (focusing on employment creation, unemployment insurance or a minimum level of income guarantee); and (ii) to build or maintain public infrastructure (roads, soil and water conservation measures, flood control bunds, etc.), thus contributing to poverty reduction in the longer term. The importance of these two objectives varies considerably from programme to programme.

Some of the salient features of public works programmes are:

- They are usually self-targeting, in that the wage levels offered are intended to be attractive only to the poor, although there are important exceptions, as noted in box 5. Thus, most public works programmes do not require a parallel targeting process;
- Public works programmes are typically accessible only to the able-bodied poor, and to poor households that have 'spare' labour. Households headed by women or composed of the elderly or disabled may not be able to benefit from workfare schemes;
- Public works schemes are relatively costly as instruments for delivering transfers to the poor, both in terms of the costs of non-labour expenditures on construction sites and in terms of planning, supervision, monitoring and the like;
- There is often an innate tension between the infrastructure delivery purpose of public works schemes and their employment provision purpose. This may lead to two types of compromise: on the one hand, low quality or inappropriate infrastructure (where employment is the overriding consideration); and, on the other, lower levels of labour intensity (and thus less employment) because funds are used on non-labour items in an effort to ensure the quality of infrastructure;
- Public works schemes can be relatively robust instruments for dealing with transient or seasonal poverty, and also lend themselves to geographical targeting.

Boxes 5 and 6 provide examples of public works (or workfare) programmes in Ethiopia and South Asia.

## Box 5: Ethiopia's Productive Safety Net Programme

Ethiopia's national Productive Safety Net Programme (PSNP) is one of the largest social protection instruments in Africa and one of the biggest programmes of its type in the world. It provides cash or food transfers to nearly 8 million people. PSNP is one of the four components of a wider Food Security Programme. It is intended to provide transfers to the population in chronically food insecure areas in ways that prevent asset depletion at the household level and create assets at the community level. The programme, which began in 2005, operates in four of Ethiopia's regions, with pilots in two others. The vast majority of PSNP resources (approximately 85 percent) are provided as payment for participation in public works, with the remainder used to provide direct support to poor households without access to adult labour. The latter category of beneficiaries is effectively provided with an unconditional cash or in-kind transfer. Households receive PSNP benefits (cash, food or a combination) during the lean season, from January to June each year.

The public works component of PSNP provides seasonal employment to poor households. The types of public infrastructure that are built or maintained are identified through a bottom-up, community-based planning process. *Woredas* (or districts) and *Kebeles* (aggregations of villages) play an important role in facilitating this process: in aggregating community priorities, in design and costing, and in drawing up *Woreda*-wide plans and budgets. This is an important linkage between PSNP and local government.

PSNP workfare is targeted in two ways:

- To areas that are chronically food insecure (generally the Highlands);
- Unlike most other workfare programmes (which rely on self-targeting), PSNP actively targets the households that provide labour for public works activities, through a process of community-based identification of the poorest households with able-bodied labour. This targeting process is heavily facilitated by *Woredas* and *Kebeles*. The rationale for this is that: (i) in such chronically poor and food-insecure areas, very limited employment opportunities do not discourage people from taking part in public works – even at a very low wage rate; and (ii) there is a limited potential to lower the wage rate to a point where it would result in self-targeting, since doing so would compromise the objective of meeting the food needs of beneficiary households.

The members of targeted households provide five days of labour per month (for each member of the household) and are eligible to receive a transfer equivalent to 15 kilograms of cereals (in cash or as food). Those benefitting from direct support receive the same level of transfer as those who participate in public works activities. The choice of cash or food depends largely on the availability of grain in local markets – where local markets are unable to deliver food supplies, the food transfer option is used. There is, therefore, flexibility in the use of food/cash as transfers.

There are two noteworthy features of PSNP:



- The programme provides direct support for chronically food-insecure households without labour, such as the disabled or elderly. It therefore combines workfare with cash transfers;
- PSNP is explicitly linked to the Household Asset Building Programme, which aims to help poor people graduate from extreme poverty. Through the asset building programme, PSNP beneficiaries can access small-scale and low-interest credit (to acquire carts, livestock, extension packages) and training. PSNP beneficiaries are thus able to build household assets, as well as avoid depleting their existing assets.

Sources: PSNP (2009), Programme document; Government of Ethiopia (2009); and, Hobson (2009).

## Box 6: Public works programmes in South Asia

Although there are examples of public works programmes throughout the Asia-Pacific region, the best known are in South Asia. India and Bangladesh in particular have long-standing traditions of employment-based safety nets.

In India, one of the best known public works programmes is the State of Maharashtra's Employment Guarantee Scheme (EGS), which began in the early 1970s, largely in response to severe drought and the need to provide poor rural labourers with off-season employment. The EGS has been one of the largest employment-based public works programmes in history:

"The Maharashtra Employment Guarantee Scheme (EGS) is a massive, long-term, slowly evolving public programme, deeply institutionalised in the politics, public finances and public administration of a state that had a population of 79 million people in 1991. It is not a 'project', and is more usefully likened to major components of the welfare state programmes of OECD countries ... it is a big spending programme, targeted at the vulnerable poor, and created on the basis of broad domestic political commitment crystallised during ... a devastating drought (1972–74). The statistical magnitudes relating to the EGS are awe-inspiring. In the three decades after the scheme formally commenced in 1972, it financed 3,597 million person days of work on irrigation, soil and water conservation, reforestation, and local roads. This is an average of 120 million days a year, on hundreds of thousands of separate work sites. During its early years, 1975–76 to 1987–88, EGS provided an annual average of 10 workdays for every member of the rural labour force in the state. At its peak in the late 1980s, the EGS accounted for a fifth of the capital spending of the state government."<sup>22</sup>

Although Maharashtra's EGS has declined in importance since its heyday, it has been replaced by an even larger, national, public works programme – the National Rural Employment Guarantee Act (NREGA), formally enacted in 2005. NREGA (which was strongly influenced by Maharashtra's EGS) has a number of key features:<sup>23</sup>

<sup>22</sup> See Moore and Jadhav (2006).

<sup>23</sup> See the NREGA Operational Guidelines (3rd edition, 2008).

- The Act provides a legal entitlement of 100 days employment (in a financial year) to every household whose adult members volunteer for unskilled manual work. In the event that a household is not provided with employment within 15 days of its application for work, it will be entitled to unemployment benefit;
- NREGA has been progressively expanded to cover 200, then 330 and now all 615 rural districts in India. It is a nationwide programme;
- Wages paid through NREGA are set at the minimum wage rate and paid either on a piece or daily basis;
- At least 50 percent of works to be carried out are expected to be implemented by *Gram Panchayats* (local governments); *Panchayats* at district, block and gram levels are intended as the “principal authorities for planning and implementation” of NREGA-funded works, thus making NREGA the first major public works programme that vests significant resource control at the local government level;
- The kinds of public works that are to be financed are largely linked to soil and water conservation, afforestation, irrigation and flood control;
- A 60:40 wage-to-material ratio has to be maintained and contractors/ machinery are not supposed to be used;
- The central Government is expected to finance all wage costs of unskilled manual labour and 75 percent of any material cost including the wages of skilled and semi-skilled labourers.

The sheer scale of NREGA is daunting: in 2008/09, for example, a little over 45.5 million households requested employment and just over 45 million were actually provided with employment. On average, beneficiary households were provided with about 48 days of employment in 2008/09, with some 6.5 million households benefitting from 100 days employment. Expenditure on wages in 2008/09 amounted to roughly US\$3.64 billion.<sup>24</sup>

Bangladesh also operates a number of cash and food-based employment schemes. One of the better known was the Rural Maintenance Programme, which began in 1983 and ran until 2006. On an annual basis, the Rural Maintenance Programme provided some 42,000 poor but able-bodied women with year-round employment, working as Road Maintenance Associations (of 10 women) on 10-kilometre stretches of earth road. Wages were set at the going daily rate for farm labour. Women were selected for inclusion on the basis of specific criteria (e.g. size of landholdings, widowed or separated female heads of households). Union Parishads (local governments) were involved in the planning and management of road maintenance activities.

Sources: Moore and Jadhav (2006); World Bank (2009d); Ministry of Rural Development, India (2008); and, CARE (2006).

24 See the Government of India's NREGA website ([www.nrega.nic.in/](http://www.nrega.nic.in/)).

### ***(iii) Programmes that protect and enhance human capital and access to basic social services***

The best known (but perhaps most controversial) types of safety net programmes are conditional cash transfers (CCTs). These programmes were largely pioneered in Latin America, but are on the rise in Asian countries as well. CCTs seek to reduce both immediate income/consumption poverty and inter-generational poverty by promoting household investments in human capital.

CCTs almost invariably rely on some kind of targeting to identify beneficiaries. Targeting methods vary from simple geographical targeting (e.g. rural areas only), to community-based targeting, to the use of more sophisticated methods, such as proxy means testing or outright means testing. Typically, cash transfers are made on the condition that targeted households ensure that their children attend school or that household members (especially women and children) regularly use local preventive health care services. The rationale for these conditions is that compliance will lead to improved human development and to inter-generational poverty reduction. Box 7 provides some examples of education-oriented CCTs in Asia.

#### **Box 7: Conditional cash transfers in Asia**

Although conditional cash transfer (CCT) programmes are most common and best known in Latin America, there are several in the Asia-Pacific region. Examples include the Female Stipend Programme in Bangladesh and the Education Sector Support Programme in Cambodia.<sup>25</sup>

Bangladesh's Female Stipend Programme<sup>26</sup> (FSP) began as a pilot in a number of subdistricts in the late 1980s and early 1990s. In 1994, FSP became a nationwide programme. The programme aims to: (i) increase school enrolment among secondary-aged girls; (ii) improve the secondary schooling completion rate for girls; and (iii) increase female age at marriage. FSP provides a uniform stipend and tuition subsidy for each girl attending a secondary school in rural areas on condition that they: (i) attend 75 percent of school days; (ii) attain some level of measured academic proficiency (45 percent of class-level test scores); and (iii) remain unmarried. Although not without its critics, FSP is seen as contributing significantly to the enrolment of girls in secondary schools. Recent figures indicate that girls' enrolment – primary and secondary – is now about equal to that of boys. The net

25 And its pilot predecessor, the Japan Fund for Poverty Reduction scholarship programme for secondary school girls.

26 FSP has evolved over time and is made up of a set of Government and donor-funded projects and components. For details, see World Bank (2006); Raynor and Wesson (2006); and, Khandker et al (2003).

secondary gross enrolment rate is 45 percent for boys and 47 percent for girls (as of 2003). In 1991, girls accounted for only 33 percent of total secondary school enrolment; by 2005, girls accounted for 56 percent of total enrolment. FSP (which provides support to well over 2 million girls every year) is a major expenditure item, accounting for more than 60 percent of the country's secondary school development budget and about 13 percent of the total education sector budget.

In Cambodia,<sup>27</sup> the Japan Fund for Poverty Reduction (JFPR) scholarship programme provided girls from poorer or socially disadvantaged families with cash transfers (for three years) on condition that they made the transition from primary to secondary school, scored passing grades and were not absent from school "without good reason" for more than 10 days. The JFPR programme began its activities in 2003, covered 15 percent of Cambodia's lower secondary schools and provided scholarships to over 4,000 girls. Impact assessments indicate that the programme increased enrolment and attendance rates at eligible schools by roughly 30 percentage points. Moreover (and as a result of the programme's screening process), scholarship recipients were, on average, of significantly lower socio-economic status than non-recipients. In short, JFPR impacts have been largest among girls who come from poorer households, have parents with less education, and live farther away from a secondary school.

The JFPR approach has since been scaled up through Cambodia's Education Sector Support Programme, one component of which aims to provide girls and boys from poorer households with scholarships for junior secondary school education. Results to date indicate that scholarships have a large impact on attendance rates. Results also show that slightly more generous scholarships (US\$60/year) are not as cost effective as standard scholarships (\$45/year), but that scholarship recipients were doing no better than non-recipients in terms of learning. There is also evidence that the scholarships are relatively progressive, but that the programme does not appear to consistently reach the poorest and also includes a large number of the non-poor.

Sources: Raynor and Wesson (2006); World Bank (2006c); World Bank (2009b); World Bank [JFPR study] (2006); and, World Bank [Filmer and Schady on Education Sector Support Programme in Cambodia] (2008).

27 See World Bank (2006); and Filmer and Schady (2008) for analyses of Cambodia's secondary education scholarship programmes.

### 3.2.4. Safety nets: three frequently asked questions

This subsection looks at some of the questions that are often raised about social assistance in general. Safety net programmes are not without sceptics.

#### ***Are safety nets affordable in developing countries?***

Publicly funded safety net programmes cost money. Can low-income, developing countries afford to spend scarce fiscal resources on social assistance? How costly are safety net programmes?

Costs vary depending on a range of variables, including coverage and size of transfers. If a safety net programme were to systematically cover all poor households, costs would be high:

“For example, consider the extreme case of Ethiopia, where annual per capita income is about US\$100. 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.”<sup>28</sup>

In reality, of course, social safety net programmes would not be expected to include all the poor – but only a proportion of the poor and vulnerable. A study conducted by the International Labour Organization (ILO) provides an idea of what basic, nationwide social protection programmes would cost in developing countries (see box 8).

The ILO study indicates that a basic social safety net package is, in principle, affordable in low-income developing countries. The key issue, however, is not so much the cost of safety net programmes relative to gross domestic product (GDP), but their cost relative to other public expenditure items. Public spending on safety net programmes is a policy choice, and money spent on safety nets is money that cannot be spent on other public expenditure items. However, this is not a categorical ‘either/or’ question. Safety nets can be funded as well as other services and investments: the large welfare states in Europe do not fund social protection instead of education or infrastructure, but in addition to them.<sup>29</sup> Public funding for safety nets is a question of policy priorities – and thus very much dependent on the specific political context, although the scale of funding will depend on the overall availability of fiscal and other resources, *as well as* overall economic stability.

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<sup>28</sup> World Bank (2009c).

<sup>29</sup> *Ibid*

### **Box 8: International Labour Organization estimates for social security in low-income developing countries**

The ILO's cost estimate<sup>30</sup> study for national social security expenditures is based on a social protection floor consisting of the following elements:<sup>31</sup>

Universal old-age and disability pensions, provided to all people over the age of 65 and all working age people with serious disabilities. Such transfers would amount to 30 percent of annual per capita GDP;

Basic child benefits, paid to up to two children (below the age of 14) per mother; with cash or in-kind transfers set at about 15 percent of per capita GDP;

Universal access to essential health care, based on the supply-side provision of essential health care services;

Social assistance employment scheme, provided to those households that do not receive pensions or child benefits, with payments for 100 days work/year on the basis of a maximum wage of US\$1/day.

