



Helpdesk Research Report

Social assistance and idiosyncratic shocks

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Question

What does recent literature tell us about the effectiveness of social assistance interventions in reducing individual and household vulnerability to idiosyncratic shocks in low-income contexts?

Contents

1. Overview
2. Effects of social assistance in reducing vulnerability
3. Evaluations of three major social assistance programs
4. References

1. Overview

While there is a growing literature documenting and analysing how social assistance programmes can help in reducing income poverty and food insecurity,¹ very little systematic empirical research has been done concerning their effectiveness in reducing individual and household vulnerability to idiosyncratic shocks. For the purposes of this report, social assistance refers to non-contributory, tax-financed social benefit schemes, in cash, subsidies or in kind, under formal programs funded by central government, often with donor support. The main social assistance interventions discussed in the literature are cash transfers, public works programmes, in-kind transfers and subsidies. This rapid review focuses on cash transfers and public works programmes, as they have received the most attention in terms of relevant empirical evaluation studies.

Idiosyncratic shocks affect only the members of an individual household, as opposed to covariate shocks, which involve entire communities or countries. Shocks are defined here as events that reduce household income, consumption, and/or the accumulation of productive assets. In practice, there is overlap and interaction between different types of shocks and the coping strategies deployed in response. For

¹ The first systematic review by the World Bank's Independent Evaluation Group in 2011 identified 92 impact evaluations of social assistance programmes in developing countries over 1999–2009. Most of this evaluation work has been focused on conditional cash transfers programmes in Latin America (World Bank, 2014b: 33).

example, a regional drought (covariate shock) may lead to the death of an income-earning household member (idiosyncratic shock) (Frankenberger et al, 2013: 11).²

The following adverse events represent the major idiosyncratic shocks discussed most commonly in recent academic, practitioner and policy literature:

- **Economic shocks** including unemployment, harvest or business failure, or a drastic change to working conditions or wages.
- **Crime shocks** including theft and/or destruction of crops, livestock, housing, tools or household durables.
- **Health shocks** including death, disability, or illness.
- **Familial shocks** including divorce, separation, dowry or wedding costs, or family break up due to financial strain or forced migration.

Key messages:

- There is some evidence to suggest that social assistance programmes can have a positive effect by **stabilising consumption and helping households to decrease negative coping strategies** during shocks.
- However, whether social assistance interventions are **fully effective at protecting individuals or households against particular types of shocks**, or whether they make **specific groups of households more or less resilient than others to particular shocks**, has not been investigated in great detail.
- Some studies suggest that cash and conditional cash transfer programmes are often **not flexible enough** to provide adequate assistance to individuals and households in the event of idiosyncratic shocks.
- According to some authors, **joint or complementary approaches to social assistance can be effective in helping households build resilience to idiosyncratic shocks**, although this report did not find much in the way of rigorous empirical investigation of this issue.³
- There is an **evidence gap on how social assistance programmes can be attuned to gender dynamics** in ways that reduce the vulnerability of women to idiosyncratic shocks.

² Commenting on data on income risks in Ethiopia, Dercon (2002: 143) observes that “most of the shocks experienced by households included both idiosyncratic and common risk features”.

³ Hoddinott (2008) points out that safety nets and agricultural investments go hand-in-hand, but the integration of social protection and agricultural policies is limited in practice.

2. Effects of social assistance in reducing vulnerability

Developmental implications of idiosyncratic shocks

When faced with a severe idiosyncratic shock, households in low-income contexts typically engage in one or more of the following coping strategies: (i) behavioural changes in relation to food consumption (e.g. eating less, reducing meal frequency, collecting bush products); (ii) selling assets; (iii) withdrawing children from school, sending them to stay with relatives or sending them to work; and (iv) reducing expenditures on non-food items, or borrowing food or cash (Béné et al 2012: 9). There is ample evidence of the harmful developmental implications of idiosyncratic shocks:

- Dercon et al. (2005) find that households in Ethiopia who have seriously ill members were forced to decrease their consumption by almost 10 percent, and continued to experience adverse effects three to five years later.
- Using panel data for villages from the Mexican Progresa program, Sadoulet et al (2004) illustrate that idiosyncratic shocks can have strong negative implications on children's schooling attainment, as households turn to child labour as a coping strategy.
- Krishna's (2010) study of household poverty dynamics in societies, including India, Kenya, Uganda, Peru, and the United States, identifies illness and accidents as the most common and preventable causes of poverty.
- The 2014 World Development Report finds evidence that idiosyncratic economic shocks in countries as diverse as Argentina, Bulgaria, and Guyana have had a direct impact on income levels, social cohesion, and incidences of domestic violence (World Bank, 2014a: 4, 53).

