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Inclusion and Resilience:

The Way Forward for Social Safety Nets in MENA

Joana Silva, Victoria Levin, and Matteo Morgandi¹

Introduction: The Arab Spring and subsequent transitions provide opportunities for better governance, economies free of cronyism and more inclusive models of growth. Social safety nets (SSN)² will be a key component of building more inclusive economies and societies. And here too there are grounds for optimism. Most SSN programs around the world were introduced during transition periods (post-Soviet independence, Indonesia's decentralization, and regime change in Brazil and Portugal), and have remained in place since.

SSNs and Addressing Human Development Challenges: In MENA, growth, poverty reduction, and a growing middle class exist together with chronic poverty and high vulnerability. More than a quarter of children in the bottom income quintile in Egypt, Morocco, and Syria are chronically malnourished. By the age of 16–18, children in the poorest quintile in Egypt and Morocco are more likely to have dropped out of school than to have continued studying. Low levels of human capital accumulation carry a higher risk of unemployment

or precarious employment in jobs with limited upward mobility. Effective SSNs can break the cycle of intergenerational poverty by helping families to keep children healthy and in school. SSNs and increased social services can also deal with spatial pockets of poverty in slums and rural areas by promoting the demand for social services and by building community assets. In addition to those in chronic poverty, a large share of the region's population hovers close to the poverty line and exhibits low resilience to shocks. As many as 15–17 % of Egyptians, Iraqis, Syrians, and Yemenis, and 10 % of Moroccans, have per capita consumption levels that are no more than US\$0.50 per day above the US\$2 per day poverty line in purchasing power parity [PPP] terms. If SSNs were not in place, vulnerable households could face irreversible loss of human capital during shocks. In addition to poverty and vulnerability, specific populations, such as women and the disabled, face particular barriers in access to social services and labor market opportunities.

Reforming SSNs in MENA: Most MENA SSNs finance energy subsidies, crowding out more effective interventions. On average, 6% of gross domestic product (GDP) goes to subsidies. Fuel subsidies represent an average of 4.6% of GDP. Other SSNs in the region are under-resourced with less than 0.7 % of GDP on average and fragmented among small overlapping programs. Most of the poor and vulnerable fall through the cracks: two out of three people in the lowest quintile are uncovered by non-subsidy SSNs. Coverage of the bottom quintile is less than half the world average. Moreover, inadequate targeting results in significant leakages to the non-poor. The average MENA non-subsidy SSN program distributes only 23 % of benefits to the bottom quintile. Comparator

¹ Joana Silva, Senior Economist, World Bank, Victoria Levin, Economist, World Bank. Matteo Morgandi, Young Professional, The World Bank. This MENA K&L Quick Note was cleared by Yasser El Gammal, Sector Manager, Human Development Group, Middle East and North Africa Region (MNSHD), The World Bank.

² Social safety nets (SSNs) are defined as non-contributory transfers targeted to the poor or vulnerable. They include income support, temporary employment programs (workfare), and services that build human capital and expand access to finance among the poor and vulnerable.

programs in Latin America and the Caribbean and in Eastern Europe and Central Asia manage 59 %. Although subsidies are relatively inefficient and ineffective, their sheer size means that many depend on them to stave off poverty. Moving towards more effective, reliable, and equitable social safety nets requires thinking not just about the technical aspects of reform but also about its political economy aspects.

Political Economy of Reform: Political economy considerations have largely stalled or prevented reform in some MENA countries. New evidence suggests that better information, improved design, and increased transparency of SSNs can help reforms to move forward. Opinion surveys in Egypt, Jordan, Lebanon, and Tunisia conducted as part of this study (see Text Box 1) reveal that close to 90 % of citizens see the government as the main provider of SSNs. Yet, in Egypt and Lebanon, less than a third found the SSNs effective. In Jordan and Tunisia the poor reported much more dissatisfaction than the rich. The surveys showed the uneven coverage of SSNs and, partly, their regressive nature. In Egypt, 23 % of all respondents – particularly the poor – did not know the main SSN programs. In Lebanon and Tunisia, the rich were more likely to know an SSN beneficiary. Despite their large fiscal cost, awareness of fuel subsidies is below 50 % in all four countries. The opposition to subsidy reform varies (higher in Egypt and lower in Lebanon) and in terms of priority, with gasoline in Egypt, tobacco in Lebanon, and diesel in Jordan and Tunisia being the subsidies most accepted for reform. In all countries but Lebanon, those who could tolerate subsidy reform opted for cash transfers targeted to the poor rather than broad-based compensation. In general, citizens showed a clear preference for SSNs that focus on the poor (rather than on specific groups) and that deliver cash (rather than in-kind benefits).

