Asia-Pacific
Economic Cooperation

Social Safety Net in Response to Crisis: Lessons and Guidelines from Asia and Latin America

APEC Finance Ministers Process

February 2001

Social Safety Nets in Response to Crisis: Lessons and Guidelines from Asia and Latin America

Submitted to the APEC Finance Ministers[1]
February 2001

I. INTRODUCTION

Recent economic crises highlight the importance of effective social policies to cushion the impact of adverse economic developments. In particular, during recent crises many Asian (1997–99) and Latin American (1994–95, 1999) countries have suffered significant increases in the proportion of people in extreme poverty, without jobs or access to essential services, loss of physical assets among the poor, as well as rising rates of malnutrition and school dropouts among poor children. These conditions tend to aggravate chronic poverty and may lead to irreversible losses in human capital among the poor and vulnerable, undermining an economy's ability to sustain growth. This experience underscores the need to draw lessons that could help guide policy formulation and implementation of social safety nets more generally.[2]

In response to this need, the APEC Finance Ministers want to establish guidelines on the implementation and use of safety nets in responding to crises, taking into account recent country experiences. In their September 1999 Memorandum to APEC Leaders, Finance Ministers stressed the importance of social safety nets in addressing the distress suffered by the most vulnerable members of society and expressed support for the international financial institutions to incorporate this approach into poverty reduction efforts. The Finance Ministers support the view that social policies must ensure that all members of society have the chance to benefit from the globalized economy and well-functioning markets.

To promote these views, APEC Finance Ministers established a Working Group to identify policies and instruments to strengthen social safety nets in their countries. The Working Group was chaired by Mexico and the United States and comprised staff from the World Bank, International Monetary Fund, Asian Development Bank, and Inter-American Development Bank. The report of the Working Group is based on responses to a

---

[1] This draft has been prepared in collaboration with APEC member countries and a core team from the World Bank, the International Monetary Fund (IMF), the Asian Development Bank (ADB), and the Inter-American Development Bank (IDB).

[2] The discussion of safety nets in this document will be in connection to the response to economic crises, however, safety net instruments may also be used to protect specific population groups from other covariate shocks, such as the consequences of natural disasters or conflicts, or idiosyncratic shocks such as illness, disability, unemployment or death of family income earners, as well as those who are chronically poor for reasons unrelated to shocks.

questionnaire administered to seven APEC countries (Chile, Indonesia, the Republic of Korea, Mexico, Peru, the Philippines and Thailand) and follow-up missions to all but one of these countries.[3]

The safety net guidelines complement recent and ongoing efforts undertaken in other contexts, including the analysis in the World Development Report, the Asian Development Bank's Social Safety Net initiatives, the Inter-American Development Bank initiative on Social Protection for Equity and Growth and the preparation of Poverty Reduction Strategy Papers, among others. Of direct relevance to this exercise is a study being undertaken by the APEC Human Resources Development (HRD) Working Group on short-term policies to deal with the Asian financial crisis, as well as the recent Development Committee paper on managing the social dimensions of crises. In addition, at the Auckland APEC meeting an inventory was produced of ongoing social safety net programs and activities of various international organizations and donors.

The main findings of the report include: (1) social safety nets should be in place before a crisis occurs since they can address the needs of the poor in good economic times and be adaptable to combat the effects of crisis; (2) pre-crisis planning is essential to effectively address the social effects of crises and includes the availability of reliable and timely information on the poor and frequent evaluation of safety net programs; and (3) countries can select from a wide range of available instruments depending on their administrative capacity and target populations. In selecting the appropriate instruments, governments should ensure that the measures: (i) provide adequate protection to the poor; (ii) promote efficient targeting; (iii) avoid creating a culture of dependency among recipients by limiting size and duration of benefits; (iv) are consistent with economic incentives and overall targets of fiscal and macroeconomic policy; and (v) encourage transparency and accountability in the design and implementation of programs and in the use of resources.

The remainder of the report is organized as follows. Section II examines safety nets in the context of the policy environment, while Section III focuses on the need for pre-crisis planning. Section IV presents lessons on the choice of safety net instruments. Section V discusses the importance of transparency and accountability in program eligibility, administration and budgeting. Section VI summarizes conclusions and provides key guidelines. Three annexes follow the main text: Annex I summarizes common safety net targeting methods, Annex II highlights advantages and disadvantages of the main safety net program types, and Annex III briefly describes the safety net policy responses of the study countries to recent crises.

---

[3] Missions comprising World Bank, IMF, ADB and IDB staff visited Indonesia, Korea, Thailand, Chile, Mexico and Peru during July-August 2000.

II. GUIDELINES ON THE POLICY ENVIRONMENT

When a crisis occurs, restoring macroeconomic stability is a prerequisite for economic growth, which is required for reducing poverty in the medium term. Sound macroeconomic policies and the promotion of good corporate and financial sector policies in the private sector help prevent recurrent crises that can result in drastic declines in the living standards of the population.[4] However, some crises do occur as a result of external shocks. Thus, there is a need to protect and assist vulnerable social groups – not only from the effects of the crisis but also from the adjustment costs of stabilization.[5] As a first step, the mix and sequencing of crisis-response policies must be adjusted to take into account their social impact. But, it may not be feasible to adequately offset the adverse impact on the poor in this manner, because these policies have to be consistent with the macroeconomic framework to avoid curtailing the permanent benefits of equitable and sustainable growth policies. Social safety nets are a means of easing this tension between stabilization and social protection goals.

In addition to easing the transition to stable policies, publicly provided safety nets are an integral part of the effort to manage social risks more generally. Crises such as occurred in East Asia tend to exhaust the capacity of individuals and households to cope independently with the social and economic consequences. Family and community risk sharing and other informal arrangements may deteriorate and become less effective in the face of large covariate shocks. Households may be forced to rely on short-term coping mechanisms such as taking children out of school and increasing the time spent in the labor market by children and women, selling productive assets, and reducing nutritional intake of household members. Government can play a critical role in managing these risks by providing a social safety net that assists individuals and households to cope with short-term poverty and its byproducts, yet that fits within a diverse set of risk management instruments, including public, market-based, and informal arrangements.

A social safety net comprises policies and programs that provide short-term income support and access to basic social services to the poor during economic crises and possibly other adverse events. These have to be country-owned and designed. In many cases, these programs are the same as those that address chronic poverty and structural unemployment. The goal is to design them in a manner that recognizes that although the problems are similar—poverty and unemployment—the causes and duration may differ. As a result, relative to programs addressing chronic poverty and unemployment, social safety net programs that focus on immediate relief from the effects of crisis may assign a higher weight

---

[4] In addition, countries consistently adopting sound macroeconomic policies enjoy lower debt burdens, better market access and credibility and, in some cases, may have access to liquid assets saved prior to the crisis.

[5] Not all poor households lose from economic reforms. For example, households involved in the production for export may gain from a devaluation of the exchange rate. Similarly, net producers of food (i.e., households producing more than they consume) may benefit from the liberalization of food prices.

to redistributive goals, as opposed to protecting against lifecycle contingencies. A key ingredient is flexibility in times of crisis, such as by relaxing eligibility requirements of existing programs so that they reach more poor households.

Social safety nets are part of a larger social policy framework that includes health care, education, social insurance and labor protection, among others. In times of crises, therefore, public response cannot be limited to social safety net programs. A broader set of social programs including, for instance, basic education and nutrition programs, should be protected from budget cuts. Peru and Mexico have opted to publish a list of programs that are to be protected from budget reductions during a crisis.[6]

Social safety nets are designed to help individuals and families cope with the consequences of economic shocks and provide support to the poor. They are directed primarily to those poor who are most adversely affected by temporary shocks to income and general well-being.[7] A typology of the major social safety net programs includes cash and in-kind transfers, price subsidies, social services fee waivers, supplemental feeding and nutrition programs, public works programs, and microfinance programs, as well as social insurance programs (in particular, pensions and unemployment benefits) that can also reach the poor.[8]

The economic distortions associated with safety nets should be recognized in the initial design of the programs. The disincentive to work stemming from income transfers, for example, should be factored into program design in order to strike a balance between the need to provide protection to the poor and the desire to maintain economic efficiency in the long run. For transfer programs, design features might, for example, include targeting beneficiaries among the poorest and most vulnerable and limiting the duration of benefit receipt. In 1998, the Korean authorities initially hesitated to broaden the coverage of unemployment benefits out of concern for labor market disincentive effects. However, social safety nets can also support labor market reform by providing benefits to those forced to switch jobs to facilitate enterprise restructuring. Setting the wage rate below the prevailing remuneration of unskilled labor can prevent an undue disincentive effect from public works

---

[6] Effective budget management is required for protecting these programs, as funds may be redirected to other uses depending upon the discretion of government agencies to modify allocations between programs.

[7] Poverty is a multi-dimensional problem that often involves much more than a lack of income. Dimensions of poverty include vulnerability to various social risks such as crime and family abuse, a lack of social assets, insufficient human capital development and access to social services, as well as a weak political voice. Social safety nets should typically target the poor and the various dimensions of poverty, but the definition of poverty is necessarily country-specific.

[8] It should be noted that some policymakers and analysts consider social insurance programs as distinct from safety nets, the latter also interpreted as social assistance. In this document we will consider social insurance and assistance programs collectively, with particular attention to their adaptability to support the poor during economic crises.

programs. Generalized commodity subsidies, on the other hand, create substantial distortions which can be reflected in waste, shortages, and smuggling of subsidized items.

Although budgetary constraints inevitably limit the scope of anti-poverty programs in general, and safety nets in particular, these programs should be protected in the wake of a crisis. Even under the best of fiscal circumstances, governments are limited in what can be spent on social programs and safety nets. Yet it is precisely during a crisis when spending on safety nets should be protected and even increased. The budget for safety nets should be based on an average of spending projections over the medium term, with more spent during crises and less during expansions. Poverty alleviation programs should be designed to expand (and contract) benefits and coverage automatically as the need arises (and dissipates). In this way, these programs act as automatic fiscal stabilizers (see Box 1). However, in practice, lags in the implementation of social safety nets in the Asian countries implied that the associated economic stimulus was largely pro-cyclical and coincided with expanding economies.

Channeling more resources to social protection programs in times of economic crises can be achieved by shifting budget resources away from other, less critical, purposes to social safety nets or, if resources are available, by increasing the budget within a sustainable macroeconomic framework. Foreign financing or drawing down accumulated surpluses can provide additional resources. In Korea, for example, the unemployment insurance fund had sizable surpluses that facilitated financing the broadening of coverage. The low initial level of public debt in the Asian countries also contributed to their ability to expand social safety nets. Recently, some countries have created fiscal stabilization funds that can be used during crises. In Peru, for example, the use of the fund's resources is limited to targeted poverty reduction programs.

Recent country experiences support this notion of maintaining or increasing social spending during crises. Spending on social protection programs in Korea and Thailand rose by 1 percentage point of GDP and by almost 4 percentage points in Indonesia during 1998-99, reflecting the relative severity of the social impact and the use of untargeted social safety net instruments in Indonesia in the wake of the financial crisis. The increased spending was achieved by relaxing the initial fiscal targets in response to the assessments of the social impacts of the crisis as well as the increase in financial support made available by international financial institutions. In Thailand for example, the education budget for 1999 was set at the previous year's real expenditure level, and the subsidized student loan fund was doubled to $400 million. The spending increase was instrumental in mitigating the social cost of the crisis and accelerating economic recovery. Foreign involvement has also led to some delays, however. It has taken time to agree with multilateral organizations and donors on a package of measures and programs. Further lags resulted in Thailand because its budget implementation procedures were substantially different from those required for the disbursement of foreign funds.

