

The 21st Century Indian City
Social protection for the urban poor
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1. **There have been major advances in social protection across the world**
 - Many countries have achieved spectacular sustained economic growth (China, India, Brazil), allowing their per-capita incomes to converge toward that of the industrialized countries. Yet (1) this may not have been sufficient to reduce poverty as much as desired as growth does not sufficiently trickle down to the poor; it is not sufficiently pro-poor, (2) growth is accompanied by increasing exposure to risks, especially for the vulnerable non-poor, creating a major source of “new poor”, and (3) growth has been accompanied by sharply rising disparities, inducing resentment and political destabilization. This implies that growth needs to be complemented by social protection to provide resilience (social insurance against risks for the vulnerable non-poor), equity (social assistance for the poor to avoid destitution and poverty traps due to exposure to uninsured shocks), and improved opportunities for the poor (asset formation and access to productive work to reduce poverty).
 - Other countries have failed to achieve sufficient economic growth (especially in Sub-Saharan Africa) and are increasingly falling behind in per capita income. In these countries, lack of resilience to risks, lack of social assistance to the poor, and lack of creation of opportunities for the poor may be a barrier to investment and a cause of slow growth. Risk management reduces risk-taking in investment, and risk coping periodically decapitalizes households of productive assets. In this context, social protection may be needed not only to enhance the wellbeing of the poor, but also as a source of growth and of counter-cyclical stabilization.
 - Major advances have been made in the last 15 years in the theory, design, and implementation of social protection programs for the rural and (far less) for the urban poor.
 - Progress in the theory of social protection includes the following:
 - Social protection is a multipronged comprehensive strategy that includes insurance, assistance, and opportunity, not isolated programs with specific welfare objectives. Hence, it requires a comprehensive approach, with well-recognized tradeoffs and complementarities among program interventions, and specific to each country.
 - Social protection is not only a complement to growth to achieve welfare objectives, but also a source of aggregate growth and of autonomous incomes for the poor, reducing the costs of direct transfers and the inter-generational inheritance of poverty. Hence, social protection is motivated not only by intrinsic gains for the poor, but also by the quest for efficiency gains.
 - Social protection helps reduce the growth and income costs of both risk management in anticipation of uninsured shocks and risk coping in response to uninsured shocks. Risk management implies reduced

investment in high return-high risk activities, and lesser specialization in the most profitable activities. Risk coping implies the periodic sale of productive assets, removal of children from school, under-nourishment at critical ages, and fall into bonded labor, with eventual long-term irreversible consequences.

- Progress in the design of social protection interventions include the following:
 - With proper design, social protection can deliver both short-term poverty reduction and medium/long term income generation and growth. This is the “twin-track approach” that has made the “new” approaches to social protection more politically acceptable: short run cash or food transfers are complemented by investments in human capital or local public goods that provide new sources of income and food security. These include conditional cash transfers (CCT), workfare and guaranteed employment programs, community-driven development (CDD), productive safety nets, and social pension programs.
 - The twin-track approach transforms social protection into “smart” subsidies that have an exit option to the transfers set in place. They can be budgeted as “one-time” transfers where exit is built in the design of the program, thus overcoming donor and government fears of permanent dependency on costly subsidies.
- Progress in implementation includes a variety of initiatives, but most particularly mechanisms to insure greater transparency and accountability. They include decentralized implementation, citizen monitoring devices (audits with public information, citizen report cards linked to incentive schemes), and electoral accountability for incumbent candidates (Brazil) and political parties (Mexico). Key in implementation is avoidance of leakages to the non-poor and greater inclusiveness of intended beneficiaries.

2. There are many examples of at least partially successful approaches

- **Rest of the world**
 - i. Conditional cash transfers for child education and health: This includes Progresa/Oportunidades in Mexico, Bolsa Familia in Brazil, and extensions of these programs to many other countries such as Ecuador, Nicaragua, Chile, and Turkey. The key feature is that the short run cash transfer to the mother is conditional on health practices for and school attendance by the child. Results for Progresa show that dropout for entrance in secondary school among rural poor households is reduced by one third. Results also show that beneficiaries of transfers remain more at school when parents are hit by idiosyncratic or covariate income shocks, as opposed to being withdrawn from school to save on costs and used for child labor as a source of income.
 - ii. Workfare programs with investment in local public goods: This is the productive safety net approach pursued in Ethiopia and Yemen. Work opportunities are targeted at the poor, eventually

proportionately to the poverty or nutrition gaps. Local public goods are developed using this labor and additional budgets for materials. Choice of local projects is eventually decided on a CDD basis, with communities competing for projects.

