

Non-Contributory Targeted Cash Transfers in Developing Countries: a Feasible Option?

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Introduction

Non-contributory targeted cash transfers are transfers that are financed out of general taxation and not based on previous contributions; the Beveridgian model of social protection. In Europe, these transfers generally represent a residual aspect within the system of social protection and a benefit of last resort. It constitutes social assistance, which is an integrated part of the overall social protection system rather than a programme that stands on its own. The benefits are rewarded to those below a certain income threshold and with unlimited duration. Other non-contributory cash transfers that are rewarded on a categorical basis include family benefits and pensions. In the United States, benefits are rewarded by means of non-contributory cash transfers under the TANF programme (Temporary Assistance for Needy Families). In contrast to Europe, TANF does not constitute a residual benefit of last resort but represents one of the three main programmes¹ available for those in need in the United States. Moreover, it is only accessible for persons with children and for a limited period of time. It can be seen that non-contributory targeted cash transfers take a different position within social protection systems in the two regions. Without addressing as to how these differences came into existence², we can ask ourselves whether this type of transfer can also be incorporated in the social protection system in developing countries.

Non-contributory cash transfers are not widely used in developing countries, despite ample arguments in favour this type of transfer. The predominant programmes in which cash transfers are used are pensions. The largest non-contributory pension schemes take place in South Africa, Mauritius and Brazil (Barrientos and Sherlock, 2002). Conditional cash transfer programmes are used as a social protection tool in Latin America (Rawlings, 2004). Little research has been done to this day to evaluate the role of cash transfers in developing

¹ The other two main programmes that constitute social protection for the poor in the United States are Food Stamps and Medicaid.

² Alesina and Glaeser present a detailed discussion of the origin of differences in redistribution between Europe and the United States in their book *Alesina and Glaeser (2004) "Fighting Poverty in the US and Europe"*, Oxford University Press, New York

countries. The literature³ that is available touches upon many issues with respect to the implementation of safety nets in developing countries but does not give a systematic assessment of the possibilities and hurdles that are inherent to the introduction of a specific transfer scheme. This paper primarily aims to evaluate the feasibility of non-contributory targeted cash transfers. By making a systematic assessment, an overall framework along which future transfer schemes can be evaluated is provided.

This paper first considers several arguments towards which goal and why it is desirable to employ non-contributory targeted cash transfers as part of the social protection system in developing countries. Secondly, the feasibility of having such a programme is discussed along different aspects and possible obstacles. Finally, recommendations are given towards the introduction of non-contributory targeted cash transfers.

1. Why Non-Contributory Targeted Cash Transfers in Developing Countries?

In the United States and Europe, this type of transfer is mainly used for the guarantee of a minimum level of consumption or income or for short-term poverty relief. This is, however, not an option for developing countries because the problem of poverty is simply too large to cover with any type of social protection transfer or benefit (Smith and Subbarao, 2003). A minimum level of income or consumption can not be guaranteed because not only do many people find themselves below this minimum level but also at a large distance. Moreover, it does not present a solution to the problem of poverty because all incentives are taken away for people to lift themselves out of this situation (Smith and Subbarao, 2003). A large range of literature exists as to what the goal of social protection should be in developing countries. Does it present a preventive, mitigating or coping strategy to deal with risks⁴, should it protect the poor as well as the non-poor against shocks, tackle transient or chronic poverty⁵, promote

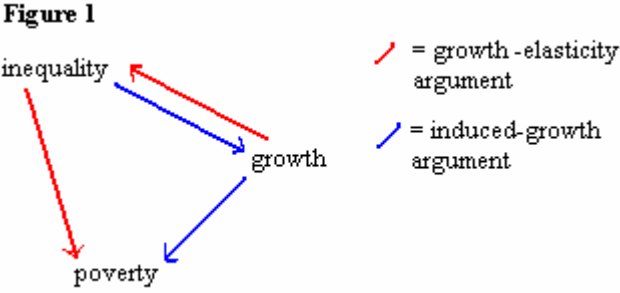
³ The most extensive overview and assessment of social safety and cash transfers can be found in *Smith and Subbarao (2003) "What Role for Safety Net Transfers in Very Low Income Countries?"*, *Social Protection Discussion Paper, The World Bank, Washington DC*, *Subbarao (1997), Safety Net Programs and Poverty Reduction. Lessons from Cross-Country Experience.*, *The World Bank, Washington DC* and *Tabor (2002) Assisting the Poor with Cash: Design and Implementation of Social Transfer Programs*" *Social Protection Discussion Paper, The World Bank, Washington DC*

