Social Protection Technical Notes

TN 1 Cross-Cutting Issues for Public SP Interventions

TN 1.1 Gender in social protection programs

A growing body of empirical evidence shows that there can be significant differences between men and women with regard to their vulnerability to the same risk, and their exposure to different risks. These differences can be summarized as follows: i) particularly among poorer households, men and women do not pool risk within the household; ii) there are differences in labor incentive effects and transaction costs between men and women; iii) money in the hands of men and women give rise to different outcomes for individual and household welfare. (See Ezemenari, Chaudhury, and Owens 2001 for references and a review of some of these studies). The reasons for these differences are very much grounded in gender and social norms.

The evidence also shows that particularly for poorer households men and women in the same household: a) engage in different forms and activities for risk management; b) do not pool risk in the household—i.e. shocks to an individual's income has a direct effect on that person's welfare. In a household that pooled risk one would expect that a shock to an individual's income would be buffered by the income of others in the household, thereby reducing the effect of the shock; and c) experience gender differences regarding their vulnerability to risks. The reasons for this include differences in the types of assets held by men and women; risk preferences differ between men and women; men and women may be exposed to different risks or experience differing intensities for the same risk; finally, household decision making process will affect how these translate to household and individual outcomes.

Haddad 1999) outlines several reasons why income held in the hands of men and women within the same household might lead to differences in the welfare of individuals in the household:

- societal and gender norms may assign women as caretakers to ensure household members receive an adequate share of resources to build their human capital asset base;
- since women spend more time with children, they may have greater preference for spending on children's welfare (as compared to men);
- women may have a tendency to buy higher quality (and therefore more expensive) calories compared to men either to ease their time constraint or because their caring roles make them more aware of quality differences;

- finally, women and men have different income flows, time constraints and therefore different transaction costs. Since women's income tends to come in smaller more frequent flows, it may be spent on daily household needs than relatively larger and lumpier income of men, which tends to be spent on more expensive items.

Hopkins et al. 1994, examine the latter issue for Niger. Their results lead to: a) households in Niger are not smoothing consumption; b) a finding that men and women do not pool income within the household; and c) the conclusion that not only does the gender of the income earner matter, but in addition, the timing of gender-specific income also affects seasonal expenditure patterns.

SP programs can exacerbate or contribute toward the reduction of gender inequalities. Box 6 outlines examples of some programs and their potential gender effects. In order to get a sense of these effects prior to design and implementation, it is advisable to conduct a gender analysis to minimize unintended effects and determine potential areas of inequalities along with potential remedies. This requires conducting vulnerability analysis, and an examination of potential gender based incentives/disincentives of the program.

Box 6: Gender Effects of Select Social Protection Programs

Program	Gender Effects
Widow's pension in India (Chen and Dreze 1995)	A pension scheme benefited men more than women because the targeting mechanism did not recognize the nature of vulnerability women faced as distinct from what men faced—i.e. limited freedom to remarry; insecure property rights; social restrictions on living arrangements; restricted employment opportunities. In addition, the administrative requirements to gain access to benefits was more cumbersome for poor illiterate widows. Recognizing these effects, a widow's pension was introduced which increased access of widows to pension benefits and relieved the biases against women.
U.K. child benefit program—'wallet to purse' (Lundberg, Pollak and Wales 1997)	Transfer was changed from a reduction in the amount of withheld taxes from the father's paycheck to a single Child Benefit program which instead made a non-taxable weekly payment to the mother ('wallet to purse'). This policy change represented a substantial redistribution of income within the household: by 1980, child benefits amounted to 8% of average male earnings in the U.K. and led to significant increase in expenditures on women's and children's clothing relative to men's clothing.
Pensions in South Africa (Duflo 2000)	It has been shown that pension benefits to women in this program leads to large increases in anthropometric measures for girls (with no effect on that of boys). In contrast, transfers to men has no effect on nutritional status of children.
PROGRESA in Mexico (Adato et.al. 2000)	Transfers given to woman and evaluations show that the transfers have increased women's decision-making in the household. The transfer is means-tested and is conditional on children being sent to school and use of health facilities.
Rice subsidy in Sri Lanka (Sahn and Alderman 1995)	The rice subsidy decreases the probability of female labor force participation in rural areas, and has no effect on labor of men. In rural and urban areas, there is a substantial reduction in the number of hours worked by both men and women, in response to receiving the rice ration.

Maharashtra Employment Scheme— Public Works in India (Datt and Ravallion 1994)	The project displaces different activities for men and women (decreases unemployment for men, decreases in leisure/domestic work[1] for women). The results also show significant gender cross-effects in time allocation in Shirapur (men take up more own-farm work when women join the project).
Public Emergency Work during the 1930-40s in the U.S. (Finegan and Margo 1994)	The authors hypothesize that the PEW dampened the added worker effect because wives of unemployed men (who would have been eligible for work relief) would have been more likely to be in the labor force. The study results imply that more women would have been in the labor market in the absence of the PEW.
Contribution based programs—ie. unemployment insurance, pensions (Edwards 2000; Barrientos 1998)	Differences in access to benefits between men and women can arise for the following reasons: • women's labor force participation tends to be more variable relative to that of men and is characterized by spells of inactivity and hours and mobility constraints • women live longer (and in most countries retire earlier, this is relevant for pensions) yet experience more occupational segregation and gender discrimination • women are more conservative in investment decisions (most relevant for private pensions) • all this implies lower wages for women over lifetime relative to men and lower benefits

1.1.1 Vulnerability analysis. In doing gender analysis one has to add a gender dimension to the analysis of vulnerability discussed in section 2 of this chapter. One can use an approach which goes through the life-cycle from infancy to old age and outlines the various risks by gender. This analysis could also be conducted for different groups in a country. Identification of sources of risk and vulnerabilities sheds light on whether to target specific individuals within the household or just stop at the household level.

Second, analysts should ask whether patterns of assets and forms of coping for men and women. Evidence suggests that assets held by men and women may differ in quality in poor households. Also, men and women have differing informal networks and transfers and social protection programs may affect these differently. Gender analysis of vulnerability and assets or risk management/coping mechanisms will also help identify the most pertinent indicators.

In order to reflect the differences in risk perceptions, and response, and to capture how the shock may alter bargaining position of individuals in the household, indicators should aim to capture the relative difference in welfare between men and women arising from the shock. Some of these could act as early warnings of the potential worsening conditions of women’s welfare as well as welfare of the household in general. Among the kinds of indicators that could be measured are: ratio of male to female wages, differences in asset holdings between men and women, ratio of female consumption to male; change in health and nutritional status of females relative to males.

1.1.2 Gender of the transfer recipient matters. The next issue related to targeting is whether the transfer should be given to the man or woman? The evidence to date suggests that men and women do not necessarily pool income within households (World Bank 2001). Instead, household expenditure patterns are affected by the pattern of income shares earned or controlled by men and women within the household. It has been found that greater shares of household income

[1] The authors do not have information to distinguish between time devoted to leisure and domestic work.

earned or controlled by women (relative to men) leads to increased spending on food and children's health and education.

However, one should be cautious about generalizing this to mean that the transfer should always be given to the woman. Although evidence shows that women experience increased empowerment and decision-making status in the household when they receive transfers (Subbarao et.al., Adato et.al. 2000), there are studies to suggest that men and women might hold different preferences for boys and girls (World Bank 2001). These studies also suggest that these preferences are tied to gender roles, social norms, vulnerability. Thus, in some societies mothers may favor boys over girls because sons will ensure access to assets and networks that will promote their security in old age. In other societies, fathers may favor girls over boys because daughters are seen to be more caring for their parents in old age.

Related to the issue of who to give the transfer to is the determination of the objective of the transfer—i.e. if it is to raise household income above the poverty level, it may not matter who receives the transfer. However, empirical evidence so far suggests that targeting women leads to increased expenditure on children, food, clothing and commodities which ultimately lead to improved capabilities of children. If this is the objective of a transfer or social protection program—regardless of whether say boys may gain more relative to girls—then the evidence suggests that there may be a higher payoff for a given benefit level to target women. This is an issue that needs to be explored in a given country context. It is however important to keep in mind that attempts to redistribute bargaining power within the household might be met by stiff resistance. In some instances, males might attempt to appropriate the transfer from the female using threats of violence.

1.1.3 Incentive effects differ for men and women. Men and women face different time constraints arising from their gender roles. As a result, transfers or social protection programs will have differing labor incentive effects and this implies differing transaction costs between men and women. Thus, it is important to determine to what extent the transfer will lead to re-allocation of time between various activities, for men and women, and from which activities. It is also important to determine whether the program may lead to exacerbation of time burden of women relative to men.

As we have highlighted, some studies suggest that household participation in certain safety net programs have resulted in a decline in female (market) labor force participation. When females in households participating in a safety net program opt out of the labor market or reduce time spent in market activities, there is a reduction in her share of household income – there may or may not be a drop in total household income (depends upon several factors such as loss in labor income and magnitude of the transfer). In addition, many studies find that girls' time within the household serve as a substitute for the mothers' time for home production activities. Thus, parents' labor time effects (due to a social protection intervention) can have implications for time allocation of children.

If females choose to devote more time to leisure and household work, it is difficult to come to a normative conclusion. We would need to further examine whether this change has brought about adverse effects on specific members of the household (e.g., did program participation bring about a reduction in child schooling expenditures? Were boys and girls equally affected ?); and whether bargaining power of women in household has been adversely effected? Also, even though greater consumption of leisure is rarely an objective pursued by policymakers in the developing world, given that leisure is a 'normal good', the utility of the household increases with increases in the voluntary consumption of leisure. Thus, even if a transfer program results in a negative labor supply response, the program might very well effectively raise household utility.

Given that mother's time away from home may imply greater time allocated by girls toward home production (potentially to the detriment of schooling), or that responsibilities at home may draw women from the labor market, studies have shown that programs to reduce childcare costs promote increased labor force participation and leisure for women. For example, Lokshin 2000 finds that in Russia, subsidies to reduce the costs of market based child care are more effective in increasing labor force participation and hours worked of mothers than increases in wages. Similarly Lokshin, Glinskaya, and Garcia 2000 find that in Kenya, higher costs of childcare reduce the labor force participation of mothers. In addition, higher costs of childcare significantly decrease girls' probability of being at school while having no effect on boys' schooling. These studies point to the potential of subsidized childcare in increasing female employment and income.

1.1.4 Issues pertinent to contribution based programs. Table 6 shows the differences in earning potential between men and women (as defined by their gender roles), which can occur as a result of structural rigidities in the labor market and differences in earnings potential between men and women. Thus, gender analysis of these kinds of programs needs to examine the pattern of labor force participation for men and women–i.e. are there gender based sources of rigidities, or discrimination?—and the implications for the levels of benefits they may receive. Once rigidities have been identified, it is important to build these into the design of social protection programs to ensure equal access for men and women.

Finally, it is important to note that social norms will have strong influence on whether women have access to program (i.e. in public works, for some societies certain kinds of work is not seen as socially acceptable for women). Furthermore, gender analysis of social protection programs is most important for the poorest households because women in these households are most vulnerable and differences in gender effects are most profound.

TN 1.2 Institutional delivery mechanisms

Institutional mechanisms are key to effective public action in support of social protection. One of the main lessons of experience is that even well designed programs and policies will be ineffective if the institutional structure to support them is inadequate. Adequate institutions require not only adequate budget and personnel (though these are hard enough to achieve in most countries), but incentives to the different actors that are congruent with desired program outcomes. Incentives depend upon program structure. There is no optimal structure, but a variety of options with attendant pros and cons.

In general, programs may be delivered through public provision and production of services; public provision with private production; or private (possibly with some public participation) provision and production of services. In this context, provision encompasses the design and organization of a service, including its financing or purchasing. Production involves the creation of a service such as building a road or administering a health or nutrition program.

Under *public provision and production of services,* the government is the main (or sole) service provider and there is a choice about how centralized or decentralized provisions will be. In a centralized system, the central government often takes charge of both provision and production of services. In a decentralized system decision-making (and at times financing) powers are left to local government (see Campbell, Petersen, and Bazark 1991). There are two types of decentralization of service delivery: principal-agent, and local fiscal choice.

- In the *principal-agent approach,* the central government retains a large measure of control over the program design, but most transactions are implemented by local governments acting as agents of the central government. This approach enables the central government to concentrate on the promotion of policies and policy design, and allows uniform standards to be set. It may, however, also limit agents' ability to adapt programs to local conditions. In India's Integrated Child Development Services program, for example, the central government's control of program design results in the provision of a common package of services throughout the country. State governments implement the program, acting as agents of the central government. The result is that limited involvement of communities has been cited as a factor that contributes to the low impact of the program on health outcomes of preschoolers. One advantage of the principal-agent approach is that government is better able to ensure, subject to political constraints, that funds are distributed across the country according to poverty requirements. This is not so easily accomplished under the local fiscal choice approach.
- In the *local fiscal choice* approach, the central government gives local governments, community-based organizations, or even citizens significant decision-making powers, including powers to determine the pattern of spending. This approach allows for some degree of power sharing among different levels of government or between the government and local citizens.

In the *private delivery model,* one or more private entities take on provision and production, sometimes alongside the government. A range of private service deliverers, such as private companies, private contractors, NGOs, and community organizations, can be involved. Because social protection programs rarely recover the full program cost from beneficiaries, social protection programs are rarely fully financed by the private sector. Yet the government can buy the services of the private deliverer, an especially useful approach when the private deliverer has a comparative advantage in either managing or producing the service.