According to the ILO, the initial annual cost of such a basic social protection package is estimated to be in the range of 3.7 to 10.6 per cent of GDP (at 2010 prices), depending on the country. Of the 12 countries included in the estimates, six (all in Africa) would spend more than 6 percent of GDP. Essential health care constitutes the largest cost component in the total social security package in most of the countries in the study. To put these estimates in perspective, the total public expenditure (as a percentage of GDP) of the countries included in the ILO study range from a low of 14.1 percent (Bangladesh) to a high of 29.8 percent (Viet Nam). Education sector expenditures (as a percentage of GDP) vary from a low of 2.2 percent (Tanzania) to a high of 7.0 percent (Kenya). As such, a 'basic' or 'floor' social security package would cost considerably more than is currently spent on social security by low-income countries, which rarely spend more than 3 percent of GDP on health care and rarely more than 1 percent of GDP on non-health social security measures.

Sources: ILO (2008); IMF Article IV Consultation Reports ; UNESCO statistics; and, World Bank statistics.

Box 9 summarizes the World Bank's thinking on the subject of financing safety net programmes.

30 See ILO (2008). The cost estimates were based on case studies of seven African and five Asian countries: Burkina Faso, Cameroon, Ethiopia, Guinea, Kenya, Senegal and the United Republic of Tanzania (Africa) and Bangladesh, India, Nepal, Pakistan and Viet Nam (Asia).

31 International Labour Organisation (ILO): Can low-income countries afford basic social security?, Social Security Policy Briefings, Paper 3.



## Box 9: The 'bottom line' on funding safety nets

Even when safety nets are considered appropriate instruments for poverty reduction or for reducing vulnerability, they face budget constraints. Policymakers need to make difficult triage decisions about how to allocate inevitably scarce fiscal resources 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."

Source: World Bank (2009c).

There are, however, also important political economy dimensions to be taken into account when discussing the affordability of safety net programmes. These are discussed below.

### ***Do safety nets generate perverse incentives?***

Social safety nets may generate perverse incentives and lead to suboptimal outcomes. The most frequently cited concerns relate to the labour market and population growth. With respect to the labour market, cash transfers may discourage people from seeking wage employment (because they have access to cash transfers and consequently do not need employment income) or may encourage households that are not eligible to work less in order to become eligible for benefits. With respect to population growth, cash transfers may encourage people to have more children to gain more child benefit grants. There are also other potentially perverse incentives that can be generated by safety net programmes, mainly linked to the way in which people might behave as a consequence of them.

Safety nets can be designed to counter these perverse incentives or minimize potentially perverse outcomes. With respect to the labour market and to child benefits, social safety net programmes in developing countries effectively mitigate against perverse incentives in a number of ways, including:

- By providing modest or limited transfers to beneficiaries. Cash or in-kind transfers thus complement, rather than substitute for, the earnings of able-bodied recipients.
- By targeting categories of people (the old aged, people with disabilities, etc.) who are unlikely to work anyway.
- By ‘capping’ the cash transfer (as in Nepal, where the new child grant is only paid for a maximum of two children per mother).
- Through workfare programmes, by providing the able-bodied poor with employment opportunities that are made available at below or equivalent to minimum wage levels.
- By ensuring that receiving benefits from one programme does not disqualify households from eligibility in another programme.
- By ensuring national standards and norms for levels of benefit so as to mitigate against ‘welfare migration’ (see below).
- By providing incentives for households or individuals to graduate from safety net programmes.
- By being transparent about the objectives of given policies, allowing criticism, funding independent research and remaining attentive to ongoing policy review and improvement.

On the other hand, there is little in the way of empirical evidence to demonstrate that cash or in-kind transfers lead to such perverse outcomes. Indeed, evidence from South Africa points to the opposite: that the members of households benefiting from cash transfers (in the form of pensions and child grants) are more active in seeking employment than people in households that do not receive cash transfers.<sup>32</sup>

Similarly, Mexico’s *Oportunidades* programme (previously known as *Progresa*) might be expected to discourage work. *Oportunidades* provides cash transfers to poor rural families in Mexico, conditional on their participation in health and nutrition programmes, as well as their children’s school attendance. By 2004 the programme reached nearly 5 million families, providing an average (and significant) monthly payment equivalent to 20 percent of household spending on consumption. Although a programme providing such relatively large transfers to so many households might be expected to discourage work, a recent impact evaluation<sup>33</sup> shows that the programme has had no significant effect on adults’ choices regarding work, in both eligible and non-eligible households.

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32 See Samson (2006).

33 See Skofias and Di Maro (2008).

### ***Are safety nets politically acceptable, and if so, in what form?***

Are safety nets ‘politically’ or ‘ideologically’ acceptable and, if so, in what form? Because publicly funded safety nets almost always imply some kind of redistribution between the wealthier and the poorer, they are usually subject to political debates concerning their appropriateness. In some countries, for example, there are deeply entrenched views about the ‘undeserving able-bodied poor’ and the extent to which the poor can expect to receive ‘handouts’ from the state.

In such cases, there may be political imperatives for restricting safety net programmes such as cash transfers to a small number of the manifestly disadvantaged (the old, orphans, the disabled), to exclude the able-bodied poor,<sup>34</sup> or to deliberately target the able-bodied poor on the grounds that they are more likely to graduate. In other countries, safety net programmes are often designed on a highly categorical basis (e.g. non-contributory pensions for all people over a certain age, irrespective of their level of poverty or well-being), on the grounds that this is less socially divisive or more politically acceptable than a more targeted approach.

Although political economy issues are often set aside in technical discussions about social assistance and specific types of safety nets, they cannot and should not be ignored.

#### **3.2.5. Safety nets: some key issues**

Experience over recent years has shown that the selection, design and implementation of safety net interventions usually require a good deal of thought about some key issues. A non-exhaustive set of the more important issues is briefly discussed in this subsection.

#### ***Exclusion and inclusion errors***

Safety net programmes are subject to exclusion and inclusion errors with respect to the way that they provide the poor (or non-poor) and vulnerable with social assistance.

Exclusion can have two dimensions: exclusion resulting from implementation, and exclusion by design. The first concerns the extent to which the people who are intended to benefit from transfers actually do so. A safety net programme that aims to assist poor families with children of a given age but which – in practice – only provides transfers to a small proportion of such families, is one with a high exclusion error. CCTs are sometimes thought to have high exclusion errors, partly due to their use of selective targeting mechanisms (which may not identify all the poor) and partly because their use of conditionalities may be ‘punitive’ for certain poor households.

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34 See ODI (2009g).

A second, and less commonly discussed, dimension of exclusion is the extent to which a given safety net programme excludes large numbers of the poor or vulnerable by design. Public works programmes, because they require people to provide manual labour in exchange for wages, usually exclude poor households that do not have spare, able-bodied labour (e.g. women-headed households, households headed by the disabled). Non-contributory pensions face the same type of exclusion error – by definition, poor households that do not include the old do not benefit from pension payments.

Inclusion errors occur when a given safety net programme provides benefits to the non-poor as well as the poor. Means-tested or targeted safety net programmes are often thought to have an inclusion error due to badly designed or poorly implemented targeting mechanisms – community-based targeting is sometimes seen as especially prone to inclusion errors. ‘Universal’ cash transfers are certainly subject to significant inclusion errors. The provision of child grants to all households with children 0-5 years old, for example, will almost inevitably include a good proportion of non-poor households.

No safety net programme, whether by design or through implementation, is likely to be free of exclusion or inclusion errors. The challenge, of course, is to find ways of minimizing such errors and in particular, avoid systematic errors. Although the aim would be to minimize both types, it is often difficult to minimize both at the same time, and priorities must then be set. Exclusion errors, for example, can be reduced by introducing robust grievance mechanisms through which the excluded can press their claims for inclusion, or by increasing the number of poor people who would be eligible to receive transfers. Inclusion errors can, in theory, be reduced by some form of targeting or by making eligibility conditions unattractive to the non-poor (as in public works programmes, where wage levels are set low or in apparently universal schemes that require time-consuming registration procedures, such that the transaction costs are high enough to discourage the better-off from applying).

### ***Targeted approaches and universalism***

There has been much debate about the relative virtues and drawbacks of deliberately targeting the poorest. Targeting has the theoretical advantage of providing social assistance benefits to a smaller number of people: when only the poorest quintile of a population receives benefits, there is either a potential for cost savings or a potential to increase the level of transfers (so as to have a greater impact). Targeting is intuitively appealing. However, targeting can be administratively costly and may result in higher transaction costs for potential beneficiaries. Furthermore, targeting is never 100 percent accurate, and may not be socially or politically acceptable. These issues need to be carefully thought through in deciding whether or not to use targeting within a safety net programme. Table 2 provides more detail on some of the issues that should be examined in assessing various targeting options and methods.

**Table 2: Criteria for assessing targeting methods – an example**

Evaluation criteria	Community-based targeting	Proxy means testing
Targeting effectiveness	By design it is supposed to reach all the poor / vulnerable in the community.	Effectiveness in reaching the poor can vary greatly with the country context, overall poverty rates and the percentage of the poor that is supposed to be targeted. More effective in excluding the non-poor than categorical or universal targeting.
Implementation errors	Can become easily politicized and hijacked by local elites. Communities have more accurate information about the characteristics of beneficiaries but they might not be interested in revealing it.	Depending on the number and nature of proxies selected, implementation is often challenging and requires well-trained personnel.
Community cohesion	Can create community consensus and buy-in or lead to community conflicts if decisions are not unanimous and influenced by community leaders.	Can upset community cohesion if criteria are too manifold and difficult for beneficiaries to understand.
Political acceptance	Depends to what extent communities are trusted with this task and how narrowly the programme is targeted.	Depends on the political regime and how narrowly the programme is targeted. Very narrow targeting might translate into less political acceptance by the middle class and subsequently lower benefits, while a stronger pro-poor focus might equally reassure the middle class of greater social stability.
Perverse incentives	Community selection process is not just based on household assets and income that is visible and can therefore be open for other non-neutral criteria for selection.	Lower potential as a multitude of criteria cannot be so easily manipulated by beneficiaries.
Stigmatization	Potentially high if classification is discussed and agreed upon by all community members.	Higher than categorical targeting as programme is more narrowly targeted to the poor, but potentially less than with community-based targeting as the poor are not directly selected by fellow community members.
Costs	Usually chosen because of the lower costs of employing community structures to carry out the targeting exercise instead of a government officer or external person; but costs are often transferred to the community. Depending on the nature of standardization and follow-ups, administration could become more complex and expensive.	Depending on the number and nature of proxies selected, administration can become quite complex and expensive.

Source: adapted from Schüring (2010).

Self-targeting can be a powerful alternative to administrative targeting. Examples of self-targeting include setting wages at a low rate; implementing public works programmes, which are usually attractive only to the poor; and subsidizing particular commodities (such as yellow maize, red sorghum or coarse cereals in some countries), that are likely to be consumed only by the poor. However, the use of this particular method is largely limited to public works programmes and it only works if the market wage is equal to or close to the minimal wage.

In contrast to targeting, universal/categorical approaches (which provide social assistance to socio-demographic categories, or categorical targeting within which there are likely to be significant numbers of poor people) are often seen as administratively simpler, less costly to manage, subject to fewer exclusion errors, and in many (but not all) countries more socially and politically palatable. In addition, a commonly used argument in favour of providing the service to all is that the middle class may be more prepared to contribute through taxes if they also will receive part of the benefit. Universal/categorical approaches may, however, be more costly in terms of the overall size of transfers (because of larger numbers of beneficiaries); may result in lower levels of transfer per recipient (in order to reduce the overall fiscal burden); and are subject to greater inclusion errors (everybody within a given socio-demographic category benefits, and not just the poor).

Universal/categorical approaches are also subject to exclusion errors because poor people who do not fall into the particular category of eligible beneficiary (e.g. the non-old in the case of pensions) are not eligible. In addition, in some countries, universal and categorical approaches may not correspond to prevalent political views, which may favour targeting as a better way of tackling entrenched economic inequalities. Furthermore, some categorical approaches, such as making cash transfers available to particularly disadvantaged castes or ethnic groups, may not only entrench social identities, but may also actually promote identity politics in ways that can be divisive in the longer term.<sup>35</sup> Finally, universal programmes will, by design, provide a higher level of income to all, including the non-poor; hence they are unlikely to reduce the overall gap between different income strata of the society, unless they are combined with a very progressive taxation system.

### ***Conditionalities***

There has been an increased interest in CCT programmes in developing countries over the past 15 years. The role of CCT programmes in social policy varies from country to country and consequently CCT design, coverage and

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<sup>35</sup> The case of unconditional cash transfers to Dalit households in Nepal is perhaps one example of this (Neil Webster, personal communication).



content differ a great deal. The key idea with CCTs is that payments are made to the beneficiary or household on the condition that those households invest in the human capital of their children in certain pre-specified ways usually linked to the use of educational or health services. Some programmes require that households receiving transfers comply only with either health or schooling conditions, while others require that households comply with both in varying forms. CCT programmes usually target their beneficiaries rather narrowly to the poor through a combination of geographic and household targeting (mostly via proxy means testing) and/or community-based targeting.

The use of conditionalities in safety net programmes is the subject of much debate. CCTs, in particular, are seen by many as unethical, inequitable, of limited added value and costly to administer and implement. The conditionalities may seem punitive or unethical in a number of respects. It may not be possible for households to comply, for example, with school attendance conditions due to factors that are outside their control, such as distant or non-existent schools or cultural precepts about schooling for girls.<sup>36</sup> CCTs tacitly assume that the supply side (accessible schools, proximate health services) is adequate. If, for example, there are no readily accessible schools, a school enrolment and attendance conditionality becomes highly punitive for poor households and effectively excludes them from any cash transfers. Furthermore it could be added that the conditionalities are merely focused on access (attendance) rather than on the quality of the service and actual desired goal, which is children learning something worthwhile. Some would argue that CCTs are generally not appropriate in low-income, developing countries, given that such supply-side constraints are relatively common in such countries. Moreover, is it fair to impose compliance with behavioural conditionalities on the poor? Finally, CCTs can be seen as costly since they require relatively sophisticated monitoring of compliance with conditions.

On the other hand, conditionalities may well be a way of encouraging households to invest in the future, rather than focus entirely on current and pressing consumption needs. Although available evidence shows that both unconditional cash transfers and CCTs have a positive impact on human capital outcomes, the outcomes are stronger for the CCTs.<sup>37</sup> For example, there is evidence that CCTs contribute to improved school enrolment and attendance rates among the children from recipient households, however, it is difficult to determine whether this is a direct impact of the conditionalities themselves or simply the cash transfer. At the same time, there is not much evidence that CCTs lead to better educational or health-related outcomes. For example, children

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36 Workfare, which is a type of conditional cash transfer, is also sometimes seen as unethical: Why make poor people work to access social assistance?

37 World Bank (2009b).

from families that receive conditional cash transfers do not appear to do better at school than other (non-beneficiary) children.<sup>38</sup> The evidence is inconclusive. Finally, in some countries, CCTs may be politically appealing: many observers of CCT programmes believe that the use of conditions has been important in garnering political support and that this has resulted in much larger social assistance budgets than would otherwise have been the case.