⁴ More information on social risk management and the role of social protection can be found in *Holzmann R., Jorgensen, S. (2002). "Social Risk Management: A new conceptual framework for social protection and beyond."* *Washington DC, World Bank.*

⁵ The role of social protection in relation to transient and chronic poverty is discussed in *Barrientos, Hulme and Shepherd (2005) "Can Social Protection Tackle Chronic Poverty?"*, *European Journal of Development Research, Volume 17 (1)*

a general standard of living or deal with absolute deprivation⁶? The discussion on the different purposes of the social protection is beyond the scope of this paper. Nevertheless, it is vital to agree upon the rationale of a social protection programme or transfer scheme when considering its feasibility. Irrespective of the precise approach taken, an important role for social protection is to reduce poverty (Barrientos, Hulme and Shepherd, 2005). Therefore, as point of departure for this paper, the purpose of social protection is to fill the deepest part of the persistent poverty gap in the short run and the promotion of overall poverty reduction in the long run. This purpose encompasses the amelioration of risk, reduction of vulnerability, smoothing of consumption and encouragement of investment in human and physical capital.

Before addressing the question of whether non-contributory targeted cash transfers are a feasible option for developing countries or not, it is reasonable to ask ourselves why we would like to implement any type of transfer system in developing countries, and non-contributory targeted cash transfers in specific. Opposed to, for example, an option at the other end of the spectrum, namely contributory, universal benefits in-kind. Several arguments can be put forward for the use of transfers and in specific the non-contributory targeted cash transfers in developing countries.



1.1 Less inequality will reduce poverty

The main argument for the use of transfers as a whole in developing countries lies in its redistributive aspect. Benefits can be targeted in such a way to reduce inequality, thereby decreasing poverty by means of economic growth through two

mechanisms. The first refers to the *induced-growth argument* as explained by Ravallion (1997) and claims that lower inequality results in a higher rate of growth, thereby reducing poverty. The second mechanism links the growth rate to the reduction of poverty and considers the interplay between these two aspects. It is called the *growth-elasticity argument* by Ravallion (1997) and refers to the degree in which the poor share in economic growth given a certain income distribution. Both arguments are illustrated in figure 1.

⁶ More information on the discussion of the function of safety nets can be found in *Smith and Subbarao (2003) "What Role for Safety Net Transfers in Very Low Income Countries?", Social Protection Discussion Paper, The World Bank, Washington DC*

The first linkage, the impact of the income distribution on growth, is discussed in relation to the *induced-growth argument*. The impact of growth on poverty is left out of consideration here but further discussed under the growth-elasticity argument. One of the reasons why high inequality leads to lower growth relates to credit markets and the constraints poor people face in participating in these markets. Bruno, Ravallion and Squire (1996) argue that in a situation where credit market constraints prevent the poor from participating and making investments in physical as well as human capital, growth is negatively affected. Participation in credit markets is not only discouraged due to disincentives in the credit market but also due to poverty itself. Having little means and not having the prospect of more means in the future, causes risk-averse behaviour. Hence, even if the credit markets did not put up these constraints for those at the lower end of the income distribution, they would still be less inclined to take up credit and make investments. A last reason pointed out by Bruno, Ravallion and Squire (1996) relates to the political economy. High inequality leaves lobbying power to a small wealthy group, thereby creating distortionary policies that might negatively influence the poor.

