

Including the Poor - The Role of Social Safety Nets and Food Programs

Shikha Jha, Ashok Kotwal, and Bharat Ramaswami

Objectives

- Comparative evaluation of safety nets in Asia designed to ensure food security of the vulnerable
 - Bangladesh, India, Indonesia, and the Philippines
- To draw lessons from their strengths and weaknesses that would be beneficial to all

Rationale

- In an equitable agrarian society, food security would be driven by agricultural productivity
- But poor in unequal developing countries rely on government safety nets for food security
- A flawed design of safety nets can seriously jeopardize their wellbeing

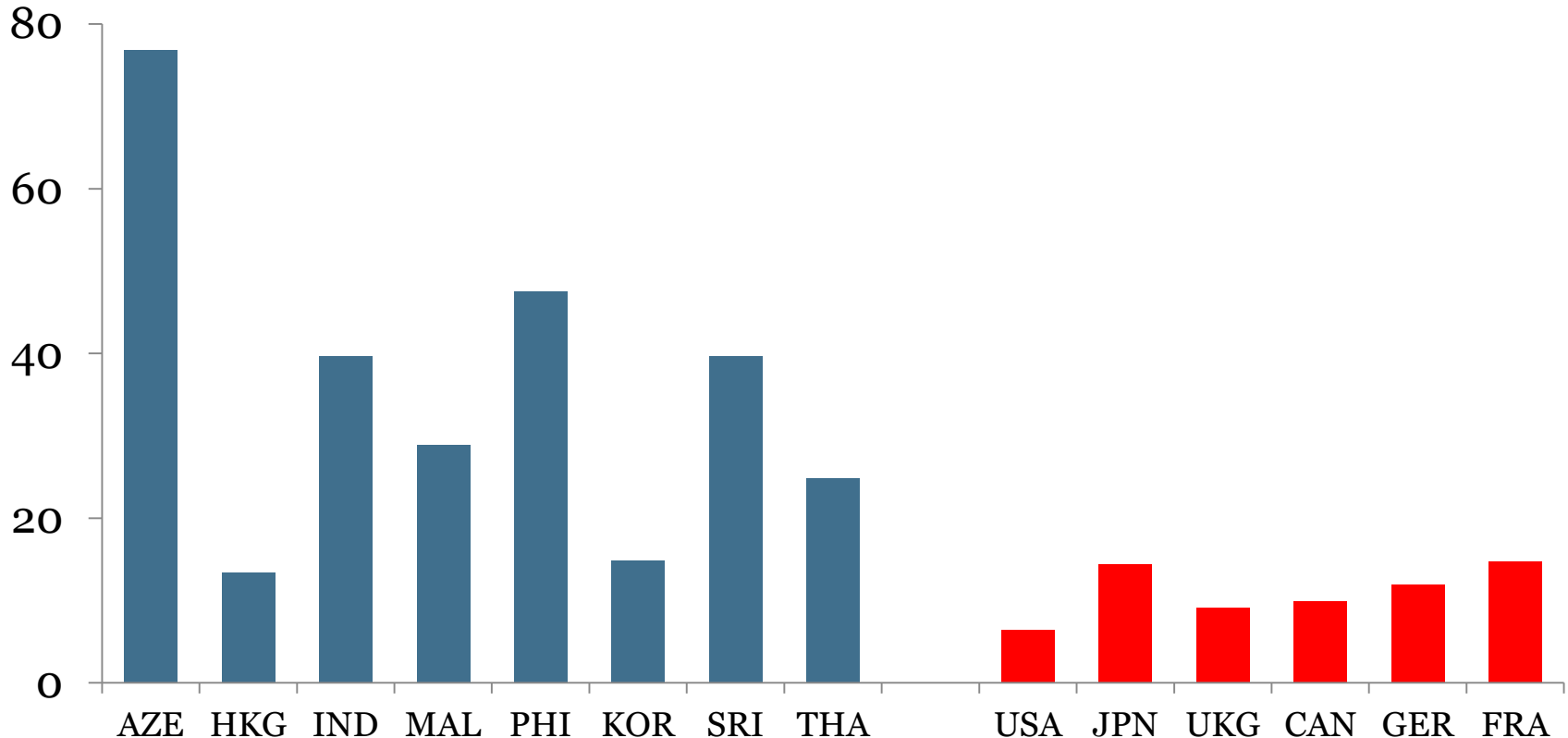
Why now? Why Asia?