The private delivery model may incorporate any one of the following institutional arrangements:

- *Government provider, private producer*. In this instance the government is the provider, but the private entity produces the service.
- *Private provider and producer*. An example of this approach might be a community-based organization that designs, organizes, and administers a program.
- *Public-private collaboration on provision and/or production*. In this case the government and community groups or the private sector are involved in designing and organizing the services, which are often produced collaboratively.

Experience in many countries shows that in the past, delivery mechanisms of public provision and production led to a top-down approach that compromised the sustainability of projects and programs. The desire for improved efficiency, equity, and sustainability have led toward the private delivery model, as illustrated by the increasing trend of program delivery through social funds in poorer countries. More recently, greater emphasis is being placed on the role of informal institutions, since the poor are concentrated in the informal sector.

In most poor countries, one key issue is devising ways to link government intervention to local formal and informal indigenous institutions. It is increasingly accepted that local communities and voluntary organizations can play a crucial role in the delivery of programs. Table 7 highlights aspects of program delivery where this "third sector" has a comparative advantage.

Table 7: Public/Private Model Versus Local Communities and Organizations—the Third Sector

Task	Public Sector	Private Sector	Third Sector
Best suited to public sector			
Policy management	E	I	D
Regulation	E	I	D
Enforcement of equity	E	I	E
Prevention of discrimination	E	D	D
Prevention of exploitation	E	I	E
Promotion of social cohesion	E	I	E
Best suited to private sector			
Economic tasks	I	E	D
Investment tasks	I	E	D
Profit generation	I	E	I
Promotion of self-sufficiency	I	E	D
Best suited to third sector			
Social tasks	D	I	E
Tasks that require volunteer labor	D	I	E
Tasks that generate little profit	D	I	E
Promotion of individual responsibility	I	D	E
Promotion of community	D	I	E
Promotion of commitment to welfare of others	D	I	E

Note: E=effective, I=ineffective, D=depends on context. Third sector refers to local community and voluntary organizations. *Source:* Osborne and Gaebler 1992 as cited in Dia 1996, Table 4-1.

Both public and private models have advantages and disadvantages. However, there are cases when one model has a clear advantage over the other. These cases are as follows:

- In cases where the policy instrument for targeting (such as the wage rate) can be controlled and enforced by the state (or central agency), it is easier to achieve outcomes with public than with private delivery.
- In programs where the overwhelming need is to reduce the transaction costs for the poor, the private delivery model seems to have an advantage over publicly administered programs.
- Whenever there is a need to ensure that there is a distribution of resources by region according to overall poverty requirements within the country, the public model appears to have the advantage. However, the geographic distribution of resources tends to be ill targeted in demand-driven programs, regardless of whether they are privately or publicly delivered. The higher absorptive capacity of the less poor regions may be one of the reasons for poor targeting under this delivery arrangement

Source: In its current form, this section draws heavily on Subbarao et al. 1997.

TN 1.3 Political economy

Political economy issues are important with respect to at least three aspects of social protection programs: their size and objectives, details of design, and the possibilities for reforming individual programs or systems.

First is the issue of how narrowly to target individual programs or the scope of the program mix. To the extent that budgetary support (at least over time) depends on voters' support, and that they support programs of which they are direct beneficiaries, broadly targeted programs would seem to have more support and more sustainability than narrow ones (Gelbach and Pritchett 1995). But voters may support programs, even narrowly targeted ones, for reasons other than personally receiving a benefit today. They may fear that they or those they care about would need the program in the future. And, of course, support for programs can come from power groups that are not recipients but suppliers. All these possible sources of support need to be considered in determining whether a particular program is politically viable.

A second question is whether programs should serve the "old" poor or the "new" poor during policy reform or economic crisis. The decision has implications for program design since the type of program that would benefit the new poor is likely to be different from programs that would benefit the old poor who are faced with structural poverty problems. In addition, the new poor are likely to have more political weight than the old poor (Subbarao et.al. 1997).

Once the scope of a program and its basic target group have been established, other aspects of its design may be affected by issues of political economy. For public works programs, the menu of projects, the standards to which they are built, or the degree of seasonality in hiring may reflect compromises between the interests of the non-poor who may benefit from the works and the technocratic attempts to achieve self-targeting in the applications of the works themselves. Choices about targeting mechanisms and how they are implemented have political repercussions (see targeting discussion in Technical note 1.3). Or agricultural or trade lobbies may influence whether benefits are delivered in cash or in food.

Finally (and obviously), once any set of programs is in place, reforming one or more programs will create winners and losers. Identifying interest groups, particularly those likely to lose out, and ensuring that they are adequately compensated will enhance program viability and sustainability. In the reform of pay-as-you-go pension programs, the issues are often intergenerational. Also, their size may be disguised by fiscal accounting that allows a hidden debt to build up rather than accounting that requires explicit borrowing, which politicians find less palatable.

Adequately addressing issues of political economy in designing or reforming social protection programs is made more difficult because government cannot be assumed to be a unitary actor. Competing views and political interests within government and across agencies may lead to the delivery of programs that favor some groups over others.

Specific types of programs have their own issues of political economy. For example, targeting *food programs* is a tricky issue. Political pressure to expand the coverage of food subsidy programs in many countries has resulted in increased expenditures at the expense of spending on investments for growth. The result is fiscal drain, which necessitates scaling down of food subsidy programs (as in India, Bangladesh, Morocco, Tunisia, Sri Lanka, Pakistan, and Egypt). However, scaling back programs has led to urban riots in some of these countries, notably Morocco, Egypt, Tunisia, and Zambia. Another issue in the political economy of food programs is the phenomenon of rent-seeking, which is closely tied to the form in which programs are implemented—that is, through price subsidies or through ration shops. The rent-seeking behavior of implementing agents (such as ration shop dealers and politicians) allows these groups to capture much of the benefits of the subsidies in India (Moojj 1999, Radhakrishna and Subbarao 1997) and Bangladesh (Adams 1998). However, implementing self-targeting measures can greatly reduce the leakage that occurs as a result of rent-seeking behavior.

Public works programs are highly visible and must be implemented locally, making them especially susceptible to political influence. Political pressure can affect the wage rate offered by such programs, the choice and location of the project, and the program's size. Three interest groups are usually involved in public works design and execution: the politicians and bureaucrats who influence the size and design of the program; the poor who benefit from the program; and politically important groups that may or may not benefit from the program (private contractors, large farmers). The conflicts of interest that often arise affect the program's design and sustainability. Interest-group conflict may result in inefficient allocations of resources. For example, while labor-based methods of infrastructure works have been shown to be highly cost-effective and have created employment opportunities in Rwanda, Ghana, and Botswana, governments often resist them. Labor groups are often unorganized and politically weak in those countries, so they cannot influence program design. Further, private contractors usually hired for such projects pay extremely low wages and substitute labor for capital when low wages are resisted. Finally, interagency politics and competition for resources may result in institutional support for inefficient programs that do not provide the maximum benefit for the target group.

Wage subsidy programs have been used for the long-term unemployed, those from severely disadvantaged areas (such as areas with high unemployment), and youth. They aim to reduce social exclusion by helping their participants regain contact with the job market. The subsidy is typically a payment to firms as a proportion of the wage in order to induce them to hire program participants, but the level and duration of these subsidies vary significantly between programs and countries. However, it is sometimes alleged that these programs are instituted by the government to assist specific interest groups, such as powerful employers or employer groups, by making it possible for them to hire workers at a large subsidy and, in effect, abuse the program by using it as a permanent subsidy program.

Social funds are demand-driven programs. There has been the concern that the poorest people may not be not able to organize themselves, articulate their demands, and benefit from social funds as well as the less poor. In response to these difficulties, program designers have tried to use a demand-management approach, targeting support for project preparation to poor areas and, sometimes, capping resources from wealthier areas. Recent evidence suggests that that this has been effective in ensuring that the poor have effective access (Rawlings, Sherburne-Benz and van Domelen 2001).

Examples of political influence on the design and effectiveness of social funds include Peru’s FONCODES Social Fund, the Emergency Social Fund in Bolivia, and Senegal’s AGETIPs. Peru’s FONCODES Social Fund was established as an autonomous body to deliver social services and provide assets and credit to communities. The majority of FONCODES projects are demand-driven and targeted to poor communities, and data show that the assets created by FONCODES reach a larger proportion of households, particularly poor households, than other government programs. Much of this success is attributed to the program’s autonomous structure, which protects it from the inefficiencies of government bureaucracy. Nevertheless, empirical evidence shows that expenditure allocation to FONCODES has been highest during election years and that those regions with the largest proportion of votes for the president received a relatively larger allocation of funds (Schady 1999).

Another area with specific issues of political economy is *pension reform.* Political forces during the early transition of the economy led to a burst of early retirement and disability in much of Eastern Europe. These changes hastened the financial deterioration of the mature pay-as-you-go (PAYG) pension schemes of countries like Hungary and Poland and forced the governments to look at alternatives. The short-term crisis led to a debate that in turn raised public consciousness about how the system is financed and the long-term challenge of an aging population. With resistant entrenched pension fund bureaucracies and skeptical unions, the governments waged public information campaigns to explain the proposed partial privatization of each system and the need for reductions in future benefit levels to balance the system.

Box 7: Some Lessons Learned in the Political Economy of Safety Nets

- Safety nets may reduce some of the structural constraints contributing to long-term poverty, which creates new bases of economic growth and political support for the government (Graham 1994).
- A fundamental political aspect of safety net design and targeting is the choice of whether to help the poor and ultra-poor or the more vocal and politically powerful groups. Usually the poor are not the most vocal, and few governments have incentives to help the very poor, who are usually politically weak (Salmen 1990). This reduces the government's interest in supporting the poor, if the government perceives its safety net programs as a way to rally political support for reforms. Favoring the more vocal instead of the more needy groups is often more politically feasible but more costly and inefficient. Finally, reaching the poorest segments of the poor may be the more costly, further reducing the government's incentives for targeting the ultra-poor.
- Political pressure to deal with poverty immediately can result in expedient yet ill-planned policies (Subbarao et.al. 1997).
- Market reform changes the relative strength of political coalitions and presents the government with a unique opportunity to redirect public resources to the most needy (Graham 1994). Most successful adjustment programs have incorporated some form of safety net, usually targeted at a specific group (Haggard and Webb 1994). Both the timing and pace of economic reform affect the probability that resources will be redirected to the very poor. That probability is higher when reform is implemented immediately after an election and when the reform is fast and dramatic.
- Open (democratic) political systems are usually better at implementing programs for the poor. Authoritarian regimes have to rely on the rulers' own preferences and not on public opinion pressure to support programs for marginal groups. An open political system provides more opportunities for building coalitions to support new resource allocations (Graham 1994). However, there is no empirically tested relationship between democracy and helping the poor.
- Institutional political autonomy can affect the effectiveness and targeting of social assistance programs. Autonomy can increase speed, effectiveness, and evaluation, but it also increases the risks of sudden reduction in budgets that are controlled by government. Institutional autonomy is more of a concern for longer-term projects rather than for short-term emergency or other transitional programs (Subbarao 1997).
- NGO and international organizations' financing of safety nets can increase the potential of targeting the poor, since these organizations are not subject to the domestic political constraints of governments. However, foreign financing of safety nets without a political commitment from the government to sustain the programs, is likely to fail. (Graham 1994).

TN 1.4 Targeting

Targeting will be an issue wherever a subsidy is provided to one group and financed by others. It applies with most force to safety nets, which are usually straight transfers of one sort or another, and the detailed treatment provided here is most pertinent to that range of social protection interventions. For social insurance interventions (pensions, unemployment insurance) it applies to the extent that benefits deviate from contributions. Thus if a worker's pension depends only on the contribution made during the worker's lifetime, targeting would not be an issue per se. But most social insurance programs include elements of cross-subsidy in their design, and targeting will apply to some extent. Unemployment support programs for example, may include a means test in addition to rules about job loss, raising problems analogous to those of other programs.

At first blush, it would seem that restricting transfers to the poor—as measured by their consumption or income—would have the largest impact on poverty. There are, however, tradeoffs involved. First, targeting is a tool whose benefit is the increased efficiency of expenditure. Its use, however, has costs that must be balanced against the benefits in deciding how finely to target and what instrument to use. The most obvious costs are the administrative costs associated with monitoring household incomes in countries where the informal sector is predominant. Targeting criteria may also alter incentives and change household behaviors in ways that may entail costs of their own. For example, if program benefit levels are based on income, there will be a disincentive to work. And targeting programs to only a small group of beneficiaries may limit their political support and thus their budget. A second targeting tradeoff is that no practical mechanism is perfect. Some non-needy will always get benefits (called errors of inclusion) and some needy will be left out (errors of exclusion). In general, actions to lower one kind of error will raise the other. Because fine income-based targeting faces these tradeoffs, the idea of using other, more observable characteristics as targeting tools is appealing. We review some of the major options. Targeting in a crisis is likely to be even harder than targeting is normally because the correlates of poverty can change quite rapidly.