Box 1. Automatic Stabilizers in the Asian Countries

Theory: In addition to their primary role as instruments to assist the poor, social safety net programs can function as part of the automatic stabilizers to the economy, providing a stimulus through higher spending during bad economic times and contracting during good times. A means-tested cash transfer operates in this way, as a declining economy would result in more people being eligible for the cash transfer and the subsequent cash injection. As the incomes of people improve with the economy, fewer people qualify for the transfer and spending automatically decreases.

Practice: In the Asian crisis countries, however, safety nets in practice behaved pro-cyclically. Except for Korea, none of the crisis countries had unemployment insurance or social safety net programs that automatically reacted to the changing social needs. The few transfer programs that did exist, such as the Livelihood Protection Program in Korea (see Box 4) and the village-wide Inpres Desa Tertinggal (IDT) in Indonesia, were very small. Further, the large dependence of governments for revenue from consumption and trade taxes and excessively narrow tax bases, reflecting the widespread use of tax incentives and exemptions, provided only limited automatic stabilization.

Consequently, the Asian countries' fiscal response to the crisis was largely improvised and discretionary. As the crisis deepened, countries reduced the budget surplus by increasing spending on social programs and safety nets. However, it took time to establish largely new social safety nets programs, many of which were new. A long tradition of tight fiscal management as well as governance concerns further lengthened the delays. The lag in implementation meant that the poor were not served as quickly as possible and the resulting economic stimulus coincided in some countries with an expanding economy, spurring pro-cyclical demand pressures.

Lesson: Properly designed and in place before crisis, social safety nets can be an important automatic fiscal stabilizer. In addition to contributing to macroeconomic stability, such safety net programs are also less prone to the type of political pressures that make the reversal of temporary tax cuts or increased spending difficult after the crisis.

Therefore, social safety nets should be in place before a crisis occurs. Permanent, rather than ad hoc, social safety nets can more effectively protect the poor from the adverse effects of crises without compromising longer-term goals. During good economic times, social safety net instruments help to alleviate poverty among the chronically poor and those suffering from the effects of non-economic shocks. Recent experience has demonstrated that social effects can become manifest very quickly after the onset of crisis. Within the space of a year after the initial signs of the Asia Crisis became evident, Korea experienced a 4.3 percentage point increase in the unemployment rate translating into 1.5 million jobless individuals. The headcount poverty ratio jumped from 3 percent in the last quarter of 1997 to 7.5 percent in the third quarter of 1998 among households headed by workers in urban areas.[9] In Thailand, the headcount index increased by 1.4 percentage points to 12.7 percent of the active labor force between 1996 and 1998, implying that nearly 1 million people had been

[9] Moon, Lee, and Yoo (1999).

pushed below the poverty line as a result of the crisis.[10] In the wake of the peso crisis in Mexico, the poverty headcount rose from 23.3 percent in 1994 to 28.6 percent in 1996[11] and the unemployment rate increased from 3.7 percent to 6.3 percent over the same period.[12] These experiences in Asia and Latin America suggest that adequate planning is necessary before a crisis hits.

III. Pre-Crisis Planning

The availability of timely and reliable information on the poor and vulnerable groups is critical for the design and implementation of social safety nets. The lack of instruments and information on vulnerable population groups may leave governments with few alternatives to protect them (see Box 2). As governments move quickly to implement new programs or expand existing programs, they must have the capacity to evaluate the success of their policy actions. On-going collection of disaggregated data on the vulnerable population subgroups is needed to regularly update information and to assess national and local progress in meeting social goals. In addition, information on program outreach, management costs, and impact should be routinely collected for the use of managers and policymakers.

The study countries exhibited a range of information capacities. Most have data analysis and planning agencies within the government, and periodic national surveys are conducted which assess poverty and socioeconomic status. In some countries, available data have been used to target safety net programs. In Indonesia, for example, the eligibility for several programs, including the OPK rice subsidy, was based on the family planning agency's household database. In addition, the government in Indonesia conducts the annual National Socioeconomic Survey (SUSENAS). In Mexico, the Center for Population Studies (CONAPO) constructed an index of marginality based on census data that is instrumental in the implementation and targeting of the PROGRESA program (Box 3).

However, it is important to note that these national-level instruments are often insufficient for effective targeting during a crisis. Crises are frequently accompanied by significant income and resource shifts among households (both upward and downward) as different population groups are affected. Relying on static pre-crisis assessments of poverty can fail to capture the dynamics of poverty during the crisis and miss important segments of society in need of assistance, such as the new poor. For example, Indonesian data had to be supplemented with information obtained through rapid appraisal methods conducted by social sector workers at the district and village level in order to develop initial targets for health and nutrition crisis-related programs. This suggests that a system of on-going data collection should be in place

[10] World Bank (January 1999).

[11] World Bank staff estimates based on the Household Income and Expenditure Survey (ENIGH). Households are defined as poor if they cannot afford basic needs apart from food.

[12] Inter-American Development Bank (2000).

together with the frequent evaluation of the effectiveness of existing safety nets programs to monitor and refine targets.

Poverty alleviation programs should be designed to expand and contract automatically as the need arises. For instance, any program that requires qualification will expand or contract as the number of individuals and families that meet the criteria changes. At a minimum, good pre-crisis planning requires:

- **Assessment of risks and target populations, together with an analysis of the channels through which the poor may be affected by a crisis.** Pre-crisis planning begins with a fundamental assessment of risk and vulnerability to determine which segments of the population would suffer most in the event of an economic crisis. It is impossible to insulate all people from the effects of crisis, and it is preferable to recognize this fact and make the difficult choices beforehand. Equity issues must be highlighted, including explicit consideration of possible gender imbalances. Mexico is developing a comprehensive model of risk assessment and response to different types of crises, including natural disasters.

- **Formulation of a strategy to prevent irreversible losses in human capital.** During economic crises, malnutrition may rise and children may drop out of school, limiting their ability to emerge from poverty in the future. This, in turn, may reduce longer-term economic growth. Programs that seek to limit irreversible damage to human capital, such as PROGRESA and the scholarship program put in place in Indonesia in the wake of the crisis, are important components of social safety nets.

- **Identification, or if necessary, the design and creation of new instruments and financing.** Pre-crisis planning also involves a determination of the available program instruments and financing mechanisms for the most effective programs. Unemployment benefits and food stamp programs, for example, will automatically expand and cover households adversely affected by economic crises. With other programs, such as public works, a decision needs to be taken to broaden coverage in response to a crisis. Plans for the adaptation of these latter types of programs should be developed before a crisis hits. Moreover, financial planning, including identification of potential sources of crisis financing, should also precede the onset of a crisis. In the short run, variations in the financial constraints faced by subnational governments may be an obstacle for establishing efficient and equitable social safety nets at the subnational level. But, with adequate planning, design and implementation of social safety nets can be decentralized, enabling differentiation in accordance with local needs. On-going programs and expenditures should be prioritized to ensure that the most important social safety net activities are protected and enhanced, as necessary. Sources of data and systems for monitoring rapid socio-economic changes in target groups should be established. The planning in this phase may also include determination of a broad set of indicators and levels to trigger discussion of targeted safety net mobilization, as is being discussed in Peru.

Box 2. The Evolution of Price Subsidies in Indonesia

When the financial crisis struck Indonesia in 1997, in part due to the lack of immediate alternatives, the system of generalized subsidies was utilized as a safety net. Total subsidies amounted to 3 percent of GDP in 1997–98. Petroleum subsidies accounted for half of the total, food subsidies for 40 percent (primarily rice, soybean, wheat flour, soybean meal, and fishmeal) and subsidies for electricity, medicines and fertilizers made up the balance.

In early 1998, an attempt to limit the fuel subsidy was met with violent protests, forcing the government to partially roll back planned price increases. Largely due to increasing world fuel costs, the system of subsidies ballooned to 4.2 percent of GDP in 1998–99. A successful reduction in the fuel subsidy occurred in October 2000, with the poorest consumers compensated through a combination of public works programs, micro-credit and cash assistance.

By August 1998, the government replaced the generalized rice subsidy with a targeted subsidy on lower quality rice (the OPK program). On the basis of indicators constructed from a national survey, each village and urban community is assigned an allocation of subsidized rice, which is distributed among households by community councils. As of mid-2000, eligible households receive up to 20 kilograms of rice per month at a cost of Rp 1,000 per kilogram (the market price is around Rp 3,000). The OPK program currently reaches about 13 million families.

Even with the increased targeting, several issues common to the implementation of general subsidy programs have arisen in connection with the OPK program, including:

- ***Distribution.*** The transport and sale of the subsidized rice are often left to the village-level officials, who often lack the necessary skills and resources, especially in outlying areas. This has led to cost inefficiencies and delays in the distribution of rice.

- ***Leakages.*** Some communities decide to distribute their allocations of rice to a larger number of households than intended by the program. As a result, target families often receive significantly less than 20 kilograms of rice per month.

- ***Corruption and governance.*** Although systems of redress are in place, instances have emerged of officials using their distribution power for political and financial gain. Suspect distribution decisions by community councils have also been reported.

Sources: SMERU (December 1998), Gupta and others, (2000a), APEC questionnaire templates.

- **Determination of an exit strategy.** The last phase in planning is to determine how the safety net programs will be scaled back once the crisis conditions have abated. In some cases this will be automatic, such as in the case of unemployment benefits and food stamp programs mentioned above. For programs designed only to respond to a crisis, however, there is the danger that the program can become an entrenched feature of the government bureaucracy, with crisis-level administrative staff and budgets prevailing in normal times. Clear program reduction rules should be established. In Korea, a gradual phasing out of major public works projects is envisaged between 2000 and 2003 as the unemployment rate stabilizes toward a goal of 4 percent, and in Chile the emergency employment program put in place during the 1999 crisis is also being phased out. In both

Indonesia and Thailand, the governments are evaluating which safety net programs to maintain within their regular budgets after the foreign funds for social safety nets come to an end.

Box 3. Mexico's PROGRESA Program

Among the flagship targeted human development programs in Latin America and the Caribbean is Mexico's Programa de Educación, Salud y Alimentación (PROGRESA), an integrated approach to poverty reduction initiated in 1997. The program aims to eradicate extreme rural poverty by promoting investment of the poor in human capital, through strengthening their demand for education and health services. Beneficiary households in the program receive cash transfers, school supplies, and nutrition supplements conditional on children's school attendance and regular preventive health care visits. In 1999, the program reached 2.5 million households in 53,000 localities in 2,156 municipalities. Despite its substantial coverage, the expenditure on the program represented around 0.2 percent of GDP in 1999. The program also generated greater efficiency in public social spending; as PROGRESA demonstrated its effectiveness, the government was able to phase out a regressive and poorly targeted subsidy for the purchase of tortillas and reallocate the savings to PROGRESA.