Gender relations and household shocks

There is recognition across some of the literature that gender relations can shape the impact of a shock on women and men in different ways. Pincha (2008), for example, notes that women in low income countries are often more vulnerable to shocks because they have fewer assets, less autonomy and mobility, and bear the bulk of caregiving responsibilities. Social assistance interventions may not be sensitive to the other productive and reproductive roles that women have. As a result women often have a lower participation rate in public works activities (Flintan, 2011). Frankenberger et al (2013: 36) state that, in societies that place restraints on women's mobility or education, women are more vulnerable in the face of shocks as their opportunities to diversify their livelihoods and mitigate risks are reduced. Women also suffer gender-specific idiosyncratic risks to health (e.g. childbirth). However, this review found a lack of detailed research which investigates the gender-differentiated impact of idiosyncratic shocks, and how this might be targeted through social assistance.

Cash transfers and conditional cash transfers

Cash transfers (CTs) are a form of social assistance that provides income directly to households without requiring any prior contribution or conditions. Cash transfers in low income countries are commonly targeted towards particular categories of people, such as the elderly, children, or those with disabilities, and are often rationed on the basis of poverty criteria. Participation in CT programmes has been found to help households withstand both idiosyncratic and covariant shocks by supplementing income to increase

food expenditures, enabling consumption smoothing, and facilitating households' human capital investments (Fiszbein et al., 2009; Skoufias, 2007).

Conditional cash transfers (CCTs) provide cash to participants upon their fulfilment of a set of conditions. These conditions may include ensuring a minimum level of school attendance by children, undertaking regular visits to health facilities, or attending skills training programs. CCTs can also include school stipend programmes. Sadoulet et al (2004: 3) point out that whilst CCTs are not generally designed to deal directly with shocks or to act as insurance instruments, they can provide a safety net through mitigating the reliance of households on coping strategies such as child labour.

Benefits and drawbacks of cash and conditional cash transfers for reducing vulnerability to idiosyncratic shocks

- The 2014 World Development report states that CCT programmes have proven to be highly successful in helping individuals in low-income countries to reduce their vulnerability to health shocks. Such programmes create a direct monetary incentive for taking socially and individually beneficial actions to reduce risk, by requiring compliance with certain behaviour — such as adhering to a prescribed vaccination schedule for children — in order to receive a monthly cash transfer (World Bank, 2014a: 85).
- A World Bank policy research report (Fiszbein et al 2009: xii) states that CCTs can help buffer poor households from the worst effects of unemployment, catastrophic illness, and other sudden income shocks through providing a steady stream of income.
- Research by de Janvry et al. (2006b: 22) found that CCTs can offset the losses to human capital that are often caused by households taking children out of school as a way to smooth consumption during shocks.
- There is evidence that CCTs yield productivity and income benefits. A study of *Oportunidades* by Gertler et al. (2012) shows that transfer funds were used to purchase productive assets and led to increased agricultural income, which may bolster households' resilience to shocks over the long term.
- There is evidence that CTs have performed well in conflict environments such as Somalia, eastern Democratic Republic of Congo and Pakistan (TANGO International, 2013; cited in Frankenberger et al. 2013). However, Ghorpade (2012) notes that there is a high risk of CTs being appropriated illegally in contexts where non-state armed actors exert tight control over the general population. In these cases, the social protection programme could become a source of revenue for the forces that the state may otherwise seek to suppress militarily.
- Vinay (2010: 119) observes that CCTs may be of limited use to the very poorest members of society if they do not have access to the basic services (in terms of health or education facilities, for example) that would enable them to meet the programme's conditions.
- Some studies suggest that CCT programmes may not be flexible enough to provide adequate support to households or individuals in the event of an idiosyncratic shock. Fiszbein et al. (2009) note that CCTs generally do not include provisions whereby new households, which may have just experienced a sudden shock, can be easily added to the roster of eligible beneficiaries. They also tend not to have mechanisms whereby payment levels can be increased for individual

households who are already beneficiaries of transfers, but may need additional assistance to help them endure the effect of an idiosyncratic shock.

