


# Social Assistance Cash and Near-Cash Transfers: Are there winning approaches?

K. Subarao

*The views expressed in this paper are the views of the authors and do not necessarily reflect the views or policies of the Asian Development Bank (ADB), or its Board of Directors or the governments they represent. ADB makes no representation concerning and does not guarantee the source, originality, accuracy, completeness or reliability of any statement, information, data, finding, interpretation, advice, opinion, or view presented.*




# Starting point


- Social Assistance transfers are part of the overall safety net in a country.
  - Appropriate safety net size and composition will vary from place to place and time to time depending on
    - Needs, constraints, politics, history, etc.
    - Variation in performance of similar programs
- 




## Step 1.

# Evaluate Need for SSN Interventions

- sources of risk and vulnerability?
  - which groups are most affected?
    - Chronic poor, always below poverty line
    - Occasional poor, around poverty line
    - Special groups
  - should safety net programs be used?  
or other interventions?
- 




1. When do you need a social assistance cash near-cash transfer?

- **Typically to address idiosyncratic risks (illness, old age, widowhood, or extreme poverty and destitution or hunger)**
  - **Some co-variate shocks such as a drought might trigger the need for a social assistance near-cash transfers such as food vouchers.**
- 




# Some common pitfalls.....

- **Unrealistic expectations**  
(instead of macro stability, poverty reduction)
  - **Conflicts between policy and programs**
  - **Too many programs**  
(low coverage, benefits, high overheads)
  - **Too little coordination**  
(overlap, synergies)
  - **Imbalance in target groups**  
formal sector, “virtuous groups”, excluded groups
  - **Too little evaluation, fine-tuning**
- 



Let us now turn to...

Discussion of theory, pros and  
cons of various cash and near-  
cash transfer programs






# Needs-based cash transfers

## Pros

- Theoretical least-cost solution
- Low overheads
- Consumer sovereignty

## Cons

- Work disincentives
  - Limited political popularity
  - Consumer sovereignty
- 



# Needs-based cash transfers

## Key design features

- Targeting mechanism
- Way to conduct millions of financial transactions
- Keep disincentives manageable

## Appropriate contexts

- Where design features can be managed
  - Personal and widespread shocks
- 




# Conditional Cash Transfers

## Pros

- Tie long and short-run actions together
- “co-responsibility”
- Demand side tool for health and education
- Can address gender biases

## Cons

- Costs high per newly served child (b/c most served already)
  - Exclude families w/o kids of right age
  - Require good quality and accessible services
- 




# Conditional Cash Transfers

## Key design features

- Good targeting (often proxy means tests)
- Way to verify conditions met
- Way to disburse cash to millions

## Appropriate contexts

- Where poverty chronic, HK outcomes low despite good services
  - Not so good in crisis – targeting not sensitive
  - Where transfer costs in line with costs of services
- 




# Near Cash Transfers

(food stamps, rations, etc.)

## Pros

- Sometimes more politically acceptable than cash
- Lower overheads than in-kind
- Consumer sovereignty if infra-marginal
- May increase share spent on food

## Cons

- Needs reclamation chain
  - If rations, back-door sales,
  - Adverse incentive effects,
  - Information-intensive
- 




# Near Cash Transfers

(food stamps, rations, etc.)

## Key design features

- Targeting
- Reclamation chain
- Confidence on part of reclamation chain

## Appropriate contexts

- En route from food subsidies to cash transfers
  - Where cash desirable but not politically ok
  - ??where easier to do reclamation chain than cash transfers??
- 




# Food price subsidies

## Pros

- Low errors of exclusion
- Administratively simple
- Politically popular

## Cons

- High errors of inclusion
  - Usually distorts production and marketing incentives
  - Expensive and hard to control budget
- 





# Food price subsidies

## Key design features

- Good with negative or low price elasticity
- Suitable distribution chain

## Appropriate contexts

- Few, occasional emergencies
  - Reformed versions where elimination not feasible
- 