Categorical targeting approaches are based on individual or family characteristics that are correlated with poverty but that are also readily observable; age and disability are frequent categories. In general, categorical targeting is the least precise. It can be administratively quite simple (when based on age, for instance) or require somewhat more elaborate procedures (for example, to verify a disability or that a worker has been fired and is actively searching for work). Categorical targeting is usually politically acceptable so long as the categories are those that might pertain to anyone (age, disability, unemployment). Targeting by ethnic group could in many countries be relatively precise, but its political feasibility varies greatly. Scheduled castes in India, the Malay in Malaysia, and Natives in Canada have been explicit target groups, whereas targeting the Romany in Eastern Europe or specific ethnic groups in African countries has not usually been seen as politically feasible.

Geographic targeting is based on the fact that the poor are often concentrated in some areas. Many of the lessons from geographic targeting come from social funds (especially in Bolivia, Honduras, and Peru) and from transfer programs linked to schools or clinics in poor areas. Geographic targeting is, by definition, somewhat imperfect; there will always be some pockets of poverty in wealthier areas and some well-off households in generally poor areas. In general, the smaller the geographic unit used, the more accurate the targeting. The availability of data for small geographic units and the practicalities of running programs will, however, limit how small the unit used can be. There may be tradeoffs between economic efficiency and political viability. Consider, for example, a case where a country is divided into provinces and provinces into districts. The most accurate targeting would involve choosing the poorest, say, 100 districts. In many countries, however, such a selection would exclude whole provinces, and their representatives in the legislature would then not be very supportive of the program. If the program were to select the poorest 20 percent of districts within each province, the legislative support base would be stronger, but the targeting efficiency lower.

Proxy means tests are an increasingly popular approach originated in Chile and now used in Colombia, Mexico, some local Brazilian programs, and Armenia and being piloted or designed in Russia, the Kyrgyz Republic, Zimbabwe, and Ecuador. These means tests are based on the collection of multiple indicators at the household level that are more easily observed than income but correlated with it. They are used to construct a score that determines whether the family should receive support. The following points have emerged from recent experience: Detailed analysis of data from household surveys on poverty and its correlates is needed to underpin the indicators used and their weights in proxy means tests. The formula will usually include characteristics such as the size and composition of the household, the quality of its housing, ownership of consumer durable goods, and education and perhaps occupation of household members. How many indicators to use in the formula will be related to the institutional capacity of the relevant government agencies? In general using more indicators will give better predictions and targeting, but it raises administrative costs somewhat. The bigger influence on cost is whether the indicators are easy to verify or ones that the interviewer can reasonably take on faith. Proxy scoring systems help identify the non-poor and avoid errors of inclusion. Ensuring that the poor are included requires that programs have extensive outreach in areas where the poor are likely to live to be sure that they get registered.

In *community-based targeting,* some local authority or committee is empowered to make decisions about who should receive program benefits. Sometimes an existing structure is used; for example, the justice of the peace or a minister may nominate candidates for food stamps in Jamaica. In other cases new structures are formed; in Indonesia, new committees of officials and parents were formed to decide which children should get scholarships to help prevent dropout. Sometimes these structures receive central guidelines, while in other cases the criteria are developed locally (see Conning and Kevane 1999). There is little evidence available on how well such programs work. There are hypotheses that local information is likely to be much more accurate and complete than information reported in a ministry office or to a social worker who visits the village or neighborhood only rarely. Similarly, there are hypotheses about drawbacks that may affect community-based targeting systems. They may overburden the capacity of those charged with the new task. They may generate conflict over control of the resources. Or they may be captured by local elites, perpetuate patterns of discrimination, or reinforce existing differences.

Self-targeting means that a subsidized good or service is available to all but designed in such a way that only the poor will choose to use it. Hard physical labor paying low wages will not interest the non-poor, and they will self-select out of the program. Similarly, broken rice will be bought by the poor but not the non-poor. The accuracy of self-targeting depends a great deal on the details of the scheme. In general the larger the benefit, the less accurate it will be. Self-targeting is often achieved by imposing a cost to participation—formally through a work requirement, informally by having long queues for service, or through stigma. These costs will lower the participant's net benefit from the program and must be considered in understanding how cost-effective the program is. Self-targeting is appealing in that it provides a gradual exit criterion: once individuals or families are back on their feet after a crisis, they will opt out of self-targeted programs.

TN 2 Stylized Summary of Program Characteristics and Good Practices

This note is designed to summarize very briefly what is known about, and what is reasonable to expect from, a given program intervention. The brevity of the treatment of each program means that they can be absorbed by the generalist and high level of policymaker. To the extent feasible, we have included quantitative information on program features, to serve as benchmarks. Thus the analyst working through section 3 of the chapter will have a basis for judging whether a given program's targeting outcome, or administrative cost, etc. is as good as achieved elsewhere, or whether the program may be operating below its potential. Where feasible, we have also provided references to more comprehensive overviews of the intervention or and/or to specific country examples. These will help those interested in reforming or instituting programs of that type to learn more about the issues involved.

The standards refer to reasonably well-designed and implemented programs and do not cover the spectacular failures that are all too common due to some flaw of either design or implementation.

Fact sheets are provided on the following programs:

- Program 1: Public Works
- Program 2: Social Funds
- Program 3: Agricultural Input Programs
- Program 4: Energy Subsidies
- Program 5: General Food Price Subsidies
- Program 6: Housing Subsidies
- Program 7: Supplemental Feeding Programs
- Program 8: Food Stamps Programs
- Program 9: School Feeding Programs (SFPs)
- Program 10: Scholarships or Fee Waivers for Schooling
- Program 11: Unemployment Benefits (UB)
- Program 12: Severance Pay
- Program 13: Wage Subsidies
- Program 14: Job Search Assistance (JSA)
- Program 15: Training and Retraining Programs
- Program 16: Microenterprise Enterprise Development Assistance (MEDA)
- Program 17: Fee Waivering in Health
- Program 18: Health Insurance
- Program 19: Needs-Based Cash Transfers (Social Assistance)
- Program 20: Mandatory Contributory Schemes for Old Age, Death, and Disability.
- Program 21: Noncontributory Schemes for Old Age-age, Death, and Disability.
- Program 22: Disability Inclusion Programs
- Program 23: Family Allowances

Program 1: Public Works

International experience: Public works programs have been adopted by several developing countries in Asia, Africa, and Latin America. The largest programs are found in India and Bangladesh. Governments often turn to public works in crises due to macroeconomic or agroclimatic shocks in which a large number of poor become temporarily unemployed. Such programs were recently implemented in Korea, Indonesia, and Thailand, for example. Some aspects of public works in different countries are summarized in table 8.

Institutional structure: Programs are usually implemented by line ministries of the government, private contractors, non-governmental agencies, or a combination of these.

Typical benefit level: A market or below- market wage for unskilled labor, usually heavy physical labor. Wages can be paid in cash or in kind, usually in the form of food.

Typical coverage: Variable. The Maharashtra Employment Guarantee scheme in the 1980s, regarded as one of the most successful and relatively large public works schemes, covered only

18 percent of households in the bottom income decile, and these only for a few days or weeks of work a year. Nonetheless, in terms of person-days of employment created, India's programs are very large (employment in the nationwide program Jawahar Rojgar Yojuna reached a billion workdays by 1995). Chile's program in the 1980s covered up to 13 percent of the labor force. But perhaps more typical are programs that cover only a couple of percent of the workforce, providing three or six months of continuous employment. The large public works programs quickly implemented in Indonesia, Thailand, and Korea following the 1998 financial crisis created (or aimed at creating) over 225 million, 55 million, and 25 million workdays respectively, and helped limit the negative impact of the crisis on the poor. Programs therefore are usually not meant to function as a permanent escape route from poverty but to provide a means to smooth the consumption of poor households during short periods of unusual hardship.

Range of administrative costs: On a portfolio of projects with reasonable economic benefits, the combined administrative costs, equipment, materials, and skilled labor typically run 40-60 percent of the total cost, leaving a share of cost devoted to wages for the unskilled of around 60-40 percent. Workers often have to forego some income to participate and face transportation costs, so the net benefit is even lower. Thus these programs can only be considered cost-effective only if, in addition to serving as a self-targeting mechanism for distributing cash, they provide substantial benefits through the assets created.

Usual targeting mechanisms: The main mechanism is self-targeting through the use of a low (preferably below- market) wage. The works themselves may be targeted to poor areas. In agricultural zones it is best to target them to the season of slack labor demand. To increase the number of beneficiaries, some programs also cap the number of days or weeks any individual can participate in the program.

Range of targeting outcomes: If the wage is set low enough, errors of inclusion can be quite low; (when the wage is set too high, public works programs can attract workers from outside the labor force or from reasonably well paid jobs). Programs can also be targeted to poor areas to help achieve better targeting, especially if there is rationing of jobs. Typical programs tend to reach only men unless specifically designed to include women (because of the type of work involved, the distance to people's homes, or restrictions imposed so as to limit the number of applicants).

Unintended effects: The program maintains the incentive to work, but may result in switching from less steady or less well -paid work to the public works project. There are thus issues of foregone earnings, which can be as high as half or more of the gross earnings on the job.

Political economy: Usually good, as it maintains workforce participation and, possibly, aids social cohesion. External benefits to non-poor from the assets created can also increase public support.

Best suited to these groups: Families with excess labor, especially in slack seasons for agriculture or those in the urban informal economy. Definitely not appropriate for the elderly or children. Can incur very high opportunity cost for the working poor in formal sector jobs. Single-parent, female-headed households or others with tighter than average time constraints may find it difficult to access the program. Explicit design features need to be incorporated to increase the participation of women, as most of the jobs traditionally involve construction skills more typically held by men. For instance, a program can pay attention to issues such as childcare or distance from home, or it can specifically fund projects designed by women's community groups. (See also the **gender chapter**.)

Additional Sources: Ravallion 1998; Subbarao 2001; Subbarao 1997; Subbarao et al. 1997; Ravallion and Datt 1995; Ravallion, Datt and Chaudhuri 1993; Jalan and Ravallion 1998; Subbarao 1999; Horton and Mazumdar 1999; Ravallion 1990; Subbarao, Ahmed and Teklu 1996.

Table 8: Public Works: Scale of Operations, Costs, and Benefits for Selected Countries

Country	Program type	Year	Source of financing	Person days per year (in million)	Total cost per person day of employment	Ratio of wage to total cost	Mean consumption per month per person (US$)	Program Wage/Remarks
Bangladesh	Food for work	1982/83	90% external	400	1.1-1.5	0.4	1985 52.70	Program wage was less than the prevailing agricultural wage.
	Food for work	1991/92	90% external	15	1.6	0.5		
	Cash for work	1991/92				0.6	1990 46.85	Program wage was less than the prevailing agricultural wage.
India	Cash for work (National, JRY)	1991/92	Entirely domestic	830-850	1.3	0.5 - 0.6	1990 28.40	Program wage was equal to the statutory minimum wage.
	Cash for work (Maharashtra Employment Guarantee Scheme)	1991-92	Entirely domestic, via a special employment tax	100-180	1.2	0.51		Program wage was less than both the market and minimum wage until 1987; program was raised to the minimum wage thereafter. Female participation was high.
Pakistan	IGPRA I-III Cash for work	1984-95	Largely external	23	2.7	0.51	1985 61.40	Program wage was lower than the prevailing (local) market wage for unskilled labor.
	IGPRA I Cash for work	1984-87	Largely external	5.9	2.5	0.34		
	IGPRA II Cash for work	1984-87	Largely external	11.97	3.7	0.59		
	IGPRA III Cash for work	1992	Largely external	5.15	2.8	0.6		
Philippines	Food for work	1986-87	External (World Food Program)	-	-	-	1988 61.0	Total (food+cost) wage rate was higher than the market wage; program poorly targeted.
	Cash for work	1990	ILO/IBRD	300,000	3.2	0.5		Program wage was about 25% higher than agriculture market wage; poorly targeted.

Source: Subbarao et al. 1997

Program 2: Social Funds

International experience: Social Funds started in the late 1980s and there are now variants in more than 50 countries, in all regions of the world. The mechanism has proven quite simple to set up and operate across all kinds of country circumstances. Some aspects of social funds' performance and impact are thoroughly described and documented. Other aspects, such as spillover effects on social capital and local capacity building, are less well understood.

Institutional structure: Unlike the other programs listed in this annex, these are a delivery mechanism more than a kind of intervention. The Social Fund is usually an autonomous agency. It provides a pool of funds to which various groups—community groups, municipalities, NGOs, individual clinics or schools, etc. apply for funding to the benefit of targeted groups (poor communities, disadvantaged and/or excluded groups). Historically, most funding goes to the construction, rehabilitation, or maintenance of small- scale infrastructure, although there are some examples of social funds more heavily focused on supporting small and micro-enterprise, youth training, community capacity building, and delivery of community-based social services. The Social Fund's responsibility usually centers on the selection and financing of projects. Implementation is handled either by the agency that made the proposal, directly by beneficiaries in the form of local project committees, or by a private contractor.

Typical benefit level: Depends on the resources available. Social funds can have the ability to attract incremental external resources targeted to poor and vulnerable groups and communities. Nonetheless, the overall level of resource transfers is generally in the range of 0.1 percent to 1.0 percent of GDP annually. At the micro-level, community projects typically range from $5,000 to $100,000. Estimates of cost per beneficiary vary widely depending on the type of community intervention. For example, health interventions typically range from US$10 to $100 per beneficiary; education infrastructure from US$100 to $400, although wide differences exist between countries. Temporary employment benefits during infrastructure execution are typically priced at prevailing market wages.