Beneficiary households are targeted under PROGRESA in three steps. The first step identifies the localities to be included in the program with a "marginality index" that is constructed using socioeconomic variables associated with unsatisfied basic needs. The second step selects beneficiary households within the localities with a means-tested methodology. Finally, the beneficiary list is reviewed by the community to insure accurate identification of the most needy and exclusion of others. A major achievement of the program has been to reach the hard-core poor, more than half of whom had never received any type of government transfer until PROGRESA. However, because of its particular targeting method, the program has excluded poor people living in non-marginal communities and in communities without access to a school or health post. Nonetheless, a recent evaluation found among the target population between 1998 and 1999:

(i) a 17-percent increase in secondary school enrollment;
(ii) a 25-percent drop in child labor;
(iii) a 30-percent increase in well baby visits and a 16 percent increase in prenatal care visits; and
(iv) a 22-percent increase in food consumption, accompanied by a significant increase in the purchase of foods rich in protein and micronutrients.

Sources: SEDESOL (2000); PROGRESA (1999); and Inter-American Development Bank (2000).

IV. Choice of Instruments

A country's ability to mitigate the effects of crises on the vulnerable depends largely on the available financing and the number and type of safety net programs it has, as well as the appropriateness and adaptability of these programs for the relevant target populations. This implies that at least some programs that are part of the social safety net during crisis are a permanent element of social policy. The programs then must serve multiple functions: social safety net programs introduced during the pre-crisis period must systematically address the needs of the poor in good economic times and they must be adaptable in terms of benefits and coverage to combat the more pronounced effects of crisis. In this way, social safety net programs can be viewed in a larger risk management framework. In times of economic crises, the question then becomes which programs to adapt and how. The choice of instruments should also reflect administrative and financial constraints and the economic costs of such instruments.

The following principles should guide the design and implementation of social safety net instruments:

- **Provide adequate protection to the poor.** Social safety nets need to assist the existing poor whose ability to cope is reduced by crisis and economic adjustment, as well as those households who have become poor as a result of the loss of income earning opportunities due to economic crises. If permanent anti-poverty programs with adequate coverage exist, these can be used to assist the existing poor. Assistance for the new poor may be delivered through expanded existing programs. However, if these new poor are substantially different from the existing poor, it may be necessary to establish new programs. For example, the "new poor" from a crisis may result from lay-offs in the formal sector, while the chronic poor largely reside in rural areas and work in the informal sector. Different program instruments may be required for the two groups.

- **Promote efficient targeting.** The coverage of social safety nets should not exclude poor households that are in need of assistance (errors of exclusion), nor include households that are not needy (errors of inclusion) (see Annex I for more details on targeting mechanisms and their efficiency). Both types of errors, if too large, will undermine the ability of the social safety nets to provide adequate protection to the poor. Some leakage of benefits to the nonpoor is inevitable, and in general a balance needs to be found between the efficiency of the targeting mechanism and the cost of administering social safety nets. In select cases, nonpoor households may receive social safety net benefits in order to increase support of the politically powerful middle class for social safety nets and economic reform measures. In Indonesia, for example, middle class households were a main beneficiary of the generalized subsidies after the outbreak of the financial crisis. But, the decision to cover the nonpoor should be approached with great caution because of the fiscal cost of providing income transfers to the nonpoor and the risk of eliciting claims from other population groups. Moreover, the elimination of generalized subsidies may prove to be difficult even after the crisis has abated. This can, as with Indonesian fuel subsidies, lead to inefficiencies and pro-cyclical fiscal stimuli.

- **Avoid creating a culture of dependency.** Programs should be designed with careful attention to the incentives they create among beneficiaries. Safety net programs with overly generous benefits or insufficient limitations on program participation can reduce the incentives to participate in the labor force. The temporary nature of benefits for individual recipients should be announced from the start of programs and participants should be encouraged to remain active in their search for new employment opportunities as is done in the Livelihood Protection Program in Korea or the job-training programs in Chile.

- **Encourage consistency with economic incentives and overall targets of fiscal and macroeconomic policy.** Income transfers may provide disincentives to work, and thereby lower the prospects for growth in the medium term. However, the impact of such disincentives has to be weighed against the cost of loss of human capital from inadequate social safety nets. This trade off is likely to tilt more toward preventing adverse labor market effects in the case of permanent instruments than that of temporary arrangements. The budgetary cost of the social safety net program should not be so high that it fuels inflation or crowds out spending that is crucial for securing high-quality economic growth, such as expenditure on infrastructure in rural areas, water and sewage, and basic education and primary health care.

With adequate planning, social safety nets consistent with the above principles can be put in place. Selection of instruments should start with consideration of existing programs, including public pension schemes. Adequate pre-crisis planning will permit identification of the best of these programs and allow time to develop new programs as needed.

In principle, a well-targeted cash transfer program could provide a comprehensive social safety net by itself. It would be a permanent public program, and would automatically expand during crises and contract during regular times, when it would address chronic poverty and the effects of other risks faced by the vulnerable. Cash transfers have many advantages, including consumer choice and greater transparency of budgetary cost. If accurate information on individual income and assets is available and it permits an accurate assessment of need, a means-tested transfer would also limit errors of inclusion and exclusion.

The main disadvantage of cash transfers is that the benefit may reduce the incentive of recipients to participate in the labor market. Such adverse labor supply effects can be minimized by reducing benefits gradually as family income rises and by limiting the length of eligibility for benefits—although this may reduce the targeting efficiency. In Korea, participants in the means-tested livelihood program are required to undergo training and job counseling to encourage their re-entry in the labor market. A clustering of incomes around a narrow range, such as in Indonesia, implying a large change in the number of beneficiaries with a small change in the threshold, can add to design and administration problems of means-tested cash transfers.

In addition, under certain circumstances, cash transfers may not be used for poverty-reducing activities or human capital enhancement. Cash transfers, which are often transmitted to household heads, may not be used for health care, children’s needs, or other uses for which public funds were intended. Also, it may be physically difficult and costly to deliver cash to the needy, especially in the absence of information on personal identification or a developed banking or postal infrastructure to facilitate transactions. In the PROGRESA program, for example, the cash transfer benefit is subject to occasional irregular delivery to remote areas, in part due to the administrative and operational requirements needed to prevent robbery and fraud. Finally, cash transfers may not be favored for political reasons. In many Asian countries, for example, there is strong resistance against providing direct cash benefits in favor of helping the poor to engage in economically useful activities, such as infrastructure development.

In practice, social safety nets will typically comprise a variety of programs and targeting methods, including cash transfers, public works programs and human development programs. A variety of safety net instruments such as in-kind transfers, targeted subsidies and other targeted human development programs may be preferable to cash transfers alone. Examples of such non-monetary benefits include delivery of subsidized items to targeted households at preferential prices, providing targeted households with coupons that can be used for discounts on purchases, such as the tortilla subsidy in Mexico, and cards or vouchers that give access to education and health care services at zero or reduced rates, such as the health care card in Thailand. The new Livelihood Protection Program established under the Minimum Living Standards Security Act in Korea combines means-tested cash transfers and in-kind transfers linked to participation in public works and job training (Box 4).

Safety net instruments must be chosen for the given target population and for the type of risk to be addressed. For example, public works programs cannot effectively provide support to children and people with certain disabilities. Moreover, some instruments may be preferred for certain subgroups of a specific target population. In Chile it was found that participation rates in public works programs are highest among lower-skilled workers and those who have recently lost their jobs. Targeted human development programs that link receipt of health care or education to a cash transfer or subsidy can be effective methods of addressing potential losses in human capital resulting from crisis conditions, especially for children.

Together with the choice of program instruments, the targeting method must be determined. While means testing may be a preferred method, many countries lack the capacity to implement it effectively due to lack of accurate information on individuals and households. As a result, many programs must rely on indirect targeting mechanisms. A variety of indirect targeting methods exist, including proxy means testing, categorical and geographical targeting, community-based targeting, and self-targeting through public works programs or subsidization of items perceived to be of lower quality and consumed disproportionately by the poor (see Annex I).

If adequate pre-crisis planning has not been possible, safety net programs should concentrate on existing programs and should employ simple targeting methods that can be adapted quickly to increased utilization during crises. In this context, without much pre-crisis planning, countries in Asia have mainly relied on new social safety net programs to assist their populations in the wake of the financial crises. In Latin America, on the other hand, extensive use has been made of existing antipoverty programs and, in some cases, social security arrangements, although these programs were not always easily adaptable to protect target groups during crises. In Indonesia, Korea, and Thailand, public works programs were set up to provide income for the unemployed. Korea also made use of its existing social security arrangements, in particular by expanding the coverage and duration of the unemployment insurance. Public works programs were used in Mexico and Chile, while Peru in the early 1990s relied on community food distribution programs, partially funded by the government.

Box 4. Korea's Livelihood Protection

Korea's pre-crisis system of livelihood protection provided income support to 1.2 million people who were unable to work. In 1998, with the rapid increase in the numbers of unemployed, the government developed the Temporary Livelihood Protection Program, expanding eligibility and coverage to an additional 310,000 people able to work but unable to support themselves or their families. Eligibility is based on a minimum income and assets tests (largely self-reported), and provides four main benefits:

- Up to 79,000 won ($70) per month in direct cash benefits;
- Tuition fee waivers for middle and high school children of the unemployed;
- Lunch subsidies to elementary, middle, and high school students of the unemployed; and
- A 50-percent reduction of the family medical insurance premium for one year.

The different benefits are administered by various ministries at national and local levels, and coordinated at the national level by a multisector Unemployment Committee. On average, three-quarters of the benefits are provided by the central government. Local governments provide the remainder.

The Minimum Living Standards Security Act legislated in 2000 replaces the Temporary Livelihood Protection and the income support programs. Beginning in October 2000, food, clothing, housing, education, and healthcare are subsidized through cash and in-kind transfers for those households who do not meet the minimum (income-based) living standard, with benefits linked to participation in labor programs such as public works and job training for those able to work.

Source: Korean Ministry of Health and Welfare, Moon, Lee, and Yoo (1999).

Chilean experience provides an example of using existing programs effectively during a crisis. Public employment programs implemented after the 1982 economic crisis covered nearly 9 percent of the labor force in response to a national unemployment rate that reached almost 19 percent. Similarly, during the 1998–99 recession that led to an unemployment rate of 11 percent, the government expanded the existing public employment programs from 4,500 workers per month in 1998 to more than 100,000 workers by the end of 1999, providing employment to almost 2 percent of the labor force.

Other issues that should be considered in the design of social safety net instruments include:

- **Governments should avoid assigning too many objectives to social safety net programs.** Multiple objectives have been the source of difficulties in transforming existing social security programs, because the goal of rapidly providing benefits to the most vulnerable conflicts with the insurance objectives of these programs. For example, rules regarding minimum contribution periods resulted in a six month lag in unemployment insurance entitlement among workers in smaller enterprises in Korea, and the benefit amount also depends on the contribution period and recent salary level.[13] In Thailand, public works programs have been focused more on producing infrastructure or other physical outputs than providing cash benefits to the poor unemployed.

- **A system of social safety nets instruments should be carefully designed so as to minimize distortions in existing social protection and insurance programs.** Chile found that the number of applications for disability pensions and long-term sick leave under the formal social insurance program greatly increased during the 1998 economic crisis, ostensibly due to the fact that formal unemployment insurance was not available.[14] In addition, persons under the privatized pension scheme opted for early retirement to smooth income during the crisis, but with a significant reduction in the overall value of early retirees' long-term pensions.