# Utility Subsidies

## Pros

- Sector-specific way of ensuring access to basic services
- Politically popular

## Cons

- Usually badly targeted
  - Usually big disincentives for enterprises
- 





# Utility Subsidies

## Key design features

- Poor have access to service grid
- Way of targeting

## Appropriate contexts

- Step in sectoral reform process  
between cross-subsidies and other SSN  
mechanisms
- 



# Fee Waivers for Health and Education

## Pros

- Maintain access to basic services where there are fees
- Fee structure itself may help raise funds/quality or improve incentives (debated)

## Cons

- Very hard to do well






# Fee Waivers for Health and Education

## Key design features

- Targeting system
- Hard budget constraint to local service or entitlement budget
- Reimbursement to providers

## Appropriate contexts

- Wherever fees are an important barrier to access to basic services
- 




# MCH Supplemental Feeding

## Pros

- Address biological vulnerability
- Can be inducement to receive health and nutrition education services
- Politically popular
- Food aid often available

## Cons

- Link of transfer to nutrition is tenuous
  - May disrupt health and nutrition services
  - Storing and transporting food is expensive
- 




# MCH Supplemental Feeding

## Key design features

- Targeting
- Adequate health/nutrition services
- Ration size

## Appropriate contexts

Controversy – some say broadly, others rarely






# School Feeding

## Pros

- Can improve enrollments, attendance, concentration, and thus maybe learning
- Vehicle for micro-nutrients
- Politically popular

## Cons

- Not likely to improve nutritional status
  - Often expensive and (nearly) universal
- 



# School Feeding

## Key design features


- Low cost foods
- Timing of feeding
- Don't disturb teachers' duties
- Targeting

## Appropriate contexts

- Very common in MICs, some in VLICs
- 




# Recent experiments: conditional cash transfers....

- Social assistance cash transfers have received an entirely new twist in recent years....
  - Cash and near-cash transfers are now given conditional upon certain welfare outcomes....
  - Let us look at definitions first.
- 





# CCT Definition..

- CCTs are cash or near-cash payments made to households/mothers conditional upon the household guaranteeing other welfare outcomes, viz., children attend schools or health clinics regularly.
  - The first such program was tried in Bangladesh, known as “Food for Education” program.
- 




## Since then.....

- Numerous other experiments in various countries have refined the central idea, viz., tying transfers to ***other*** welfare goals, and expanded the scope of this particular instrument in accomplishing health and education outcomes.
  - The most pioneering of such programs is Mexico's Progresa program.
- 




# When and where is this a good idea?....

- If you observe that in a given region even when there are adequate places in school but poor children do not attend, or health clinics exist and health care is free and yet kids do not get regular shots, then you know there is a demand-side problem.....
  - Opportunity costs may be high (child's labor, parent's time to take a child to a clinic, etc.)
  - You then target that region for a CCT.
- 




# What are the steps.....

- Once a region or a country is identified as a potential candidate for a CCT, the next step is to decide on a targeting criteria. The problem: how to identify households whose children run a ***potential risk*** of missing school/clinic, from those that are not likely....
  - Information constraints galore.....
- 




# Various approaches....

- The most promising of these approaches are:
    - **Proxy means tests**
    - **Community-based targeting**
    - **Geographic**
  - Proxy means tests where you have credible household data sets...
  - Community-based targeting where no such information exists or unreliable.
- 




# Where do we draw our experience?

- Bangladesh FFE,
  - Mexico progresas program
  - Ongoing programs in Turkey, Jamaica, Nicaragua, Russia, Colombia (proxy means tests), and
  - Community-based targeting...not much experience thus far.. Let us see what tentative conclusions we can draw.
- 




# Bangladesh FFE.....

- The Bangladesh program offered 15 kg. Of food per child per month, conditional on children achieving 85% attendance per month. The goal was to create a ***demand*** for education among poor households and increase enrollments.
- 




# Bangladesh FFE program..

- Adopted a two-stage targeting approach
  - First, geographical: selected provinces with low literacy rates and economically backward areas.
  - Second, adopted categorical targeting in each province: landless households with less than 0.5 acres, day laborers, female-headed households, and families from low income professions.
- 