High food prices and the poor

- Food price increases have become persistent
- ... and fluctuating more widely than ever before
- High food prices
 - weaken poverty reduction efforts
 - exacerbate income inequality
 - in developing Asia the Gini coefficient worsened from 39 to 46 from early 1990s - late 2000s

Asians spend more on food

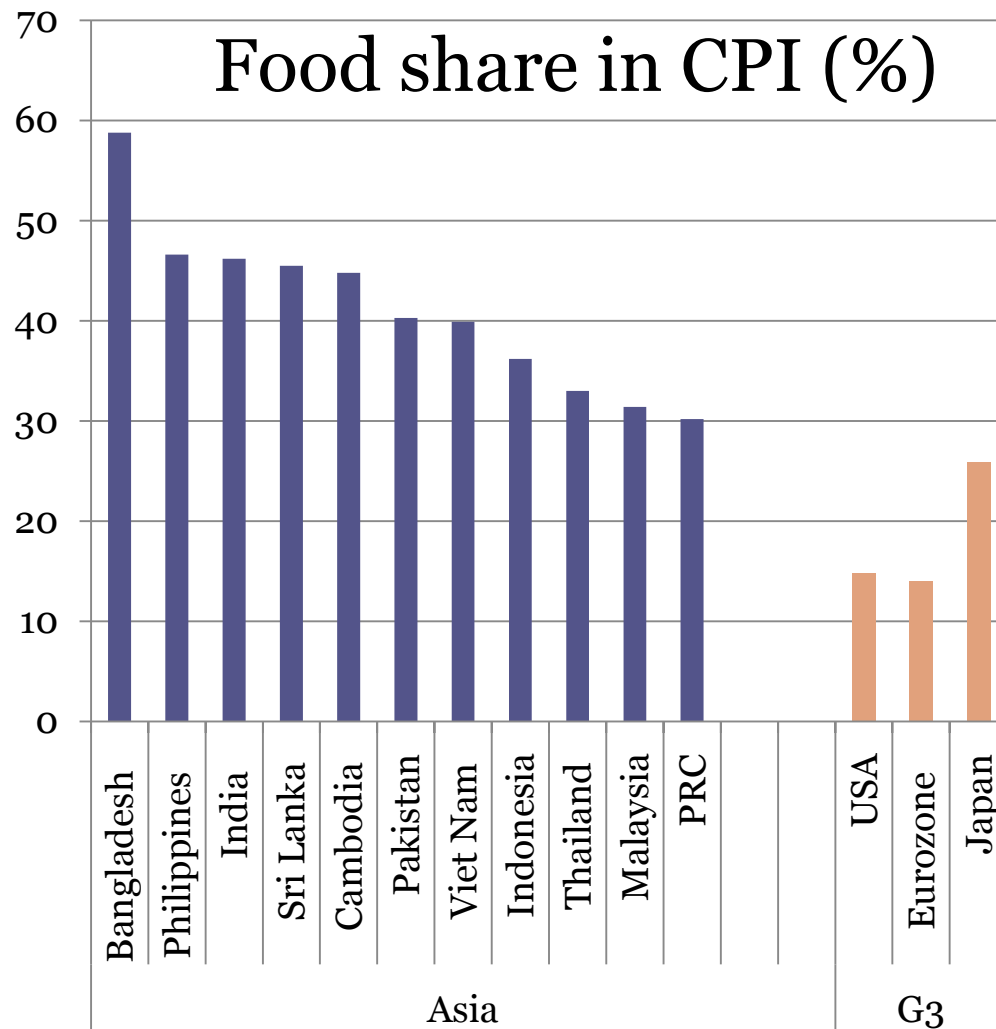
Share of food expenditures to total household expenditure (%)