- **For the most vulnerable segments of society, safety net programs should promote human capital development, employment opportunities and improvements in living conditions in addition to providing short-term assistance**. The Scholarships and Grants Program in Indonesia is intended to help promote human capital development in the face of the financial crisis. The program covers school fees and other expenditures of primary and secondary school students from poor economic backgrounds through the scholarship program and provides direct financial support to the poorest schools through the grant component. Thailand's Social Investment Fund supports demand-driven community projects that create employment or provide social services such as job training, health and education. The National Social Compensation Fund (FONCODES) in Peru has school feeding and nutrition components as well as community works components. All of these programs are geared to the most vulnerable and have objectives beyond immediate cash assistance.

- **Social safety nets should complement family and community based coping mechanisms as well as private sector programs.** In Thailand, for example, the activities of religious organizations provide a sort of last resort safety net. In Peru, communal efforts contribute to crisis coping through community kitchens that receive support from government programs, NGOs, the private sector and religious organizations. Government interventions should avoid crowding out non-government protection mechanisms.

---

[13] Later, the minimum contribution period was shortened to three months.

[14] A proposal for an unemployment insurance system is currently before the legislature.

V. Transparency and Accountability

Transparency and accountability in the design and implementation of programs and in the use of resources are critical to the effectiveness of social safety net programs. Government credibility is an important element in overcoming crises. The political and social costs of ineffective, non-transparent or corrupt programs can be significant, leading to far-reaching popular disaffection with the national or local governments in an already tense setting.

The clear allocation of responsibilities for the design and administration of social safety net programs among the central government, local governments, and private sector organizations is a necessary condition for program administration to be effective and accountable. In Asia, the initial reaction to the financial crisis was to implement highly centralized social safety nets. However, it was recognized early—especially in Indonesia and Thailand—that the best information on target groups and how to reach them was available at the local level, and that local governments could be more accountable to the poor. Both countries are decentralizing their social safety nets, with Thailand adopting a community orientation toward its social safety nets.

However, lack of administrative capacity and weak governance at the local level may be an obstacle to decentralization of social safety net programs. Since adequate capacity at the subnational level is a prerequisite for decentralization without jeopardizing the protection of vulnerable groups, and building of such capacity takes time, it is important to start the process as quickly as possible and in advance of a crisis. It is not clear whether sufficient attention was paid to local capacity building for the implementation of social safety nets in the seven countries considered here. Without adequate governance, local administrators may not distribute resources either fairly or effectively. Equity in program delivery has been an issue in the rice-subsidy in Indonesia, for example (see Box 2).

Governments should coordinate social safety net programs across ministries and departments at all levels to minimize inefficient overlap and administrative waste. Social safety nets should avoid having multiple programs with similar objectives that target the same populations. Both Mexico and Peru have suffered from a proliferation of programs initiated under different administrations that were never phased out. This multiplication of programs creates confusion that limits the effectiveness of the government's efforts, wastes resources and dilutes responsibility and accountability. Rationalization of existing programs based on risk and vulnerability assessment, availability of financial resources, incidence of benefits, and assessment of program quality should be undertaken to lessen potential overlap and identify program deficiencies. Mexico is currently undertaking such an exercise as part of pre-crisis planning. Peru is also taking steps to improve coordination between programs and the Ministry of Finance is assembling information on the social safety net as part of a five-year plan that would rationalize government expenditure and prioritize safety net programs.

Program objectives, eligibility criteria and rules of operation should be made explicit and publicly available. Governments should disseminate program information through the local media, including newspapers and radio broadcasts, to educate the general public about the programs available and their qualifying requirements. In Mexico, the government has gone to considerable lengths to make the program details of PROGRESA available to and understood by potential beneficiaries. In addition, the social funds operating in Mexico and Peru also advertise program objectives, eligibility criteria, and procedures, and Chile is experimenting with linking beneficiaries of microenterprise programs through the internet. There are also several examples of the media (national and local newspapers and radio stations) disseminating information on safety net program availability and budget allocations.

Transparency will be enhanced if governments adopt stringent reporting and budgeting standards. In this respect, countries can adopt the IMF's principles of the Code of Good Practices on Fiscal Transparency. Fiscal transparency can make a major contribution to the cause of good governance. It leads to better-informed public debate about the design and results of fiscal policy, makes governments more accountable for the implementation of fiscal policy, and thereby strengthens credibility and public understanding of macroeconomic policies and choices. The principles that should govern fiscal transparency are: clarity of roles and responsibilities; public availability of information; open budget preparation, execution, and reporting; and independent assurances of integrity.

Strong budget institutions are necessary to ensure that resources assigned to social safety nets ultimately reach the target population groups. The definition of priorities for government spending should take place during budget preparation and approval and not during budget execution. Haphazard or across-the-board budget cuts during the course of the fiscal year mean that resources will not be assigned to their most efficient use. This implies that: i) budget appropriations should reflect government priorities; ii) the budget needs to be consistent with available resources in order to avoid promised funds not reaching priority programs; iii) budget coverage should be comprehensive, including not only all government agencies, but all funds that use public resources; and iv) budget information needs to be sufficiently detailed, timely, reliable, as well as publicly available to allow accountability.

Periodic evaluation of the effectiveness of social safety net programs in meeting program goals should be given high priority. Evaluation results can help to identify where and how social safety net programs should be modified. These analyses can also feed into the pre-crisis planning process discussed above. Many APEC countries have carried out some form of program monitoring and evaluation, but these efforts have not always been timely or sufficiently comprehensive. A good example of useful monitoring are the efforts of Indonesia's Social Monitoring and Early Response Unit (SMERU) which provided capacity for rapid field assessments of poverty, socioeconomic status and individual safety net programs, and in addition helped to channel relevant information to policymakers and civil society during the crisis. The Thai government utilized an independent private evaluator to assess the programs operated under the Miyazawa Initiative, and the same firm will evaluate the Social Investment Fund. Mexico's PROGRESA program is also undergoing a formal impact evaluation with external evaluators. Dissemination of the results of impact evaluations could help raise awareness of the cost-effectiveness of the social safety net and to increase the accountability and political support for successful programs.

The involvement of NGOs, community groups, and religious organization can be promoted to enhance efficiency and accountability, provided their capacity to implement social safety nets is adequate. The private sector can play an effective role in the provision and monitoring of safety net programs. In addition, these groups and organizations may serve to increase the political representation of the poor relative to the rest of the population. Often, the poor have a limited political voice with which to help protect programs important to them while programs benefiting middle or upper income groups continue to absorb critical public resources.

The scholarship programs in Thailand and Indonesia and social investment funds in Peru and Chile rely on the private sector, NGOs and civil society to implement or monitor program activities to reinforce timely implementation, transparency and public accountability. In fact, social investment funds in Latin America have relied on for-profit local private sector firms to provide goods and services to social safety net programs. Also, in Indonesia and Thailand public works programs have generally been implemented by private contractors. These funds have allowed governments to execute programs rapidly and have generally maintained high standards of transparency, as most receive foreign funds. For example, the donors providing crises assistance for the health and education sectors in Indonesia have developed and funded an external monitoring system to ensure resources are provided to the appropriate households. The system is managed and administered by an international and several national NGOs, allowing greater responsibility for targeting beneficiaries at the local level, but with independent national oversight. Care must be taken however, to ensure that all resources of social investment funds are included in the budget and that these funds are not used merely to circumvent otherwise desirable government bidding procedures.

In some cases, lack of capacity and accountability of NGOs have limited their role. Increased coordination both among NGOs and between NGOs and the government (and other civil society groups) will help realize the potential of non-government entities to be effective partners in social safety net provision. NGOs have been given a significant, but not a dominant role in the delivery of publicly funded social safety nets in Indonesia, Korea, and Thailand as well as in Peru. In Indonesia, NGOs have multiplied in the wake of the financial crisis. In Asia (especially in Thailand), governments are trying to maintain the traditional strong presence of the private sector in providing social assistance. However, the proliferation of NGOs and lack of coordination have created problems in Indonesia. In fact, the Community Recovery Program, which channels foreign and other funds to NGOs, has delayed the disbursement of a second tranche of resources until the viability and direction of applicants can be more reliably determined. The role of NGOs has been limited in Latin America, in part because of the large-scale of poverty reduction programs in these countries. NGOs that have successfully implemented programs at the local level may face difficulties in replicating these programs nation-wide. Improved coordination, focus, and increased stakeholder involvement can help increase and solidify the role of NGOs in the social safety net.

VI. CONCLUSIONS

This report draws lessons from the experiences of seven APEC countries that could help guide policy formulation and implementation of social safety nets more generally. Whereas the countries in Asia often relied on improvised responses and new programs to assist the population in the wake of the recent financial crisis, many Latin American countries have made use of existing anti-poverty programs. From these varied experiences, the following major lessons emerge:

- The availability of timely and reliable information on poor and vulnerable groups is critical for the design and implementation of social safety net programs;

- Pre-crisis planning can contribute to the design of effective safety nets. Planning will include an assessment of risks and target populations together with identification of program instruments, financing and a strategy for reducing or phasing out programs after the crisis;

- Ideally, safety net instruments should be in place before a crisis occurs. It is essential that the programs are targeted; provide adequate protection to the poor; avoid creating a culture of dependency among beneficiaries; and are consistent with economic incentives and overall targets of macroeconomic and fiscal policy;

- Social safety nets should build on existing public programs and mechanisms for targeting and delivery. In practice, safety nets will typically comprise a variety of programs and targeting methods. Major social safety net programs include: cash or in-kind transfers, price subsidies, public works, fee waivers for social services, supplemental feeding and nutrition programs, targeted human development programs and microfinance programs, as well as social insurance programs that can reach the poor;

- If adequate pre-crisis planning has not been possible, social safety nets should concentrate on existing programs employing simple targeting methods that can be adapted quickly to increased utilization during crisis;

- Transparency and accountability in the design and implementation of programs and in the use of resources are critical to the effectiveness of social safety net programs. Public information on the different programs and the eligibility criteria should be made available as well as periodic and independent program evaluations;

- Social safety net programs should be coordinated across implementing ministries and departments as well as different government levels to avoid inefficient overlap and administrative waste;

- The building of adequate administrative capacity at the local level should precede decentralization;

- During crises, proportional cuts in social spending in general and safety nets in particular should be avoided. If possible, spending should be maintained or increased and key programs should be protected; and

- The involvement of NGOs, community groups and religious organizations can be promoted to enhance efficiency and accountability, provided their capacity to implement social safety nets is adequate.

TARGETING OF SOCIAL SAFETY NETS

The design of targeting mechanisms should be guided by three objectives. First, targeting should limit the leakage of benefits to the non-poor (minimize errors of inclusion) while ensuring that the poor actually benefit (i.e., minimize errors of exclusion). Second, targeting criteria should take account of economic incentives and be consistent with overall fiscal objectives. Third, when possible, the choice of targeting mechanism should foster political acceptance of the broader economic reform agenda. Tradeoffs are involved with all of the objectives and a perfect mechanism that achieves all of them under all circumstances does not exist. Several different mechanisms are commonly used.

- **Means-tested targeting.** Means testing provides benefits to households or individuals with incomes below a pre-established threshold. It requires collection and verification of household income information, which can be costly. Also, households tend to underestimate income, especially from self-employment or the informal sector. When establishing individual specific and observable income criteria is not possible, the poor have to be targeted indirectly.