# Bangladesh FFE...

- Highly successful in raising enrollments and reducing drop outs.
  - Very low leakage, but less successful in enticing ultra-poor children to attend schools.
  - Lowest cost per \$ transferred, of all food-based programs.
- 



# Recent programs...

- Most recent programs in the Latin America Region have adopted proxy means tests as the targeting method.
  - Before assessing the experience, let us consider briefly the notion of proxy means tests
- 



# Proxy means tests for identifying beneficiaries....

- How do we identify households
- Use a simple formula to the available household data set:

$$\text{Ln}(\text{EqC}) = b_0 + b_i X_i + e_i$$


Dep.Var: = natural log of household equivalent consumption, and

$X_i$ s are easily verifiable predictors






# The formula....

- Variables used generally include:
    - Location and quality of housing
    - Ownership of durable goods
    - Household demographics and education
    - Information in income (often partial)
  - A synthetic score is calculated on these easily observable characteristics.
- 




# Formula....

- Note that scores determine eligibility, may be even benefit levels.
  - Indicators and weights derived from a statistical analysis of household survey data.
  - That, indeed, is also the limitation, especially in countries with no recent, reliable data sets .
  - Good time to turn to Community-based approach.
- 



# Community-based targeting..

- Here we let community leaders/elders select beneficiaries for the CCT.
  - Argument: Local actors have more information than officials..
  - Allows communities to define/determine vulnerability.....
  - Problem: often perpetuates local power structures (e.g., 50% of communities in Malawi said it was a bad idea!)
- 




# Community Based

Use existing local actor (teacher, nurse, clergyman) or new civic committee to decide who gets what

## Technical Requirements


- **Not well known with respect to structure of decision making group**
- **Extensive materials/outreach to decision makers; public information**

## Appropriate Circumstances

- **Low administrative capacity**
  - **Strong community structures**
  - **Low benefit that must be finely targeted**
- 



## Lessons from Community - Targeting

- Minimizes exclusion errors, good targeting outcomes noted in Latin American programs.
  - More acceptable to the people.
  - Problematic if total resources available are inadequate in poor communities: rationing may lead to exclusion errors.
  - Potential for abuse.
  - Subjective judgments could go wrong.
  - Stigma costs may inhibit participation.
- 




# Geographic

## PROS

- Administratively simple
- Can be politically popular if all regions get something
- Easy to combine with other methods

## CONS

- May not be very accurate
  - Can't select very small sub-populations
- 




# Geographic

## Technical Requirements


- **Good poverty map**
- **merging census and survey data may make more accurate**

## ● Appropriate Circumstances

- **Low administrative capacity**
  - **For services used frequently**
  - **Where possible to use small geographic units**
- 




## Lessons of geographic targeting

- **Most accurate for small levels of disaggregation**
  - **But good data harder to find at lower levels**
  - **There are computationally intensive ways to combine survey and census data**
  - **Common practice is to use arbitrary weights for available variables**
    - **different indices will select somewhat different places**
    - **poverty impact may not differ much**
    - **political economy does differ**
- 




# CCTs: Bottom line

- Promising potential, but
  - Growing variation in performance, depending upon the targeting method chosen, reasons for which are not fully understood, (Good in Mexico, but not so promising in Jamaica).
    - **Stigma costs,**
    - **administration-intensive,**
    - **indicators static,**
    - **inherent inaccuracies in household data; are communities impartial?**
- 




# Implications

- **Perfect the implementation of the mechanism used,**
  - **Don't forget it is important to choose the targeting approach according to the country context, and**
  - **Don't ever forget to put in place M&E and draw lessons from experience.**
- 



# Conclusions

- Carefully assess country conditions, information requirements, fiscal and administrative capacity.
  - Pick few programs that can be efficiently managed,
  - Never forget transfers programs, once introduced, have a life of their own!
- 



# Conclusions....

- Political economy
  - All programs entail some transaction costs, some incentive costs, and probably also some stigma. Pick programs that minimize these costs.
  - While there is never an easy, simple, way to design a good cash or near-cash transfer program, CCTs are promising.
- 