Generally, it can be stated that high inequality and poverty decreases the investment in human capital through education, nutrition etc. and physical capital as a result of lack of financial means (Barrientos and Sherlock, 2002). This gap in means is not bridged by credit due to credit market constraints and risk-averse behaviour. The observation of high inequality causing less growth also challenges the well-known equity-efficiency argument. Generally, it is argued that the costs involved for creating more equity crowds out investment that potentially leads to more productivity and growth. Although these costs can not be ignored, one should also not ignore the costs incurred on the economy by risk-averse behaviour. Neubourg (2005) argues that upward and downward pressures of redistribution equal out when comparing them and accordingly there is no solid claim for redistribution to cause less efficiency.

The *growth-elasticity argument* reverses the order of reasoning and considers how much the poor benefit from growth, taking the level of inequality as given. The discussion with respect to the effect of growth on inequality and whether inequality increases or decreases with higher standards of living, is left out of consideration here. The question is how much the poor share in GDP growth when faced with a certain level of inequality. In a situation of an uneven income distribution and distribution-neutral growth, hence growth having no effect on the prevalent level of inequality, the poor will benefit less than the rich in absolute terms. The higher the level of inequality, the less the poor benefit from economic

growth and the slower the reduction of poverty. This can also be observed in table 1, which shows a simulation by Bigsten and Shimeles (2004) of long-term GDP growth and its impact on the poverty in a developing country with relatively low inequality, Uganda, and a country with relatively high inequality, South Africa. While the poverty headcount decreases by approximately 7% in South Africa from 1993 to 2001, it does so by 16% in Uganda. .

Table 1 Simulation of Distribution-Neutral Growth and Headcount

Year	Uganda		South Africa	
	GINI	Headcount	GINI	Headcount
1993	40	62	62	22
1994	40	60	62	21,5
1995	40	58	62	21,7
1996	40	56	62	21,6
1997	40	54	62	21,3
1998	40	52	62	20,7
1999	40	50	62	20,6
2000	40	48	62	20,5
2001	40	46	62	20,4
2002	40	44		
2003	40	42		

Source: Bigsten and Shimeles (2004)

Notes: the simulation is based on average per capita real GDP growth rates for the respective countries from 1993 to 2000 and poverty lines of 3 USD for South Africa and 2 USD for Uganda.

Ravallion (1997) tested both the induced-growth as well as the growth-elasticity arguments and comes to the conclusion that lower inequality benefits poverty reduction through both channels. Firstly, lower inequality leads to more prosperous growth. Secondly, lower inequality makes sure that the poor can benefit from a bigger portion of that growth. As emphasized by Heltberg (2004), the effect of growth and inequality on poverty can not be seen separately because growth itself is a function of inequality⁷. In sum, redistribution is beneficial for poverty reduction and transfers present a mechanism for decreasing inequality.

⁷ Further discussion on the growth-inequality-poverty debate can be found in *Shorrocks and Van der Hoeven (2004) "Growth, Inequality and Poverty. Prospects for pro-poor economic development" Oxford University Press*

1.2 Non-contributory benefits improve coverage

The issue of coverage is problematic in developing countries due to the large informal sector and the contributory nature of transfer schemes. Those working in the informal sector do not pay contributions towards their own social security and do consequently not benefit from the scheme. In many African and Asian countries, less than 10% of the working population is covered for one or more contingencies by means of a social safety net (Beattie, 2000). Developing countries often struggle with a large informal sector. Overall, the informal sector employs 60% of the labour force in developing countries (Ihrig and Moe, 2000). In Uganda and Zambia, more than 80% of the urban employment took place in the informal sector in the early 90's (Beattie, 2000). If transfers were to be awarded on a contributory basis, the majority of workers would not benefit from the programme. In addition, inherent to working in the informal sector, workers earn a lower income or wage below the minimum level. Hence, the rate of coverage is lowest among the poor if eligibility is dependent on previous contributions made in the formal sector. A transfer scheme based on contributory measures would miss its goal of improving the situation of the poorest in the short run. A non-contributory scheme, on the other hand, ensures that workers in the informal sector are also eligible for benefits.