Typical coverage: Coverage rates are difficult to determine. Social Funds usually reach a large share of poor communities within a few years of operation. Over time, cumulative beneficiary figures reported by social funds may even surpass national population figures because one community (or individual) may benefit from several interventions, each of which counts them as a beneficiary. Participation rates calculated from household surveys are unreliable because households may not self-identify as participants since Social Funds do not execute programs directly, but through intermediaries. Coverage rates in terms of temporary employment generated through infrastructure investments were found to be typically below 1 percent of the labor force in the case of Latin America.

Range of administrative costs: 3–15 percent

Usual targeting mechanisms: At the macro level, investments are usually targeted using poverty-adjusted geographic criteria to create a transparent and objective mechanism for allocating resources between communities and regions. Without this, political patronage and capture of program benefits by the better-off and more technically capable regions is a risk. To ensure that poor communities and the poor within better-off areas have access to the program, Social Funds have invented a broad range of solutions for reaching remote areas and marginal or excluded groups, including conducting information and education campaigns (often in indigenous languages), setting up regional offices to reduce transaction costs of applying for funding, limiting the menu of interventions to public goods more likely to be used by the poor (for example, e.g. primary health care and education), and financing communities' access to technical assistance to be able to prepare project proposals. Owing to these strategies, Social Funds' geographic targeting has consistently improved over time.

Range of targeting outcomes: Usually progressive. Employment benefits tend to be less well targeted than employment schemes that use below-market wages. However, evidence from Peru shows that 57 percent of FONCODES workers were poor and 36 percent extremely poor. In Bolivia, about 70 percent of workers were in the lowest half of welfare distribution. Data on household incidence of investment benefits are difficult to obtain since projects deliver community-level benefits; however, in those cases where data are available, evidence is positive. In Honduras, 40 percent of FHIS resources go to the lowest two deciles of household income distribution. In Peru, 52 percent of FONCODES education investments benefit households in the lowest 40 percent of the income distribution; 40 percent of non education-related resources reach the lowest quintile. In Argentina, over 80 percent of beneficiary households rated "poor" using basic needs indexes. Leakage most generally occurs in cases of income heterogeneity within communities (when better-off households cannot be excluded from community-wide benefits), for in cases of certain types of investment (sewerage and small enterprise investments are often less able to reach the poorest), and in the ability of more capable communities (usually not the poorest and most remote) to successfully organize and submit proposals.

Political economy: Usually quite good since the funds reinforce local initiatives and spread benefits among many agencies. Incentives to use the availability of discretionary funds (as opposed to entitlement programs) for political objectives needs to be tempered by the establishment of objective resource allocation criteria and transparent reporting of fund activities.

Best suited to these groups: Abetting community- level development efforts, especially those centered on small-scale interventions rather than long-range program support. Appropriate to consider when existing supply-driven programs do not reach many poor communities and vulnerable groups, when a social protection strategy includes building longer-term capacity at the community level, in crisis situations (such as emergency and post-conflict reconstruction efforts), or as a vehicle for testing innovations in program design and operating procedures (such as community-based service delivery, interventions for certain groups like indigenous groups, street children, disabled). Unless specific measures are implemented to ensure women's participation in the elaboration of projects and the project decision, women tend not to be involved in decision making processes.

Additional sources: Rawlings, Sherburne-Benz and van Domelen 2001; Bigio 1998; Frigenti and Harth 1998; Goodman et al., Morely, Siri and Zuckerman 1997.

Program 3: Agricultural Input Programs

International experience: The objective is usually to increase agricultural production (and incomes) rather than to provide income transfers directly. Input coupons have been used in some Eastern European countries to compensate farmers for loss of other subsidies and to promote private input markets (Romania). Direct distribution of agricultural inputs is found in some African countries (Malawi, Zimbabwe, Ethiopia).

Institutional structure: Programs can be operated by the ministry of agriculture in collaboration with local governments (for the identification of beneficiaries), the private sector (supplies, banks, transport), and other agencies (for the distribution and redemption of the coupons).

Typical benefit level: Vouchers for farmers to buy agricultural inputs amounting to about 30 percent of expenses of farmers on the specified inputs (Romania). Starter packs containing fertilizer and seeds are sometimes distributed (Malawi, Zimbabwe).

Typical coverage: Varies. Typically, all households with land holdings of a certain size.

Range of administrative costs: Input coupons are fairly similar to food stamp programs, sharing in particular their logistical aspects. Costs are higher for input distribution programs than for coupons programs, because transporting, storing, and distributing inputs in bulk is much more expensive than moving coupons around, even taking into account the need to set up an administrative mechanism for retailers to reclaim cash from the government in exchange for the coupons they accept.

Usual targeting mechanisms: Not usually targeted. Can be regionally targeted (for example, in Zimbabwe, where seeds and fertilizer are distributed to rural households in regions hit by droughts). There might be an element of self-targeting when the transfer is small.

Range of targeting outcomes: Incidence can be progressive if poverty incidence is higher among agricultural households. In addition, agricultural input programs have a "multiplier" effect in that the value of benefits produced is higher than the cost of the inputs (with the investment in land and labor by the beneficiaries). However, the program does not reach the landless poor or those who have land but are incapable of farming owing due to labor constraints or disability (for example, e.g. as a result of HIV/AIDS), who are often among the poorest. It is also sometimes found that better-off farmers are able to obtain greater incremental output than poorer ones (who may have less unused land or, land of lower quality, for example). Estimates in Malawi show that at least half of the transfers are made to households that would have bought the inputs without the program or for which whom the incremental income effect is negligible. Some programs are found to exclude groups like female-headed households or the poorest (Ethiopia).

Unintended effects: Transfers in the form of fertilizer or seeds might promote reliance on a limited number of crops (often different from the traditional local crops) and limit the diversification of production that is an important poverty alleviation strategy. They also create a dependency on fertilizer, which makes their withdrawal harder and might harm the environment. Uniform distribution of inputs in set quantities can be wasteful if farmers have different agricultural needs, depending on their landholdings, quality of soil, or agroecological areas (distribution of coupons can increase the flexibility of input choice). The distribution of animals and improved agricultural technologies does not always lead to improvement, since many animals are actually sold or killed because of immediate need for food and because some of the technologies are not compatible with local conditions (for example, some crossbred cows may give more milk but be more susceptible to disease or require more feed).

Political economy: Agricultural input programs can be very popular and hard to withdraw.

Best suited to these groups: Subsistence farmers.

Additional sources: Castaneda 1999; World Bank 1999a; World Bank 1995b; Webb, von Braun and Yohannes 1992;

Program 4: Energy Subsidies

International experience: Large universal energy subsidies were prevalent in the former Soviet Union and in Central and Eastern Europe until the end of the 1980s. Most have progressively been replaced by targeted subsidies. Gasoline and kerosene subsidies are frequent in the developing world.

Institutional structure: Typically provided by the energy providers and financed either by cross-subsidy (some users paying higher prices) or budget transfers. Some subsidies might be administered by other institutions, such as those delivering housing allowances or social assistance.

Typical benefit level: Energy subsidies can take various forms including: (1) no disconnection of delinquent customers; (2) universal household price subsidies; (3) life-line tariff (universal price subsidy provided only for the initial block of consumption); (4) price discounts for selected households (either the poor or some other group); (5) compensation for the share of the bills that exceeds a certain percentage of income; (6) transfers for poor households (sometimes earmarked to pay part of the bill). The choice of a form should depend on the number of poor using the energy source and on the existing infrastructure (distribution points for gasoline or kerosene, meters or alternative measure of actual consumption, for instance).

Typical coverage: Varies with the type of subsidy and the percentage of poor using the energy source. In particular, coverage is likely to be lower for the poor if they do not have access to the energy source or if they traditionally consume other fuels (firewood, charcoal).

Range of administrative costs: Options 5 and 6 and to a lesser extent options 3 and 4 tend to have complicated administration, while options 1 and 2 have lower administrative requirements but high overall cost. There might also be large set-up costs for specific options that require meters or an elaborate billing system or a mechanism to identify poor households (unless the identification is realized in the context of other programs such as social assistance or housing subsidies). Universal subsidies tend to have high overall cost.

Usual targeting mechanisms: See paragraph on typical benefit level.

Range of targeting outcomes: Depends on the share of poor using the energy source and on the mode of subsidy selected. Option 6 and some forms of option 3 can be potentially well targeted depending on the capacity of the program to identify the poor; options 4 and 5 usually reach a lower standard of targeting, while options 1, 2, and some forms of 3 are universal. Targeting tends to be poor when the poor have low use of the subsidized energy—particularly the case of poor households with respect to gasoline in most of Africa, Asia, and Latin America, and the case of rural households with lower access to most forms of subsidized energy. Energy subsidies often actually benefit the non-poor more than the poor and accentuate differences between rural and urban areas (for instance, in Ecuador, the poorest 35 percent of households only receive 17 percent of electricity subsidies and 23 percent of cooking gas subsidies).

Unintended effects: In addition to the general distortion created by subsidies, energy subsidies can actually lead to excessive energy use and fail to provide incentives to conserve energy.

Political economy: Energy subsidies can be relatively difficult to remove once established, since they tend to be captured by the urban middle -class.

Best suited for the program: Programs are not suitable for countries where the poor, and in particular the rural poor, do not have access to, or do not use, the subsidized non-traditional energy.

Additional sources: Subbarao et al. 1997; Lovei et al. Gurenko, Haney, O'Keefe and Shkaratan 2000.

Program 5: General Food Price Subsidies

International experience: General food price subsidies were once quite common throughout the world and are very well studied. Many such programs have been eliminated as part of liberalization and structural adjustment reforms, especially in Latin America and the former Soviet Union. General food price subsidies are probably most common in the Middle East and North Africa, although they are certainly present in Africa and South Asia as well. They often cover fewer commodities or at lower levels than in past decades. Food subsidies have also been used in the aftermath of financial crises to prevent declines in living standards (Indonesia).

Institutional structure: The agency responsible for food price subsidies may be a ministry of supply, a grain marketing agency, a state trading (import) monopoly, or some other specialized agency.

Typical benefit level: 1–20 percent of the cost of basic staple foods.

Typical coverage: All purchases of the covered foods. Depending on the commodity, this can be nearly universal, for example, e.g. for cooking oil or sugar. For commodities that can be produced at home (for example, tortillas or cornmeal), the poorest and the most remotely located may not take advantage of the subsidies. Some countries use ration cards to limit the quantity of subsidized food for each household.

Range of administrative costs: Usually quite low in the case of universal subsidies, though not thoroughly quantified.

Usual targeting mechanisms: The commodities chosen should account for a larger share in the food basket of the poor than of the rich. Geographic targeting to poor areas is possible when the subsidized food is distributed through state outlets when the placement of such outlets is denser in poorer neighborhoods (this is, however, limited to commodities which are sold through that channel and does not apply to those sold through the private commercial distribution chain). Alternatively, self-targeting can be achieved by applying differential subsidies to different qualities of the good (concentrating on the types of goods the poor are more likely to consume) and/or by differentiating products—for example through special packaging.

Range of targeting outcomes: In most countries and for most commodities, the rich buy more than the poor, so that even with well- chosen commodities, the absolute benefit for the rich is greater than for the poor. In a few cases, commodities that are consumed more by the poor in absolute terms can be used for targeting. As a result, general subsidies are fairly expensive and fiscally difficult to sustain, and they have been or are being replaced by targeted programs in a number of countries (such as Bangladesh, Honduras, Jamaica, Mexico, or India).

Unintended effects: Price subsidies are often financed indirectly through multiple exchange rates, or through restrictions on imports, or through regulation of local prices, all of which can have significant impacts on incentives, trade, and production and are thus usually not recommended. Price subsidies may favor urban populations since rural households typically produce a higher share of their food. Generous subsidies have also been found to provide disincentive to work in some countries. Similarly, they can have adverse effects on agricultural production.

Political economy: Once established, food price subsidies can be quite difficult to reduce or eliminate, as each change in prices can be a flashpoint around which protests can be established.

Best suited to these groups: the urban, working poor.

Additional sources: Alderman 2001; Alderman 1992; World Bank 1995; World Bank 1999a; Horton 1993; Mateus 1983; Adams 1998; Radhakrishna and Subbarao 1997; Ali and Adams 1996.

Program 6: Housing Subsidies

International experience: Direct subsidies (on-budget) can take the form of grants for public housing construction, free maintenance of public housing stock, provision of housing-related infrastructure services below costs; upgrading slums and squatter settlements, or housing allowances or vouchers paid to consumers. Indirect (off-budget) subsidies include provision of free public land for housing, provision of titles or tenure regularization to squatters on public land, sale of public rental units to occupants at discount rates, provision of loans with negative interest rates or forgiveness for mortgages, and price and rent controls.

Traditionally widespread and large, supply side housing subsidies in the former Soviet Union and Eastern Europe accounted for up to 25 to 35 percent of government expenditures. Credit subsidies (for those building or buying housing) were frequent in Latin America, although they are being dismantled in some cases. Rent control is still prevalent in some Western European countries, e.g the Netherlands, Sweden and Norway.

Institutional structure: Central housing development agencies or ministries, employers and local authorities (former Soviet Union and Eastern Europe); in extending subsidized housing loans, public or quasi-public housing finance institutions.

