



Social Safety Nets Primer Notes

2003 ■ No. 7

Incentives and the Role of Institutions in the Provision of Social Safety Nets

The institutional environment can determine the effectiveness and efficiency of social safety net programs. An otherwise perfectly designed program may fail if it does not take into account the role of the different institutional actors and the incentives they face in the implementation and delivery of the program.

Why Social Programs Can Be Particularly Difficult to Implement

Cultural and economic circumstances mean that the same program will be implemented under different circumstances in different parts of a country, perhaps significantly influencing its performance. As well, beneficiaries cannot usually leave a program or voice concerns about its administration, leaving providers with something akin to monopoly power. The absence of competitive pressures may cause service delivery to be different from what the designers of the program had

intended. Finally, the lack of market signals also requires the regular monitoring and evaluation of the providers' delivery performance. Such feedback would allow policymakers to adjust a program's design and delivery to prevent undesirable outcomes, but also requires that providers have the knowledge and capacity to support and implement such adjustments.

Incentives in Social Policy Delivery

Incentive structures—between sponsors (i.e., governments) and providers, and between providers and their clients—play an important role in determining the success of a social safety net program.

Providers and Sponsors. The remuneration of the individual providers can be a problem. In many developing countries, civil-service salaries are well below the market rate for private-sector workers and can go unpaid for prolonged periods of time

Table 1. Different Ways the Central Government Can Fund Locally Provided Programs

<p>1. Capitation grant fixed amount of money per beneficiary provided to local providers</p>	<p><i>Open-ended:</i> The central government covers all expenditures associated with the program. This may induce the local provider to maximize output irrespective of the associated costs. The central government can then only influence the program's implementation and delivery by carefully designing its rules and closely monitoring and auditing its performance.</p>	<p><i>Closed-ended:</i> The central government covers all expenditures associated with the program up to a certain maximum. While this may help control the central government's expenses, it may also result in not covering all eligible beneficiaries.</p>
<p>2. Block grant fixed amount of money provided to local providers to supplement existing resources</p>	<p><i>Unconditional:</i> The central government does not subject the local providers to any requirements and thus effectively increases the local provider's budget.</p>	<p><i>Conditional:</i> The central government requires the local providers to use the funds solely for social safety net programs.</p>
<p>3. Matching grant grant from the central government which matches a certain proportion of spending at the local level</p>	<p><i>Open-ended:</i> Any level of spending by the local providers will be matched by the central government, meaning that the central government effectively loses control of its budget.</p>	<p><i>Closed-ended:</i> The central government will match spending by local providers at a certain ratio and up to a certain maximum. This arrangement requires very careful design as the matching ratio and maximum will influence the local provider's spending behavior.</p>

Christine Weigand prepared this note based on de Neubourg, Chris. 2002. "Incentives and the Role of Institutions in the Provision of Social Safety Nets." Social Protection Discussion Paper No. 0226. World Bank, Washington, D.C.

due to fiscal and other government constraints. Paying providers in this fashion may lead to a lack of motivation, increased corruption and reduced capacity given that well-trained individuals would prefer to work in the private sector.

At the institutional level—between, say, a central government and a local government—the financing details may produce particular incentives. Three types of grant schemes can be used by central governments to provide these funds, each associated with different incentives (table 1).

Providers and Clients. If clients don't know about the social safety net program, if they (or the administrators) cannot understand the program, or if the opportunity costs of applying are too great, success will be elusive. The answers are (1) to make clear who is responsible for publicizing the program, (2) to keep the administrative rules simple, and (3) to consider the costs of applying for benefits when designing the program.

What about Corruption? The incidence of corruption is not only a determining factor in a program's performance but also a function of the program's design. The most efficient way of counteracting corruption may not be additional rules and regulations but simplified program rules and delivery (i.e., minimize the number of administrative levels funds must pass through). The costs of corrupt activities can be increased by reassessing eligibility and by monitoring and auditing programs on a regular basis.

Institutional Structures and Program Implementation

Existing institutional factors can determine the success of a social safety net program.

Countries with limited administrative capacity. Lack of administrative capacity may be addressed with the following three strategies:

1. Limit the programs: Rather than aim for an optimal program, opt for a simple program and accept its flaws. For example, it may be better to choose a more universal benefit and accept certain leakages than attempt to implement a

perfectly targeted program with very exacting information and capacity requirements.

2. Involve the central government: Where the administrative capacity of the local government is low, program implementation can be successfully started by the central government and, once local capacity has been built, transferred to local levels.
3. Involve the community: Community involvement in the design and/or the delivery of social safety net programs can build 'ownership' of the program. This might improve a program's performance, but requires a careful evaluation of local community structures.

Countries with nascent institutions. Where some parts of the local bureaucracy function well, it can be useful to:

1. Target geographically: Targeting certain regions usually involves relatively lower administrative and economic costs. Leakages can be limited by targeting regions with a relatively higher poverty incidence and using community-based targeting mechanisms.
2. Rely on private-sector service providers: While it requires regulation and monitoring by the government, including private-service providers and local NGOs in the delivery of social safety net programs can be a powerful tool.

Countries with developed institutions. The biggest challenges in countries with fully developed institutions tend to be:

1. Optimizing program mix: With many and very sophisticated programs, it is crucial to determine the 'right' program mix and to reduce overlap and conflicts between social programs. Regular monitoring and evaluation plays a central role in achieving this.
2. Deciding on the degree of devolution: Local authorities can be better informed and more accountable to their local constituencies. Nevertheless, the devolution of certain policy decisions not only requires a certain level of capacity at the local level, but must also be based on an explicit, clearly defined contract between the central and local governments.

The World Bank Social Safety Nets Primer series is intended to provide a practical resource for those engaged in the design and implementation of safety net programs around the world. Readers will find information on good practices for a variety of types of interventions, country contexts, themes and target groups, as well as current thinking on the role of social safety nets in the broader development agenda.



World Bank, Human Development Network
Social Protection, Social Safety Nets
<http://www.worldbank.org/safetynets>

WORLD BANK INSTITUTE
Promoting knowledge and learning for a better world



Printed on 100% post-consumer recycled paper