1.3 Differences among the poor make targeting possible

Transfers in a developing country are better to be targeted rather than universal for two reasons indicated before: serving everybody is financially not feasible and not desirable due to the creation of labour market disincentives. Hence, it is desirable to award benefits to a specific group within the population to serve the above-mentioned purpose of short-term poverty relief and long-run poverty reduction.

An argument presented in Smith and Subbarao (2003) for the possibility of using targeted transfers is the shape of the income distribution in many developing or low-income countries. Contrary to general belief, the income distribution is not flat, meaning that those under the poverty line do not all experience the same degree of poverty. There are big differences among the poor and some may find themselves just below the poverty line while others are considerably worse off. Table 2 shows that the expenditures of the poorest decile are often between 30 and 40 percent lower than those of next poorest decile. In Niger and Malawi the poorest decile spends less than half of what the next poorest decile does and only a quarter of the poorest half of the population.

Table 2 Ratio of Poorest Decile based on a Average Per Capita Expenditures

	Ratio of poorest decile to:	
	next poorest	average bottom 50 percent
Burkina Faso (1994)	0,69	0,58
Mali (1994)	0,61	0,48
Niger (1995)	0,43	0,25
Tanzania (1993)	0,7	0,58
Ethiopia (1996)	0,7	0,6
Nepal (1996)	0,72	0,61
Malawi (1993)	0,41	0,25

Source: Smith and Subbarao, 2003

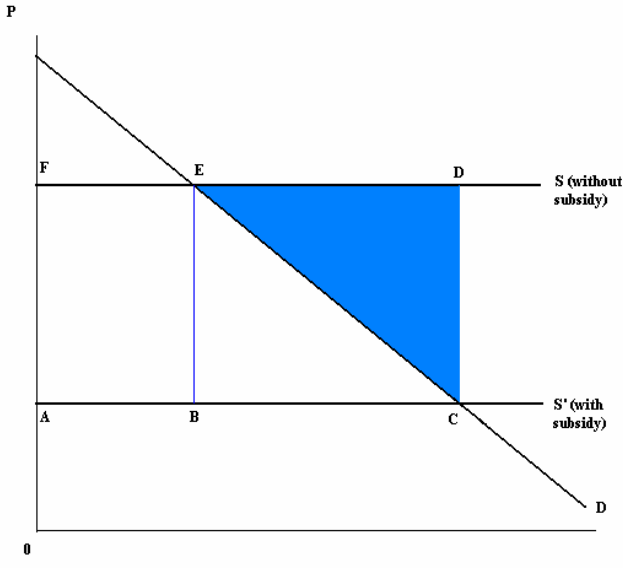
This differentiation among the group of poor people makes it possible to identify and target different subsets. For policymakers, this is an important issue. If the income distribution is flat, all the poor have an income just below the poverty line, are undifferentiated and thereby all possible beneficiaries. As mentioned before, lifting all these people above the poverty line is unattainable and undesirable. However, the uneven income distribution makes it possible to direct transfers to the poorest and fill the deepest part of the poverty gap. Furthermore, the degree of differentiation between poor people makes it possible to target more groups as the budget grows and allows for larger expenditures on cash transfers or reversely. The latter was observed in Mozambique in 1997, when it was decided that only individuals with less than half of the minimum wage and above 60 or with a disability and above 18 were still eligible for cash transfers. Families with severely malnourished pregnant women or severely malnourished children had to apply for benefits under a different programme (Low, Garrett and Ganji, 1997).

1.4 Cash transfers create few distortions

While the former mentioned arguments advocate a transfer programme being contributory as well as targeted, the next arguments are more specifically in favour of transfers provided in cash. Cash transfers are generally perceived superior to other transfers, for example in-kind transfers or subsidies, because they create less economic distortions (Tabor, 2002). Suppose a government has a budget to its disposal to provide a transfer to individuals or households below a certain threshold. If the amount is awarded in-kind through food vouchers, for example, recipients are inclined to consume more of the particular food than they would without these incentives. A subsidy programme for the distribution of transfers has similar

effects. The subsidy encourages the beneficiary to consume more of the specific good than he/she would have without the subsidy; the substitution effect. However, a poor person might prefer to spend its transfer on tuition fees, health care or housing rather than food (Rawlings, 2004), resulting in a lower level of utility than if the transfer had been awarded in cash.