- **Categorical and geographic targeting.** Benefits are directed to population groups that are likely to be poor on the basis of readily observable socioeconomic and demographic characteristics that are correlated with poverty (e.g., age, number of children, unemployed status, and geographic location). Categorical and geographic targeting are associated with relatively low administrative and economic costs, but tend to include the non-poor. Efficiency increases with the proportion of poor members in the category or geographic region, and may be further increased in combination with community-based targeting.

- **Community-based targeting.** Benefits are allocated by a local authority or committee that is empowered to make decisions about who should receive program benefits. Often an existing decision-making structure is used, for example the village heads in Thailand; in other cases new structures are formed, such as joint committees of parents and officials in Indonesia to decide which children should receive school scholarships. There is little evidence on how well community-based targeting works. There are hypotheses that local structures are likely to lead to more accurate and flexible targeting, but such community involvement may overburden the capacity of those charged with the new task, generate conflict over control of resources, or result in resource capture by local elites.

- **Proxy means testing targeting.** Benefits are provided to households based on multiple indicators at the household level that correlate with welfare and can serve as a proxy for income. These indicators are used to construct a score that determines whether a household should receive support. The method can be less expensive than means testing and less subject to underreporting, but the effectiveness of the overall mechanism depends on a strong correlation between easily observed household and individual characteristics with income.

- **Self-targeting.** Self-targeted benefits are available to all but are used disproportionately by the poor. Examples of self-targeted programs include public works programs that pay less than minimum wage and price subsidies for basic staple items that are consumed more by the poor (e.g., coarser varieties of rice or wheat). Self-targeting obviously requires less information than other targeting mechanisms, and program and administrative costs can be low. However, substantial leakage of benefits to the nonpoor can occur depending on, for example, the perceived quality of the subsidized commodity by the general population.

SOCIAL SAFETY NET INTERVENTIONS IN RESPONSE TO CRISIS

Intervention Type (Typical Programs)	**Beneficiaries**	**Common Targeting Methods**	**Advantages**	**Disadvantages**
Cash Transfers (family allowance, poor unemployed and elderly assistance, disability assistance)	• Poor families, women and children • Working poor including informal sector • Disabled • Poor elderly • Other vulnerable groups	• Means and proxy means and/or • Categorical	• Do not distort prices • Transfers are fungible, can directly meet critical household needs	• Can distort incentives to labor market participation • Transfers are fungible, subject to unintended household uses • Implementation is information intensive
Public Works (labor-intensive, usually infrastructure development projects)	• Poor unemployed and under-employed including informal sector • Poor agricultural workers during off seasons	• Self selection (by setting program remuneration below the minimum wage) and • Geographic	• Can be implemented or adapted quickly after crisis onset provided capacity exists • Program size can be easily reduced once the crisis is over • Needed infrastructure is created or maintained	• Can distort incentives to labor market participation • Substantial leakage to non-poor depending on program design and targeting methods • Difficult to administer, tradeoff between infrastructure development and poverty alleviation objectives
Unemployment Assistance (unemployment benefits, severance payments)	• Formal sector unemployed	• Coverage determined by eligibility and employer/employee contributions	• Provides immediate assistance to eligible beneficiaries in the event of a crisis • Has automatic countercyclical financing characteristics	• Can distort incentives to labor market participation • Difficult to adapt quickly due to qualification and contribution requirements • Biased to urban formal sector
Wage Subsidies	• Formal sector unemployed, working age youth, usually poor	• Targeting by firm type, industrial category, firm size, and/or age of the worker	• Can be implemented quickly after crisis onset • Can reach individuals with variety of skills and experience	• Substantial negative incentive effects for employers • Biased to urban formal sector

Intervention Type (Typical Programs)	Beneficiaries	Common Targeting Methods	Advantages	Disadvantages
Commodity Price Subsidies (food, energy, housing)	• Poor and extreme poor families, especially the urban working poor	• Self-selection (by subsidizing only basic staples)	• Potentially low administrative costs, depending on delivery mechanism • Can be implemented or expanded quickly after crisis onset	• Distorts commodity prices and use • Substantial leakage to non–poor depending on commodity consumption patterns • Often biased to urban populations • Difficult to remove once established due to interest group pressure
Targeted Human Development (conditional transfers such as school attendance or preventative health care receipt linked to cash transfers)	• Poor students • Poor families with access to health services	• Geographic and/or • Categorical and/or • Means or proxy means and/or • Community (together with one of above)	• Can improve school attendance and/or health care use • Supports income of the poor • May promote human capital development	• Effectiveness influenced by existing education/health infrastructure • Extensive monitoring and compliance costs
Service Fee Waivers (school fees, scholarships, health care)	• Poor students • Poor families with access to health services	• Geographic and/or • Categorical and/or • Means or proxy means and/or • Community (together with one of above)	• May promote human capital development	• Effectiveness influenced by existing education/health infrastructure • Limited evidence of long-term impact on school attendance or health
Food and Nutrition (school feeding, supplemental feeding and nutrition for young children and women)	• Small children, pregnant and lactating mothers • Children attending schools in poor communities	• Geographic • Means or proxy means • Self-targeting	• Can be effective in alleviating hunger, increasing school attendance for poor children • May promote human capital development	• Limited beneficiary group • Resource intensive • Substantial benefit leakages depending on targeting method • Often biased to urban populations

Intervention Type (Typical Programs)	**Beneficiaries**	**Common Targeting Methods**	**Advantages**	**Disadvantages**
Microfinance (microenterprise credit, seasonal rural, and emergency credit for the poor)	• Poor microentrepreneurs • Poor women	• Means and proxy means and/or • Geographic and/or • Individual project quality	• Promotes physical capital accumulation in poor communities • May increase household income • Benefits of public resources may be enhanced by multiplier investment effect	• Limited beneficiary group • Administratively costly • Biased to rural populations • Limited application to economy-wide crises because of procyclical demand for microcredit
Social Funds (small scale infrastructure development, microenterprise support, community-based social services)	• Poor families, women and children • Poor unemployed and under-employed	• Geographic	• May promote human and physical capital accumulation in poor communities • High degree of community involvement in project selection and implementation	• Difficult to implement or adapt quickly after crisis onset • Often biased to rural populations

POLICY RESPONSE OF STUDY COUNTRIES TO RECENT CRISES

Table 1. Social Safety Net Characteristics of Case Study Countries

		Indonesia	Korea	Thailand	Chile	Mexico	Peru
GNP per capita 1/		$580	$8,940	$1,960	$4,740	$4,400	$2,390
Poverty 2/		18	19	13	23	30	37
Social spending 3/ (percent of GDP)	Social security and welfare spending	0.9	1.9	0.8	7.3	2.9	6.8
Social assistance programs	Cash transfers	✔	✔	✔	✔	✔	
	Public works	✔	✔	✔	✔	✔	✔
	In-kind transfers	✔		✔		✔	✔
	Unemployment assistance		✔	✔	✔	✔	
	Wage subsidies		✔		✔	✔	
	Food subsidies	✔				✔	✔
	Energy subsidies	✔				✔	✔
	Housing subsidies		✔	✔	✔	✔	
	Conditional transfers					✔	
	Fee waivers	✔	✔	✔		✔	
	Food and nutrition	✔	✔	✔	✔	✔	✔
	Microfinance	✔		✔	✔	✔	✔
Social Insurance	Retirement pension	✔	✔	✔	✔	✔	✔
	Unemployment insurance		✔		✔ 4/	✔	
	Health insurance	✔	✔			✔	✔
	Disability insurance/benefits	✔	✔	✔	✔	✔	
Largest budget category		Fuel subsidies	Public works	Public works	Pension	Conditional transfers	Public works

Sources: APEC questionnaire templates, *World Development Indicators 2000, UNDP Poverty Report 2000,* K. Subbarao (1997).

1/ *World Development Indicators 2000,* for the year 1999.

2/ Percent of population below national poverty line, most recent year 1997–99. *(UNDP Poverty Report 2000)*

3/ Public expenditure on social security and welfare includes compensation for loss of income to the sick and temporarily disabled, payments to the elderly, the permanently disabled, and the unemployed; family, maternity, and child allowances; and the cost of welfare services, such as care of the aged, the disabled, and children. It excludes expenditures on important safety net categories, including subsidies and public work program costs. Shown for most recent year, 1997–98. *(World Development Indicators 2000*)

4/ Unemployment insurance legislation is pending.

Indonesia

Context

Traditionally, there has been a limited system of social protection in Indonesia. As in Thailand and other Asian economies, there was a belief that poverty alleviation would automatically follow with economic growth, and that the need for formal safety nets was minimal. Thus, many protection policies are aimed at increasing economic participation through work programs and micro-credit schemes. The crisis has led to a radical expansion of some existing programs and a new emphasis on strengthening social safety nets.

Indonesia has no unemployment insurance system per se. The provident fund serves as a sort of unemployment insurance program in that workers can withdraw their accumulated savings if they are unemployed for six months. There is also a limited severance pay scheme financed by employers.

The system of social assistance is limited mainly to those incapable of work. There are four main areas of assistance: i) subsidies; ii) public works programs; iii) micro-credit programs; and iv) supplementary health and education programs.

Response to the crisis

The government has responded quickly to address the deteriorating social conditions resulting from the crisis. It has redirected the available budget toward critical programs and, with the help of donor funding, created new initiatives. The government is focusing on three objectives in the near term: i) maintaining food security; ii) expanding employment and income generation opportunities; and iii) preserving access to critical social services.

Maintaining food security

Table 2 shows selected planned expenditures on social protection during fiscal 1998/99. Overall, 7.4 percent of GDP was to be allocated to major social protection programs. The majority of these funds were allocated to subsidy programs such as the OPK (rice subsidy) program. In fact, over Rp 5 trillion is dedicated to rice subsidies alone, highlighting the priority placed on food security. To ameliorate the effects of the drought and price increases, the government imported over 5 million tons of rice prior to the end of April 1999, and sold the imported rice to the poor at a subsidized price. The largest single category of subsidies is fuel, on which nearly 3 percent of GDP was to be spent by the government.

Income and employment generation

The second panel of Table 2 indicates that over Rp 9.6 trillion was to be spent on employment generation activities. The largest component was the local government-initiated INPRES programs. The government has expanded labor-intensive public works by reallocating budget funds for the next two years. In the first quarter of 1998, a program of

Table 2. Indonesia: Selected Planned Government Expenditures on Social Protection, 1998/99 1/

	In Billions of Rp	Percent of GDP
Subsidies	**58,810**	**6.18**
Food	13,840	1.45
Rice	5,140	0.54
Wheat flour	3,450	0.36
Other food	5,250	0.55
Fuel	27,530	2.89
Electricity	8,470	0.89
Medicine subsidies	880	0.09
Other subsidies	8,080	0.85
Employment generation	**9,680**	**1.02**
Local government (INPRES)	4,260	0.45
Ministry of manpower	2,000	0.21
Ministry of public works	1,000	0.11
Other	2,430	0.26
Supplementary block grants	**230**	**0.02**
Primary	170	0.02
Junior secondary	60	0.01
Junior secondary scholarships	**470**	**0.05**
Supplementary lunch program	**260**	**0.03**
Transfers to village health centers	**1,000**	**0.11**
All programs	**70,462**	**7.40**

Source: BAPPENAS, World Bank
1/ Outcomes have not been made available.