Typical benefit level and coverage: In transition countries, subsidies cover considerable percentages of population and almost all income groups. Subsidies in developing countries generally cover lower-middle income and middle income groups (e.g. between about the 30th and 50th percentiles).

Range of administrative costs: Not available.

Usual targeting mechanisms: Sometimes on the basis of household or individual characteristics (e.g. the elderly, large families, refugees, etc.) which may approximate need. Targeting can also be geographic (e.g. for slum upgrading projects).

Range of targeting outcomes: Experience has shown that housing subsidies often do not reach very low income groups. The percentage of housing allowances reaching households that fall below the median income ranges from 10% in South Asia, to 20% in Sub-Saharan Africa and Latin America, to 50% in some industrialized countries. In subsidized credits for instance, the poor may not satisfy underwriting criteria either due to the low levels or instability of their incomes. Credit subsidies are often captured by the middle class (e.g. Peru, Ecuador). In many projects meant to provide finished housing to the poor, the housing is of comparatively high standards and thus out of reach of most of the poor, instead benefiting the middle income groups. Programs of slum improvement are usually fairly well targeted, especially as compared to other housing-related subsidies.

Unintended effects: Undesirable effects of housing subsidies include: (i) increased inequalities and inefficient use of limited public resources due to poor targeting of subsidies; (ii) negative effects on the development of mortgage markets if subsidized loans are extended to households who can be reached by private sector lenders; (iii) price distortions and constraints on the development of land and housing markets due to rent and price controls; and (iv) supply side subsidies such as rent controls or provision of subsidized housing may reduce the mobility of labor force when linked to the place of employment, as was traditionally the case in centrally planned economies.

Political economy: Well designed subsides can mobilize savings. In some cases a populist approach from government and pressures by various interest groups (e.g. public employees benefiting from subsidized loans or housing allowances, or politically strong professional associations) may result in irrational subsidies which can cause price distortions, reduced housing supply, increased income inequalities and inefficient use of public resources

Best suited to those groups: Low income households who cannot afford housing in the market – but housing subsidies are only advisable in situations when government can provide the necessary sectoral policy conditions. Good subsidy design and implementation is critical to the outcomes.

Additional sources: Mayo 1999; World Bank 1993; Subbarao et al., 1997; Malpezzi 1990; Edwards 1990; for review of analytical methods, see Tipple and Willis 1991; Malpezzi and Ball 1991.

Program 7: Supplemental Feeding Programs

International experience: Supplemental feeding programs are very common.

Institutional structure: Supplemental feeding programs are most often run through the Ministry of Health.

Typical benefit level: For on-site feeding 350-500 calories per day per child; 350 calories per day for pregnant women; 350 calories per day for lactating women; double this for take home food rations. Foods are usually a low cost blend of grains and pulses with an added fat or oil.

Typical coverage: Varies greatly according to the targeting criteria and program budget – 1-2 percent in Honduras; 70 percent in Chile.

Range of administrative costs: From 5-25 percent. Administrative costs are relatively high because transporting and storing food in bulk is costly and must be added to the personnel and information system costs required for other programs (cash transfers or food stamps).

Usual targeting mechanisms: Many programs are built around the public health care delivery system for pre-natal and child health care. Thus the first targeting criterion is use of the public service. This may introduce a significant degree of self-targeting in countries where the middle and upper income groups choose private health care provided. The second targeting mechanism is the demographic characteristic – pregnant and lactating women and children under the age of three or five. A third common, though certainly not universal, criterion is to give benefits only to those who are malnourished (underweight or stunted) or failing to grow according to norms. Rarely, is an additional income or socioeconomic criterion applied to programs run through the public health care delivery system.

Range of targeting outcomes: Incidence is usually very progressive. Depending on the coverage of the public health care system, there may be significant errors of exclusion (Honduras) or not (Chile).

Incentive effects: The incentive effects in these programs are designed to be positive—to provide an incentive to get adequate preventive health care. Details of program delivery and monitoring will affect how much can be expected. For example, a program that allows the family to get care for all family members on the same visit as needed to pick up the food, or which only allows food aid to be collected once the use of adequate care has been demonstrated will be more effective than others. But the main determinants of the impact on health care use may be the pre-existing coverage levels, the degree of program outreach, and the transactions costs for participants. If the distribution is not accompanied by nutrition education, the impact on malnutrition will be small. Programs may also have an urban bias because of the distance, lack of information, or higher distribution costs associated with rural areas.

Political economy: Usually good, as the programs are linked to adequate care for of children and prospective or new mothers.

Best suited to these groups: Young families with good access to the health care system.

Additional sources: Rogers and Coates 2001; Gillespie 1999; Grosh 1992; Horton 1993; Subbarao et al. 1997.

Program 8: Food Stamp Programs

International experience: Few countries have food stamps programs, but those have been fairly thoroughly described and evaluated.

Institutional structure: Some food stamps programs are operated out of the Ministry of Welfare, others through the Ministry of Health, and some are hybrids. Where two agencies are concerned, it is particularly important to get the linkages right.

Typical benefit level: A few dollars, a small share of the cost of the food basket in Jamaica and Mozambique, higher in Sri Lanka, substantial in the United States.

Typical coverage: Varies greatly according to the targeting criteria and program budget. For example 1-2% in Honduras; 50% in Sri Lanka.

Range of administrative costs: From 10 percent upward. Costs are lower than for food distribution because transporting, storing, and distributing food in bulk is more expensive than moving food stamps around. Costs are higher than for cash transfers because of the need to set up an administrative mechanism for retailers to reclaim cash from the government in exchange for the food stamps they accept and the need to print hard to counterfeit stamps. These may add 2-5 percent on top of the costs of cash transfers.

Usual targeting mechanisms: Some food stamps programs are run through a social welfare agency and may use a means test of some sort, some run through the public health care centers in a manner parallel to that of supplementary feeding.

Range of targeting outcomes: Incidence is usually progressive.

Incentive effects: Food stamps programs have been found to have greater higher impact on food consumption than equivalent cash transfers (United States). Where the programs require the use of health care, the effects on use of health care are parallel to those found with supplemental feeding.

Political economy: Food stamps are usually more popular than straight cash transfers because the transfer is tied to the merit good of foods, or particular foods. Food stamps are often tied to foods that had previously been subsidized. In these cases the targeted food stamp program may be less popular than the untargeted and open ended food subsidy.

Best suited to these groups: Setting where means testing or working through the public health care delivery system is feasible. Where food is readily available on the private market and the problem for the poor is adequate purchasing power, not lack of access to stocked markets.

Additional sources: Rogers and Coates 2001; Castaneda 1999; Grosh 1992; Edirisinghe 1987; Horton 1993; Subbarao et al. 1997.

Program 9: School Feeding Programs (SFPs)

International experience: School feeding programs (SFPs) are very common programs in developing and OECD countries.

Institutional structure: Most programs provide on-site food and are run through the education system. Some have allied health interventions and cooperation from the health ministry. A few may also provide a take-home ration and involve the participation of a welfare agency. Some programs rely on the private sector in the provision of meals.

Typical benefit level: SFPs usually provide meals for children at school—which can vary from providing breakfast, lunch, a snack or some combination of these. SFPs are often integrated with other interventions (health and nutrition education, parasite treatment, health screening, water and sanitation). A few provide an income transfer in the form of food to take home (such food does not necessarily benefit only the enrolled child but may be divided among the family).

Typical coverage: Varies greatly, depending on the program.

Range of administrative costs: Programs are usually expensive since administration and logistics can be very costly in addition to food itself. The cost is estimated to range between $20 and $200 to deliver 1,000 calories per student per day. Food costs tend to account for around 65 to 75 percent of total costs. SFPs are usually very expensive compared to other nutrition programs. Their implementation is also particularly difficult, resulting in frequent bottlenecks. They are more effective in improving child health and nutrition when integrated with other programs (nutrition education, deworming).

Usual targeting mechanisms: SFPs are often universal. In general, targeting is best done at the school or regional level rather than at the individual level. Different possibilities exist:

- The most common targeting mechanism for SPFs is geographic; relevant if nutrition problems or low enrollment or attendance are particularly acute in specific areas.
- Targeting can also be by gender, if female enrollment and attendance are particularly low; receipt of take-home rations can be made conditional on attendance.
- Targeting of children from poor households would be very costly but is sometimes possible when it is already in place for other programs, such as for social assistance programs. In OECD countries, food is provided to all children in exchange for “lunch tickets” for which parents pay on a sliding scale according to income.

Range of targeting outcomes: Depends on the targeting and size of the program. Geographic targeting (region, school) can increase targeting. For instance, in school-targeted programs in Latin America and the Caribbean, the poorest 20 percent were found to receive between 30 and 50 percent of the transfers (Chile, Jamaica, Costa Rica). School targeting may not be appropriate where enrollment is low since children from the poorest families are less likely to be enrolled or to attend (although the SFPs themselves can help increase enrollment of the poor). Targeting children within schools (self-selection, means -testing, nutritional assessment) can also improve targeting, but costs and stigma tend to limit their feasibility, efficiency, and desirability. The Food for Education program in Bangladesh, which targets schools geographically and children within schools (on the basis of land ownership, parents’ occupation, and family structure), manages to concentrate 70 percent of its transfers onto the poor.

Unintended effects: When the program is in the form of food to take home, it is not clear whether the child benefits from the food supplied. SFPs might provide disincentives to home-based provision of food for children. They might also be perceived as solving the problems of school-age children and deter initiatives to address other important determinants of nutrition, learning, and health. SFPs that target recipients within schools can also stigmatize beneficiaries unless the targeting is not observable (for example, when the transfer is in the form of reduced fees for lunch tickets and the amount paid by each family is confidential).

Political economy: Programs usually require important resources (financial and administrative), and other interventions might have potential for higher impact. SFPs, however, generally benefit from very strong popular support.

Best suited to these groups: Children enrolled in school (although some programs do manage to increase enrollment and therefore coverage). Poor families, for food to be taken home. Overall, the evidence is strong that SFPs help reduce short-term hunger and improve enrollment and attendance. However, the evidence is weak that SFPs improve learning outcomes and the nutrition of school children. There is no evidence on the impact on the nutrition of children’s families.

Additional sources: Del Rosso 1996 and 1999; Horton 1993; Gillepsie 1999; Rogers and Coates 2001; Subbarao et al. 1997.

Program 10: Scholarships or Fee Waivers for Schooling

International experience: Scholarships and fee waivers are becoming more common as fees in public schools become more common, and as the popularity of tying transfers to human capital formation programs grows. The body of comparative descriptive evidence and individual impact evaluations is still scant.

Institutional structure: The programs with low benefits tied to the direct costs of schooling tend to be run by Ministries of Education. Those with large cash transfers are run by other agencies, often the ministry of social protection, with some liaison with the schools or central education ministry.

Typical benefit level: Benefits range from part or all of the direct costs of fees (Zimbabwe, Armenia), uniforms, or books (Indonesia) to levels that also compensate for a significant share of the opportunity cost of the student's time (Mexico, Brazil). In the latter cases, there is usually a grant to the schools as well, to ensure that the quality of education offered is sufficient. Some programs are linked to attendance and specifically targeted at improving girls' educational achievements. (Bangladesh, for example, has a program whose benefits are also conditional on the girls not getting married while at school.).

Typical coverage: 5 to 25 percent of students.

Range of administrative costs: Not well quantified in many programs; probably low, on the order of 3 to 5 percent, with the programs with large transfers having more complex mechanisms and administrative costs from 5 to 10 percent.

Usual targeting mechanisms: Targeting is usually in two steps: First geographic targeting to focus the budget resources in areas with more poor students. In the programs with low benefit levels, the second step is often a school- or community-based committee that determines which children will benefit. In the programs with significant cash transfers, a social welfare office will be involved in a proxy means test. In several countries an explicit quota for the scholarships is set for girls, at least 50 percent and often higher.

Range of targeting outcomes: Not well quantified for the programs with lower benefit levels. Quite good for Mexico and Brazil's Bolsa Escola.

Unintended effects: The incentive effects in these programs are designed to be positive—for example to encourage enrollment and attendance, or to reduce dropout. There is not much quantified evidence of these impacts, and it would seem that most recipients would be in school even without the subsidy, so that the benefit is more in the transfer than in changing enrollment rates. In addition, the transfer is often given irrespective of actual attendance, which might reduce its impact.

Political economy: Usually popular, as schooling is highly valued. International development agencies find the linking of short- run transfer benefits to long- run human capital formation attractive.

Best suited to these groups: Poor students, specific groups with low enrollment or attendance (girls, ethnic minorities).

Additional sources: Progressa (Mexico) evaluation, Bolsa Escola (Brazil) evaluation, Indonesia Program Implementation Paper.

Program 11: Unemployment Benefits (UB)

Includes Unemployment Insurance (UI), Unemployment Assistance (UA) and Integrated Savings Accounts (ISAs).

International experience: Unemployment benefit (UB) systems exist mainly in industrialized countries. In the developing world, UB systems are more prevalent in Latin America than in Africa or Asia. Extensive reviews of UB programs have been conducted for OECD countries.

Institutional structure: Unemployment benefits are usually administered by government agencies or autonomous institutions managed by representatives of insured workers, employers, and the government. Monitoring and enforcement of beneficiary compliance with labor market requirements may require close linkages between UB and employment agencies.