- Fiszbein et al. (Ibid: 26) go on to argue that, because CCTs tend to focus on supporting households' longer-term investments in human capital, they may not be the best instrument for dealing with the kind of transient poverty that an idiosyncratic shock may cause. Public works programmes (PWPs) may be more effective than CCTs for managing idiosyncratic shocks in so far as they do not involve long-term commitments on the part of beneficiaries (such as those implicit in CCT conditions), are self-targeted (and therefore avoid complex administrative decisions for entry or exit into the program), and can involve beneficiaries in activities that address the source of the shock (for example, job-related activities).

Public works programmes

PWPs engage participants in manual, labour-oriented activities such as building or rehabilitating community assets and public infrastructure. PWPs provide access to earning opportunities and can smooth income flows which soften the impact of an idiosyncratic shock (Grosh et al., 2011, cited in McCord, 2013). In sub-Saharan Africa, PWPs tend to be experimental and small scale, while in South Asia there are several large scale national programmes in operation (Subbarao et al., 2012: 14).

In countries with no formal unemployment benefit schemes, PWPs can perform a vital insurance function. For example, the Maharashtra Employment Guarantee Scheme in India mandates that all state governments provide at least 100 days of guaranteed wage employment to household's adult members who are willing to undertake manual labour at the statutory minimum wage (Del Ninno et al., 2009: 5). There are also cases where PWPs are tailored to reduce vulnerability to specific types of idiosyncratic shocks. PWPs in Southern and Eastern Africa, for example, have adapted to the challenges HIV/AIDs has posed by providing work in the form of home-based care and early childhood care and development. These include the Red Cross's Home Based Care programmes in Malawi and Zimbabwe, and the Working for Water Early Childhood Development Program in South Africa (Subbarao et al., 2012: 14).

Benefits and drawbacks of PWPs for reducing vulnerability to idiosyncratic shocks

- PWPs are often selected in preference to CTs on the basis that that they are a more efficient means of delivering assistance to those in need. This is premised on the idea that the low remuneration rates such schemes offer means that they only attract those in dire need. This 'self-targeting' is regarded as particularly useful in contexts where social security infrastructure and expertise are limited (ILO, 2010: 111). It is also notable that PWPs are among the few instruments designed deliberately to provide temporary support to informal sector workers, who are typically excluded from other forms of social security (McCord, 2013: 21).
- However, a report from the International Labour Organisation (ILO) suggests that the *ad hoc* character of PWPs often prevents them from delivering sustainable and reliable support to those in need in the form of adequate income. It argues that they also often indirectly exclude more vulnerable individuals, including women (ILO, 2010: 111). Andrews et al. (2012) agree that PWPs are often subject to significant inclusion errors. These errors can result from over-subscription to programmes that are supply rather than demand-driven, the low wage rate often adopted to promote self-targeting, and targeting challenges, particularly where programmes have more than one objective. Tensions can arise, for example, when programmes simultaneously try to

reduce the vulnerability of poor and food insecure households whilst also providing youth employment to promote stabilisation.

- PWPs have the potential to partially compensate for income loss among the new poor or those impoverished by reductions in formal or informal employment. However, by definition they also tend to exclude labour-constrained households that are often the poorest and that may be particularly vulnerable in the event of shocks (McCord, 2013: 21).

Food for Work

Food for Work (FFW) is a common delivery mechanism of PWPs, providing food commodities in return for labor-intensive activities. FFW has been shown to decrease sales of livestock among poor households in the aftermath of a shock (Barrett et al, 2001). There is evidence that FFW enables shock-affected households to recapitalise their assets in an adaptive way, for example by diversifying animals and crops (Mortimore, 2009).