Figure 2



Economic inefficiencies are not only present at the individual level but also form an excess burden for the overall market due to over-consumption (Hyman, 1999). Figure 2 present the situation of an in-kind subsidy on, for example, food. The costs for the taxpayers consist of area ACDF; the total demand of food multiplied by the amount of subsidy. The benefits to the recipients are represented by area ACEF; the net gain of the subsidy as well as the increase in

demand due to a lower price. However, it can be seen that the social costs are higher than the social benefits, represented by the excess burden CDE. These market distortions and individual losses of utility do not play a role when employing cash transfers.

1.5 Cash transfers are less costly to administrate

A cash transfer system generally calls for larger institutional requirements and is rather costly to design and implement at the start. However, once the system is in place, it is less costly to maintain than other programmes like food vouchers, which require printing and collecting or cash-for-work programmes (Tabor, 2002; Rawlings, 2004). Furthermore, cash incurs fewer costs on the recipients because less stigma is involved than, for example, with in-kind benefits. Of course, administrative and budgetary constraints are to be considered when designing a specific programme. However, the cost of designing a desired social protection system or programme has to be faced at a certain point along the way. It might be better to deal with the full burden of setting up the desired programme immediately and implement it only at low generosity levels than changing the programme as the budget increases with economic growth (Neubourg, Castonguay and Roelen, 2005). Changing the rules and

regulations with respect to administration, eligibility and responsibility will lead to confusion and consequently costs to the transfer scheme. Moreover, political confidence will decline and it becomes more difficult to find support for the scheme. Implementing the non-contributory targeted cash transfer scheme from the start will ensure low cost of operation and administration once it is running.

In sum, non-contributory targeted transfers can prove to be a valuable programme in developing countries because it will reduce poverty, include the informal sector and thereby improve coverage, use the possibility of targeting different groups among the poor, create fewer distortions and is less costly to administrate than other benefits.

2. Are Non-Contributory Targeted Cash Transfers Feasible in Developing Countries?

When assessing the feasibility of employing non-contributory targeted cash transfers, five aspects need to be taken into account. Considering these aspects sequentially also provides a basic framework by which the feasibility of other transfer or benefit schemes can be assessed.

Questions within the framework are:

- 1) Is political support present?
- 2) Is the budget sufficient?
- 3) Is the administrative and institutional capacity sufficient?
- 4) What targeting method to employ?
- 5) What is the size of exclusion and inclusion errors?

The importance of these questions are discussed and answered in detail for the case of non-contributory cash transfers below.

2.1 Is political support present?

First and foremost, one must consider whether there is political support for the introduction of a certain type of transfer scheme. The politicians have to be committed to provide the funds as well as administrative and executive capacity not only in the short run but over a longer period of time, for example longer than one political term. Logically, if this commitment is not existent, the introduction of the transfer scheme will be unsuccessful.

Support from the politicians' side for non-contributory targeted cash transfers might be problematic due to several factors. Firstly, targeting a selective group within the population is not very popular with the majority of the voters and politicians. The explanation for limited

political support for targeting is twofold. A universal programme, awarding benefits to all classes within society will create more voters' confidence (Tabor, 2002) and is more likely to benefit the politicians and their families themselves (Smith and Subbarao, 2003). Furthermore, fine targeting requires a larger budget and stricter taxation (Ravallion, 2003). Secondly, the poor as a group have little power to express their needs. Often, there is a small and strong elite in developing countries making decisions for the whole population whereby the poorest are not a priority. Thirdly, the option of cash transfers gives beneficiaries the opportunity to spend the money on "demerit" goods like alcohol and cigarettes (Tabor, 2002). Politicians may choose not to support such a consumption pattern and rather encourage the consumption of "merit goods" by means of subsidies or in-kind transfers.