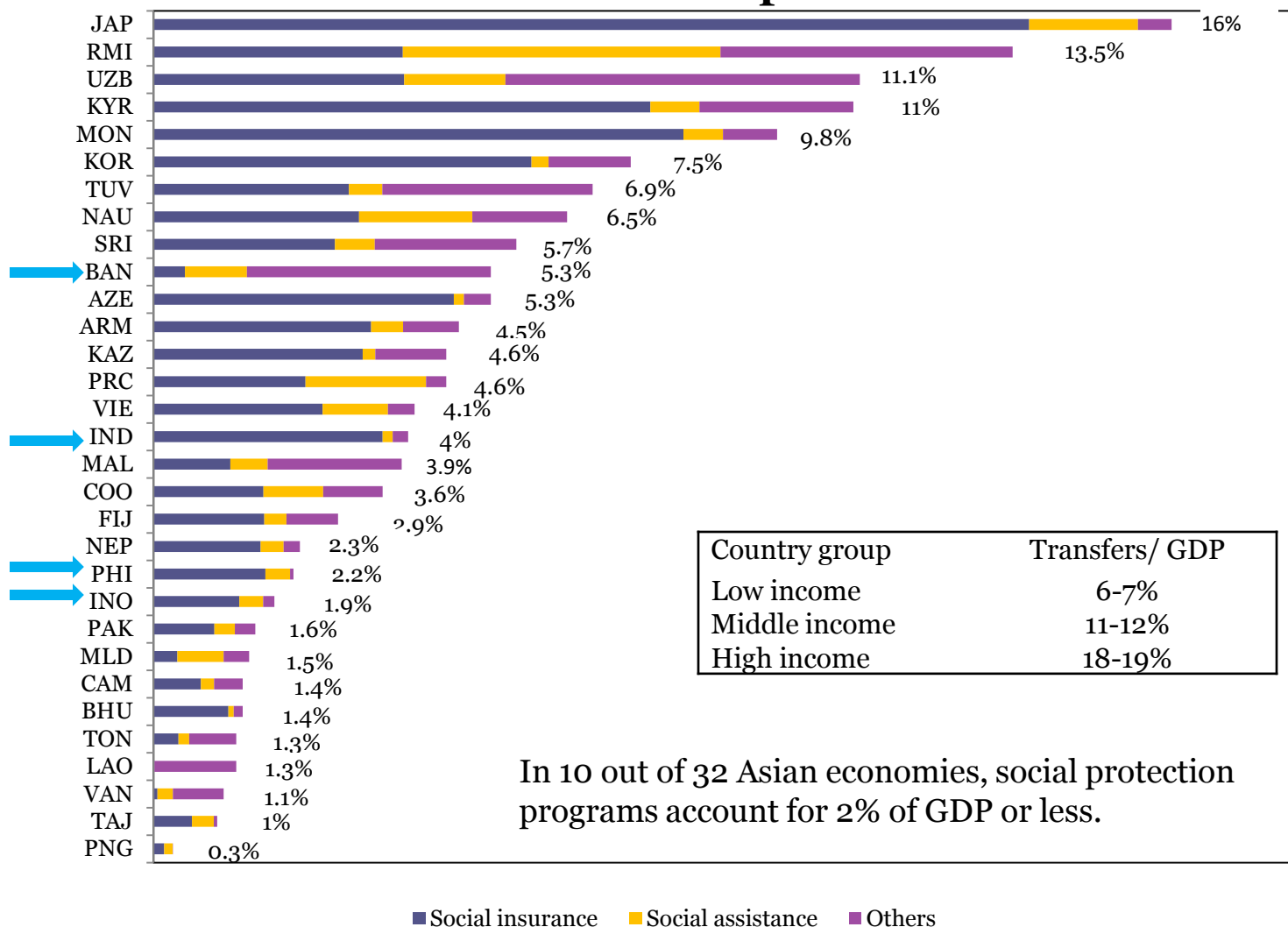
Source: US Department of Agriculture, Economic Research Service.
<http://www.ers.usda.gov/Briefing/CPIFoodAndExpenditures/data/table97.htm>

... and food contributes more to inflation

- High food prices contributing heavily to general inflation
- ... reducing real incomes of households especially the poor
- ... and highlighting the need to strengthen social safety nets



ASIA: Social Protection Expenditure as % of GDP



In 10 out of 32 Asian economies, social protection programs account for 2% of GDP or less.

Safety nets in the four countries

Types of safety net programs

	BAN	IND	INO	PHI
Consumer food price subsidies	✓	✓	✓	✓
Food-for-work programs	✓	✓		
Feeding programs	✓	✓		✓
Cash transfers	✓	✓	✓	✓
Free medical services			✓	

The largest safety nets

- **Bangladesh**
 - Subsidized food sale to the armed forces
 - Food as in-kind wage payment in public works programs
- **India**
 - Subsidized food sale through Public Distribution System: PDS
 - Cash transfer program for rural public works: NREGA
- **Indonesia**
 - Subsidized rice sale to poor households: Raskin program
 - Free health care for poor to offset fuel subsidy cuts: Jamkesmas
 - Unconditional cash transfer program: BLT
- **Philippines**
 - Universal rice price subsidy program: NFA
 - Cash transfer with school attendance and child health care: CCT

Populations reached

- Bangladesh
 - Coverage of all safety nets : 27% of population
- Indonesia
 - Raskin, Jamkesmas and BLT: 21% of all households
- Philippines
 - NFA rice subsidy: 17% of population
 - CCT target: 3 million families by end 2012