Typical benefit level: *UI and ISAs:* Earnings-related, benefits are usually a percentage of average wages earned during some recent period. The income replacement rate generally varies between 40 and 75 percent of average earnings. Flat-rate benefits are an alternative. Entitlement duration is usually limited and depends on the length of the period of recent contributory employment. Generally, the benefit duration varies from 8 to 36 weeks. Benefits often decline over the entitlement duration. *UA:* Low-level, flat-rate benefits intended to cover basic needs of the unemployed and their families. Duration is usually unlimited, but when limited, it is of longer duration than UI.

Typical coverage: Most mandatory unemployment support programs in the OECD cover the majority of formal sector workers, irrespective of the type of sector and industry. With some of the UI/UA programs, coverage is limited to formal sector workers in industry and commerce. Some programs exclude workers who earn above a certain level. Special provisions may exist for labor market entrants, seasonal or temporary workers, and for the self-employed.

Range of administrative costs: *UI* is financed by contributions from employers and employees, usually equal for both or higher for employers. The government may provide subsidies or emergency financial assistance. *UA* is typically government-administered and financed through general tax revenues. *UB* administrative expenditures generally vary between 0.01 and to 0.10 percent of GDP (Spain: 0.05 percent; Japan: 0.02 percent; Italy: 0.01 percent; United States: 0.05 percent; Germany: 0.10 percent). Total UB costs (administrative costs plus benefits) generally range between 0.5 and 3.0 percent of GDP.

Usual targeting mechanisms: *UI/ISAs:* These programs are typically not targeted at the poor. Benefits are provided to those workers who have completed a minimum period of contributions or covered employment and become involuntarily unemployed. *UA:* Program targeted at the poor unemployed. Beneficiaries must satisfy a means or income test.

Range of targeting outcomes: *UI/ISAs:* It is quite plausible that low-skill, low-wage workers are at a disproportionately high risk of becoming unemployed. Consequently, low-wage formal sector workers may be the primary recipients of UB. UBs fail to reach those employed in the informal sector. UBs can also tend to favor men, who are more likely to qualify because they tend to have more stable employment histories, higher labor force participation rates, and a greater likelihood of working in the formal sector.

Unintended effects: Empirical evidence reveals that UBs inefficiently increase the frequency and duration of unemployment spells and reduce job-search intensity (disincentive effects are less for UA). Reduced job-search intensity and increased reservation wages may cause an increase in the unemployment rate.

Political economy: Favored by workers as a financial cushion during unemployment. Can be used to facilitate structural adjustment. Labor may resist reform of UB programs.

Best suited to these groups: Formal sector workers. Not adapted for those working in the informal sector—in which the poor are usually concentrated.

Additional sources: OECD 1998; Ginneken 1996; U.S. Social Security Administration 1999; Horton and Mazumdar 1999.

Program 12: Severance Pay

Severance pay is a compensation to workers who are laid off for no fault of their own, paid as a lump-sum payment.

International experience: The use of severance pay is quite prevalent both in developed and developing countries. In some countries, it is mandated as a part of employment protection legislation; in others, it may not be legally required but can be included in collective agreements or paid as a part of company policy. In countries without unemployment insurance (particularly in Latin America), severance pay is the main provision for income support for unemployed workers. Under the voluntary retrenchment programs, workers decide to leave a firm voluntarily in exchange for an individually tailored severance pay package. Severance pay was implemented in some South East Asian countries following the financial crisis in 1998.

Institutional structure: Severance pay programs are financed and administered by employers.

Typical benefit level: Benefits are usually determined by two things: (i) the length of the individual's service with the current employer, and the (ii) individual's earnings in the period preceding the layoff. The benefit formula is usually non-linear, with the benefit amount varying from less than 10 percent up to 100 percent of the individual's monthly earnings per one year of service (often with limits on the minimum and maximum pay). Among OECD countries, the benefits tend to be particularly generous in Southern Europe; there is little or no mandated severance pay in some other countries, including the United States.

Typical coverage: Most mandatory severance pay programs cover workers employed under permanent employment contracts. Coverage is thus limited to formal sector workers. Severance pay can also tend to benefit male workers and those who have worked steadily in formal jobs.

Range of administrative costs: Severance pay is financed by employers. In some countries, employers are partly compensated from a redundancy fund or by the government.

Usual targeting mechanisms: Severance pay programs are not targeted at the poor. Benefits are provided to workers under regular contract regardless of the income of other family members and of the worker's assets.

Range of targeting outcomes: Because all employed workers are potential beneficiaries, severance pay may not be a regressive transfer. However, experience shows that low-skilled workers are disproportionately prone to job losses, so they may benefit from the program more than other covered workers. However, those in the informal sector who are likely to be poorer still, will not be covered by the program.

Unintended effects: Because the receipt of the severance pay is not conditional on earnings obtained in future jobs nor on earnings of other family members, severance pay does not distort incentives to search for and take a job. (But under certain circumstances, the program does have a perverse effect of encouraging workers to leave a job so as to be become entitled to the severance pay.)

Political economy: Once instituted, severance pay may be difficult to reduce. For example, Peru attempted to reduce severance pay in 1996, but eventually increased the amount after a popular backlash.

Best suited to these groups: Formal sector workers. Not adapted for those working in the informal sector—in which the poor are usually concentrated.

Additional sources: OECD June 1999; Lazear 1990; Cox Edwards and Manning 1999; Horton and Mazumdar 1999.

Program 13: Wage Subsidies

International experience: Publicly funded wage subsidy programs exist in some OECD countries. These programs are less common in developing countries. Wage subsidies have been implemented on a very large scale in Korea following the 1998 financial crisis. There is considerable evaluative evidence on the effectiveness of these programs, though most of the rigorous evidence is for OECD countries.

Institutional structure: These programs are usually administered by the labor ministry.

Type of benefit: These subsidies are typically a payment to firms as a proportion of the wage in order to induce them to hire unemployed workers, but the level and duration of these subsidies varies significantly between programs and countries. The subsidy is sometimes combined with on-the-job training. For example, under the U.S. Targeted Job Tax Credit, firms are paid 50 percent of the individual's wages for a period of up to two years, while the U.K. job subsidy program provides up to 100 percent of the wages (as well as paying for all training costs) for a period of six months.

Typical coverage: These programs are aimed at the unemployed—usually the long-term unemployed, those from disadvantaged areas, and youth—to help them maintain contact with the labor market. In the context of crisis, wage subsidies can be used to prevent loss of jobs.

Range of total/administrative costs: Programs are usually publicly funded. OECD countries spend between 0.2 and 2.5 percent of GDP on active labor market programs. Of this, between 1 and 15 percent is spent on wage subsidy programs. Administrative costs vary.

Usual targeting mechanisms: Usually aimed at the long-term unemployed to build their attachment to the labor force.

Range of targeting outcomes: Beneficiaries are mainly those who are currently long-term unemployed.

Unintended effects: The impact of these programs is usually limited. They have substantial deadweight and substitution effects. Careful targeting can reduce, but not eliminate, these and further controls may be necessary to ensure that firms do not misuse the program as a permanent subsidy to the work force (they may lay workers off once the subsidy period ends or refuse to hire the unemployed unless a large subsidy is offered).

Political economy: While the net employment effects may not be significant, such programs are sometimes instituted in order to decrease the dependence of the long-term unemployed on unemployment benefits and to reduce the social exclusion among youth, older workers and single mothers.

Best suited to these groups: Long-term unemployed. Usually very modest outcomes (in terms of employment and wages) but may provide the long-term unemployed with an entry into the labor force.

Additional sources: Betcherman et al., Dar, Luinstra and Ogawa 1999; Dar and Tzannatos 1999; Fay 1996; Horton and Mazumdar 1999; Cox Edwards and Manning 1999.

Program 14: Job Search Assistance (JSA)

International experience: Public and private employment services are prevalent in most OECD countries. A fairly large number of developing countries also have public employment services, though in some countries private agencies are banned or restricted. There is considerable evaluative evidence on the effectiveness of these programs, although most of the rigorous evidence is for OECD countries.

Institutional structure: Public programs are usually run by the ministry of labor. In some OECD countries, these services have been coordinated with other active labor market programs, as well as passive programs. This can be beneficial to the extent that the unemployed acquire the skills and knowledge necessary to fill available job vacancies. However, this advantage has to be balanced against the high level of administrative capacity such integration entails.

Typical benefit: Various types of benefits may be provided – in-depth counseling during periods of unemployment, skills assessment, resume preparation, job clubs, job referrals, information network, training in interviewing techniques.

Typical coverage: Unemployed workers, workers at risk of unemployment, those who would like to enter the labor market (housewives, school graduates).

Range of total/administrative costs: Public employment service programs are usually funded by public funds. OECD countries spend between 0.2 and 2.5 percent of GDP on active labor market programs. Of this, between 10 and 40 percent is spent on job search assistance (JSA) programs. Job search assistance is a reasonably inexpensive instrument compared to other active labor market programs (in terms of cost per beneficiary).

Usual targeting mechanisms: Targeting mechanisms include self-targeting, which usually means that services are available to anyone who needs them (most OECD countries, some developing countries); linkage with unemployment insurance, which may require the unemployed to get JSA to remain eligible for unemployment benefits (most OECD countries); and regulation of mass layoffs through labor legislation that requires employers to report such layoffs to the employment office.

Range of targeting outcomes: Publicly-funded services are usually targeted at the disadvantaged, including the poor, the unskilled, and the long-term unemployed. Private (fee-charging) agencies typically provide labor exchange services to more- favored segments of the labor force, such as the employed, skilled, and white-collar workers. The success of JSA depends greatly on whether the economy is growing or in a recession.

Unintended effects: Public employment services may crowd out private services. They can also result in deadweight loss – individuals who get jobs through public JSA are generally the most qualified and would have gotten the jobs in the absence of these services.

Political economy: The publicly-administered employment service tends to be inefficient without the proper monitoring mechanism. Trade unions often oppose the use of private job services.

Best suited to these groups: Usually the most cost-effective of the range of active labor market programs. Most beneficial to vulnerable groups (such as women) and the long-term unemployed. The programs do not seem to have positive effects for youth.

Additional sources: Betcherman et al., Dar, Luinstra and Ogawa 1999; Dar and Tzannatos 1999; Fay 1996; Fretwell and Goldberg 1994; Schmid et al., Buchtemann, O'Reilly and Schomann 1996; Cox Edwards and Manning 1999; Horton and Mazumdar 1999.

Program 15: Training and Retraining Programs

International experience: Publicly funded training (and retraining) programs exist in most OECD countries as well as many developing countries. However, a vibrant private sector also exists in many developing and developed countries. There is considerable evaluative evidence on the effectiveness of these programs, though most of the rigorous evidence is for OECD countries.

Institutional structure: While public programs are usually administered by the ministry of labor, in many countries they are also administered by the ministry of education or other ministries. This often leads to a duplication of effort.

Type of benefit: Short-term classroom training (one to six months), usually along with on-the-job training. These measures are sometimes accompanied by job search assistance programs.

Typical coverage: These programs are aimed at the unemployed—usually the long-term unemployed, those laid off en masse (for example, as a result of plant closures), and youth.

Range of total/administrative costs: Programs are usually publicly funded. OECD countries spend from 0.2 to 2.5 percent of GDP on active labor market programs. Of this, between 20 and 80 percent is spent on training and retraining programs. Administrative costs also vary significantly. These programs are usually among one of the most costly of the active labor market programs (in terms of cost per beneficiary) and are often not cost-effective (especially when addressed to those laid off en masse or to youth). In the OECD, they are found to be no more effective than job search assistance but much more expensive.

Usual targeting mechanisms: Various mechanisms are used. Those laid off en masse may be offered a retrenchment package that includes provision for retraining, such as through vouchers (Sweden, Hungary, Mexico); the long-term unemployed may be required to get retraining to remain eligible for unemployment benefits (United States); firms may be given subsidies to hire and train unemployed and laid-off workers (France, Sweden, Czech Republic).

Range of targeting outcomes: Beneficiaries are mainly those who are currently long-term unemployed or have been laid off as a result of plant closures. Almost all beneficiaries were previously employed in the formal sector. Programs seem more efficient for women.

Unintended effects: Programs may be poorly targeted, resulting in deadweight loss (outcome for those who benefit would not have been different in the absence of the intervention). They may also actually reduce job-search intensity during training. These programs usually do not have much impact during times of slow economic growth or slack labor demand.

Political economy: Programs may be instituted to increase the political acceptability of reforms (for example, a program may be provided to retrenched workers to enable them to compete for other jobs). These programs can also be thought of as an instrument to correct some market failure, or, even when such a failure does not exist, to divert an "economically efficient" outcome to a "socially desirable" one.

Best suited to these groups: Usually modest outcomes (in terms of employment and wages), but the impact may be greater for relatively disadvantaged job-seekers (for example, women, less educated workers).

Additional sources: Betcherman et al., Dar, Luinstra and Ogawa 1999; Dar and Gill 1998; Dar and Tzannatos 1999; Fay 1996; Gill, Fluitman and Dar (eds.) (forthcoming); Leigh 1995; Schmid, et al. Buchtemann, O'Reilly and Schomann 1996; Cox Edwards and Manning 1999; Horton and Mazumdar 1999.