Rp 33 billion was initiated for urban and semi-urban areas, intended to create about 4 million workdays of employment equivalent to 80 days of employment for 54,000 people. For 1998-99, the Government allocated Rp 600 billion for labor-intensive infrastructure in rural and urban areas, and another Rp 500 billion for labor-intensive forestry.

In addition to these measures, a new program was created, known as the Pemberdayaan Daerah dalam Mengatasi Dampak Krisis Ekonomi (PDM-DKE, "Empowering Regions to Overcome the Impact of the Economic Crisis"), which is a combination job creation and micro-credit initiative. This program is designed to provide grant and revolving credit funds to poor and unemployed groups to improve infrastructure while generating employment. The program was budgeted to spend Rp 1.7 trillion (US $850 million) in 1998/99, covering all areas of Indonesia. Implementation will proceed in cooperation with NGOs and CBOs, and will be partly financed by the World Bank, the ADB and bilateral agencies. Project selection at the village level is undertaken by Village Activity Implementation Teams (TPKd/k), as is determination of loan terms for micro-credit activities.

Other donor-financed projects will be an important addition to the government's employment programs. The Urban Poverty Project was developed by World Bank and the government to provide employment and income opportunities in the poorest urban communities in Java. The Kecamatan Development Project (KDP), funded by the World Bank, helps communities to select and support their own infrastructure investment priorities. Funds are targeted to the poorest subdistricts in the country. It is estimated that the KDP will benefit 7–10 million rural Indonesians.

Maintaining access to critical services

Spending on supplementary block grants to schools, scholarships, and the supplementary lunch program make up another Rp 960 billion in 1998/99, as shown in Table 2. These funds include a "stay in school" campaign launched by the government through mass media advertisements and a program to generate community support for local initiatives to maintain school enrollment. Block grants will be given to the poorest 40 percent of primary and junior secondary schools to compensate for cost increases. Finally, a national scholarship program will target children at risk of dropping out of junior secondary school. Transfers to village health centers for critical health services and nutritional support for mothers and infants rounds out the selected expenditures, totaling Rp 1 trillion.

NGO involvement

Non-governmental organizations (NGOs) are involved in administering many of Indonesia's social assistance programs in a variety of sectors such as micro credit, community health, child and family welfare, and adult literacy. For example, a group of five NGOs is helping to facilitate the Padat Karya Desa program and NGOs are integrally involved in the new Community Recovery Program (CRP). The latter program is composed of national NGOs, forums, networks and associations from throughout Indonesia and is intended to establish an effective non-government mechanism that can respond to needs identified by poor communities most affected by the crisis. It is funded by various multilateral and bilateral donor agencies as well as the government. It supports NGOs and community groups who are implementing social safety net programs. A National Council manages the CRP and local community groups submit project proposals for CRP consideration. The CRP gives priority to activities connected with guaranteeing food supply, providing basic social services, creating employment opportunities, and increasing income.

Republic of Korea

Context

Korea has one of the most developed social safety net system in Asia, a part of which was developed in response to the recent financial crisis. Most of Korea's programs have been instituted over the past 15 years. The system of safety nets consists of three main components: i) social insurance programs including unemployment insurance, pension schemes, and medical insurance, some with special provision for the poor; ii) public assistance programs focusing exclusively on the poor and vulnerable; and iii) social services programs such as supplemental feeding programs and occupational training for those with disabilities.

Response to crisis

The crisis led the government to adopt a series of rapid measures to mitigate adverse impacts. The negative effects on jobs and income were perceived to be much more severe than the consequences for education and health care, resulting in a focused effort to address unemployment. Social protection expenditures were increased threefold, from 0.6 percent of GDP in 1997 to nearly 2 percent of GDP in 1999. The government responded through three safety nets instruments designed to help the unemployed, the indigent, and the elderly, including an expansion of unemployment insurance coverage, large increases in public works programs, and further development of social assistance for the poorest.

Unemployment insurance

Korea, the only East Asian crisis country with formal unemployment insurance, expanded its nascent unemployment insurance programs from firms with more than 30 employees to all firms. It also included temporary and daily workers, shortened the required contribution period before eligibility, and extended the duration of unemployment benefits. This expanded the eligible workforce from 5.7 million workers at the beginning of 1998 to 8.7 million at the end of the year. Beneficiaries increased tenfold, from around 18,000 in January 1998 to 174,000 in March 1999, still only 10 percent of the unemployed workforce in March 1999. In addition, the government established the Wage Claim Guarantee Fund to help ensure that workers would receive wages and retirement allowances in the event of firm bankruptcy.

Public works

Since most of Korea's jobless did not benefit from the 1998 accelerated expansion of unemployment insurance, the government introduced a temporary public works program in May 1998, enrolling 76,000 workers. By January 1999 the program was providing 437,000 temporary jobs, though the number of applicants was still higher at 650,000. By the first quarter of 1999, around 2.5 times more people benefited from the public works program than from unemployment insurance.

Table 3. Korea: Selected Government Expenditures on Safety Nets, 1999

	In Billions of Won	Percent of GDP
Public works projects	2,100.0	0.48
Livelihood protection	1,438.7	0.33
Training and support for the unemployed	373.6	0.08
Temporary livelihood protection	489.5	0.11
Living costs for poor	368.2	0.08
Reserve fund	100.0	0.02
All programs	4,870.0	1.11

Source: APEC questionnaire, Moon and others.

Table 3 shows selected expenditures on safety nets programs. The largest single expenditure item in 1999 was for public works projects, totaling some 2,100 billion Won. While Korea has adopted public works as a cornerstone of short-term relief efforts from the crisis, there is ongoing debate as to the general effectiveness of public works in helping the broad range of the unemployed, such as white collar workers. In addition, in order to reach the unemployed as quickly as possible during the crisis, projects were implemented at times in an ad hoc manner without adequate planning, often requiring adjustments in program rules. For example, wages offered to public works participants have been reduced several times since the introduction of the program in 1998 because some workers were leaving their jobs to receive the higher wages available through the program.

Livelihood maintenance

In May 1998 the government introduced a temporary livelihood protection program with enough funding to cover an additional 750,000 beneficiaries who were not eligible for assistance under the main livelihood protection program. The budget for both the Livelihood Protection program and the temporary program was over 1,928 billion Won in 1999, amounting to 0.44 percent of GDP as shown Table 3. The government also introduced a means-tested non-contributory social pension for 600,000 elderly people.

Although the government's crisis response was notable, public spending on health care and education was not increased in line with the overall budget, and real spending either fell or remained constant. But within the smaller envelope for health care, spending on primary care was protected.

The government's efforts are now focusing on consolidating social safety nets, reducing income disparities, and creating the basis for a competitive and knowledge-based economy in the future. Policies to achieve these objectives include a law guaranteeing a minimum standard of living to take effect in October 2000. Under it, all Koreans living under the poverty line will be entitled to receive income support from the government for living, education, and housing. Nearly 2 million poor people are expected to benefit, four times the current number.

Thailand

Context

Thailand has had a wide range of social assistance programs in place to transfer income to the poor or help them generate income (see Table 4 for selected social safety net spending). The major antipoverty programs fall into three main categories: i) cash transfers, including a family allowance and a social pension allowance to supplement the pensions of the elderly poor; ii) in-kind transfers, including subsidized medical services, housing programs, and a school lunch program; and iii) income generation programs.

Responding to the crisis

On the eve of the crisis, the social protection system lacked several components common to developed countries, including unemployment insurance, a pension scheme for the private sector, and large-scale transfer programs for the poor. To alleviate the negative impact of the crisis, including unemployment, the government allocated additional funds for strengthening the country's social safety nets during 1998. In addition, the government undertook several reforms in official safety net programs while attempting to maintain the informal safety net emphasizing self-reliance and self-help. The reforms occurred in four key areas:

Employment and income maintenance programs

The Ministry of Labor and Social Welfare, in cooperation with other agencies, formulated an Action Plan for the Alleviation of Unemployment Problems, outlining several measures, including employment generation in rural areas, training for the unemployed, and encouragement of Thai workers abroad. Many of these measures are being implemented.

The main employment generation program is the Tambon Development Program. Administered by the Office of the Prime Minister, this program includes two main components: a public works component intended to provide rural infrastructure and generate employment, and a land reform program. The Tambon Development Program is not targeted specifically to the poor. However a second intervention, the Poverty Alleviation Program (PAP), is intended specifically for the needy. The PAP is a micro-credit program, providing interest-free loans to poor households for income-generating activities. Households with incomes less than 5,000 baht per person per year can borrow funds without interest. Even before the crisis, PAP was quite active. By 1995, a total of nearly 2.8 billion baht had been advanced to support income-generating activities in over 10,000 villages.

Table 4. Thailand: Selected Government Expenditures on Safety Net Programs, 1999–2000
(In millions of baht)

	1999/00	2000/01
Income generation	**20,587.2**	**11,771.7**
In-kind transfers	**12,538.1**	**14,942.6**
Low income health card	9,820.8	11,246.2
School lunch programs	2,364.6	2,546.4
Housing	352.7	1,150.0
Cash transfers	**1,687.7**	**2,338.7**
Total	**34,813.0**	**29,053.0**
Percent of GDP	**0.74**	**0.62**

Source: Bureau of the Budget, Thailand.

Loans from international donors set up and expanded job creation mechanisms targeted to the poor. A US $500 million Asian Development Bank Social Sector Program Loan provided budgetary support for key social programs and policies in order to mitigate the immediate social impacts of the crisis. The US $426 million Social Investment Project (SIP), co-financed by the World Bank, OECF-Japan, AusAID and UNDP, supported programs to create jobs and provide services to the poor and unemployed. In addition to expanding selected government job creation programs already in existence, the project sets up two funds: i) the Social Investment Fund that supports community capacity-building and micro-credit projects; and ii) the Regional Urban Development Fund that provides small infrastructure loans to municipalities. After initial delays, disbursements have increased significantly. As of end-July 1999, US $56 million had been disbursed primarily for the implementation of small-scale civil works. More than 53,000 people have attended training courses developed by the Ministry of Labor and Social Welfare.

In April 1999, the government launched a fiscal stimulus package worth about 1 percent of GDP financed by the World Bank, JEXIM, and the OECF (the Miyazawa package). Half of this package is aimed at generating employment and broadening the social safety net. Through end-July 1999, 35 percent of the funds had been disbursed, generating temporary employment for more than 1.5 million people.

Protection and targeting of public expenditures

The main in-kind transfer program targeted to the poor is the Low Income Health Card program. The program offers health cards at a modest charge, entitling families to receive a package of health services at public facilities. The means-tests for the cards are done by village headmen once every three years. About 20 percent of the population was covered by Health Cards in 1998.

Although overall budget appropriations for social services declined beginning in 1997 and this trend continues through 2000, allocations for key programs for the most vulnerable were maintained or increased. Expenditures for the Health Card program, maternal and child health, school lunch program and teacher training and materials were protected. The budgetary emphasis on job training and labor-intensive projects that characterized safety nets expenditures in 1998 and 1999 will be reduced in 2000, with a slight increase over previous years for in-kind and cash transfers (see Table 4).