A seemingly precondition for any social protection programme to run successfully is for a country to be a democracy. Amartya Sen recognized on different occasions⁸ that a democratic system where every individual has a political voice is vital for any form of human and social security. The poor can express their needs and push them forward by means of their votes, an issue especially important for the cash transfers aimed to fill deepest part of the poverty gap. Nevertheless, in situations without perfect democracies, politicians might also recognize the impact a decrease in inequality will have on growth and poverty and the inclusion of the informal sector in this transfer scheme. In Mozambique, for example, strong political support for the GAPVU urban cash transfer scheme was present at its inception, due to a rationing system that had failed and a strong awareness that the issue of urban poverty needed to be tackled (Low, Garrett and Ginja, 1999). Hence, if a government expresses its commitment to the goal of non-contributory targeted cash transfers and recognizes the positive effects, a perfect democracy is not a necessary condition. Nevertheless, political support in the long run is a pre-condition for the introduction of non-contributory targeted cash transfers.

2.2 Is the budget sufficient?

If sufficient political support for non-contributory targeted cash transfers is present, ample budget to run the transfer scheme is needed. The total budget required to carry out the cash transfer programme can be broken down into administrative costs, leakage to the non-poor (inclusion error), and the effective transfer to the poor (Subbarao, 1997). This budget has to be recovered from general tax contributions because of the non-contributory nature of the

⁸ Sen's viewpoints can be found in *Sen (1999), Development as Freedom, Oxford University Press, Oxford* and *Sen (2000) Social Exclusion: concept, application and scrutiny, Social Development Papers No. 1, Asian Development Bank, Manila.*

cash transfer scheme. Administrative costs are those incurred by identifying and reaching the target population and monitoring the programme. It depends on the targeting method chosen, the availability of information, level of automation, the local costs of personnel and equipment, the size of the informal sector versus the formal sector and the frequency in change of needs of the targeted group (Subbarao, 1997). Leakage to the non-poor is referred to as the inclusion error; the inclusion of those that are not targeted but receive benefits due to fallacies in the programme design. How large this leakage and the associated costs are, depends largely on the choice of targeting method, which is discussed below. The effective transfer to the poor presents the biggest burden for the programme and is most important when considering the design of a transfer scheme. Although we have recognized earlier that universal benefits are fiscally not feasible, several problems can also occur when the use of targeted benefits.

Firstly, the start-up of a scheme using non-contributory targeted cash benefits is expensive and very demanding with respect to administrative and institutional capacity. New agencies and institutional structures might have to be set up, administrative staff to be trained and data systems to be introduced. Especially the fact that the programme includes targeted benefits on a cash basis creates financial and administrative pressure. Specific indicators have to be collected, data has to be processed and cash has to be distributed in such a way that the exclusion error is minimized. Existing institutions and agencies might not have the capacity and know-how to perform these tasks and new infrastructure is required. Secondly, while non-contributory benefits can be justified because they are not only limited to those that are in the formal market and can be taken up by informal workers that have not made previous contributions, this is also its fallacy. A small group of contributors has to pay up for a significantly larger group that does not make any payments towards the system, causing problems for the fiscal sustainability of the programme. This picture can also be observed in Europe where a growing ageing population demands an increasing amount of benefits from a declining number of contributors in the labour market. Furthermore, although the workers in the informal sector are partly there because they have no other option, others find themselves in the sector by choice. They choose not to pay the social security contributions that are inherent to working in the informal sector (Auerbach, Genoni and Pages, 2005). Hence,

awarding benefits to those in the informal sector will create an even greater disincentive to switch to formal employment, thereby possibly creating poverty traps⁹.