Program 16: Micro-enterprise Enterprise Development Assistance (MEDA)

International experience: Publicly funded micro-enterprise development assistance (MEDA) programs exist in many OECD and developing countries on a reasonably small scale. There is considerable evaluative evidence available on the effectiveness of these programs, though most of the rigorous evidence is for OECD countries. MEDAs were also implemented in Korea, Thailand, Indonesia, and Malaysia in the aftermath of the 1998 financial crisis to promote self-employment.

Institutional structure: These programs may be administered by the ministry of labor. However, in many countries they are also administered by other ministries, such as community development.

Type of benefit: Participants may receive assistance to set up their businesses as a lump-sum payment or periodic allowances. In most cases participants may also receive post-startup business advisory services and business counseling.

Typical coverage: These programs are aimed at the unemployed.

Range of total/administrative costs: Programs are usually funded by public funds. OECD countries spend from 0.2 to 2.5 percent of GDP on active labor market programs. Of this, between 1 and 10 percent is spent on micro-enterprise development. Administrative costs vary.

Usual targeting mechanisms: MEDAs are not usually targeted at particular groups. However, in many countries there is "screening" whereby potential beneficiaries undergo a rigorous assessment that evaluates their likelihood of success in starting and operating the business. In some countries screening is more cursory.

Range of targeting outcomes: Beneficiaries are mainly those who are currently unemployed. Beneficiaries could have worked in either the formal or the informal sector in the past.

Unintended effects: The take-up rate for these programs is quite low—generally below five percent of the unemployed. The programs are associated with high deadweight and displacement effects, rendering their "net" effects to be quite low, because some of the beneficiaries would have formed their micro-enterprises without the assistance, or when businesses that do not get the assistance are displaced. The failure rate of these businesses is quite high in most cases, although businesses assisted through mentoring and business counseling are more likely to succeed.

Political economy: Often this program is an instrument to address market failure in the credit market rather than the labor market.

Best suited to these groups: Assistance targeted at particular groups—in this case, women and older individuals—seems to have a greater likelihood of success.

Additional sources: Betcherman et al., Dar, Luinstra and Ogawa 1999; Dar and Tzannatos 1999; Fay 1996; Wilson and Adams 1994.

Program 17: Fee Waivering in Health

International experience: Fees are now a feature of the public health care system in many countries, but a relatively new one, with systems often still being developed and changed.

Consequently information on the value of waivers, their targeting and their impact on the use of health care is scarce. Fees play an important role in mobilizing resource at low income levels where government and other public resources used to finance health care is inadequate. The net impact on the poor relates as much to the effectiveness of exemption programs as to the fees that are charge themselves.

Institutional structure: Usually an official part of the MOH or social insurance system policy. Administered locally in the case of community financing schemes. There is also variation as to whether the individual point of service (clinic or hospital) is reimbursed from a central budget for the costs of services given to clients with fee waivers or not. Non formal exemptions carried out by providers based on a subjective "Robin Hood" principle are widespread.

Typical benefit level: The cost of health care, or drugs, for services for which significant charges apply. Sometimes the fee structure exempts whole classes of services—prenatal care, immunizations, tuberculosis treatment and the like—and care in first- level facilities or a subset of them such as those in rural areas. Thus the fee waivers only apply to the others services, which may be a minority of the transactions of the health care system, but account for the major share of charges. There is, however, ample evidence from very poor countries of fees that apply to all kinds of services, including vaccinations.

Typical coverage: A few percent of the population.

Range of administrative costs: Difficult to assess since the programs usually receive almost no administrative resources and are thus more shells of programs than good practice. But actual cost may be a significant percentage of resources collected. In Thailand, for example, administrative costs of the "Low Income Card" for medical care amounted to 48 percent of the total expenditure of the program.

Usual targeting mechanisms: There are three possibilities for selecting among individuals, given here in approximate order of frequency:

- interview in the health facility by a social worker, clerk, or medical staff. This is a rough means test, usually with no home visit or other way to verify information.
- pre-certification by a ministry of welfare, often associated with entry into some other program. For example, recipients of means- tested food stamps in Jamaica are automatically eligible for fee waivers and similarly for those with Ministry of Social Affairs cards in Surinam.
- selection by a community group, or health users committee. In Thailand, for example, village headmen can allocate cards for medical care to the poor.

Alternatively, programs can be designed to cover exclusively some groups of the population (girls, pregnant or lactating women, the elderly).

Range of targeting outcomes: Rarely well quantified in the first and third cases, but probably highly inexact. There often appear to be large errors of exclusion, where the poor are unfamiliar with the waivering system and thus do not even seek care. Targeting in the medical program for the poor in Thailand was found to be poor, with numerous inclusion and exclusion errors.

Unintended effects: Reduced access to care by the poor.

Political economy: Fees for health care themselves are highly controversial, and the waivering system is often a not very well respected part of that system.

Best suited to these groups: The poor with good access to health care that carries significant charges (often urban groups).

Additional sources: Celedon, Espinoza and Bitran 2001; World Bank 1996; De Ferranti 1987, WDR 1993, Schieber 1998, HNP Sector Strategy Paper 1997, World Health Report 2000, and HNP chapter of this sourcebook.

Program 18: Health Insurance

International experience: Financial protection against the cost of illness is now a standard objective and outcome indicator for health systems in addition to health outcomes. The importance of including this as part of social policy relating to the health sector was confirmed by the World Health Report 2000 on Health Systems: Improving Performance. Coverage is, however, incomplete and many rural and low income populations still rely on out of pocket spending when they fall sick, thereby exposing themselves to unnecessary financial risk for which there are known and effective programs.

Institutional structure: Four main organizational modalities pervade: (a) general tax resource mobilization and revenue pooling by the Ministry of Finance, with resource allocation/purchasing through Ministry of Health service providers; (b) payroll tax resource mobilization and revenue pooling (sometimes collected at source with income tax and sometimes collected separately as a social insurance premium), with resource allocation/purchasing through social health insurance agencies; (c) community-based resource mobilization and pooling with resource allocation/ purchasing done by local community programs; and (d) resource mobilization through premiums, pooling and purchasing done by private health insurance funds (usually separate from providers but something integrated with provider networks in the form of Health Maintenance Organizations). In most countries all four modalities coexist in parallel covering different segments of the population

Typical benefit level: Benefits under general tax and social health insurance financed schemes tend to be comprehensive, covering a full range of preventive and curative services (ranging from access to ambulatory care for common problems to institutional care for less frequent insurable risk). All cover insurable risks not just basic care. Most Ministries of Health rely on negative lists (comprehensive benefits with some things excluded) while those that use social, community or private insurance rely more on positive list (specific list of things covered - everything else being excluded). In low income countries there is a tendency to promise more than can be delivered. Resource constraints usually limit the range of available benefits more than the positive and negative lists.

Typical coverage: Population coverage is often fragmented along organizational lines described above: (a) the poor covered by general tax finance MOH services; (b) workers in formal employment covered by social health insurance organizations and their provider networks (often there are many parallel social insurance organizations that cover different employment sectors - civil servants, military, white collar workers, blue collar workers, miners, etc: (c) excluded rural and low income populations in community financing schemes; and (d) higher income groups covered by private health insurance. Since it is often difficult to link contribution status to the patients that seek benefits, in most low income countries there is considerable cross over between these four broad categories of insurance coverage.

Range of administrative costs: Very low for general revenues (1-2 percent) and social insurance (2-4 percent) since they can "piggy back" onto existing general revenue and payroll taxation mechanisms. It is higher for community financing and private health insurance schemes (5 to over 10 percent) due to the greater transaction costs of running small schemes, voluntary nature of membership and lack of existing organizational structures that can be used to share fixed overhead costs.

Usual targeting mechanisms: The most common technique for reaching the poor is non targeted access to a limited rage of basic services such as IMCI available through the primary care network and access to local hospitals for more serious conditions (both maternity and general hospitals). More selective targeting is often done through health cards for the poor who then have access to Ministry of Health providers. Public subsidies are often used to pay for the premiums of social and community insurance programs. Common techniques for targeting include income targeting, geographic targeting, categorical targeting (e.g. women, children, and other vulnerable groups), by the type of diseases that most commonly afflict the poor and by the facilities that are most used by the poor (local clinics etc).

Range of targeting outcomes: It is politically and ethically difficult to enforce targeting when non entitled patients show up with serious illnesses at clinics and hospitals that were intended for the poor or entitled members only. Broad categorical targeting techniques are therefore easier than narrow income based means testing especially in the case of rural and informal sector workers whose income is difficult to determine precisely.

Unintended effects: Adverse selection, moral hazard, agency problems and other insurance market failure. Contribution of payroll taxes to labor cost and international competitiveness, and fiscal burden of general revenues.

Political economy: Health financing reforms are often among the most controversial and highly contested reform in the health sector. There are always strong vested lobbies on both side of most debates.

Best suited to these groups: The poor with good access to health care that carries significant charges (often urban groups).

Additional sources: De Ferranti 1987, WDR 1993, Schieber 1998, HNP Sector Strategy Paper 1997, World Health Report 2000, and HNP PRSP 2001.

Program 19: Needs-Based Cash Transfers (Social Assistance)

International experience: Most OECD countries have generous needs-based social assistance and an extensive literature on its impacts. Most countries in Eastern Europe, the former Soviet Union, and some Latin American countries have significant social assistance programs, and there is a growing body of evidence on their workings. A much larger set of countries, including many very poor countries, have tiny programs mostly intended to aid the disabled, elderly or destitute but with budgets so small that they can only reach a fraction of those target groups with tiny benefit levels; these are largely undocumented and unevaluated in the international literature.

Institutional structure: Broad national programs are usually run from the ministry of welfare (or social security). Some programs are decentralized in some aspects: with a combination of decentralization of the

Table 9: Share of Social Assistance Received by the Poorest 20 Percent, Selected Countries:

Country (year)	***Share (%)***
Eastern Europe and former Soviet Union:	
Bulgaria (1995)	36
Estonia (1995)	36
Hungary (1993)	35
Poland (1993)	29
Romania (1994)*	18
Russia (1994)	6
Slovakia (1992)	52
Ukraine (1995)	6
Uzbekistan (1995)	27
Latin America and the Caribbean:	
Chile (1990)	51
OECD Countries:	
Australia (1989)	78
Belgium (1992)	35
Finland (1991)	43
Ireland (1987)	35
Netherlands (1987)	31
Norway (1986)	27
Switzerland (1982)	25
Sweden (1987)	21
United Kingdom (1991)	55
United States of America (1991)	70

*Data for Romania taken from poverty assessment

Sources: Braithwaite, Grootaert and Milanovic 2000; Milanovic 1998; World Bank, 1997a, 1997b, 1997c, 1998.

implementation (staffing resources), financing, or design (set of criteria and objectives). For instance, in many Eastern European countries, programs are locally implemented but centrally financed and designed. Where the programs are highly decentralized, if existing regional disparities are to be addressed, or at least not exacerbated, it is important to ensure that higher levels of government have a strong role in fiscal redistribution to ensure a balance of intergovernmental responsibilities.

Typical benefit level: Depends greatly on the fiscal resources available. Usually quite low, for example, 5-25 percent of the cost of obtaining the poverty line basket of commodities. Some programs provide a regular (monthly) transfer while others only provide occasional ones. In addition, the transfers can either be flat (the same for all recipients) or can vary with the household's resources (Romania).

Typical coverage: Generally 5-25 percent of population. Usually much smaller than the share of the population deemed poor.

Range of administrative costs: A plausible range is 5-10 percent. Targeted social assistance cash transfers are highly information -intensive and might be difficult to implement in countries where information gathering is very expensive. There is a trade-off between the quality of targeting and the administrative costs of the program. A good program design that includes all those eligible and excludes the others will usually be allowed somewhat higher administrative costs. Many programs have inadequate mechanisms for outreach to avoid errors of exclusion and for monitoring and evaluation. Decentralization usually complicates the administration but can improve targeting.

Usual targeting mechanisms: There are various options regarding the mechanisms used to target and the level at which these mechanisms are decided. Social assistance is usually targeted either with income or means -tests (e.g. Jamaica) or with proxy means tests (e.g. Chile, Colombia, Mexico, Armenia). The criteria can either be set centrally and follow a fixed, strict rule, or they can be decided at the local level taking into account local conditions, preferences, and priorities, etc. (e.g. Uzbekistan, Albania). When criteria are set locally and funds are not distributed according to the poverty incidence in each community, the program might be well targeted at the local level but not necessarily at the national level (e.g. Thailand, Uzbekistan).

Range of targeting outcomes: Generally 50-80 percent of benefits to poorest 40 percent of households. See table 9 for examples of targeting outcomes in selected countries.

Unintended effects: Where programs are strictly targeted on income, the targeting criteria will introduce a disincentive to work. The income tests are, however, usually so imprecise that it seems more likely that the main effect is not so much to lower work incentives, but to increase the misreporting of income. In industrialized countries with benefit levels close to the poverty line and more precise means-testing, the combined effects of disincentives and the income effect of the transfer have been measured and can be significant.

Political economy: Mobilizing support for pure cash transfers can be difficult, and for this reason the programs tend to be under-funded. This stems partly from fears that cash will be used for 'demerit' goods such as alcohol or gambling. While theoretically applicable to all social assistance programs, the fear of creating a "welfare dependency" seems particularly strong for needs-based cash transfers.