Income security schemes

The Labor Protection Act increased the minimum severance pay for long-serving workers who are laid-off and a public compensation fund is being established to ensure severance support in cases of employer bankruptcy. In addition, medical, maternity, invalidity and funeral benefits were extended to workers in firms with at least 10 employees. Social security benefits were extended to the unemployed from 6 to 12 months, and then to 18 months and the tripartite contribution rate was reduced by one-third. And in late 1998, an old-age pension system and a publicly-funded child allowance scheme were established for the private sector.

Community capacity building

The government will increasingly support decentralization and community development as articulated in the 8th National Economic and Social Development Plan. The government and donors have increased allocations to civil organizations to implement a variety of social programs, including HIV/AIDS prevention, care of the elderly, small and medium enterprise development, and environmental protection. An example is the creation of the Pattana Thai Foundation to channel over 40 million baht in government funds to: i) conduct pilot projects to support communities in establishing civic forums; ii) set up community learning centers for social service development; and iii) planning monitoring, and evaluation.

Mexico

Context

Social safety nets in Mexico are viewed as an integral part of social policy, along with health care, education, and labor policy. Programs are not so much intended as short-term “nets” of protection, but as mechanisms to help people improve their condition and escape poverty and its consequences. For this reason, in recent years there has been a shift from pure income transfers to transfers conditional on recipients investing in human capital (targeted human development programs). Also, there has been a shift from generalized food subsidies toward targeted food subsidies and a greater balance between urban and rural areas. These changes have been accompanied by steady increases in social spending over the last decade, reaching a historical maximum in 2000 amounting to 9.6 percent of GDP. At the same time a significant change has also occurred in the devolution of government responsibility from the federal to the state and municipal governments. Federal transfers to state and municipal governments have been made more transparent through the use of formulas codified into law, and steps have been taken to reduce the discretionary power of federal agencies in charge of social programs, to increase transparency and accountability, and to evaluate social programs more systematically.

Elements of Mexico’s social safety net have been in place for a number of years, unlike many countries in Asia, for example. The major poverty reduction programs can be grouped into three broad categories: i) human capital development programs, including targeted human development programs and in-kind transfers and subsidies for critical needs; ii) physical capital development programs, including a municipal infrastructure fund; and iii) income generation programs such as public works and micro-credit schemes.

Response to crisis

After severe economic shocks in 1994 – 95 and a mild recession in 1998, the government is undertaking a number of activities to strengthen the social safety net as well as more strongly redress chronic poverty. As part of the transition to the new presidential administration, the Ministry of Finance is undertaking a review of social policy and expenditures involving an assessment of vulnerable groups, risks, and prevention and mitigation measures.

Targeted human development

The government is increasingly focusing on programs that help foster human capital development and may assist in longer-term poverty alleviation. PROGRESA is the principal program in this area. It provides to recipient households cash transfers, school supplies, and nutrition supplements conditional on children’s school attendance and regular health care visits. The program is well targeted by region and by household to reach the very poorest. Evaluation of PROGRESA has been favorable. PROGRESA was not in place during the 1994 – 95 crisis, although Ministry of Finance estimates indicate that poverty resulting from the crisis would have been much less had it been in operation.

While the intensity of benefits under PROGRESA can be increased in times of crises, it is impractical to expand coverage to meet short-term fluctuations in employment and social need because of the information needed to identify beneficiaries. Families enter the PROGRESA program and remain on the roster for a minimum of three years.

There are several other subsidy and in-kind transfer programs that are considered important components of human capital development in Mexico. For example, LICONSA distributes milk at subsidized prices to low-income families, reaching some 4 million children daily. DICONSA is a program of government shops that sell basic commodities at reduced prices. The stores are owned, managed and stocked by the public sector. The program is becoming more rural (only 16% of stores are now in urban areas) and is also utilized as a price setting mechanism for local production. The value of this program in meeting either social safety net or economic objectives is unclear. Expansion of goods and eligibility criteria for beneficiaries during a crisis could expand the value of support, but would imply an unwieldy and expensive increase of goods available in each store. The government also directly subsidizes school breakfasts in poor areas and provides tortillas at subsidized prices from specialized shops. Although these programs are expandable, physical constraints may prevent their timely expansion. In addition, issues of leakage and accountability are magnified by the need to ship, handle and store commodities.

Human capital development programs are clearly a cornerstone of the Government's antipoverty strategy. Table 5 indicates that public spending on human capital development programs such as PROGRESA accounts for the largest and still increasing share of expenditures on poverty reduction.

Employment and income generation

As a response to economic crisis in 1994, Mexico began a program of small-scale public works (PET). The original program became operational in 1995, and was largely urban in its orientation. It has since been institutionalized and refocused to the long-term unemployed in rural areas. PET has been successfully used to rebuild infrastructure and provide employment in the wake of disasters caused by natural phenomena, such as the 1999 floods. The program provides up to three months of employment at 90 percent of minimum wage per beneficiary, is managed locally, and can be expanded as needs arise.

Linked to efforts to increase income, as well as to development human capital, the Job Training Program (PROBECAT) provides job training to the unemployed as well as a stipend amounting to up to 3 months of minimum wage income to trainees. The majority of the beneficiaries are under thirty and from the lowest income quintile. The program was enlarged in 1994 – 95 and is thought to be a valuable training program that integrates the unemployed back into the labor market. However, long-term impacts in terms of increased salaries and employability have not been documented.

Table 5. Mexico: Public Expenditures on Poverty Reduction Programs, 1999–2000
(In millions of pesos) 1/

	1999	2000
Human capital development	**22,178.3**	**26,365.0**
PROGRESA	7,714.6	9,635.0
Milk supply program (LICONSA)	803.3	452.6
Rural supply program (DICONSA)	469.0	715.9
Social Security for Agricultural Workers	102.4	92.3
Others	13,089.0	15,469.2
Physical capital development	**15,418.9**	**18,543.0**
Municipal social infrastructure fund (FAIS)	11,190.3	13,034.7
Savings and subsidies for housing (VivAh)	268.3	695.1
Others	3,960.3	4,813.2
Income generation	**7,586.1**	**8,792.3**
Temporary employment program (PET)	3,621.1	3,997.7
National social enterprises fund (FONAES)	733.3	810.6
Word of honor credit program	580.9	531.2
Productive program for low income producers	1,232.3	1,622.7
Hydro-agricultural infrastructure program	112.2	455.5
Others	1,306.3	1,374.6
Total expenditures on poverty reduction programs	**45,183.3**	**53,700.3**
Total as percent of social expenditures	**10.5**	**10.7**
Total as percent of GDP	**1.1**	**1.1**

Sources: Subsecretaria de Egresos, APEC questionnaire templates.

1/ Authorized budget.

The new administration is expected to give increased attention to micro-credit and entrepreneurial support programs. Small loan programs already in existence include FONAES, FINCAMUN, and COMPARTAMOS. These are largely rural or agricultural and include a mix public and private resources. The majority of borrowers are women entrepreneurs. Microcredit cannot be readily expanded to meet crises needs and entrepreneurs may need to be protected from default in the event of a major economic decline. Government sponsored microcredit funds proved to be largely unsustainable during the 1994 – 95 crisis, but efforts at developing more sustainable programs are underway.

Physical infrastructure

Development of physical infrastructure remains an important element of Mexico’s safety net and poverty reduction strategy. More than 18 billion pesos (US$ 2.5 billion) is expected to be spent on capital development in 2000, as shown in Table 5. The Municipal Social Infrastructure Fund (FAIS), for example, provides resources to rural communities for small-scale economic and productive infrastructure. The administrative mechanisms for this program are well developed, and financing could potentially be expanded to increase employment in local areas, however it is not currently designed for job creation.

Peru

Context

Many of Peru’s social safety net programs were implemented in the wake of economic shocks in the early 1990s, such as the Tequila Crisis. Until quite recently, the goal of the majority of programs was only to provide a temporary floor of support for the very poor, without concern for longer-term strategies of risk management and poverty reduction. The government is now focusing much more on human capital development.

The country's national poverty reduction efforts gained momentum after it began implementing its economic stabilization and structural reform program in 1993. The government began devoting more resources to pro-poor programs, and it instituted legal reforms to strengthen interagency coordination of programs to promote conflict resolution, basic education and health care, and food security for children and other groups at risk. The National Fund for Social Development was set up to implement the country’s first explicit national poverty program, focusing on social infrastructure and productive activities. Later it started the National Food Program to deliver school meals and set up soup kitchens in rural areas and marginal urban areas. The government has supplemented these measures with programs to address women's poverty and to protect the poorest in future economic crises or slowdowns.

Peru’s safety net programs cannot be easily divided into simple categories, as most interventions have multiple objectives and sometimes mixed target populations. There are two main areas of intervention: i) social and economic infrastructure programs, including programs in infrastructure development, public works, and employment; and ii) social support programs, which include among others in-kind subsidies, supplemental nutrition and early childhood interventions.

Response to crises

Social expenditures have increased since the early 1990s, totaling almost 7 percent of GDP in 1998. In 1997 and 1998 Peru allocated 20 percent of its public expenditures to basic social services, in part as a response to the shocks from the Asia Crisis. Spending on poverty reduction programs nearly doubled between 1994 and 1997.

Peru addresses poverty reduction concerns through several integrated programs. For example, the national social compensation fund (FONCODES) sponsors school breakfasts, household lighting, clothing for schoolchildren, social and productive infrastructure, and activities to support household production. The national nutrition assistance program (PRONAA) sponsors infant and school feeding, community dining rooms, small-scale community works, and marketing support for agricultural entrepreneurs. Coverage and potential overlap for these programs is a concern, as are the programs’ impacts at reaching myriad objectives.

Table 6. Peru: Public Expenditures on Poverty Reduction Programs, 1997–1998
(Percent of total public expenditures)

	1997	1998
Social and economic infrastructure	**5.3**	**5.5**
Social development fund (FONCODES)	1.7	1.6
Municipal compensation fund (PRONAMACHCS)	0.5	0.5
Presidential stabilization fund (PRES)	0.7	1.5
Institute of health and education infrastructure (INFES)	0.8	0.8
Others	1.6	1.1
Social support	**3.7**	**4.2**
Glass of milk (vaso de leche)	1.0	1.0
National nutrition program (PRONAA)	0.8	0.7
MECEP	0.5	0.9
Social support program (FONCODES)	0.7	0.7
Nutrition for high risk families (PANFAR)	0.03	0.03
Others	0.7	1.0
Total expenditures on poverty reduction programs (millions of US $)	**$1,082**	**$1,103**
Total as percent of public expenditures	**11.0**	**11.5**
Total as percent of GDP	**1.7**	**1.7**

Sources: Saavedra (2000), APEC questionnaire templates.

Employment programs

Employment generation programs in Peru amounted to about 0.2 percent of GDP in 1997 (see Table 6). Peru has public works activities under various ministries and programs. FONCODES and PRONAA both fund community works. PRONOMACHCS, under the Ministry of Agriculture, utilizes public works to improve the productive base of farmland and provide environmental protection for sustainable agriculture. INFES supports development of health and education infrastructure in rural areas. Again, coverage and overlap, as well as impacts in meeting program objectives, are of concern.

Local labor exchanges are also being developed to reduce unemployment. SIL links the unemployed with job openings in the larger urban areas. PROJOVEN provides training stipends and training programs for youth, largely in Lima, but has limited coverage.