However, other studies suggest that the short-term gains from FFW may have negative effects in areas that are necessary for the long-term resilience of households in the face of idiosyncratic and other shocks. In a review for USAID, Frankenberger et al. (2013) cite previous studies which indicate that FFW programs may have negative impacts on agricultural intensification (Barrett et al., 2004), short-term soil conservation measures (Gebremedhin and Swinton, 2003) and informal risk sharing (Dercon and Krishnan, 2003).

Some studies suggest that a way to minimise such trade-offs is to use a combination of approaches that build the capacity of households to withstand and recover from shocks:

- Andersson et al. (2011; cited in Frankenberger et al, 2013: 16) examine the interaction between the Productive Safety Net Programme (PSNP) in Ethiopia and the Other Food Security Programme (OFSP). They find that among PSNP participants, improved credit access (part of OFSP) is associated with increased livestock holdings.
- Gilligan et al. (2008) find that households that participate in both the PSNP and the OFSP experienced a greater beneficial effect on food intake and income diversification. They also find that beneficiaries of both programmes were more likely to be food-secure, to borrow for productive purposes, use improved agricultural technologies, and operate their own non-farm business activities (Gilligan et al., 2008: 2; cited in Frankenberger et al., 2013: 16).

3. Evaluations of three major social assistance programs

Productive Safety Net Programme (PSNP)

The Government of Ethiopia launched PSNP in 2005 with the support of a group of development partners. PSNP is designed to provide income support to chronically food-insecure households in a way that prevents asset depletion at the household level while building community infrastructure. The two components through which transfers are made are: a) public works – the provision of employment on rural infrastructure projects, small-scale irrigation and reforestation; and b) direct support – the provision of direct unconditional transfers of cash or food to vulnerable households with no able-bodied members who can participate in public works projects. At its start the PSNP targeted approximately five million

people, and the number of beneficiaries was increased to eight million in 2006. The PSNP is now the largest social protection programme in Sub-Saharan Africa outside South Africa.

- According to a World Bank evaluation study, receiving PSNP transfers for five years is associated with an increase of food security for 1.05 months a year compared with having received no transfers, and 1.53 months when households receive both PSNP and Household Asset Building Programme (HABP) services. The PSNP reduced distress sales of assets, from 51 per cent of beneficiary households at the start of the programme to 34 per cent by 2010 (World Bank, 2014a: 104).
- Using survey data and econometric analysis, Béné et al. (2012) investigate the degree to which PSNP has been successful at protecting its beneficiaries from both local and more global shocks. All households that have benefited from PSNP transfers systematically displayed higher food security than non-beneficiaries, irrespective of whether they had been affected by shocks. However, their study also showed that PSNP beneficiaries who had been exposed to shocks systematically displayed lower indexes of food security and wellbeing than PSNP recipients who had not been exposed to those same shocks. Illness and other idiosyncratic shocks appear to have significant impacts on food security amongst programme beneficiaries. These results suggest that although PSNP contributes to protecting households against shocks, the positive effects of the programme are not robust enough to shield recipient households completely against the impacts of severe shocks.

Progresas/Oportunidades

Progresas, later named Oportunidades, is the principal anti-poverty programme of the Mexican government and focuses on helping low-income families invest in human capital. The programme imposes certain conditions upon households in exchange for cash transfers, requiring them to send their children to school, receive regular health check-ups, and participate in the community. By 2007, ten years after inception, it covered 5 million households and had a budget of US\$3.5 billion (Vinay, 2010: 120). Data from the programme has been collected periodically and consistently, allowing researchers to assess the programme's success in areas such as increasing school enrollment and attainment, as well as better health outcomes among children (Ibid).