In discussing CCTs, it is also important to look beyond the overt behavioural conditionalities (e.g. school attendance) and take a more nuanced approach, as illustrated in box 9.

### **Box 9: Dimensions to conditionalities**

“While most conditional cash transfer around the world focus on conditionalities in the area of education and preventive health care services, conditionalities vary considerably in the way they are designed and implemented. Eight broad dimensions can be identified, along which conditionalities differ: 1) the time when they are placed (ex-ante vs. ex-post conditionalities), 2) how explicitly they are mentioned (direct vs. in-direct conditionalities), 3) whether there are any exemptions to the conditionalities (conditionalities for all vs. for a sub-group), 4) whether they are tied to output or outcome (activity vs. results-oriented conditionalities), 5) whether they are tied to the entire welfare payment or to a supplementary transfer (conditionalities as a ‘stick’ vs. a ‘carrot’), 6) how often beneficiaries have to comply with them (regular vs. once-off conditionalities), 7) to what degree they are monitored (regular monitoring vs. spot-checks) and 8) finally enforced (punitive vs. developmental vs. soft conditionalities).”

Source: Schüring (2010).

### ***Cash or in-kind transfers?***

Over time, safety net programmes have increasingly relied on cash – rather than in-kind – transfers. Cash is easier to manage and provides beneficiaries with greater choice in terms of consumption. However, a reliance on cash transfers as a way to bolster consumption assumes that markets function reasonably well and that basic commodities are available and affordable. It also assumes that the cash is spent on items that will improve the overall welfare of the household. This may not always be the case. To counter this, there is an overall trend to provide cash benefits to a female member of the household; by giving control of the cash to a female it is assumed that it is more likely to be spent on items that are in the interest of the child/children and the household as a whole.

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38 See World Bank (2008) – Filmer and Schady (Cambodia ESSP study).

In-kind transfers – typically food – are generally more costly to manage than cash transfers. Safety nets involving in-kind transfers must handle the logistics and costs of moving bulky commodities, which typically results in a limited number of distribution points (and thus potentially higher transaction costs for beneficiaries). On the other hand, in-kind transfers may be the only option in the case of market failures or in situations where food price inflation is high (thus eroding cash purchasing power).

### ***Administrative costs***

Safety net programmes differ in terms of their administrative costs, and these differences are sometimes used to argue in favour or against particular types of safety nets. The general consensus is that public works programmes are the most costly types of safety net to manage and implement. They usually require expenditures (e.g. equipment, skilled labour) other than wages for manual labour, as well as a good deal of expenditure on planning, design and costing, and technical supervision. Programmes that use in-kind transfers are also likely to be more costly than cash-based transfers since they often involve high transport and distribution costs. Relatively simple, unconditional/categorical cash transfers tend to be the least costly types of safety net programme. CCTs, on the other hand, may require significant up front expenditure during start-up – but may become more cost-efficient over time, as they are expanded and capture economies of scale.

### ***Comprehensive safety nets***

In a good deal of the readily accessible documentation on safety net programmes, there is a tendency to discuss ‘options’ in terms of stark binaries, as ‘either/or’ rather than as ‘and/or’. This sometimes appears almost ideological and doctrinal. A more balanced approach<sup>39</sup> would be to conceptualize an overall safety net made up of several programmes, each of which aims to provide social assistance to specific socio-demographic groups, and each of which, correspondingly, may opt for appropriate (albeit different) approaches to do so. Given the spectrum of poor and vulnerable people – the chronically poor, the transient poor and the particularly disadvantaged – a pluralist approach is more than reasonable.

## **3.3. Summing up and setting the stage**

Safety net programmes can and do make an invaluable contribution to poverty reduction and the attainment of the MDGs. They should be seen as a major plank in any poverty reduction strategy and as especially appropriate for the very poor

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<sup>39</sup> This is the perspective in the World Bank’s *For Protection and Promotion* (2009c), which presents a balanced approach to safety nets.

and highly vulnerable. But safety net programmes should be seen as a set of inter-linked programmes making up an overall social protection framework in any given country. Safety net programmes should not be viewed in isolation, but as part of a wider policy and service delivery system.

This discussion paper also argues that each of the three major categories of social safety nets described in this section has its own more or less distinctive objectives and target groups, and the decision to focus on one or the other, or a mix of them, depends on what each country is trying to achieve with its social protection initiatives.

Turning to issues related to the delivery of safety nets as public services – especially defining and distinguishing between subnational and national service delivery functions – it is analytically helpful to categorize safety nets according to two dimensions, focussing on conditionalities and access.<sup>40</sup> The combination or mix of these dimensions has different organizational and institutional implications. The two dimensions are:

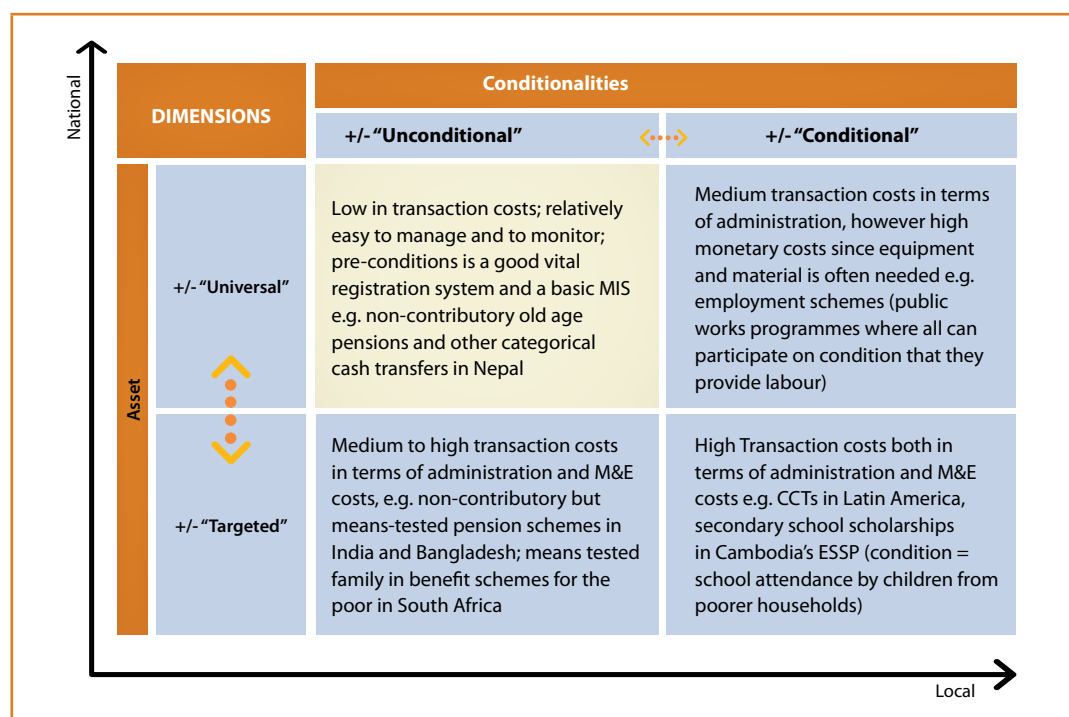
- The extent to which safety nets are conditional or unconditional. Virtually all safety net programmes involve some degree of conditionality, but this can vary from simple residency or nationality requirements (the minimum condition for virtually all safety nets) to the more complex conditionalities of CCTs. As conditions become more demanding or more stringent, transaction costs usually increase for both beneficiaries and safety net programmes themselves. The challenge becomes making a reasoned judgement as to whether higher transaction costs (which may translate into higher administration costs) are worthwhile given the added benefits or value-added outcomes resulting from more conditions.
- The extent to which safety nets are universal or targeted. The universal/targeted dimension is relative to poverty. A (more or less) universal safety net programme is one that is not administratively targeted at the poorest or poorer, but at a socio-demographic category that may include varying numbers of poor people, but exclude others. Targeted programmes, on the other hand, explicitly focus benefits on poorer households or individuals. Both approaches have their virtues and drawbacks. It is fair to say that the more targeted the approach, the greater the effort needed to implement it – although the increased effort may pay off in terms of efficiency and poverty reduction gains.

Figure 2 tries to capture different safety net programmes in view of both these dimensions. It provides a typological framework within which to compare different programmes and approaches, and is intended to facilitate analysis and discussion.

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40 There are clearly other ways to compare safety net programmes. The dual dimensions used in here are nonetheless important for the purposes of highlighting local versus national issues.

**Figure 2: A two-dimensional typology of safety net programmes**



As safety net programmes become more targeted and conditional, they tend to become more complex. Hypothetically, transaction costs increase in the same way. More complex programmes with higher transaction costs may involve more functions and subfunctions than simpler safety net programmes. As discussed in section 4, this may mean that they provide more space for more actors (including local government) to become actively involved in implementation.

For the purposes of this publication, it is important to note that publicly funded safety net programmes are one among many public services, which – like all public services – involve a wide range of functions and subfunctions in their delivery (e.g. setting policy, defining standards, financing, planning, beneficiary selection, monitoring and evaluation, payments, etc.). In other words, safety net programmes can be 'unbundled' into a range of interrelated but analytically distinct activities. These activities may be handled by a single institution (such as a government ministry), but may also be assigned, based on comparative advantage, to different institutions, organizations and levels of government. It is precisely by looking at safety net programmes in terms of their nuts and bolts that the role of local government becomes clearer – and it is to decentralization and local government that the next section now turns.



4



# Decentralization and local governance

This section provides an overview of the decentralization of service delivery and local governance. By necessity, it is a brief and incomplete treatment of what is a complex subject. Nevertheless, it will provide some context for subsequent discussions about the interface between local government and the delivery of social safety net programmes.

## 4.1. Types of decentralization and decentralized service delivery

Decentralization is commonly defined as the transfer of authority and responsibility for public functions from the central government to subordinate or quasi-independent government organizations, including local government.

There are three broad types of decentralization:<sup>41</sup>

Deconcentration is often considered to be the weakest form of decentralization and is used most frequently in unitary states. Through deconcentration, decision-making authority and financial and management responsibilities are distributed among different levels of the central government. It can shift responsibilities from central government officials in the capital city to those working in regions, provinces or districts. Alternatively, deconcentration can create a strong field administration or local administrative capacity under the supervision of central government ministries. The staff are accountable to the centre and the regional /local administration have no or very limited discretion about how the services are provided, and no independent revenue source. In other words, the regional/ local agencies are seen as service delivery arms of the centre.

Delegation is a more extensive form of decentralization. Through delegation, central governments transfer responsibility for decision-making and administration of public functions to semi-autonomous organizations/bodies that are not wholly controlled by the central government but are nonetheless accountable to it. Governments delegate responsibilities when they create public enterprises or corporations, housing authorities, transportation

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<sup>41</sup> See Tidemand and Steffensen (2010), upon which this paper bases its typology of decentralization.



authorities, special service districts, semi-autonomous school districts, regional development corporations and special project implementation units. They may also delegate functions to local governments. Usually these organizations have a degree of discretion in decision-making. However, the centre can withdraw and overrule the decisions of the agencies/ local governments/ organizations at any time.

Devolution occurs when governments transfer authority for decision-making, finance and management to quasi-autonomous units of local government with corporate status. Devolution usually transfers responsibilities for services to local governments that have elected mayors and councils, raise their own revenues and have independent authority to make investment decisions. In this model, local governments are expected to be accountable to the local electorate. Local governments are given responsibilities and financial means, typically within certain national levels and ceilings, to determine the scope and quality of services to be provided, and the source and the size of funds to finance the delivery of those services. In a devolved system, local governments have clear and legally recognized geographical boundaries over which they exercise authority and within which they deliver public services. In its pure form, this type of decentralization provides local governments with significant autonomy.

The following table compares these three forms of decentralized service delivery across a range of aspects.

**Table 3: Deconcentrated, delegated and devolved service delivery**

Aspect of the service	Deconcentrated task	Delegated/agency task	Devolved function
Instrument	Ministerial decrees and circulars.	Law, regulation, government decree or ministerial decree/ circular.	Constitution, law and related regulations.
Source and receiver of authority	From Ministry, "delegated" to its own dispersed branches.	Representative body or ministry/agency to local authority (or parastatal/ semi-independent bodies).	State, or representative body of higher level to local authority.
Funding	From ministry to its branches directly (does not show in local authority budget).	From the assigning entity to the local authority (shows in its budget).	Receiving level (assigned revenues or block or conditional grants).

Aspect of the service	Deconcentrated task	Delegated/agency task	Devolved function
Staffing	Branch staff are central level civil servants, part of the ministry establishment. Their duties may include coordinating with local authorities.	Local authorities or semi-independent bodies have own staff, but operate under a national framework. May also use seconded staff of central government.	Local authorities have own staff, but operate under a national framework; considerable discretion in hiring, firing, size of establishment etc. May also use seconded staff of central government, who are treated essentially as local authority staff.
Internal organization discretion	Branches are structured by the ministry, though often approved at cabinet or higher level.	Local authorities or semi-independent bodies can shape their units within a national framework and handle tasks in units of their choosing.	Local authorities can shape their units within a national framework and handle functions in units of their choosing.
Implementation discretion	Variable but usually limited by ministry regulations, procedures, standards and instructions.	Considerably constrained by policy, procedures and standards set by assigning entity; some discretion on implementation.	High degree of discretion, but may be limited somewhat by national standards.
Reporting/accountability	To ministry headquarters.	Primarily to the assigning entity, but also to the local council and citizens.	Primarily to citizens of receiving level, through the local council and directly; vertical accountability remains and in principle is more pronounced in early stages of decentralization.

Source: Ferrazzi (2006).

In reality, different forms of decentralization are likely to coexist and systems of service delivery generally represent a mix of some of the above forms. In

practice, they can often overlap – particularly with regard to delegation and devolution, where a delegated functional task may be subject to relatively loose central government control and guidance and thus can blur into a more or less limited degree of devolution. Moreover, when service delivery is unbundled into different functions and subfunctions (e.g. financing, planning, setting norms, procurement, payment, etc.), there can be a mix of delegation and devolution, depending on the function or subfunction.

In discussing safety net programmes as a service delivery function, these distinctions should be remembered, as seen below.

## 4.2. Local governance and local governments

### 4.2.1. Local governance

‘Local governance’ (as opposed to ‘local government’) refers to the ways in which local-level decision-making is carried out. The term ‘good local governance’ is more normative, and implies that decision-making in the arena of local public affairs is – to varying degrees – participatory, rule-bound, open and transparent, and subject to scrutiny and oversight by citizens. Local governments are merely one dimension (albeit an important one) to local governance as a whole.