Food subsidies and nutrition programs

Numerous nutrition support programs exist beyond those provided by PRONAA. PANFAR, implemented through a local NGO, nationally targets the families most at risk (families with at least two children under three and a sick child) with nutritional supplements and nutrition education. Active nutritional monitoring in PANFAR communities also serves as an early warning system for social crises. PACFO, also under the Ministry of Health, targets 80 percent of infants in five poor regions with supplemental feeding and weaning support. The local affiliates of international NGOs Caritas and CARE also support feeding and nutrition programs. These programs are all on-going, many of them initiated in the early nineties, and are not specifically designed for crises response. However, where targeting is active, such as in PANFAR, the programs could be useful crises response mechanisms, provided an adequate budget is available to increase program coverage.

Peru also has programs to provide free basic health services to children under age three, pregnant women, and school children to age 17. The infant and maternal program is currently being piloted to determine impacts on mortality rates for these groups. The school program covers about half of the school age population.

Social Safety Nets in Response to Crisis

Draft Bibliography and Related Websites

General

APEC HRD Working Group, 2000, "The Poor at Risk, Surviving the Economic Crisis in Southeast Asia: Overview and Policy Recommendations," draft, (British Columbia: University of British Columbia).

Asian Development Bank, 2000, "Strategies for Improved Social Safety Nets in Asia: Critical Interventions in Social Protection," Regional Technical Assistance Paper. Manila, Philippines.

Asian Development Bank and World Bank, 2000, *The New Social Policy Agenda in Asia: Proceedings of the Manila Social Forum*. Manila, Philippines

Asian Development Bank, 1999, "Framework for Social Protection," draft. Manila, Philippines.

Chu, Ke-young, and Sanjeev Gupta, 1998, "Social Safety Nets: Issues and Recent Experiences" (Washington: International Monetary Fund).

Conning, J., and M. Kevane, 2000, "Community Based Targeting Mechanisms for Social Safety Nets," revised draft (Washington: World Bank).

De Ferranti, David, G. Perry, I. Gill, and L. Serven, 2000,. "Securing Our Future in a Global Economy: World Bank Latin American and Caribbean Studies Viewpoint," draft (Washington: World Bank).

Ferreira, Francisco Prennushi, and Martin Giovanna Ravallion, 1999, "Protecting the Poor from Macroeconomic Shocks," Policy Research Working Paper No. WPS 2160 (Washington: World Bank).

Grosh, M., 1995 "Proxy Means Tests for Targeting Social Programs: Simulation and Speculation," Living Standards Measurement Working Paper (Washington: World Bank).

______, 1994, *Administering Targeted Social Programs in Latin America: From Platitudes to Practice,* Regional and Sector Studies (Washington: World Bank).

Gupta, Sanjeev, and others, 2000a, Equity and Efficiency in the Reform of Price Subsidies: A Guide for Policymakers (Washington: International Monetary Fund).

Gupta, Sanjeev, and others, 2000b, *"Social Issues in IMF-Supported Programs,"* IMF Occasional Paper No. 191 (Washington: International Monetary Fund).

Gupta, Sanjeev, and others, 1999, "Mitigating the Social Costs of the Economic Crisis and Reform Programs in Asia," *International Economic Policy Review*, Vol. 1, (Washington: International Monetary Fund).

Holzmann, Robert, and Steen Jorgensen, 2000, "Social Risk Management: A New Conceptual Framework for Social Protection and Beyond" Social Protection Discussion Paper No. 0006, (Washington: International Monetary Fund).

Inter-American Development Bank, 2000, *Social Protection for Equity and Growth.* Washington, DC.

Inter-American Development Bank, 1998, "The Path Out of Poverty: The Inter-American Development Bank's Approach to Reducing Poverty," Washington, DC.

Inter-American Development Bank, 1998, "The Use of Social Funds as an Instrument for Combating Poverty," Sector Strategy Paper, Washington, DC.

Jalan, Jyotsna, and Martin Ravallion, 1998, "Transfer Benefits from Workfare: A Matching Estimate for Argentina's Trabajar Program," World Bank, Washington, DC.

Klugman, Jeni, 1999, "The Poverty Impact of Government Safety Nets During Recent Periods of Economic Crisis," draft (Washington: World Bank).

Knowles, James, E. Pernia, and M. Racelis, 1999, "Social Consequences of the Crisis," EDRC Briefing Notes No. 16 (Manila: Asian Development Bank).

Lane, Timothy, and others, 1999, *"IMF-Supported Programs in Indonesia, Korea, and Thailand: a Preliminary Assessment,"* IMF Occasional Paper No. 187, (Washington: International Monetary Fund).

Lustig, Nora, 2000, "Crises and the Poor: Socially Responsible Macroeconomics," Technical Series Papers (Washington: Inter-American Development Bank).

Lustig, Nora, and Omar Arias, 2000, "Poverty Reduction in Latin America and the Caribbean," *Finance and Development,* (March) (Washington: International Monetary Fund).

Lustig, Nora, and Michael Walton, 1999, "Crises and the Poor: a Template for Action," paper presented at the Conference on of the Inter-American Development Bank, "Social Protection and Poverty," Washington, D.C.

Masson, Paul, Padma Godur, and Timothy Lane, 1999, *International Economic Policy Review*, Vol. 1 (Washington: International Monetary Fund).

McDonald, Calvin and Christian Schiller and Kenichi Ueda (1999): “Income Distribution, Informal Safety Nets, and Social Expenditures.” IMF Working Paper WP/99/163 IMF Washington, DC.

Pernia, Ernesto and J. Knowles (1998). “Assessing the Social Impact of the Financial Crisis in Asia,” EDRC Briefing Notes Number 6. Asian Development Bank, Manila, Philippines.

Ravallion M. and Galasso, E. “Distributional Outcomes of a Decentralized Welfare Program”. Draft. World Bank, Washington, DC.

Staffs of the International Monetary Fund and the World Bank (1993). “Social Security Reforms and Social Safety Nets in Reforming and Transforming Economies,” in Development Committee Development Issues, No. 32: Presentations to the 47th Meeting of the Development Committee. Development Committee, Washington, DC.

Subbarao, Kalanidhi, Aniruddha Bonnerjee, Jeanine Braithwaite, Soniya Carvalho, Kene Ezemenari, Carol Graham, and Alan Thompson. (1997). *Safety Net Programs and Poverty Reduction*. World Bank, Washington, DC.

Swaminathan S. A. Aiyar Lateef, K. Sarwar Subbarao, Kalanidhi. (1998) 1998/0/401. “Lessons in Designing Safety Nets.” Newsletter (NEWS 23). World Bank, Washington, DC.

United Nations Economic Commission on Latin America and the Caribbean –ECLAC, (2000). *The Equity Gap: A Second Assessment.* Santiago, Chile.

United Nations Economic Commission on Latin America and the Caribbean –ECLAC, (1999). *Social Panorama of Latin America.* Santiago, Chile.

Vos, Rob, Velasco, Margarita and Edgar de Labastida (2000). “Economic and Social Effects of El Niño in Ecuador, 1997–1998.” Inter-American Development Bank. Sustainable Development Department. Technical Series Papers. Washington, DC.

World Bank (2001) *Social Protection Sector Strategy: From Safety Net to Spring Board.* Washington, DC.

World Bank. (2000) *East Asia: Recovery and Beyond*, Chapter 6. Draft Chief Economist Secretariat EAP. Washington, DC

World Bank. (2000) *World Development Report 2000/01*, Chapters 5 and 6. Draft. Washington, DC.

Country Specific

Chile

MIDEPLAN (1999). *Balance Economico y Social 1990–1999*. Santiago de Chile.

Mexico

SEDESOL (2000). "Cinco Años de Esfuerzos Continuos en Favor del Bienestar Social de los Mexicanos 1995–99." Mexico, D.F.

PROGRESA (1999). "Más Oportunidades para las Familias Más Pobres:Evaluación de Resultados del Programa de Educación, Salud y Alimentación." Mexico, D.F.

Peru

Bouillon, César Patricio and Gustavo Yamada (2000). "Lineamientos de Protección Social: El Caso Peruano." Banco Interamericano de Desarrollo. Washington D.C.

Saavedra, Jaime y Eduardo Maruyama. (1999). "Evaluación de la Situación de la Pobreza en el Perú y de los Programas y Políticas de Lucha Contra la Pobreza." Lima: Reporte preparado para el Programa de las Naciones Unidas para el Desarrollo como documento preparatorio del UNDP Poverty Report.

Shack, Nelson. (1999). "Avances en la Lucha Contra la Pobreza: Perú 1990–1998." Lima: Instituto Peruano de Economía.

World Bank. (1999). *Poverty and Social Development in Peru, 1994–1997*. Country Study. Washington, D.C.

Indonesia

Ahmad, Ehtisham and Luc Leruth (2000). "Indonesia: Implementing National Policies in a Decentralized Context: Special Purpose Programs to Protect the Poor." IMF Working Paper No. WP/00/102.

Asian Development Bank (2000). "Country Assistance Plans." Manila, Philippines.

Asian Development Bank (1998). "Social Protection Program Loan." Report to the President. Manila, Philippines.

Social Monitoring and Early Response Unit (SMERU) (December, 1998). "Implementation of the Special Market Operation (OPK) Program: Results of a SMERU Rapid Field Appraisal Mission in Five Provinces." SMERU Special Report.

Suryahadi, Asep, Yusuf Suharso and Sudarno Sumarto (1999). "Coverage and Targeting in the Indonesian Social Safety Net Programs." Social Monitoring and Early Response Unit (SMERU) Working Paper.

World Bank (1999). "Indonesia – Social Safety Net Adjustment Loan Project". President's Report. Washington, DC.

Korea

Moon, Hyungpyo, Hyehoon Lee and Gyeongjoon Yoo. (1999). *Economic Crisis and Its Social Consequences*. Korea Development Institute. Seoul, Korea.

Subbarao, K. (1999) "Financial Crisis and Poverty: Adequacy and Design of Safety Nets for the Old and New Poor in Korea". World Bank, Washington, DC.

Philippines

Subbarao K., Ahmed, A. U. and Teklu, T. (1996) "Selected Social Safety Net Programs in the Philippines", World Bank Discussion Paper 317. Washington, DC.

World Bank. (1999). *Philippines: The Challenge of Economic Recovery*. East Asia and Pacific Region. Washington, DC.

World Bank. (1996). "A Strategy to Fight Poverty: Philippines." East Asia and Pacific Region. Washington, DC.

Thailand

Siamwalla, Ammar and Orapin Sobchokchai (1998). "Responding to the Thai Economic Crisis." UNDP Working Paper. Bankok, Thailand.

World Bank (July 2000). "Thai Workers and the Crisis." Thailand Social Monitor. Bankok, Thailand.

Websites

Asian Recovery Information Center. Asian Development Bank. http://aric.adb.org. See Key Hyperlinks for related sites.

IDB safety net information.
http://www.iadb.org/sds/document.cfm/1189/english/general/1436

IMF Code of Good Practices on Fiscal Transparency.
http: // www.imf.org/external/np/fad/trans/index.htm

World Bank safety nets general information and topics.
http://www.worldbank.org/poverty/safety. See related links.

Poverty and related issues (PovertyNet). http://www.worldbank.org/poverty

Poverty conditions, social policy in East Asia. http://www.worldbank.org/eap

Poverty conditions, social policy in Latin America. http://www.worldbank.org/lac