Extent of government intervention

- Bangladesh
 - Rice distribution ~ 6% of output
- India
 - Procurement ~ 35% of rice and wheat production
- Indonesia
 - Rice distribution ~ 8% of production + imports
- Philippines
 - Rice procurement ~ 1% of production
 - Rice imports ~ 10-15% of production

Comparative Analysis

Budgetary expenditure

- Bangladesh: 3% of GDP
- India: 1.5% of GDP
- Indonesia, Philippines: < 1% of GDP
- Developing country average: 1-2% of GDP
- US: 9% of GDP
- EU: 19% of GDP
- Fiscal stimulus packages after the global crisis have eroded the fiscal space in Asia
 - Need to increase efficiency of spending on safety nets

Targeting Performance

	Exclusion Error (%)	Inclusion Error (%)
India PDS, 2004/05	70	70
Indonesia Raskin	29	70
BLT	55	60
Philippines (universal) NFA, 2009	52	65

Fraud and excess costs

- **Bangladesh**
 - 80% of rice from Palli subsidy program of 1990s diverted to market sales
- **India**
 - 41% of grain supplies illegally diverted in mid-2000s
 - 30% of subsidy expenditure reached the poor and non-poor
 - The rest lost in inefficiencies of program operation and diversions
- **Indonesia**
 - Households received only 1/2 procured rice in 2008, 1/3rd in 2009
 - ... and yet paid 60% more than stipulated price
- **Philippines**
 - 34% of subsidy expenditure reaches the poor and non-poor
 - The rest lost to illegal arbitrage and excess cost

Weak program design

Finding the poor

- Defining the poor is difficult
 - Should only the persons below the poverty line receive support? What about the persons just above the poverty line?
- Poverty is dynamic
 - People move in and out of poverty
- Identifying the target group is difficult
 - Incomes unreliable due to informal employment
 - Proxy means testing yields errors

Barriers to poor's participation

- Distance to/ location of authorized retail outlets
- Timings of retail source
- Poor quality of food
- Limited supplies
- Lack of credit
- High opportunity cost

Vested interests

- Indonesia - Raskin
 - Elite capture by local authorities: equal distribution
- Philippines – NFA
 - Allocation of rice biased against poorer regions

Problems with in-kind transfers

- Fungibility of food transfers
 - Higher food subsidies may not improve food consumption or indicators of nutrition, health
 - Quantity of subsidized food is often smaller than the household's current consumption (e.g., India)
 - Experience from Asia: Recipients trade it for other goods or other types of food
 - More variety, better taste, higher nutrition
- High costs of physical handling
 - Inefficiencies in program implementation
 - Corruption, leakages, excess costs

Policy choices

Reform food-based programs

- Apply self-selection targeting mechanisms
 - Select easily-identifiable groups: children, women
 - Provide inferior goods, demand manual labor
- Use biometric identification and smart cards
 - Reduce fraud
 - Improve the reach of program benefits to the poor
- Computerize the supply chain to track grain supplies
 - Reduce diversion to markets

Switch to cash transfers

- Poverty causes food insecurity
- Any income transfer to the poor would help alleviate food insecurity
 - programs involving transfer of food
 - conditional and unconditional cash transfer programs
- If an in-kind transfer can be traded freely, it would be equivalent to a cash transfer
 - the key difference would be in terms of corruption, waste and leakage in the two systems

How to make cash transfers work

- Build modern infrastructure for payments
 - Computerize financial systems
 - Use internet and mobile devices
- Develop fraud-free authentication systems
 - Use digital signatures or codes
 - Use biometric scanners to verify the identity of beneficiaries and to record transactions
- Maintain the value of transfers over time
 - Index the value of transfers to inflation

Impose conditionalities to improve the performance of cash transfers

- The need for conditionalities
 - Attendance in schools and health centers develop human capital and long-term growth potential
 - Self-targeting mechanism
- Problems with conditionalities
 - It creates bias against other vulnerable groups who also need support
 - Infrastructure needed to implement conditionalities may be lacking in developing Asia

There is no unique solution

- Limited fiscal space
 - Streamline food-based programs or replace them with those that are likely to perform better
- Asia has successful experience on the latter
 - Bangladesh: Shifted from Palli rice subsidy to targeted food transfers for military, poor, women, children, and food-for-work program
 - Philippines switching from rice subsidy to CCT
- Mix of tools for a country depends on
 - Its economic, political, and social backgrounds
 - Its administrative and fiscal capabilities to provide safety net programs