- iii. Non-contributory social pensions in South Africa and Ecuador. These programs help not only improve the wellbeing of the aged, but also support investment in child education by beneficiary grandmothers (South Africa) and investment in income generating activities (Ecuador).
- iv. Transfers to credit constrained farmers, for example under Procampo in Mexico. Money transferred in compensation for policy shocks are put to work, generating an income multiplier of 2 pesos for every 1 peso received. Thus while a transfer to the mother may be better targeted at child expenditures, a transfer to the father may generate additional income that can subsequently be spent, at least partially, on child welfare, with an ambiguous net effect.

- **India**

- i. Several innovative programs have been put into place in India. They basically fall into three categories:
- ii. Self-employment programs: self-help groups for savings, credit, and asset accumulation; village self-employment programs (SGSY).
- iii. Wage employment in public works programs: Most notable was the 1972 Maharashtra Employment Guarantee Act, extended at a national scale in 2005 under the National Rural Employment Guarantee Act (NREGA). It provides the right to 100 days of guaranteed wage work to rural inhabitants. The labor is used to create productive assets in water works, land development, and rural roads. Implementation is decentralized at the Panchayat level.
- iv. Food-based programs: This includes (1) the Public Food Distribution System with subsidized foods available through Fair Price Shops to 238 million ration card holders, (2) control over food prices through subsidies, trade instruments (variable import tariffs and export restrictions), procurement and public buffer stocks, and (3) school feeding with the Mid-day Meal Scheme.
- v. An incipient social protection program for unorganized workers through minimum social security provision.

3. Many issues are pending toward improvement of social protection programs

- *From fragmented to comprehensive programs: the needs for coordination and improved governance.*

Social protection programs have typically emerged in an ad-hoc fashion, often motivated by urgent electoral gains among swing voters. They tend to be discontinued with transitions across electoral cycles. And they tend to leave gaps in coverage when introduction was motivated by localized electoral gains. Yet, there are strong

complementarities across programs that address particular needs of particular subsets of the population. As a consequence, there is logic and cost effectiveness to regroup fragmented programs into comprehensive national approaches. This was done in Brazil for the Zero Hunger program that involves coordination across a large number of ministries, as well as participation of the private sector and civil society organizations. Elaborating such programs requires capacity building for improved democratic governance, especially at the local level when decentralized. It also requires coordination across ministries with silo traditions in controlling budgets and clienteles. Many programs have been managed by ad-hoc Social Development Funds introduced in a parallel system to the traditional bureaucratic structure for the sake of expediency and convenience. Comprehensive programs need to internalize these programs in the institutionalized bureaucratic system.

- *From chronic to transitory poverty and vulnerability: toward flexible crisis response*

Most social protection programs have been introduced to address chronic poverty as opposed to vulnerability to poverty. As a consequence, targeting instruments tend to rely on indicators of long-term poverty such as asset ownership, quality of housing, and type of employment. Challenge is to offer quick response when households fall into poverty to avoid costly long-term irreversibilities. Chile Solidario thus offers immediate coverage on demand, with verification of long-term qualification within a month. Several cities have similarly introduced emergency rent guarantee systems to avoid the irreversibility of homelessness. When households work in the informal sector, distress is particularly difficult to detect and document, compared to the loss of formal employment. Hence, there are major challenges to be addressed in providing quick response, beyond offering it as a right such as employment in India and food in Ecuador.

- *From dependence to “smart” transfers: capacity building, assets, opportunities, and exit options*

In principle, the twin-track approach is easy to conceptualize: complement short run transfers with asset building that will secure longer-term autonomous income. Smart transfers are however difficult to design. An example is fertilizer subsidies in Malawi. They will lead to graduation if the returns from subsidies are capitalized into asset building and productivity gains, making beneficiaries cross the poverty line. CDD will enhance local food production capacity if directed at productive projects of benefit to the poor. But productive self-employment by the poor is difficult to achieve. Human capital formation and availability of formal sector jobs may be a more sustainable path out of poverty. But this requires growth in low-skilled labor-intensive sectors. CCTs are effective at creating human capital, but employment opportunities need be available for the graduates of these programs. Hence, smart transfers need a broader macro management of the qualitative dimensions of growth to be successful.