### 4.2.2. Local governments

‘Local governments’ are formal institutions, mandated to deliver a variety of public goods<sup>42</sup> and services at the local level. In a sense, they constitute the local state. The assignment of service delivery responsibilities to local governments is largely predicated on the principle of subsidiarity, which suggests that government functions should be assigned to the lowest level of government that is capable of efficiently undertaking those functions. In essence, if a small local government can efficiently provide pre-school services, then it should – according to the subsidiarity principle – be assigned that responsibility.

Application of the subsidiarity principle generally results in a situation where, as far as possible, the area where the benefits of a public good or service are felt coincides with the jurisdictional boundaries at each level of government. For instance, since national defence benefits citizens throughout the national

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42 Or ‘merit goods’, such as education or drinking water. The rationale for public funding of theoretically private goods like drinking water, education or curative health services is that not only do they generate large positive socio-economic externalities that benefit the community and the nation, but they will not be adequately supplied to the poor by the market. Basic health, education, water, infrastructure and services are termed ‘merit goods’ because they are private goods that society judges to be worthy of subsidizing with public funds.

territory of a country, this expenditure function should be a national one, funded by the central government. However, since the benefits from a local park are mostly felt by local residents, the responsibility for local parks should be placed with local governments. Making judgements about what local governments should (and should not) do is largely linked to considerations about economies of scale and externalities.

Local governments in the Asia-Pacific and Africa regions vary considerably across a range of dimensions. Recognizing this is fundamentally important when looking at the role of local governments in addressing social protection (and, indeed, any other service delivery) issues. There are a number of ways in which local governments and arrangements for them differ, including:

- *Population size.* Local governments can vary greatly in the size of their population. This certainly applies across countries. For example, Vietnamese provinces, with an average population of around 1.5 million, are vastly different from Bhutan's *Gewogs* (or blocks), with an average population of about 3,500. Even within a given country, local government units with the same formal status can vary considerably in size. In Nepal, districts in the Terai floodplains often have populations ten (or more) times larger than districts in the mountainous regions. And in multi-tiered systems (see below), different levels of local government are very different in terms of the size of their populations. Ugandan districts, for example, have an average population of around 450,000, as compared to Ugandan subcounties, which average about 30,000.
- *Tiers.* The number of tiers in the local government system varies from country to country. In Bangladesh, for example, the system is made up of three tiers: *Zilas* (or districts), *Upazilas* (or subdistricts) and *Union Parishads* (the lowest level). Each tier has different functions, institutional arrangements and average populations. In Timor-Leste, on the other hand, the proposed system of local government will only include one tier – municipalities that will correspond with the existing districts.
- *Urban versus rural.* In most countries, local governments can be urban or rural, and there are significant differences between the two. Urban local governments are usually characterized by high population densities, rapidly growing populations, relatively vibrant cash-based economies, and constituencies with relatively high levels of education and access to sometimes considerable own-source revenues. Rural local governments, on the other hand, tend to have low population densities, lower population growth, agrarian economies, lower education levels, and a highly constrained fiscal base.<sup>43</sup>

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43 Some of the differences between rural and urban local governments are discussed in more detail in UNCDF (2004).

- *Mandates and functions.* The assignment of functional responsibilities to local government also varies significantly, both across countries, between different tiers and within the same tier (urban versus rural municipalities) within the same country. This partly reflects differing population sizes, but also different decentralization policies. Communes in Viet Nam, for example, have very limited mandates compared to the districts and provinces of which they are a part. In Sri Lanka, on the other hand, decentralization policy is such that the ‘third tier’ of local government (Pradeshiya Sabhas and municipalities) has very few functions or powers compared to line departments or provinces. There are also instances where local governments, by design and on a more or less formal basis, only deal with one issue or function, such as education or watershed management.<sup>44</sup> Of particular relevance here is the extent to which local governments are mandated to undertake/administer social protection or related functions (such as vital registration). In some countries (e.g. Nepal), local governments are legally mandated to provide both vital registration and social protection services; in others (e.g. Mali) they may only have an official mandate to provide vital registration services.
- *Resources.* The degree to which local governments have access to both human and financial resources is highly variable (partly as a consequence of all of the above). Communes in Cambodia and *Union Parishads* in Bangladesh, for example, have access to very limited fiscal resources and typically only have one full-time staff member – in marked contrast, say, to some municipalities and most districts in Nepal. The extent to which local governments are dependent on transfers from the centre, as opposed to own-source revenues, also varies. Urban local governments tend to have access to greater own-source revenue bases than rural local governments, although in almost all cases, urban and rural local governments are largely dependent on intergovernmental fiscal transfers from the centre to finance their service delivery and administrative functions.
- *Downward accountability and devolution.* There is another key dimension across which local governments vary considerably: the extent to which they are downwardly accountable and representative. In some cases – such as provinces and districts in Lao People’s Democratic Republic and *Zilas* in Bangladesh – downward accountability is extremely weak, largely because there are no elected local bodies at those levels. In other cases, downward accountability can be muted or constrained by the overall political context (as in one-party states such as Viet Nam) or by electoral arrangements (e.g. indirectly elected councils). In others, such as *Union Parishads* in Bangladesh or communes in Cambodia, there is a greater degree of downward accountability due to the existence of freely elected local councils. But even

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<sup>44</sup> Especially well-known in North America, where many local governments are single purpose (e.g. school districts, soil and water conservation districts).



where formal representational arrangements are in place at the local level, other factors can increase or decrease the degree to which local governments are downwardly accountable.

- *Centre-local relations.* A final dimension across which local governments vary is the nature of their relationship with central or national government. In some countries, such as Bangladesh, local governments are subject to robust *ex ante* controls by the centre; in others, such as the provinces in Vietnam,<sup>45</sup> the centre exerts remarkably little real control over local governments and their actions. In yet others, such as Nepal, the centre exerts a degree of control through *ex post* mechanisms.

There is a world of difference, then, between small, rural local governments (such as Bhutan's *Gewogs*) and large metropolitan municipalities (such as Bangladesh's City Corporations), both in terms of the kinds of challenges they face and their ability to deal with them. Large provincial governments

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<sup>45</sup> This appears counter-intuitive in a single-party state, but is attested to by an abundant literature on centre-local relations in Viet Nam. See, for example, Malesky (2004) and Gainsborough (2003).



are also particular. Often the size of small countries, provinces may include populations of several millions and cover large geographical areas. They are often vested with significant policymaking, fiscal and regulatory powers. They also differ significantly in terms of their constitutional status. While some constitutions create *de facto* or *de jure* federal systems, which may be more or less decentralized, others institute guarantees for decentralized local autonomy and self-government. Others still create special status areas, such as autonomous provinces, which deserve particular attention if they are politically, ethnically, religiously, socially or geographically distinct from the larger country, but depend nevertheless significantly on central transfers to carry out social policies such as social safety nets.

### 4.3. Going local: Implications for safety net programmes

Why is it important to acknowledge that decentralized service delivery can take different forms and that there are often significant differences between local government structures and systems?

Recognizing that service delivery can be decentralized in different ways is important. There is a commonly held view that unless a function is devolved, it is not decentralized. This position presents a very limited view of decentralization, since decentralized services can be deconcentrated or delegated, with local level units enjoying varying degrees of autonomy and discretion. All local government systems include a mixture of various forms of decentralization, even within a given service category (such as education). 'Going local', then, does not always mean devolution. Service delivery responsibilities need to be unbundled into functions and subfunctions, some of which may be decentralized to a varying degree, others of which will be better kept under central control. It is thus not an 'either/or' issue, but an 'and/or' one. In discussing safety net programmes, it is thus crucial to understand that not all aspects of safety net management or delivery are (or should be) decentralized, and that many aspects are (or should be) subject to centralized arrangements. In addition, there is a choice with respect to the kind of decentralized arrangements that can apply to safety net functions, which can best be described as deconcentrated, delegated or devolved, depending on which type of decentralization seems most appropriate.

Acknowledging that local government characteristics, structures and systems vary both within any given country and across countries is also important in thinking about the interface between safety nets and local governments. In multi-tiered systems, for example, it might make sense to assign different safety net functions and subfunctions among upper and lower tiers of local government, as well as central government. It should also be clear that some safety net functions can be appropriately assigned or delegated to small



local governments while others simply cannot. The same goes for larger local governments, which may be better suited to ensuring some functions, but not others. In short, there is no one-size-fits-all formula. Defining an appropriate set of decentralized arrangements or functional assignments will vary from country to country, and – within each country – will vary from tier to tier.

Neither decentralization nor local government, then, are one-dimensional. And, as will be discussed in chapter 4, nor are safety net programmes, which need to be unbundled into their constituent functions and subfunctions if they are to be meaningfully and helpfully decentralized. The next section examines the interfaces between local governments and social protection mandates.



5

# Decentralization, local governance and social safety nets

This section discusses the actual and potential interface between safety net programmes and local government/governance. This discussion is the heart of this discussion paper, has the most implications for local governance practitioners, in general, and for UNCDF, in particular.

For the purposes of this publication, publicly funded safety net programmes are conceptualized as one among many public services, which, like all public services, involve a wide range of functions and subfunctions. In other words (and very much like other public services) safety net programmes can be unbundled into a range of interrelated but analytically distinct activities that may be handled by a single institution, but may also be assigned to different institutions and organisations, depending on their comparative advantage. It is precisely by looking at safety net programmes in terms of their nuts and bolts that the role of local government in delivering such services becomes clearer.

Broadly speaking, this section tries to unbundle safety net service delivery functions into the following broad categories:

- financing;
- setting policies, parameters and norms;
- implementation (i.e. management and administration).

This section also discusses issues related to the overall quality of safety net services and how this is linked to other areas of local government service delivery. Connecting the dots between the various services that local governments may be responsible for providing can be important in improving social safety net services (for example, by linking an education-focussed CCT to capital investments and recurrent expenditure so as to expand coverage and enhance educational outcomes). Cross-cutting local governments and local-level arrangements are probably better placed than 'vertically' organized central government departments with responsibility for a particular area or location, rather than a sector, and ministries to strengthen and establish such inter-sectoral linkages and complementarities (see section 4.4.).

Looking at safety nets from a service delivery perspective also highlights accountability issues. By conceptualizing the beneficiaries of safety net programmes as the users (or clients) of safety net services, it becomes appropriate to examine the dynamics and nature of their relationship with service providers – something that is routinely done for all local government service delivery functions. Conceptualizing safety nets as public services also opens up room for a rights-based approach to social assistance, whereby safety net benefits are anchored in the rights of citizens to access public services and are not seen as hand-outs to the needy. This approach underlines the need to establish mechanisms for ensuring accountable public institutions for delivering safety net services.

Finally, this section examines whether and how local governments add to the overall architecture of a social protection package (of which safety net programmes are a part), and how their performance as managers of certain aspects of safety net programmes can be incentivized.

## 5.1. Financing issues

### 5.1.1. Who can (or should) finance safety net programmes?

#### ***General considerations***

Quite clearly, safety net programmes cost money. Can local governments be expected to finance safety net programmes out of their own revenues? How far can and should the local level be involved in financing issues?

In general, theory and evidence suggest that central (rather than local) government should bear the preponderant responsibility for funding safety net programmes, whether or not they are implemented locally. In low-income, developing countries, there are at least five good reasons why central government should shoulder most, if not all, of the cost of safety net programmes.

First, local government financing of safety nets raises distributional and equity issues. Local governments in the poorest regions of any country are likely to have the most need of safety net programmes, but a very weak revenue base with which to finance them. In contrast, wealthier jurisdictions, where the need for safety nets is less severe, are better able to finance them. Box 10 provides evidence of this disparity from Eastern and Central Europe. Moreover, as Romania shows, it is not just the poorest municipalities that find themselves stretched and unable to deliver safety net services when central government transfers cease. In fact, most municipalities are likely to be affected.

## Box 10: Decentralized financing of social assistance in Central and Eastern Europe

“In Bosnia and Herzegovina, decentralized financing mechanisms have resulted in substantial interregional disparities in coverage, with poorer localities providing the fewest services. In the face of resource constraints, eligibility criteria for most benefits are ad hoc, as local welfare offices use discretion when rationing available resources. These sorts of regional inequalities in social assistance can be particularly troubling when they are linked, as they so often are, to ethnic or other social divisions.”

“In 1995, Romania introduced Social Aid, a last-resort social assistance program. During its first year of implementation, the central government’s budget financed the program, while implementation was decentralized to local governments. The program covered about 10 percent of the population, a figure close to the estimated number of extreme poor. During 1996–2001, the responsibility for program financing was transferred to local governments, with no extra resources transferred from the central government budget. The program’s caseload plummeted to 6 percent of the population in 1996 and 2 percent in 2001, with the highest reductions in number of beneficiaries occurring in the poorest municipalities. Two key factors behind the program’s collapse were the inability of the poorest municipalities to pay eligible applicants and unclear legal provisions about the nature of the program. The central government altered and clarified program rules, but the finance problem and poor performance persisted until the program was recentralized in 2003.”

Source: World Bank (2007a).

Indeed, this has been a problem in many formerly socialist transition countries – not only in Central and Eastern Europe, but also in Central and East Asia, where central governments have tended to transfer responsibility for funding and managing sometimes extensive safety net programmes to local governments without providing adequate financing. As a result, the effectiveness and equitability of these programmes has deteriorated in some countries.

Second, local governments should not bear a significant share of the burden of financing safety nets because of the problem of ‘welfare migration’. If local governments are responsible for financing their own safety nets (and in determining levels of benefits), those most in need of benefits may migrate to jurisdictions where benefits are most generous. Although there is little empirical evidence of this, it clearly concerns policymakers and local constituencies – as box 11 shows. Such perceptions are important and should be taken into consideration during the design.



### Box 11: Mitigating 'welfare migration' Brazil's CCT programmes – in the beginning...

Features of the early, municipally funded, CCT programmes in Brazil underline concerns (whether grounded or not) about welfare migration. The first two CCT programmes were launched in two Brazilian municipalities in January 1995: *Bolsa Escola* in the Distrito Federal, and the Guaranteed Minimum Family Income Program in the Campinas Municipality. These became models that multiplied in many municipalities and states in Brazil. By 2001, over one hundred municipalities and many states were operating local CCT programs in Brazil. Most such programmes included minimum residency requirements (five years) in the municipality or state, out of fear that the lack of a national programme would attract poor migrants to their jurisdictions.