- Using data from the evaluation component of the Progresas programme, Sadoulet et al. (2004) indicate that the programme has helped compensate for shocks and protect child schooling in rural households. They suggest that formally incorporating risk exposure or shock-incidence criteria into the design of the programme's eligibility rules would go further in helping protect school age children from having to join the workforce in the event of their household suffering a shock. They also recommend allowing interventions to be scaled up temporarily to address idiosyncratic shocks suffered by individual households through incorporating greater flexibility into the programme.
- Other studies have found that although the transfer programme helped to protect school attendance during shocks, the income effect was not sufficient to reduce the use of child work as a crucial element of risk-coping strategies (de Janvry et al., 2006a: 351). A later study corroborates these findings, concluding that the conditional transfers helped protect enrollment but did not refrain parents from increasing child work in response to shocks (Fiszbein et al., 2011).

- Skoufias (2007) analysed panel data covering 506 villages and 24000 households in rural Mexico to examine how the Progresa programme helped households cope with income shocks and their effects on pre-existing risk sharing arrangements. The study did not find evidence that Progresa transfers either replaced or reinforced pre-existing risk sharing arrangements within the community or brought about any substantial change in how households responded to shocks. However, the study also illustrated that households eligible for the Progresa benefits in the treatment villages were able to insulate their consumption levels from fluctuations in income better than their counterparts in control villages (by 1.4 percent, in the case of a 10 percent income shock to total consumption). On this basis, Skoufias concludes that participation in the programme is associated with a reduction in household vulnerability to risk.
- Vinay (2010) uses Oportunidades External Urban Household Evaluation Survey (ENCELURB) examines whether Oportunidades has an effect on poor urban households' coping decisions when faced with an idiosyncratic shocks.⁴ The results of this study indicate that the programme does not have a strong or consistent effect on household coping strategies. Household characteristics, such as the head of the household being a woman or the household being active in the community, appear to have a stronger bearing on the choice of strategy. In light of these findings Vinay suggests that the Oportunidades scheme could do more to assist households in coping with idiosyncratic shocks by, for example, including a component for beneficiaries to apply for additional benefits in the event of such a shock (Vinay, 2010: 133).
- Using a quasi-experimental research design, Masino and Nino-Zarazua (2014) compared Oportunidades' initial cash transfer approach (cash handed out at distribution points) with the newer electronic payment system via bank accounts, looking at a range of impacts including coping strategies against idiosyncratic shocks. They found that households who received their transfer in a bank account were more likely (6 to 8 percentage points) to use their savings to cope with such shocks rather than contracting loans or reducing consumption as ways of coping. They suggest that the move from debt accumulation and consumption reduction to usage of savings is likely to reflect improvements in financial planning and consumption smoothing strategies.

Bolsa Familia

Initiated in 2004, the Bolsa Família Programme in Brazil provides poor households with monthly CCTs. Programme eligibility is based on per capita household income, and the benefit amounts vary from R\$ 22-200 (US\$ 11-98), depending on family composition and income. It provides a monthly transfer to households with children up to 15 years of age and/or a pregnant woman, and a monthly transfer to extremely poor households regardless of their composition. Transfers are conditional on compliance with certain risk-management behaviours, such as completing health check-ups, monitoring growth of children, and pursuing adequate care for pregnant women. Despite being one of the largest CCT programmes in the world, there is relatively little rigorous evidence on its effect of household consumption, health, nutrition and education. Unlike Oportunidades, which has implemented randomised experiments to evaluate its impacts, no evaluation strategy was put in place at the time of initial implementation (Shei et al, 2014).

⁴ This survey contains information on idiosyncratic shocks and coping strategies of households in the Oportunidades scheme.

It is unclear from available literature whether participants are less vulnerable to idiosyncratic shocks. However, there is evidence that the programme has been effective at reducing inequality, extreme poverty, and health risks, which may indirectly bolster the overall resilience of households:

- Higgins (2012: 116) found that, in 2009, Bolsa Família caused between a 12 and 18 per cent decrease in the poverty headcount index, and between a 24 and 31 per cent decrease in the squared poverty gap index.
- According to the World Bank, the programme has achieved compliance rates with health conditionalities of close to 100 per cent, thereby significantly improving the management of health risks of 11 million poor households (World Bank, 2014a: 93).
- A community based study found that participation in Bolsa Família is associated with significantly better health outcomes along many different measures, including greater utilisation of preventive health care services and improved psycho-social health (Shei et al., 2014).

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