In addition to surveys, this study conducted a behavioral experiment (Jordan Gives) among a representative sample of the Jordanian middle class, collecting information on preferences for redistribution to the poor using valuable trade-offs. This experiment showed that middle-class individuals support redistribution to the poor, but also, more important, that this support varies according to the design of the assistance and the credibility of targeting. These activities suggest that

(a) much scope remains to increase support for reform by raising awareness on the true cost of subsidies; and (b) customizing the design of renewed SSNs can help shift public opinion in favor of reform.

Text Box 1:

Listening to MENA:

The activities conducted in preparation for this report reached over 4,000 MENA citizens through the nationally representative MENA SPEAKS (Social Protection Evaluation of Attitudes, Knowledge, and Support) surveys done in collaboration with Gallup in Egypt, Jordan, Lebanon, and Tunisia. The report also engaged a nationally representative sample of over 400 Jordanian middle-class citizens, in a behavioral game (Jordan Gives) that looked at revealed preferences for redistribution, using real trade-offs.

In consultation workshops across MENA more than 250 representatives from government; academia; civil society; nongovernmental organizations (NGOs) were involved, including participants from Algeria, Bahrain, Iraq, Jordan, Kuwait, Lebanon, Morocco, Oman, Saudi Arabia, Tunisia, the United Arab Emirates, and West Bank and Gaza; and multilateral and bilateral donors such as the International Labour Organization and the United Nations Economic and Social Commission for Western Asia.

Recent experience has demonstrated the feasibility of SSN reform in the MENA. There are examples of successful reforms that have attained significant positive results:

- *West Bank and Gaza* created a unified registry across SSN programs significantly improving targeting accuracy and crisis response capacity.
- *The Republic of Yemen* responded quickly during the last crisis with a workfare program to bridge a consumption gap of the poor and vulnerable while also creating community assets. Important reforms were also implemented in the Social Welfare Fund, such as improved poverty targeting with a proxy means-test formula, strengthening capacity for service delivery, and implementing a new legal/policy framework.

- *Morocco's* Tayssir program—a pilot cash transfer program conditional on school attendance and targeting areas with high incidences of school dropouts and poverty—has had a significant positive impact in reducing dropouts in rural areas, especially among girls.
- *Djibouti* has adopted an innovative program design to make a workfare program work for children and women.
- *Lebanon* recently launched a central targeting database (National Poverty Targeting Program), laying the foundation for an effective SSN.
- *Jordan* has made important steps toward rebalancing SSNs away from subsidies and developing a targeting and poverty reduction strategy.

For more effective and innovative SSNs action is needed on several fronts. Better results can be achieved through action on the following four agenda items:

I - Improving the impact of SSN programs in the MENA. Currently, most of the region's nonsubsidy SSN programs have limited impact on poverty and inequality because of the combination of low coverage (with inefficient targeting) and at best, inadequate monitoring and evaluation (M&E) systems. The way forward on this front could entail:

- **Prioritizing interventions for investments in human capital.** SSN programs should be addressing human development challenges for e.g. malnutrition and school dropouts. This can be done by (a) scaling up existing successful conditional cash transfer (CCT) programs (*Morocco's* Tayssir program) and workfare programs (*Yemen's* Social Welfare Fund); (b) tweaking existing programs so they work better for children and women (*Djibouti's* workfare plus nutrition program); or (c) creating new programs based on global best practices.
- **Enhanced targeting of the poor and vulnerable.** Improved targeting can decrease costs, ensure equity, allow SSNs to act as insurance, and enhance effectiveness. Most MENA programs are categorically or geographically targeted, even though these are only effective in environments of concentrated poverty. In the MENA SPEAKS surveys, citizens noted a strong

preference for poverty-based targeting as opposed to categorical targeting. There is already substantial movement on this in Iraq, Jordan, Lebanon, West Bank and Gaza, and Yemen. Results there have shown the power of such reforms and outlined a path.