Source: World Bank (2007b)

Interlinked to the perceived problem of welfare migration is another problem: self-financing by local government may result in a 'race to the bottom'. In this scenario, generous local governments, faced with an influx of those in need of safety net services, would have to reduce the levels of benefits to avoid an ever-growing fiscal burden. Under self-financing arrangements, regions with generous safety net schemes would face rising costs and an increasingly narrow financial base, as the poor moved in and the wealthier moved out to avoid footing the fiscal burden associated with financing safety nets. The end result would be a gradual decline in levels of benefits all around.<sup>46</sup> There is some empirical evidence in OECD countries for this concern:

"The results of our study confirm that adequate social assistance benefit levels indeed are not attained in countries with entirely decentralised social assistance regimes, but rather in countries with mixed systems or limited forms of devolution. In OECD countries where social assistance programmes are organised entirely at the regional or the local level, guaranteed minimum income is invariably below the poverty line. By contrast, countries where the involvement of local authorities in the administration (Netherlands) and/or funding (Denmark, Germany and Finland) of social assistance is substantial, yet restricted under central legislation or guidelines, the level of basic rates and housing allowances for social assistance recipients is invariably adequate. In Denmark, Germany and Finland, the municipal authorities actually enjoy quite a large degree of autonomy: municipalities are able to adjust social assistance benefit levels to local needs and requirements because they can decide quite independently on

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46 See Van Mechelen and De Maesschalck (2007).

entitlement to and the levels of supplementary benefits towards covering the cost of heating insurance and the like. Yet the national regulation with regard to rate-setting prevents the municipalities from providing the poor with 'poor' benefits."<sup>47</sup>

Experience from OECD countries strongly suggests that while some degree of local discretion over and financing of safety nets can be present, central government needs to prescribe minimum levels of benefits if the poor are to be provided with adequate support.

Third, safety nets often require 'counter-cyclical' funding – i.e., increases in safety net expenditures at precisely the time when the overall economy is shrinking and fiscal resources are declining. Local financing of safety nets would be especially vulnerable to this, while central or national financing would generally be better able to cope with counter-cyclical stresses. This is particularly true when economic downturns or crises are localized. Subnational governments in these localities may face a fiscal crunch at critical moments, severely constraining their ability to provide citizens with safety net services when they are most needed. Central government funding, on the other hand, can draw on a larger, nationwide, pool of resources and thus smooth over localized fiscal deficits and funding gaps.

Fourth, local governments are not well-placed to finance safety net programmes particularly in low-income developing countries, where most local governments have narrow and weak own-source revenue bases (whether due to economic circumstances or by law) and are dependent on intergovernmental fiscal transfers. Under these circumstances, it would be unrealistic to expect local governments to finance safety net programmes out of their own revenues. Given that safety net programmes may be relatively costly as a proportion of total public expenditure and GDP, it would be very unlikely that local governments could afford to cover safety net expenditures out of their own-source revenues. In fact, even in the United States, one of the financing issues facing state governments is the state-local sharing of Medicaid expenditures (medical care for the poor). The federal government sets the minimum conditions but pays only a portion of the costs of this social protection service. During the recession, more families have become eligible for the programme, which has added greatly to states' fiscal stress.

Fifth, central governments should be expected to finance locally managed and locally implemented safety net programmes where local governments are legally mandated to provide such services. In these cases, it is incumbent upon central governments to ensure that safety net services are financed, on the basis of the general principle that mandates should not be unfunded. Among

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<sup>47</sup> *Ibid.*



OECD countries, Norway is a good example of this principle: the local level has essentially full discretion to deliver safety net services within a framework of nationally predetermined parameters, with central government fully funding the services provided.

In sum, central government is generally better-suited to finance safety nets. National governments are better able to assume a redistributive fiscal role, can set minimum benefit levels and standards across the country, and have a much more substantial revenue base from which to finance safety net programmes. That said, local governments might be expected to co-fund safety nets with their own revenues as a way of securing local buy-in and increasing overall resource levels (see box 12). To avoid redistributive or equity problems, co-funding should be kept within limits and well regulated. The issue of local co-financing of safety net programmes requires careful thought. If too much latitude is allowed, wealthier jurisdictions would be able to significantly increase either the number of people covered or the size of cash transfers. This might result in the kind of inequitable outcomes and externalities that are associated with pure local financing.

### **Box 12: Local government co-funding of safety net programmes**

#### **NREGA, India**

India's NREGA (a public works programme, see above) takes an interesting approach to local government co-funding. Under NREGA arrangements, central government finances all of the costs associated with the payment of wages to manual labourers, but state and local governments are expected to finance up to 25 percent of the costs of any materials and skilled or semi-skilled labour. In principle, this achieves three important ends: (i) it provides a 100 percent funding guarantee for unskilled labour (which is what the poor would be expected to provide), the wages for which are regulated by the Act; (ii) it ensures that the central government contributes up to 75 percent of other public works expenditures (which are usually needed to add value to unskilled labour); and (iii) it allows local governments to contribute to what might be seen as non-essential expenditures.

Source: NREGA (2008)

#### **Programme for a Guaranteed Minimum Income in Brazil**

During the 1990s, in the early phases of CCT experimentation in Brazil, the Programme for a Guaranteed Minimum Income provided co-financing for municipal safety net schemes. This programme was managed by the Ministry of Education and provided transfers to municipalities that were implementing CCT programmes but lacked sufficient resources to sustain them. Programme support was to be gradually expanded, prioritizing the poorest municipalities, with the ultimate goal of covering all municipalities

and the Federal District of Brasília. The municipalities had to contribute at least 50 percent of the financing to receive federal support for their cash transfer programmes. As such, the Programme for a Guaranteed Minimum Income was not a CCT programme in and of itself, but rather a mechanism for providing financial support to municipalities to enable them to implement such programmes. It should be emphasized that poorer municipalities were targeted, with programme funds used as 'top-up' grants.

Source: World Bank (2007b)

### ***A caveat about public works programmes***

The financing of public works programmes may be an exception to the general rule that safety nets should be centrally financed. Labour-intensive public works programmes can be seen as an option for implementing local government infrastructure investments, and may, therefore, be financed with regular subnational budgets. Instead of selecting contractors based on competitive bids, local governments may opt for labour-intensive public works programmes as a way of building infrastructure, and finance such workfare from their capital budgets. To a certain extent, the Maharashtra Employment Guarantee Scheme in India (see box 6) can be seen as a 'local', or at least a subnational, initiative, financed out of the State of Maharashtra's regular budget.

## **5.1.2. Financing modalities**

### ***Fiscal transfers***

Based on both empirical and public finance considerations, the consensus is clear with respect to the financing of public safety net programmes: central government needs to play a preponderant role in funding. This should not be seen as a reason for excluding local governments from any involvement in safety net programmes. Were that the case, local governments in developing countries would not provide very much at all in the way of public goods and services, many of which are routinely financed through fiscal transfers from central government. As long as appropriate intergovernmental fiscal transfer mechanisms are in place (as there often are for funding other local government functions, such as education, infrastructure and health), then local governments can play a role in the management, administration and implementation of safety net programmes, seen as an integral element of their service delivery responsibilities. The issue is not whether local government can finance safety net programmes, but how and under what circumstances locally implemented safety nets are best financed through the fiscal transfer system.

For the same reasons that local government funding of safety net programmes out of own-source revenues may not yield satisfactory outcomes, entirely discretionary funding of locally implemented and designed safety net services is not a sensible financing option. Unconditional block grants for local governments, financed by central/national governments, would tend to operate in much the same way as own-source revenue financing, and perhaps lead to suboptimal outcomes. Where local governments have access to entirely discretionary resources, they may well have few political (or electoral) incentives to use them to fund safety net programmes in appropriate ways. If local governments were expected to finance safety net services out of their untied block grant allocations, some (perhaps many) would choose not to, but to invest instead in other types of service, such as infrastructure. In some local jurisdictions, addressing issues related to poverty and vulnerability may not be high on the list of political priorities – whereas public expenditure items such as investments or services that primarily benefit the middle classes might well be.

For redistributive and equity purposes, safety nets managed by local governments require some kind of earmarked or ring-fenced financing mechanism. In most countries with multilevel safety net programmes, financing is passed from the national level to subnational units using some form of earmarking. This ensures that the subnational units provide a minimum safety net, which is consistent with the reasons for financing safety nets at the national level.

### ***Targeted financing arrangements***

National policies may target a particular problem in a particular area, and they are often in a better position to channel additional funds to meet these policy objectives. Geographically targeted financing arrangements provide a good example since these allow for financing of locally managed safety net programmes to devote funds to especially poor or vulnerable areas. Although central government financing of local government public works programmes is often geographically targeted (e.g. NREGA in India over its first few years, the Programme for a Guaranteed Minimum Income in Ethiopia, Trabajar in Argentina), other safety net programmes can also be targeted. This is the case in Nepal (see box 3), where the age threshold for non-contributory pensions is 60 in the very poor Karnali region, but 70 elsewhere in the country. Similarly, Nepal's new child benefit system is geographically skewed in favour of the Karnali region, where all households are eligible for child grants (for up to two children per mother), whereas elsewhere only certain categories of household are eligible for child grants.

## 5.2. Safety net policies and parameters

### 5.2.1. Overall policy and mandates

Given the nature of the problems that safety nets are intended to address, and the general need for central government funding of safety net programmes, it follows that central (rather than local) government will usually play a preponderant role in defining broad social protection policies. This indicates that the decentralization of safety net programmes to local governments should be more of a delegated function, rather than a fully devolved function. Precisely what form such delegation takes is discussed below. There is clearly plenty of room for discretion at the local level, regardless of both the way in which safety net programmes are financed and the need for the national level to set overall standards and parameters. In line with section 3 of this discussion paper, this still amounts to decentralization in one form or another.

In that respect, safety net programmes are not dramatically different from, say, education or health. Both the education and health sectors can be devolved, and partly financed locally, with local governments playing a major role in deciding the importance to ascribe to these sectors relative to others. Nonetheless, both the education and health sectors are usually subject to some kinds of national standards and financed largely through transfers from central government. As discussed in section 3, there is a fine and sometimes blurred line between devolution and delegation. In the case of safety net programmes, a relatively high degree of homogenization or standardization is needed, hence the general case for their delegation, rather than devolution, to local governments.

### 5.2.2. National standards and parameters

There are good reasons why overall social protection policies and specific safety net parameters need to be centrally defined, and not left entirely to local discretion:

- First, earmarked safety net transfers should not encourage local governments to become over-generous (at somebody else's expense) in the ways that they identify and target beneficiaries or set benefit levels. Central government needs to spell out who can benefit, on roughly what conditions, and at what indicative maximum levels. Unless such norms are established, some local governments would be tempted to inflate the numbers of beneficiaries or their benefit levels, secure in the knowledge that central government will foot the bill.
- Second, and conversely, local governments should not be allowed to become overly stingy, by radically cutting back on benefit levels, systematically underestimating numbers of beneficiaries or applying excessively stringent

conditionalities. In Mexico, for example, there is evidence that local officials involved in the implementation of the nationally funded *Oportunidades* CCT programme have imposed additional conditionalities that have led to larger exclusion errors. The same criticism has been made of Peru's *Juntos* CCT programme, where some local officials have arbitrarily added conditionalities.<sup>48</sup>

### 5.2.3. Local discretion in setting standards and defining parameters

That said, there is clearly room for some level of local discretion in setting standards and defining safety net parameters. Indeed, this may be desirable so as to ensure that appropriate safety nets are established. There are several examples of the circumstances under which such local discretion is useful:

- In the case of public works programmes, local-level discretion is especially suited to: (i) identifying the types of infrastructure to be built; (ii) geographical targeting within given local government jurisdictions; (iii) deciding whether wages are paid in cash or in kind, as market conditions may vary from place to place; and (iv) setting (within limits) wage or transfer levels, so as to take into account local variations in wage rates in the labour market.
- In the case of CCTs, local discretion may be required to identify locally appropriate conditionalities (within a well-defined menu of options), particularly where supply-side factors vary considerably from one jurisdiction to another. Thus, a local government that has better health services might be allowed to opt for health-related (rather than education-related) conditionalities.
- In deciding on the types of benefits to be provided, local discretion may also be useful – in some jurisdictions, for example, it may be more appropriate to provide in-kind, rather than cash, benefits (e.g. providing cash transfers in or near to urban centres but food transfers in isolated communities far from markets, or paying higher benefits to urban residents where living costs are higher).

Another important argument in favour of allowing a degree of local discretion is that this can foster experimentation and innovation. Heterogeneous and decentralized safety net implementation arrangements can provide a natural laboratory for new ideas and approaches, as is the case with *Bolsa Familia* in Brazil, where municipalities have been able to adapt their CCT programme to local service delivery systems (see box 13). The point is not to fully devolve safety net programmes to local governments, but to ensure that programmes do not eliminate the ability or latitude of local governments to try new approaches,

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48 See Calder, Kidd and Samson (2010): unpublished manuscript.

either in entirely innovative ways, or by fine-tuning at the margins through some degree of discretion. This is something that has not been discussed in as much detail as it deserves by safety net policymakers, who often assume that uniform standards should apply across national jurisdictions.

### **Box 13: Brazil Bolsa Familia – decentralized implementation as a natural laboratory for innovation**

“Decentralization of various aspects of program implementation not only results in heterogeneous implementation practices, but it also promotes innovations at the municipal level. Indeed, many municipalities have used the BFP’s [*Bolsa Familia* Program] role in horizontally integrating social policy (through the conditionalities and by linking BFP beneficiaries to complementary services) and in vertically integrating transfers (merging with sub-national programs, as discussed above) to experiment in the way they deliver the BFP and other services to the poor. In some ways, this decentralized context has created a sort of “natural laboratory” for experimenting with integrated service delivery, higher benefit levels, additional conditionalities (some municipalities) and different approaches for monitoring and addressing the multidimensional facets of poverty and vulnerability.”

Source: World Bank (2007b).

Providing local governments with varying degrees of discretion in deciding on safety net standards and parameters underlines the need for nuanced delegation to local governments – it is not always clear cut and can blur into devolution. This is especially (but not exclusively) true for workfare programmes.

## **5.3. Safety net management and administrative functions**

### **5.3.1. Unbundling safety net programmes**

By unbundling or ‘drilling down’ through safety net programmes, a wide range of service delivery functions and subfunctions can be identified, some of which are best assured by higher tiers of government, others of which may be best managed by lower tiers. In general, when functions are subject to economies of scale, they are probably best allocated to higher tiers (central/federal, state/province).

Table 4 provides an example of how safety net programme functions and subfunctions can be viewed at different political and administrative levels. The table illustrates that for a public works programme in India:

- “upstream” functions (e.g. policy, audit) should be handled by higher levels of government (central, state);
- “middle order” functions (e.g. social audits, awareness raising) are best left to intermediary tiers of the local government system (districts, blocks); and
- “proximate” functions (e.g. beneficiary selection, identification and supervision of works, accounting and financial management) can be delegated to lower tiers of the local government system (subdistrict, village councils).

There is nothing startling in this – it is fairly intuitive. But what is important to note is that the implementation of any given safety net programme consists of a variety of functions and subfunctions – and that these can be (and, in many cases, are) assigned to different levels of the intergovernmental system. In looking at the interface between safety net programmes and local government, there is a need to break down discrete functions and identify who is best suited to implement them. This also underlines the importance of intergovernmental understanding of procedures and division of responsibilities, which will make the system function as a whole.