Best suited to these groups: One of the few options for those who cannot be expected to work—the disabled, the elderly, children. Is also a feasible means of supplementing the income of the working poor.

Additional sources: Tabor, 2001; Milanovic, 1995; Barr 1998; Subbarao et al. 1997.

Program 20: Mandatory Contributory Schemes for Old Age, Death, and Disability.

International experience: Most countries in the world have some type of mandatory contributory scheme to offset for the risks of old-age and benefit survivors, although in many cases these are limited to specific subsets of the population.

Institutional structure: Administration is usually through a single state agency. But in some countries there exist administrative structures organized around occupational groups and sub-national territories, or the structures may involve specially licensed private entities subject to close state supervision.

Typical benefit level: From 30 to 100 percent of the average urban worker's wage.

Typical coverage: From 5 percent in the lowest- income countries to above 90 percent of the employed in the highest- income countries.

Range of administrative costs: From less than 1 percent to over 50 percent of expenditure, based on economies of scale, efficiency of administration, and private-/public sector mix.

Usual targeting mechanisms: Not targeted – available only to contributors, who are usually more middle income than the general population. There may be some progressive redistribution in the benefit formula or in minimum pensions, but this is counterbalanced by regressive impacts of pooling higher-income people with greater longevity together with shorter-lived lower-income people.

Range of targeting outcomes: While not targeted, these schemes are instrumental in many cases in preventing poverty among the elderly, particularly among those who during their working years were at middle- income level or above.

Unintended effects: Programs increase incentives to withdraw from the labor force at earlier ages than deemed physically necessary. High contribution rates encourage tax avoidance by increasing participation in the informal sector. The existence of such schemes may have reduced household savings.

Political economy: Very popular, since old age, death, and disability schemes appeal to the most basic of risk concerns that affect all income groups. When initially begun or expanded, revenue increases without substantive increases in expenditures. At this stage, benefits are often expanded without thought of the longer- term financial consequences.

Best suited to these groups: Workers in the formal sector who can make regular contributions that can be easily traced and recorded. Not adapted for those working in the informal sector—in which the poor are usually concentrated.

Additional sources: http://www.worldbank.org/pensions, especially the Pensions Primer and PROST modeling software; World Bank 1994; U.S. Social Security Administration Agency 1999.

Program 21: Noncontributory Schemes for Old Age-age, Death, and Disability.

In general, safety-net provisions for old age have parallel provisions covering the risks of death of the household's workers and their disability. What distinguishes these arrangements from mandatory contributory old age schemes (see previous fact sheet) is that they are payable without regard to past labor market attachment and are almost always financed from general tax revenues.

International experience: Many countries in the world have noncontributory schemes to offset for the risks of old -age and benefit survivors that cover some or all of the people who do not fall under the contributory scheme and, in some cases, those who do fall under the contributory scheme. Under these noncontributory schemes, benefits are paid without regard to past participation in the labor market. These schemes, which are almost always financed from general tax revenues, can either be means -tested or based simply on age and residence.

Institutional structure: Administration is usually under the supervision of a single state agency, although often there is considerable decentralization to local offices that may be part of sub-national governments. In some instances, the agency that administers a country's mandatory contributory old- age scheme will administer complementary noncontributory programs. In other countries, means-tested old-age, disability, and death benefits are administered in conjunction with means-tested assistance payable to low-income households generally (for example to poor families with children).

Typical benefit level: Varies from less than $1 per month to 25 to 30 percent of average wage.

Typical coverage: Most high- and middle- income countries have noncontributory old age schemes that cover the whole population. Take-up rates in means-tested programs, however, vary across countries, with the stigma and hassle of qualification being a greater barrier in some societies than in others. Lower- income countries often maintain noncontributory programs only for those in urbanized areas, leaving assistance in rural areas to more community-based programs of general assistance.

Range of administrative costs: No information available.

Usual targeting mechanisms: Means test or by age.

Range of targeting outcomes: No information available.

Unintended effects: Old-age noncontributory schemes carry with them the hazard that individuals will not provide for their own old- age protection if they know the state will provide for them nonetheless. Sometimes programs rules are such that individuals may prefer to shelter earnings in the informal sector, save on their own accounts and then receive benefits from the non-contributory plan rather than work in the formal sector and contribute to its pension scheme, especially if the eligible unit is embedded in a larger household. In these instances, the program can have deterrent effects on the work and savings efforts of the larger household. In addition, means-tested programs for old age will have some negative effects on the work and savings behavior of lower-income individuals nearing retirement.

Political economy: Non-contributory programs for old age, death and disability tend to be less popular than contributory schemes. The popularity of grants to any member of the population over a certain age (sometimes called demogrants) has declined over the past several decades as they have been incorporated into earnings-related schemes (as in Sweden) and subjected to increased taxation via the income tax system (as in Canada).

Best suited to these groups: Formal means-tested schemes are suited to non-participants in the labor market; demogrants go to all sectors of the population.

Additional sources: http://www.worldbank.org/pensions, especially the Pensions Primer and PROST modeling software; World Bank 1994; U.S. Social Security Administration Agency 1999.

Program 22: Disability Inclusion Programs

International experience: Research has shown that disabled persons and their households are at a high risk of poverty. The goal of disability inclusion programs is to include persons with disabilities and reduce poverty in their households. These programs include services such as community-based rehabilitation, inclusive education, vocational education and training, job insertion subsidies, assistance payments, and pensions. Many countries have these programs, but coverage is poor in developing countries. Outcome indicators are weak.

Institutional structure: Disability inclusion programs cover a broad spectrum of topics and span the life of the individual. Programs can be targeted to the disabled or persons with a specific disability, or this population can be served as one of a number of vulnerable groups. Generally it is most effective to create coalitions of agencies to create schemes to serve this population. Decentralization of services to the local community is also effective. Ministries of education, health, and welfare all administer these programs.

Benefit level: The benefit level depends on the program. It can include cash transfers (about 25-50 percent of minimum wage), pensions (in higher- income countries), subsidies or financing for assistive technology and training, budget allocations for teacher training, and so on.

Typical coverage: Coverage varies with each scheme. Disability affects as much as 10 percent of the population.

Range of administrative costs: Not well quantified in many programs.

Usual targeting mechanisms: Severity of disability, outreach to vulnerable groups, income level of household.

Range of targeting outcomes: There are errors of exclusion, where the poor are unfamiliar with benefits or programs.

Unintended effects: Where benefits are high, minor disabilities tend to be over-reported. In middle- income countries, disability certification gate keeping is poor, leading to high costs, especially as the economy contracts. Well-designed programs not only serve the disabled, but also increase the earnings of their family by freeing time normally spent caring for the disabled person.

Political economy: Human rights groups are increasingly requesting these programs, including in post-conflict Africa.

Additional sources: Elwan 1999; STAKES/Wiman 1996; forthcoming disability web site.

Program 23: Family Allowances

International experience: These programs are very common in the OECD, Eastern Europe, and the Former Soviet Union. A growing body of evidence exists about their administration and impact, and about efforts to reform the programs.

Institutional structure: These programs are usually run in a uniform manner throughout the country, with the welfare or social security ministry setting policy. In some cases their offices supply the staff power, in others local agencies such as municipalities provide staff. Family allowances are sometimes distributed directly through the workplace and local agencies for those who do not work.

Typical benefit level: Often small—a few dollars a month, a fraction of the cost of the food basket, though in some mid-income transition states (Hungary, the Czech Republic) they provide a more substantial contribution to the cost of raising a child. Family allowances can take various forms (child benefits, family allowances, birth grants) and can either be in cash or in kind (for example in the form of subsidies on school uniforms or children's goods).

Typical coverage: There are variants of such programs:

- means-tested programs, closely akin to the needs-based cash assistance (see **Program 17**);
- universal transfers for all children under a fixed age, often children under 2 or 3, or those under 16 to 18 years of age. These are most common in Europe and the former Soviet Union, and are the subject of this fact sheet.
- in numerous non-OECD countries, family allowances cover only the employed population, often with a special system for public sector employees.

Range of administrative costs: Unknown.

Usual targeting mechanisms: Age of children. Occasionally benefit levels per child vary by number of children; there is usually special provision for disabled children. In an increasing number of countries, a rough means test may screen out the upper end of the income distribution.

Range of targeting outcomes: Usually slightly better than distribution neutral because households with children, especially those with large numbers of children, tend to have a higher than average incidence of poverty.

Unintended effects: Theoretically, such programs are pro-natalist because they reduce the costs of having children. Empirical evidence shows (and sometimes program rules require) that child allowances encourage prolonged school enrollment, which leads to higher educational attainment and lower family size.

Political economy: These programs tend to be very popular and can be very difficult to remove or reduce once in place. They are often seen as an important tool in preventing the inter-generational transmission of poverty.

Best suited to these groups: Families with many children, regardless of employment status or sector of employment of parents.

Additional Sources: Tabor 2001; Atkinson 1995; Barr 1998.

TN 3 Overview of Informal Transfers and the Design of Public Social Protection Interventions

Informal transfers involve transfers or exchange between households of cash, food, clothing, informal loans, and assistance with work or child-care. Depending on the size of the transfer, informal transfers can affect household income and consumption, investments in human capital, the fertility rate, and individuals' savings and wealth. They can also transmit patterns of inequality across generations and interact with social protection programs. These transfers present a challenge to the effective design of public programs that is different from the challenge presented by transfer programs of non-governmental organizations or private firms.

TN 3.1 What is the magnitude of informal transfers and the effect on poverty reduction?

For those countries where data exist, the evidence is that patterns of private transfers vary according to local conditions. Estimates are that transfers account for between 2 and 41 percent of income for net receivers and between 1and 8 percent of income for net givers. The patterns of informal transfers reveal the following general trends:

Some general trends in informal transfers have been studied. Evidence suggests that the bulk of informal transfers flow from older to younger households. Poor and vulnerable households are more likely to receive private transfers, while non-poor households are more likely to give private transfers. Informal transfers may therefore equalize the distribution of income. Household characteristics other than income (such as gender of household head, education level, ethnicity) also affect the pattern of informal transfers. For example, female-headed households appear to be more likely to receive transfers. In the United States, at least, the probability of both giving and receiving private transfers increases with the level of education (MacDonald 1990; Cox and Raines 1985).

TN 3.2 How effective are private transfers in risk management?

Empirical evidence suggests that informal transfers are generally weak in facilitating risk management by households, particularly for covariate risks. Rosenzweig 1988, estimates that Indian transfers typically amount to less than 10 percent of the size of typical income shocks in bad periods. Following the 1984 drought in the Sahel, Reardon, Matlon, and Delgado found that transfers comprised less than 3 percent of losses for the poorest households. Similarly, Czukas, Fafchamps and Udry 1995 find little evidence that transfers offset income shocks in the Burkina Faso droughts between 1981 and 1985.

But in more "normal" circumstances, informal insurance may be more effective. While Cox and Jimenez 1997, for example, find that just 40 percent of black South African households either give or receive private transfers, the level of transfers is relatively high for net recipients, comprising 37 percent of income on average. Similarly, while fewer than 10 percent of white South Africans report giving or receiving transfers, private transfers made up 25 percent of income for net recipients. For black South Africans, the transfers tend to go from young to old individuals, suggesting that the transfers largely address low- frequency shocks (like aging and chronic health problems), not the sorts of high- frequency shocks considered elsewhere. While the reported transfers are far from ubiquitous, they do appear to matter for a substantial minority of households, and generalizations should be made with care.

TN 3.3 Is the crowding out of private programs an issue?

First, evidence suggests that while private transfers are important, and may be critical to some poor households, they are not fully adequate substitutes for public action in many aspects of social protection in many countries. A rationale for public intervention and programs arises because informal transfers often fail to protect the ultra-poor (Morduch 1997). Public intervention is also needed when income shocks are covariate (Subbarao et. al. 1997); when delivery mechanisms are costly (Morduch 1994); when the severity of the income shock is extraordinary, such as droughts, epidemics, or macroeconomic shocks (Coate and Ravallion 1993); and when shocks are repeated (Deaton 1992). Furthermore, informal transfers may lead to poverty traps by either solidifying economic and social barriers along ethnic, gender, generational, and class lines (La Ferrara 1997; Fafchamps, 1992; Platteau, 1996; Hoff, 1997) or by creating inefficiencies that ultimately undermine economic progress over time (Banerjee and Newman 1997). As a result, crowding out some informal transfers or mechanisms may be an acceptable cost, or even a desired goal (see Morduch 1997).

Second, a central concern is whether public programs ‘crowd out’ private transfers in a way that is less than sub-optimal. When it comes to ‘crowding out’ it is not whether or not it exists at all that is important but whether a given option for a public program results in a better social protection system, when all the benefits of the program (which might include more complete coverage of the vulnerable, or more complete assistance to those reached) are weighed against all its costs, including some ‘crowding out’ of private transfers.

TN 3.4 What are the implications of informal transfers for the design of Social Protection programs?

As mentioned above, crowding out is cause for policy concern only if it implies that public resources are inefficiently allocated. Thus, some studies of transfers have tried to identify the appropriate recipients of transfers and the magnitude of these transfers in relation to the private safety net already in place in each country. In estimating cost-effectiveness analysis of public programs, crowding out should be included as an additional cost. The costs of crowding out are higher if public safety net programs are crowding out well functioning informal transfers; or if public programs undermine existing informal systems of self-help while encouraging a culture of dependency among the poor.