- **Improving the focus on SSN program results through M&E and social accountability.** In MENA, enhanced M&E for SSNs can help allocate budget resources among programs, monitor day-to-day operations, and track the results of interventions. M&E has been particularly effective when the evaluation results and empirical data are used to inform budgetary decisions and reshape programs. This was the case in West Bank and Gaza and the Republic of Yemen. Moreover, introducing well-functioning social accountability systems can improve efficiency and accountability and combat corruption.
- **Reaching out to other stakeholders:** Citizens' awareness about existing SSN programs is low and skewed toward the wealthy. Comprehensive communication campaigns are needed to inform poor and vulnerable citizens of available safety nets. Also, engaging a spectrum of stakeholders (NGOs, CSOs, the private sector, and nonprofits) in financing and implementing SSN programs could add resources to SSN's financial and human resources.

II - Establishing a reliable yet flexible SSN infrastructure for normal and crisis periods. The global economic crisis underlined weaknesses in MENA's existing SSN systems. Promoting households' resilience to shocks through SSNs requires a strong administrative infrastructure. If this is in place *ahead* of a crisis, it allows for quicker, more efficient action, i.e. scaling up of benefits for the vulnerable or expanding coverage. Setting up an improved SSN infrastructure could entail:

- **Creating unified registries of beneficiaries** that can be used to target multiple programs. In normal times, unified registries can reduce costs and facilitate coherence and convergence. In crisis times, unified registries can be used to

quickly disburse additional benefits to target populations or promptly expand coverage by adjusting eligibility criteria. West Bank and Gaza provides an example of best practice in the region.

- **Using effective service delivery mechanisms.** Effective use of modern technologies such as smart cards, mobile payments, and over-the-counter payments in bank branches reduces administrative costs, leakages, and fights corruption. It provides rapid response during crises.

III - Consolidating fragmented SSN programs. In MENA, direct transfer programs (cash-based or in-kind) are often small and fragmented. International experience suggests that a few comprehensive programs designed to reach different segments of the poor and vulnerable, can address current vulnerabilities and social protection gaps by increasing coverage and benefits. Some (for example, Morocco and West Bank and Gaza) have started reforming their SSNs in this manner. To progress, governments can identify gaps in SSN systems and create an inventory of SSN programs with their objectives, eligibility criteria, and benefits, as in Morocco. With such an inventory, governments can identify programs to expand or consolidate and formulate an implementation strategy.

IV - Rebalancing the financing and prioritization of safety net systems. MENA countries spend a large share of GDP on energy subsidies and a small share on targeted safety nets. Reducing costly and regressive subsidies would decrease fiscal imbalances and free up resources for more efficient safety net instruments. This could entail:

- **Increasing spending and improving coverage of non-subsidy SSN to protect against destitution.** Successful subsidy reforms have demonstrated the importance of gaining citizens' trust in government's capacity to deliver fair and reliable compensation for the reduction or loss of those subsidies. In light of the evidence provided by MENA SPEAKS and Jordan Gives, demonstrating readiness to deliver effective and inclusive SSN programs would be an essential step on the path toward comprehensive subsidy reform. This could be

achieved by creating new programs, scaling up effective programs, and reforming ineffective programs.

- **Reforming price subsidies through wholesale or internal reforms.** Sequencing of sensitive reforms is crucial for success. Governments could start by:
 - *Improving targeting,* for example through differentiated marketing and packaging, leading to self-targeting (Tunisia), narrowing subsidy coverage through lifeline tariffs in power, and reducing distribution leakages.
 - *Identifying the most sensitive subsidies and focusing on the most regressive ones.* According to MENA SPEAKS surveys, reform of food subsidies is least preferred by citizens. As spending on fuel subsidies is triple the cost of food subsidies, the former is the lower-hanging fruit.
 - *Engaging citizens early and promoting information campaigns.* Governments can use MENA SPEAKS findings to raise awareness about costly subsidies and initiate dialogue on preferred compensation packages.

Contact MNA K&L:

Laura Tuck, Director, Strategy and Operations.
MENA Region, The World Bank

Regional Quick Notes Team:

Omer Karasapan, and Roby Fields
Tel #: (202) 473 8177

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