**Table 4: Functional analysis of a safety net programme and determining responsible levels of government – the Village Full Employment Programme in India**

Function	Activity	Responsibility					
		Central	State	District	Block	Village council	Village meeting
Policy design, standards	Implementation rules	X	X				
	Targeting	X	X				
	Budgeting	X	X				
	Standards	X	X				
Planning	Activity prioritization, action plan					X	X
	Activity selection					X	X
Asset creation	Human capital:						
	Skill development		X	X			
	Social capital:						
	Information dissemination					X	
	Physical capital						
	Public works					X	
Operations	Beneficiary selection:						
	Identification of beneficiaries					X	X
	Awareness raising			X	X	X	
	Recurring activities:						
	Provision of wages, food grains					X	
	Supervision and quality control					X	
	Personnel:						
	Hiring and firing					X	
	Maintenance:						
	Accounting and financial Management					X	
	Repairs					X	X
	Assets:						
Monitoring and evaluation	Recording of assets			X	X	X	
	Physical verification of assets			X			
	Created						
	Audits:						
	Financial audits		X				
	Social audits			X			

Source: World Bank (2009c).

### 5.3.2. Beneficiary identification and targeting

It is often argued that local governments, by virtue of their proximity to citizens and access to local knowledge, may be better placed than central agencies to identify beneficiaries and/or target benefits at potentially lower cost and in more accountable ways. The role of local governments in beneficiary identification can take several forms.

Where cash transfers are categorical or universal, local governments can undertake beneficiary identification. A good example of this is provided by the role of Village Development Committees (VDCs) in Nepal, which are responsible for establishing and updating lists of pensioners, widows and other socio-demographic categories that are eligible for social security payments. The identification of beneficiaries for such categorical/universal transfers can be facilitated through the use of vital registration information, a service that many local governments routinely provide by mandate. Indeed, there is a clear interface between local government vital registration functions and the identification of beneficiaries for categorically targeted safety net programmes. Moreover, it often seems that the registration of beneficiaries for cash transfers may be easier at the local government level – especially among the lowest tiers of the local government system, which are highly proximate and with which local people frequently interact. However, this may not be the case for larger urban local governments, although compared to central national government they will still have a comparative advantage.

In the case of more complex targeting procedures (e.g. proxy means testing, community-based targeting), local governments also have a role to play. For example, in large, nationwide, CCT programmes like in Brazil, municipalities are largely responsible for targeting poor beneficiary households, using centrally defined guidelines. But local governments may also be involved in both downstream and upstream aspects of any targeting process, as in Ethiopia's PSNP and as shown in box 14.

#### **Box 14: The Productive Safety Net Programme in Ethiopia – the role of *Woredas* and *Kebeles* in beneficiary identification**

As discussed in box 5, the Productive Safety Net Programme (PSNP) in Ethiopia actively targets the beneficiaries of both public works and direct payments. It does so by using a type of community-based targeting method, in which local governments (*Woredas* and *Kebeles*) play a significant role. At the *Kebele* level, the Community Food Security Task Force – composed of elected and unelected *Kebele* officials – is responsible for working with local communities to identify poor households that can participate in public works and poor households without enough labour, which will require direct support.

Community Food Security Task Forces are also involved in facilitating a participatory planning process aimed at identifying public works and overall monitoring of PSNP activities at the local level. *Kebele* Cabinets approve the lists of PSNP beneficiaries, on the basis of proposals submitted by the Community Food Security Task Force. *Kebele* and *Woreda* Councils and Cabinets provide oversight for the entire process.

Source: Government of Ethiopia (2009).

For example, in the case of the geographical targeting of public works programmes (identifying where infrastructure is required) and/or where pockets of vulnerability are located within their jurisdictions, local governments are likely to have a better idea than central government. In Ethiopia, this is very clearly one of the PSNP's operating principles, such that *Woredas* and *Kebeles* are almost entirely responsible for the planning of public works activities within their jurisdictions.

There are three important (but surmountable) caveats with regard to the role of local governments in targeting and beneficiary selection :

- First, many government officials and development practitioners are concerned about the possibilities of abuse and elite capture when local government is involved in beneficiary selection. While these concerns are understandable, the staff of line ministries or central agencies are just as likely to engage in such abuse. The issue, then, becomes one of establishing sound monitoring and grievance systems (see below).
- Second, because the funding of safety net programmes is almost certainly going to be the responsibility of central government, local governments may have incentives to 'over-identify' beneficiaries at no cost to themselves. This is less likely in the case of cash transfers that are categorically/universally targeted. There are limits to how far a local government can, for example, overstate the number of old people within its jurisdiction. It is, however, more likely in the case of more sophisticated targeting, which requires judgements to be made about whether certain people or households are eligible. In such cases, it is often assumed that local officials are likely to be more lenient and thus inflate the number of potential beneficiaries: "Individual social workers usually find it more gratifying to help than to deny assistance to applicants, and local communities will welcome the extra infusion of cash. This is not a case of corruption, but of providers reacting rationally to the incentives designed into the program."<sup>49</sup> But again, there is no reason to suppose that central government officials are going to behave any differently than local government officials in this respect, pointing again to the need for robust monitoring systems.

49 See World Bank (2009c).

- Third, in the case of more sophisticated targeting systems, it is often assumed that local governments will lack the capacity to use them properly, thus increasing the likelihood of exclusion and inclusion errors. Although this seems a reasonable concern, it should be clear that capacity is not immutable and that local government capacities can and should be strengthened over time. Enhancing that capacity will, of course, add to the costs. While these incremental costs ought to be covered by the centre, failure to do so will place an additional fiscal burden on the local government. A greater concern may be the lack of personnel attached to local government to absorb the work responsibilities of targeting and will need to be taken into consideration during a design stage.

In general, the potential problems associated with local government involvement in the selection of safety net beneficiaries – while not to be underestimated – are neither specific to local government nor without solutions. With regard to the latter, a great deal hinges on the quality of monitoring and grievance systems.

Moreover, beneficiary selection at the local level has two key advantages over a centrally controlled selection process. First, local government officials (elected or non-elected) are likely to know and be able to communicate with local citizens better, which may lead to more thorough and more accurate beneficiary selection. Second, and more important, citizens may be able to ensure that local government beneficiary selection is done properly simply because they can more easily raise issues with local (rather than national) officials and have those issues addressed. In developing countries, it is usually far easier to interact with local officials than with an anonymous and distant national bureaucracy.

In sum, beneficiary identification and targeting can be delegated to local governments within the framework of centrally defined policy parameters. Where such processes are fairly simple (as in categorical/universal cash transfers), delegation to local governments would be relatively weak given that there would be little discretion in beneficiary selection. However, where such processes are more complex (e.g. deciding where to target public works programmes), then delegation would be stronger in the sense that local governments would be making decisions or judgements.

### 5.3.3. Payments and financial management

In the absence of effective and widespread banking or financial services networks, local governments may be one of the few options for making manual cash payments to safety net beneficiaries. In Nepal, for example, VDCs are currently responsible for making all pension payments, as well as other categorical transfer payments. However, such cash payments are clearly not optimal and may result in high rates of leakage. Where possible, safety net payments are better made directly through the banking system or a third

party in order to minimize leakages or misappropriation. Payments to NREGA beneficiaries in India, for example, are either made through the banking system or through local post offices, rather than by local governments themselves. It is nonetheless important to note that even when a third party is used to deliver cash payments (as in NREGA), the local government remains responsible for identifying the beneficiaries of the scheme, supplying a payroll list to the payment service provider and authorizing payments.

In cases where local governments are actively involved in the implementation of safety net programmes, they are also often responsible for financial management and reporting (as well as actual cash management). This is clearly the case in Nepal (where VDCs manually keep all accounts and provide their respective district treasuries with reports on cash transfers); in India (where *Gram Panchayats* are responsible for managing NREGA funds); and in Ethiopia (where *Woredas* are expected to manage PSNP funds and report on their use).

### 5.3.4. Monitoring and evaluation, information management

Monitoring and evaluation and information management are key functions in the implementation of safety net programmes. To the extent that local governments are actively involved in safety net management, they will need to regularly monitor implementation (beneficiary identification/targeting, payments, termination, graduation, works, etc.) and, where necessary, provide reports on progress and actions. The Operational Guidelines for NREGA (India), for example, provide for a multi-tiered system of monitoring, with a range of local stakeholders and local governments being responsible for monitoring registration, payments, works and the like.

Local governments can also be involved in information management. To facilitate the management of information, a social security management information system (MIS) is normally designed to automate the functions and processes of cash transfer programmes to ensure that they are well managed and delivered in an effective and efficient manner. For a cash transfer MIS to function properly it should meet the following objectives:

- It should be linked to a central database or a single registry at the national level. This is a strategic integrated framework approach that acts as a basis for effective and efficient delivery in addition to allowing a country to consolidate information and beneficiary registers of all social cash transfer programmes. Input and data entry can be done at the local level by the local government. For safety net programmes, information management is the automatic capture, processing and reporting of beneficiary information from the point of view of targeting, enrolment, payments and case management.

- It should act as an enabler of accountability and controller of processes. MIS is an effective risk management tool. For example, lack of data cross-checks using common identifiers on vital registration systems could be resolved by putting in place a database that has a unique identifier per individual or common identifier (citizenship number) between the social security database and external providers of information, such as the Department of Citizen Registration.
- It should build on a vital registration information system and be linked (through common identifiers) to national household surveys, educational MIS, health MIS, and other MIS.

Considering their vital registration mandate and proximity to beneficiaries, it is reasonable to entrust local government with the core responsibility of managing the MIS, which ideally should be linked to national or regional databases. Many will argue that there is a lack of capacity at the local level to efficiently manage these systems; however, this is matter of capacity development – as with many other potential local government functions.

Although information generated from the MIS should be used as a management tool at the local level, the overall evaluation of safety net programmes is unlikely to be a function of lower tier local governments, and is best handled by upper tier local governments or by central agencies.

### 5.3.5. Grievance and redress mechanisms

Grievance and redress mechanisms are important to safety net programmes, not only because of the way they can enhance accountability but also because they can contribute to reducing exclusion-inclusion errors. They are also, by their nature, eminently local.

Ideally, grievance/redress mechanisms should enable beneficiaries and non-beneficiaries of safety net programmes to bring their complaints to the attention of relevant officials empowered to properly and openly address them. With regard to safety net programmes, potential grievances include targeting (e.g. not being identified as a beneficiary or location of workfare programmes), difficulties associated with registration, issues linked to beneficiary payments, and others.

Whether or not local governments are actively involved in the direct management of safety net programmes, they have a role to play (formally or informally) in the grievance/redress process. In Bangladesh, for example, there is anecdotal evidence that *Union Parishads* are frequently seen as the first level of recourse in any grievance process related to service delivery, even though this is usually informal.<sup>50</sup>

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<sup>50</sup> See CAPRI (2009).

More formally, Ethiopia's Food Security Programme (of which PSNP is a part) relies on *Kebele* Appeals Committees to hear and resolve appeals regarding safety net issues. *Kebele* Appeals Committees, in turn, are expected to inform *Woredas* of any grievances and how they have been dealt with. The *Woreda* presumably also acts as a second instance of appeal in the event that a 'plaintiff' feels that his/her *Kebele* Appeals Committee has not provided an acceptable solution to a grievance regarding PSNP. *Woredas* are also explicitly responsible for ensuring that the general public is aware of its rights vis-à-vis PSNP.<sup>51</sup>

Box 15 shows how the recent design of a social protection pilot in Nepal has incorporated local government into the grievance/redress process. It also shows how upper tiers (districts and the national level) of the intergovernmental system are expected to fit into that process.

### Box 15: Proposed grievance process for a cash transfer pilot in Nepal

When beneficiaries experience problems in the targeting, registration, payment or graduation processes associated with the cash transfer pilot, they are encouraged to first raise the problem with the individual or committee that is in charge of the respective process. The different levels involved in the proposed grievance process are as follows:



This proposed hierarchy of instances for any grievance provides dissatisfied 'plaintiffs' with recourse in the event that they feel lower level instances have not been responsive.

Source: Local Governance and Community Development Programme /Ministry of Local Development, Nepal (2010).

51 See Government of Ethiopia (2009).



## 5.4. Connecting the dots – managing supply and demand<sup>52</sup>

As discussed in section 2.1.2, safety net programmes should be seen within the wider context of the supply and demand sides to social protection. Indeed, the UN's Social Protection Floor (SPF) encompasses both the supply and demand sides:

“The SPF corresponds to a set of essential transfers, services and facilities that all citizens everywhere should enjoy to ensure the realization of the rights embodied in human rights treaties. By working on both supply and demand side measures, the SPF takes a holistic approach to social protection including:

- 1) Services: Ensuring the availability, continuity, and geographical and financial access to essential services, such as water and sanitation, food and adequate nutrition, health, education, housing, life and asset saving information and other social services.
- 2) Transfers: Realizing access by ensuring a basic set of essential social transfers, in cash and in kind, to provide a minimum income and livelihood security for poor and vulnerable populations and to facilitate access to essential services. It includes social transfers (but also information, entitlements and policies) to children, people in active age groups with insufficient income and older persons.”

(United Nations (2009): Social Protection Floor Initiative)

Importantly, local governments can straddle both dimensions, in ways that are mutually beneficial. For example, if the aim is to establish a CCT for education but there are no schools in one area, the local government may be able to provide capital to build the school and cover its recurrent costs, rather than simply exclude that area from the CCT scheme. Indeed, many of the Brazilian municipalities that manage *Bolsa Familia* have deliberately used the latter to leverage innovations in their service delivery activities by adapting their health and education service delivery functions to the demand generated through the CCT.

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52 Although demand-side issues are high on the pro-poor agenda, it is clear that there are different understandings of what they mean. This often stems from different disciplinary and institutional perspectives. Sector-centred studies focus on demand-side interventions in terms of creating better service outcomes, while people concerned with governance issues tend to focus on participation in decision-making and improved accountability. Rights-based approaches, on the other hand, stress citizenship and the entitlements that flow from it.

Local governments are especially well-suited to match or articulate the supply and demand of social protection services. In many cases, they are explicitly mandated to provide both supply-side and demand-side services. Where this is the case, competent local planning and budgeting are required. But even where local governments may not have broad service provision mandates, they are usually expected to provide a framework within which coordination takes place.