- *To condition or not to condition?*

We know that transfers will create more utility gains for recipients if made in cash (unless infra-marginal) and without strings attached. Yet, there are situations where nudges are welfare enhancing for the poor if there is a tendency to procrastinate or to fall into temptations that are later regretted. Parents may also prefer not to have to bargain every day with their children about school attendance, in which case conditionalities are a boon to them. Conditionality may also be useful to reconcile parent and child private

optima, since parents use current income with discount rates different from those of their children, perhaps under-investing in child health and education. And conditionality may internalize social externalities, making investment in a social safety net program more politically feasible. Conditionality also transforms the income effect of a cash transfer into a price effect on the conditioned good, with a much larger quantity response per dollar transferred. Hence, while there may exist ethical and operational reservations to conditioning, there are many situations where imposing conditionality on a transfer will benefit both the recipient and the donor. However, because conditionality is on the demand side, the supply side of the service on which conditional use is imposed must be available. This may not be the case in poor environments where public goods are in short supply.

- *Toward a rights approach*

Under a rights approach, every person below the poverty line would be entitled to a certain good (food) or service (health, education, employment, social security, information). For the right to be exercised, strong accountability and grievance redressal provisions must be in place, with penalties for violating. Self-targeting may be added to reduce cost and limit demand to need, at a cost on the poor. Targeting with a poverty line has the strong disadvantage of a sharp discontinuity at the poverty threshold and of the disincentives it may create in elevating oneself above the threshold. This has been denounced by Santiago Levy in looking at non-contributory programs for the informal sector in Mexico, creating an incentive for firms to remain in informality, with the efficiency and fiscal revenue costs it implies.

- *From elite capture and clientelism to transparency and accountability: short and long routes to accountability, and impact assessments*

Decentralization offers the possibility of capturing local information not available to a central government. It has the disadvantages of potential local capture and lesser levels of administrative capacity. Both approaches have been used for CCTs: Oportunidades is managed centrally; Bolsa Familia is decentralized at the municipal level. The first suffers from measurement errors and use of secret qualification formulas that prevent recourse. The second suffers from lack of electoral accountability when mayors are not incumbents to local elections, and frequent lack of transparency as information is withheld (right-to-know laws generally only apply at the national or federal level). Hence, there is still much to explore and to evaluate through impact assessments about how best to manage these programs.

- *From donor dependency to local governance, affordability, and budgeting*

Social protection has often been expeditiously delivered in the context of crisis response through donor budgets and ad-hoc institutions such as Social Development Funds. Problem is the subsequent transition to sustainable domestic governance and funding. Needed is institution building so that domestic bureaucracies and budgets can absorb these programs. Weakness has typically been in the capacity to transform a national or local state into a developmental state, with both capacity and social purpose. Many social protection programs have seen their end come when social funds could no longer be funded from outside and could not be absorbed in the regular administrative process.

4. The urban challenge

- While social assistance programs has often been spectacularly successful in rural areas, their transposition to urban settings has generally not been met with success. This has been the case with CCTs in Mexico and Brazil. The reason is that urban poverty and vulnerability are due to different causes and require different interventions that have, to this date, not been sufficiently explored.
- What's different about the city? Basically that urban poverty is more than a simple income deficit that can be made up for through a transfer, conditional or not. Urban poverty, particularly in the context of slums, tends to be associated with dysfunctional families, high geographical mobility, violence, gang warfare, drugs, and higher opportunity costs in informal activities, legal or not. Bolsa Familia has thus found that transfers to the female household head was often not going to the mother, that mothers had little authority over their children in taking them out of the street, and that targeting was on a population difficult to delineate. Oportunidades extension to cities has similarly met with unanticipated setbacks.
- The need for experimentation. Mayor Blumberg adapted Mexico's rural Oportunidades to an Opportunities New York program by focusing more on parents responsibilities and their participation to civic affairs. Chile Solidario focuses on the use of existing programs, and on contracting with the destitute to follow a rehabilitation plan with negotiated steps and payments conditional on progress on a the agreed upon logframe. It requires a lot of one-on-one attention that becomes costly in a country with a high incidence of urban poverty. Urban social protection thus needs to take advantage of more abundant resources available in that environment, but also deal with the much larger range of choices that urban residents can make, and the higher opportunity costs that they have, implying that conditionalities are more expensive and more difficult to define and enforce. Much fascinating experimentation with alternative approaches is left to be done to achieve the goal of a slum free city.