## 5.5. Local accountability

### 5.5.1. Downward accountability – elections and local oversight

Elected local governments are downwardly accountable through the ballot box, and most observers assume that local electorates will judge their political representatives on the basis of their performance, among other things. At the local level, the performance of elected officials is likely to be assessed in terms of the quality and effectiveness of service delivery. When safety nets are partly the responsibility of local government, citizens may factor the performance and quality of safety net services into their electoral decisions. There is robust empirical evidence from Brazil that mayors who preside over effective municipal safety net services are more likely to be rewarded by re-election:

“.. while, on average across [Brazilian] municipalities, the [*Bolsa Escola* CCT] program reduced dropout rates during the school year by 8 percentage points, there was considerable variation across municipalities. Municipalities governed by a first-term mayor eligible for re-election had an estimated 36 percent higher program performance compared to municipalities governed by a second-term mayor who is, by constitutional law, not eligible for re-election. This difference persists when comparing second-term mayors to first-term mayors that got re-elected in the subsequent election, thus controlling for revealed ability, and to mayors with a comparable level of political experience....first-term mayors had reason to care about good program performance. The probability of re-election was 28 percent higher for mayors who were in the top quartile of program impacts. Mayors with no public denouncements of inclusion errors were also rewarded with a 26 percent higher probability of re-election.[A] number of good management practices related to transparency that affect program performance were more frequently associated with first than second-term mayors ...”<sup>53</sup>

Local electoral incentives can, then, result in better safety net service delivery. Clearly, many factors (such as public awareness of performance and outcomes)

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<sup>53</sup> See de Janvry, A., Finan, F. and Sadoulet, E. (2009) for detailed findings on the relationship between electoral incentives and the performance of decentralized safety net services in Brazilian municipalities.

are at play, but the key point is that local governments provide built in electoral incentives for politicians to be held accountable for service delivery.

That said, all elections are periodic and (as in the case of Brazilian municipalities) may only affect politicians who are legally eligible to stand for further terms. Electoral accountability can be complemented by other mechanisms for downward accountability, such as social audits<sup>54</sup> and grievance mechanisms, through which citizens can hold local officials accountable for performance and service delivery outcomes. Such mechanisms tend to be far more meaningful and manageable at the local (rather than central) level, with significant implications for downward accountability and performance.

### 5.5.2. Performance-based funding and service delivery

In delegating or partly devolving the management of safety net programmes to local governments, central governments face the problem of how to ensure that the quality and scope of such services are sustained. This challenge is not unique to safety net programmes; it is a concern for virtually any local government service that is either fully or partly funded with transfers from the centre.

There is a tendency for central governments to establish *ex ante* controls over locally managed but centrally financed public programmes, including safety nets. These *ex ante* controls may be costly, time-consuming and counter-productive. A potentially more effective way of ensuring that local governments implement centrally funded safety net programmes in line with procedures and policy is to provide *ex post* performance-based incentives. The best known example of this is *Bolsa Familia* in Brazil, for which the quality of municipal CCT administration is measured by how well municipalities manage information about beneficiaries (completeness of information, regular updating of information, etc.). Municipalities that perform well are rewarded with additional administrative cost support. Other examples of incentives for local governments to effectively manage safety net programmes are found in OECD countries such as Denmark and the Netherlands.<sup>55</sup> In both countries, incentives encourage improvements in moving people off welfare and into the workforce.

In developing countries, there are very few examples of the use of such incentives to maintain the quality of safety net programmes implemented by local governments. In some countries, however, pilot efforts are underway to establish incentives for improved management of safety net programmes (see box 16).

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54 Andhra Pradesh State in India is an example of institutionalized social audits at the local government level (Centre for Good Governance, 2009).

55 See UNCDF (2010) for Denmark; see World Bank (2009) for the Netherlands.

## Box 16: Incentivising local level performance in Nepal

In Nepal, the Local Governance and Community Development Programme's Human Development and Social Protection Pilot is an example of building performance incentives into the local-level management of a safety net. The Human Development and Social Protection Pilot is being designed to provide Village Development Committees and local educational management structures with institutional and individual incentives to effectively manage social assistance programmes and improve education sector services, aimed at encouraging families to enrol and keep their children primary schools. These incentives will probably work at several levels:

- Within pilot Village Development Committees, expanding the existing list of 'Minimum Conditions' to include vital registration functions and good record-keeping on all social security beneficiaries and payments. Minimum Conditions are part of the overall system whereby Village Development Committees access top-up block grants from the Local Governance and Community Development Programme. A Village Development Committee that is not able to comply with Minimum Conditions is not entitled to a top-up grant<sup>56</sup>.
- Providing Village Development Committee-level staff with incentives to perform well. These incentives will be for staff (as a team, but with individuals benefitting directly) rather than the Village Development Committee as an institution.

Source: see website of the Local Governance and Community Development Programme (LGCDP)/Ministry of Local Development, Nepal (2010).

Moreover, local governments can provide fiscal and other incentives to schools or health centres as a way of improving their service delivery performance. The proposed safety net pilot in Nepal, for example, intends to provide cash transfers to households with children. Although this is likely to be loosely conditioned on school enrolment and attendance, it is nonetheless assumed that such cash transfers (targeted at poorer households) will encourage school enrolment and attendance. The pilot, however, does intend to provide primary schools with incentives to maintain enrolment and attendance rates – by providing VDCs with fiscal resources with which to reward better performing schools.

In looking at ways to incentivize the performance of local governments, it is worth remembering that there is a good deal of experience in the design and implementation of performance-based grant systems in developing countries.<sup>57</sup>

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<sup>56</sup> For a detailed description and analysis of Minimum Conditions-style performance-based grant systems, see Steffensen (2010).

<sup>57</sup> See UNCDF (2010).

This experience can inform the design of appropriate systems for safety net programme implementation.

## 5.6. Adding value?

It is evident that the current interface between safety nets and local governments in low-income, developing countries is relatively 'thin'. This is partly because safety net programmes and services remain underdeveloped in general; it is difficult to involve local governments in something that barely exists in many countries. It may also result in part from a generalized mistrust (on the part of both central governments and their development partners) of local governments. But the available evidence from both developing and developed countries suggests that the safety net/local government nexus can (and perhaps should) be stronger.

First, there are striking exceptions in some low-income developing countries to the generally thin interface between local government and safety net programmes. Nepal, where Village Development Committees manage the lion's share of the Government's non-contributory safety net programmes, is a case in point.<sup>58</sup> Another set of significant exceptions (PSNP in Ethiopia, NREGA in India) points to intrinsically strong linkages between local government and workfare programmes. The experiences in Ethiopia, India and Nepal highlight the key role of local governments in developing countries in the delivery of safety net services.

Second, the interface between local governments and the delivery of safety net programmes is much stronger in middle-income and high-income countries. Municipalities are deeply involved in one of Latin America's largest CCT programmes (*Bolsa Familia* in Brazil), and in practically all OECD countries, local governments are at the heart of the delivery of many safety net benefits.

There are, therefore, no intrinsic reasons why local governments in low-income countries should not be more involved in delivering safety nets programmes. Countries will, of course, need to develop or enhance systems, procedures and capacity to further optimize the potential contribution of local level.

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58 Why Village Development Committees play such a prominent role in Nepal's social security system merits further study.

### 5.6.1. What does local government bring to safety net programmes?

There are a number of local government characteristics that are important when considering the role of local government in implementing safety net programmes:

- Fundamentally, many local governments are formally accountable to their citizens through elections and similar mechanisms. Devolving or delegating responsibilities for the delivery of safety net services (and, indeed, virtually all other public services) to subnational governments is predicated on the extent to which elected local bodies are accountable to citizens. In short, when local politicians fail to deliver, they are voted out; when they succeed in delivering the goods, they are rewarded with election or re-election. These are powerful incentives for performance.<sup>59</sup>
- Local governments (especially lower tier ones) are usually proximate and accessible. Village Development Committees in Nepal and *Kebeles* in Ethiopia, for example, are often the first element of the state that citizens interact with.
- To the extent that they are situated at the grassroots level and are in regular contact with local populations, local governments – especially small, rural local governments – are likely to have significant knowledge about their jurisdictions and constituencies.
- Many local governments (e.g. communes in Mali and Senegal, Village Development Committees in Nepal) are already responsible for providing vital registration services, which are critical to cash transfer programmes since they provide the basis on which citizens can enter into safety net programmes.
- Moreover, most local governments have infrastructure and service delivery mandates. These mandates imply that local governments are often directly responsible for delivering public goods and services; as importantly, local governments also generally have a responsibility for local level coordination of sector and other services, with a mandate to ensure that the supply of public goods and services is geared to meeting local demand (which may be influenced by safety net programmes).
- Local governments in many countries are well-established and constitute a more or less dense institutional and administrative network. They are, so to speak, ‘already there’.

How do such characteristics of local government translate into value-added with respect to the implementation of safety net programmes?

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<sup>59</sup> See de Janvry, A., Finan, F. and Sadoulet, S. (2009) for some recent work on the link between local elections and municipal delivery of safety net services in Brazil.

- *Better beneficiary selection (and targeting) processes.* Due to their proximity, local accountability and vital registration functions, local governments are potentially well placed to facilitate a better targeting and beneficiary selection process for safety net programmes. As discussed in section 4.3.2, under the right circumstances, subnational governments are likely to have access to sound local information about who is eligible for safety net benefits and are easier for citizens to contact and interact with than national agencies. This can potentially reduce inclusion and exclusion errors in safety nets.
- *Better grievance and redress processes.* Local governments – due to their proximity – can provide a framework for more effective grievance and redress mechanisms. This affects not only safety nets, but also overall issues of accountability and transparency. As discussed in section 4.3.5, easier, less impersonal and less costly citizen access to local governments makes it more likely that local grievance and redress arrangements function effectively. Many of the typical problems (leakage, inclusion/exclusion errors, etc.) associated with the delivery of safety net services can be addressed if grievance/redress mechanisms are robust and operational, and they are more likely to be so when they are proximate and where officials are held accountable to its citizens.
- *More information availability and greater disclosure.* Local governments offer significant opportunities for increased availability of information and improved public disclosure about social protection services – and thus potentially greater transparency and accountability if used effectively. Again, the proximity and familiarity of local governments are key. Just as local government budgets are often published on notice boards, lists of beneficiaries can also be made publicly available, and citizens can learn about safety net services through their regular interactions with local governments. These activities should be complemented by national communications strategies.
- *Monitoring and evaluation.* Monitoring of safety net programmes can be strengthened by working through the local government system. Local-level monitoring may be qualitatively better than centrally administered monitoring, if only because local staff and offices may have a greater knowledge of the community and greater incentives to follow up on service delivery performance. It is also likely that the information obtained through monitoring will be acted upon more meaningfully when safety net service delivery is partly a local function.
- *Taking into account local conditions and circumstances.* Because of the extent to which they are aware of local conditions and circumstances, local governments offer opportunities for tailoring safety net parameters (e.g. wage levels, cash or in-kind transfers) and outputs (e.g. public infrastructure) to local context (see section 4.2.3). As such, they provide a ready-made



institutional framework for ensuring that safety net programmes are adapted to a range of geographical and socio-economic contexts.

- *Linking supply and demand.* To the extent that local governments are responsible for providing infrastructure and service delivery services, their active involvement in the implementation of safety net programmes provides an opportunity to link supply and demand. In the specific case of workfare, most local governments already plan and undertake infrastructure development, thus providing a framework within which to establish public works programmes. More fundamentally, local governments can link safety net expenditures to recurrent and capital budget allocations in other sectors, thereby taking a multisectoral approach through which all services are likely to be improved. This is a key advantage in bringing safety net service delivery into the ambit of local government.
- *Experimentation and adaptation.* Assuming that delegated or devolved safety net programmes allow a degree of local discretion, local governments provide a natural laboratory for experimentation and innovation through heterogeneous implementation arrangements. When safety net services are delivered through a decentralized framework, national policymakers have the opportunity to see ‘real-time’ pilots in action and – where such innovations prove positive – scale them up across national territories. At the same time, local governments will also be in a better position to identify unintended impacts of pilots (or ongoing programmes for that matter) and react to these in a potential more responsive manner. Such local-level piloting is not only useful, it is also inexpensive.
- *Existing arrangements.* Because they are already ‘there’, local governments can reduce the administrative and management costs associated with the implementation of safety net programmes. Delivering safety net services through local governments avoids the need to establish new institutional or organizational structures, and enables social protection to build upon existing processes and procedures for financial management and the like.

These potentially useful linkages between local governance and safety nets are summarized in table 5, which tries to disaggregate actual and possible interfaces for different types of safety net programmes.

**Table 5: Local government functional interfaces with safety net programmes**

Broad category of safety net	Type of safety net	Actual or potential interface with local governance and local governments			
		Financing	Policy and parameters	Implementation functions	Supply/demand and other issues
Social transfers	Cash (or near cash) transfers (non-contributory pensions, food vouchers, disability and child allowances)	Limited local government top-ups to increase coverage or benefit levels	Limited scope for defining or refining beneficiary categories; some scope for modifying benefit levels	<ul style="list-style-type: none"> <li>• Beneficiary selection</li> <li>• Payments</li> <li>• Monitoring</li> <li>• Grievance and redress</li> </ul>	<ul style="list-style-type: none"> <li>• Public services for the disadvantaged</li> </ul>
	In-kind transfers (school feeding schemes, provision of food supplements)	Unlikely to be locally financed	Local government input to identify locally appropriate types of food	<ul style="list-style-type: none"> <li>• Beneficiary selection</li> <li>• Logistics and management</li> <li>• Monitoring</li> <li>• Grievance and redress</li> </ul>	<ul style="list-style-type: none"> <li>• Improving schools</li> </ul>
	General subsidies (for food, fuel, housing, utilities)	Limited local co-financing for utilities and housing	Local government adaptation of subsidized items	<ul style="list-style-type: none"> <li>• Monitoring</li> </ul>	N/A
	Public works programmes with cash wages paid to workers	Can be 100 percent local government financed and also co-funded to increase scope or cover non-labour costs (e.g. tools, technical support, cement, etc.)	Local government can define wage levels, infrastructure and maintenance priorities, types of work	<ul style="list-style-type: none"> <li>• Beneficiary selection</li> <li>• Logistics and management</li> <li>• Monitoring</li> <li>• Grievance and redress</li> </ul>	<ul style="list-style-type: none"> <li>• Maintenance of existing infrastructure (roads, schools)</li> <li>• Vocational training</li> <li>• Special services for labour-constrained (e.g. crèches for children)</li> </ul>
Income generating schemes	Food-for-work programmes with food rations used to remunerate workers	Local government co-funding, especially to finance non-labour expenditures	Local government input to identify locally appropriate types of food	As with cash wage public works	As with cash wage public works

Broad category of safety net	Type of safety net	Actual or potential interface with local governance and local governments			
		Financing	Policy and parameters	Implementation functions	Supply/demand and other issues
Schemes that protect and enhance human capital and access to basic services	Conditional transfers through which poor households receive cash or in-kind transfers on condition that they comply with certain requirements (e.g. children's school attendance)	Limited local government top-ups to increase coverage or benefit levels	Local government input to refine conditionality options	<ul style="list-style-type: none"> <li>• Beneficiary selection</li> <li>• Payments</li> <li>• Monitoring</li> <li>• Grievance and redress</li> </ul>	<ul style="list-style-type: none"> <li>• Improving public services (schools, health facilities, etc.)</li> </ul>
	Fee waivers, which ensure access to health or education services (e.g. school vouchers, educational stipends)	Unlikely to be locally financed	Little local discretion	<ul style="list-style-type: none"> <li>• Beneficiary selection</li> <li>• Monitoring</li> <li>• Grievance and redress</li> </ul>	<ul style="list-style-type: none"> <li>• Improving public services (schools, health facilities, etc.)</li> </ul>

Under the right circumstances, then, local governments can make a useful and positive contribution to the implementation of safety net programmes. That said, the role of other actors (central government, specialist agencies, etc.) remains vital – local governments may be well suited to ensure certain functions, but badly placed to undertake others.

Even if the sometimes normative arguments in favour of greater local government involvement in the delivery of safety net programmes are not be entirely convincing, it remains true that local governments are often already involved. In other words, whether they are intrinsically well suited to certain functions related to the delivery of safety net services, many local governments play a significant role in such services. That being the case, it is important to examine ways in which this *de facto* local-level involvement can be optimized and enhanced, with a view towards improving performance and service delivery outcomes.

### 5.6.2. What do safety net programmes bring to local government and governance?

It might be assumed that active involvement in the provision of social safety net services might simply be seen as another burden for local government. However, safety nets may bring added value to local government, as well as to local governance in the broader sense.

There are several features of safety net programmes that may contribute to better local governance and improved local government performance. These include the following:

- Safety nets are intended to affect the poor or vulnerable, in ways that are more direct than many other public services (such as health or education). This implies not only a service delivery focus on the poor and/or vulnerable, but also the need to address the concerns of a particular political constituency (especially in local government systems where there is a significant degree of downward accountability).
- Safety nets generally require regular contact between service users and service providers – for monitoring, payments and case management.
- By their nature, safety nets can improperly exclude or include potential beneficiaries (in ways that are rather more explicit than, say, education). This implies that safety net programmes are likely to result in more cases of grievance and thus require greater capacity for redress.
- Robust information management and regular monitoring are vital elements of a good safety net programme.
- By bolstering the demand side for other public services, safety nets can highlight or underline the need for improvements in them.
- Generally speaking, safety net programmes are (or should be) financed out of intergovernmental fiscal transfers, with central government covering most costs.

Given these and other characteristics, in what ways might safety nets add value or contribute to local governance and government?

- *Addressing immediate income and human poverty.* Most important, safety nets can provide a mechanism through which local government can directly address income/consumption poverty issues. 'Regular' local government infrastructure and service delivery functions, which focus on the supply side of poverty reduction, cannot directly tackle demand-side issues. There is considerable evidence from Brazil that municipalities have welcomed their very active involvement in the implementation of Bolsa Familia, seen as a way of extending their outreach and as a mechanism for enhancing their capacity to meet the needs of their constituents.<sup>60</sup>

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<sup>60</sup> See World Bank (2007b).

- *Strengthening local government capacities.* The implementation of safety net programmes can, in and of itself, considerably enhance local government capacities and also strengthen/reinforce existing service delivery functions (such as vital registration). This is especially the case for monitoring and information management, where local governments often perform poorly but are key activities for the delivery of safety net services.
- *Enhancing accountability.* To the extent that locally administered safety nets require regular interaction between local governments and their citizens (particularly the poor), they may contribute to enhanced accountability (and better local governance). In addition, the potential for inclusion and/or exclusion errors in the selection of safety net beneficiaries – and the need for grievance/redress mechanisms – may lead to greater interaction between citizens and local governments, with the potential for strengthening downward accountability.
- *Demand for public services.* By generating or maintaining demand for other public services, safety net programmes (and especially CCTs) can help local governments and users identify bottlenecks and other problems. In addition, safety net programmes may help local governments meet other sectoral objectives, such as higher school enrolment rates and more frequent use of local health clinics.
- *No added fiscal burden.* Under most circumstances, involvement in the implementation of safety net programmes should not result in an increase in the fiscal burden borne by local governments.
- *Operations and maintenance issues.* Workfare programmes can potentially help local governments address infrastructure maintenance issues. Maintenance is a perennial problem for many subnational governments.
- *Economic development and growth.* Safety net programmes may help people attain a minimum level of income, either through direct employment programmes or through cash transfers, which increases the potential for a larger part of the population to become economically active. This can contribute to the overall development of certain areas. As development levels rise, so will local economic activity. Increased demand for locally provided services and products, sold in local shops and markets, may also strengthen local tax bases.

Safety net programmes can make a useful contribution to local governance in general, and to local government service delivery and performance in particular. By taking on responsibilities for the delivery of safety nets, local governments have much to gain and little to lose.





6

# Ways forward

## 6.1. Rationale

This discussion paper argues that there are good grounds to explore stronger links between safety nets and local governments in developing countries. On the one hand, safety net programmes have much to offer as elements of an overall approach towards poverty reduction. On the other hand, there are functions associated with the delivery of safety net programmes for which local governments are well suited, whether through delegation (with varying degrees of discretion) or very limited devolution. Moreover, in a few countries (such as Nepal), the statutory framework assigns safety net management mandates to local governments, even if those mandates remain unfulfilled or unfunded. Finally, involvement in the delivery of safety net services can – in itself – be valuable to local government.

That said, there are significant challenges that need to be addressed in strengthening the role of local government in the delivery of safety net services. These include:

- Social protection policies or strategies in many developing countries in the Asia-Pacific and Africa regions appear to assign either no role or only a very limited one to local government. Local government legislation and policies in many of the same countries only provide local bodies with a limited mandate, if any, to implement safety net programmes.
- There is considerable (and sometimes understandable) scepticism on the part of some central governments and development partners about the capacity and aptitude of local governments to deliver services, including safety nets as a tool for poverty reduction.
- The real risks associated with local government involvement in the delivery of safety net services are not just about 'capacity' issues, but also include aspects such as local-national coordination, corruption, clientelism, financial management, and the like.
- Even among those development partners who are generally in favour of local government, there is often an unwillingness to see delegation – which is the most likely way in which safety net functions might be decentralized – as a form of decentralization.
- There is a relatively weak empirical and analytical body of knowledge about local government and safety nets in developing countries upon which to build.



- Local governments are sometimes characterized by weak capacity.
- There is a need to connect social protection initiatives to broader democratic governance agendas that seek to build capable states through effective institutions and systems, while addressing issues of transparency and accountability.

Given these considerable challenges, many of which relate to the overall policy environment, what might be the best way forward? The following section tries to answer this question, in terms of concrete actions to be followed up on by both UNCDF and UNDP. .

## 6.2. Analysis and piloting

Three broad types of concrete actions are appropriate for moving a ‘safety net – local government’ agenda forward.

First, further analysis is required, aimed at strengthening overall understanding of the issues related to local government implementation of safety net programmes. Such analysis might include:

- Examining some of the experiences up to now: contrasting centralized and decentralized safety nets in different areas, determining how different arrangements were selected, exploring the characteristics these countries share, and identifying best practices.
- ‘Unbundling’ the implementation of different types of safety net programme into a series of functions and subfunctions, and then trying to identify which functions or subfunctions are best suited to local governments and which are best suited to other institutions or organizations.
- Identifying decision-making areas within which it would be appropriate to encourage local discretionary powers, and defining the optimal limits to such local discretionary powers.
- Improving the understanding of how locally administered safety net programmes are, or could be, financed (and funds disbursed), with the pros and cons of different financing and disbursement options clearly spelt out.
- Assessing the effectiveness of local-level beneficiary selection and/or targeting mechanisms, and identifying ways of improving these mechanisms so as to minimize both inclusion and exclusion errors.
- Appraising payment and financial management procedures and processes at the local level, focusing particularly on ways of using the banking system where possible and on how manual (un-banked) payments processes might be made more robust and corruption-proof.

- Further improving the understanding of local government vital registration functions and how these do or should interface with safety net management.
- Examining current monitoring and evaluation systems and management information systems for safety net programmes and seeing how these might be adapted to (or integrated into) local government functions related to the delivery of safety nets.
- Identifying an appropriate mix of *ex ante* and *ex post* mechanisms through which local government involvement in the implementation of safety net programmes can be adequately controlled/supervised and incentivized.
- Further exploring linkages between safety net service delivery and other public services such as education, health and public works.
- Examining the potential of and linkages between cash transfers and market-based financial instruments such as savings, microinsurance, and remittances and payment services. Further analysis can also examine broader delivery systems in terms of capitalizing on transfers to the very poor and 'non-bankable' populations, to extend financial inclusion for broader social protection.
- The role of political parties, individual politicians, and the introduction of safety nets, focusing on issues like incentives, political discourse and representation

Second, a set of complementary piloting activities is necessary. This would consist of on-the-ground piloting of different types of safety net programmes in which local governments play a more or less active role, with a view to testing potential improvements and appropriate institutional arrangements, and generating evidence-based lessons. Such piloting would focus on the safety nets and functional areas where local governments are assumed to have a comparative advantage. But piloting would also provide opportunities to test optimal arrangements for jointly managed safety nets (with responsibilities shared by several governmental tiers). Any such pilots would need to be carefully designed and monitored so as to ensure that any lessons learned were evidence-based. This would require baselines and robust monitoring and evaluation systems. Care should be taken so external donor funding does not become the driving force behind introducing such schemes and dominate agenda-setting.

Third, actions should focus on feeding the lessons learned from analytical and piloting work into policy-level discussions, with a view towards informing national thinking and policies. This would include activities such as informal advocacy, information dissemination and networking. A key objective would be to provide national policymakers with information that allows them to clarify the role of local government in the implementation of safety net programmes and ensure that this is reflected in any national social protection strategies or policies.

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## Useful websites

- Economic Policy Research Institute (South Africa)  
[www.epri.org.za/papers.htm](http://www.epri.org.za/papers.htm)
- Governance and Social Development Resource Centre (United Kingdom)  
[www.gsdrc.org/](http://www.gsdrc.org/)
- Institute of Development Studies (United Kingdom)  
[www.ids.ac.uk/go/csp](http://www.ids.ac.uk/go/csp)
- International Food Policy Research Institute (United States)  
[www.ifpri.org](http://www.ifpri.org)
- International Labour Organization (Switzerland)  
[www.ilo.org/public/english/protection/secsoc/info/index.htm](http://www.ilo.org/public/english/protection/secsoc/info/index.htm)
- International Policy Centre for Inclusive Growth – UNDP (Brazil)  
[www.ipc-undp.org](http://www.ipc-undp.org)
- Overseas Development Institute (United Kingdom)  
[www.odi.org.uk/resources](http://www.odi.org.uk/resources)
- Chronic Poverty Research Centre (United Kingdom)  
[www.chronicpoverty.org](http://www.chronicpoverty.org)
- UN Capital Development Fund (United States)  
<http://www.uncdf.org>
- UNDP Asia-Pacific Regional Centre (Thailand)  
<http://asia-pacific.undp.org/>
- UNICEF West and Central Africa Regional Office  
[www.unicef.org/wcaro/documents\\_publications\\_3249.html](http://www.unicef.org/wcaro/documents_publications_3249.html)
- The Wahenga Institute (South Africa)  
<http://www.wahenga.co.za>
- World Bank [Conditional cash transfers] (United States)  
[web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTSOCIALPROTECTION/EXTSAFETYNETSANDTRANSFERS/0,,contentMDK:20615138~menuPK:282766~pagePK:148956~piPK:216618~theSitePK:282761,00.html](http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTSOCIALPROTECTION/EXTSAFETYNETSANDTRANSFERS/0,,contentMDK:20615138~menuPK:282766~pagePK:148956~piPK:216618~theSitePK:282761,00.html)

# Annex: Definitions of Social Protection

There is no consensus on various definitions of social protection and/or its components among various donor and development agencies:

The **United Nations** defines social protection as “a set of public and private policies and programmes undertaken by societies in response to various contingencies to offset the absence or substantial reduction of income from work; to provide assistance for families with children as well as provide people with health care and housing.” (UN ECOSOC, United Nations Economic and Social Council (2000). Enhancing Social Protection and Reducing Vulnerability in a Globalizing World: Report of the Secretary-General. New York)

The **International Labour Organization (ILO)** defines “social protection in a broad sense as covering all safeguards or guarantees against reduction or loss of income in cases of illness, old age, unemployment or other hardship, and including family and ethnic solidarity. This includes protection instruments based on collective or individual savings, private insurance, social insurance, mutual benefit societies, formal sector social security, etc. It generally distinguishes between social security and social assistance. The former are contributory systems through which participants acquire rights to transfers to cover situations of ill-health, accident or disability, unemployment and old age. Social assistance refers to transfers not based on prior contributions but instead financed from the general tax system, to assist low income and vulnerable groups.” (International Labour Organisation, [http://www.ilo.org/global/About\\_the\\_ILO/Mainpillars/Socialprotection/lang—en/index.htm](http://www.ilo.org/global/About_the_ILO/Mainpillars/Socialprotection/lang—en/index.htm))

The **U.K. Department for International Development (DFID)** defines social protection broadly as “[...] a sub-set of public actions carried out by the state or privately that address risk, vulnerability and chronic poverty.” DFID classifies social protection into three key components: social insurance, social assistance and setting and enforcing minimum standards (DFID (2005). ‘Can Low-Income Countries in Africa Afford Social Transfers’. Social Protection Briefing Note Series no. 2. UK Department for International Development)

The **Asian Development Bank** defines “social protection [as] [...] policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people’s exposure to risks, enhancing their capacity to protect themselves against hazards and interruption/loss of income.” ADB sub-divides social protection into five key components: labour market,

social insurance, social assistance, micro- and area-based schemes and child protection. (ADB (2008). Social Protection Index.)

**UNICEF** defines social protection as a “set of transfers and services that help individuals and households confront risk and adversity (including emergencies), and ensure a minimum standard of dignity and wellbeing throughout the lifecycle”. UNICEF agrees that the concept of social protection needs to be made child sensitive and focus on systemically protecting and ensuring the rights of all children and women, achieving gender equality, and reducing child poverty. (See, UNICEF (2006). conference papers from “Social Protection Initiatives for Children, Women, and Families: An analysis of recent experiences”. UNICEF Division of Policy and Practice and the New School for Graduate Research. New York)

The **World Bank** defines social protection as “public interventions oriented to human capital and social risk management to (i) help individuals, households, and communities better manage risk; and (ii) provide support to the incapacitated poor.” This is the definition applied in the World Bank’s Social Protection Strategy Paper, its Comprehensive Development Framework, and the Poverty Reduction Strategy Papers (PRSPs). (World Bank (1999). Social Risk Management: Intellectual underpinnings of the social protection strategy. Washington, DC. Holzmann, R., and Jorgensen, S. 2000. Social Risk Management: A new conceptual framework for social protection. Washington, DC; World Bank. 2000. Social Protection Sector Strategy. Washington, DC).

December 2011

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Photos:

Front cover (left to right): iStock, Saikat Mukherjee/UNDP, iStock

Inside title page: iStock

Edited and designed by Inís Communication

Printed by Advanced Printing Service Co.,Ltd

*Printed using vegetable inks on recycled paper (100% FSC recycled) according to ISO 14001 environmental standards.*







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