Nevertheless, the programme of non-contributory targeted cash transfers also has some advantages with respect to fiscal feasibility. As discussed earlier in this paper, although the introduction costs present an impediment, once the scheme is existent it is less costly to administrate than other possible programmes. Moreover, existing schemes might already have agencies, data systems and information collection and processing and distribution mechanisms in place that can be (partly) employed for the non-contributory targeted cash transfers. In addition, the programme does not have to be introduced full-scale right from the start. Although it is wise to put the right infrastructure in place immediately, the implementation of the scheme could take place in steps, for example in selected geographic areas or at a low level of generosity. There is no direct need for cash transfers in developing countries to provide cash transfers at the minimum standards as set by the ILO¹⁰ because the poor have always had their own private social security mechanisms without interference of public institutions (Leliveld, 1994). Private transfers and remittances are a major source of income for the poor. Of the resource flows to developing countries over the period 1991 to 1999, 17% consisted of remittances compared to 14% official aid. Furthermore, remittances appeared to be a more stable source of income over this decade than other resource flows like aid and private flows (Gammeltoft, 2002). Rather than substituting or crowding-out these private and informal mechanisms by non-contributory targeted cash transfers, it is wiser to complement them.

2.3 Is the administrative and institutional capacity sufficient?

After considering whether the transfer scheme is politically supported and financially feasible, it needs to be determined whether the administrative and institutional capacity is sufficient to implement a specific transfer scheme. The requirements with respect to administrative and institutional capacity differ largely per programme and its implementation. As previously mentioned, the support of an in-kind transfer is relatively more demanding than cash transfers.

The introduction of non-contributory targeted cash transfers is demanding, not only financially, but also with respect to the existent and available capacity. Nevertheless, there are

⁹ A more elaborate discussion on the labor market effects of non-contributory transfers can be found in *Tabor (2002) "Assisting the Poor with Cash: Design and Implementation of Social Transfer Programs" Social Protection Discussion Paper, The World Bank, Washington DC*

¹⁰ ILO C102 Social Security (Minimum Standards) Convention, 1952 to be found at <http://www.ilo.org/ilolex/cgi-lex/convde.pl?C102.htm> , 04-07-2005

possibilities to limit the pressure and demands to a certain degree. The existing infrastructure has to be considered as well as where the available capacity can be found. This can be at the central level but possibly also at the regional and local level. Some developing countries have regional and local governments, a large civil society and/or private sector in place that can be called upon for the implementation of non-contributory targeted cash transfers (Neubourg 2002, Barrientos and Sherlock 2002). This way, the burden will not only be at the central government but can be shared among different institutions on different levels. The payout of pension cash transfers in Namibia has been shifted to the private sector in 1996, decreasing the administrative burden from 15% of the total pension programme to 9% (Schleberger, 2002). Employing local structures and community-based organizations will also create more ownership among the target group and create a greater incentive for a successful implementation of the programme (Neubourg, 2002). The involvement of the community can also lead to positive effects with respect to targeting and the prevalence of inclusion or exclusion errors, which will be discussed below.

As previously mentioned, the scheme can also be implemented partially, not involving all regions or localities at its introduction. Besides determining the most suitable area by means of geographical targeting¹¹, a choice for a specific region can also be made on basis of the infrastructure in place on the local level. A region, locality or community with solid institutions will be more likely to implement non-contributory targeted cash transfers successfully, thereby creating support for the programme and creating an incentive for other areas to put an infrastructure in place that can support the scheme. Additionally, it is wise to look at other social policy instruments that already exist or will be implemented in the future and integrate those. If it concerns other transfer or benefit schemes, some procedures can be executed by one institution, thereby preventing repetition of the same work by different agencies. Moreover, it decreases transaction costs for applicants, who only have to approach one agency for more purposes.

2.4 What targeting method to choose?

Targeting is the process through which the “needy” are identified and assessed to be eligible to receive a benefit. Different methods are available, each with its advantages and disadvantages. Self-targeting means that a transfer programme is open to everybody but designed in such a way that only the targeted group will actually apply. Geographical and

¹¹ Geographical targeting refers to the targeting method that assesses an individual’s or household’s eligibility on the basis of its geographical location. The choice of targeting methods is further discussed under *2.4 What targeting method to choose?*

demographic targeting assesses the eligibility on the basis of location and the age bracket the individual finds him/herself in. An income or means test considers an individual's or household's income as eligibility criteria while the proxy-means test uses characteristics that are highly correlated to poverty (nutritional value, access to safe water, housing arrangements among others). Finally, community-based targeting is a grass-roots targeting method that involves community members in the identification of the poor¹². Costs of targeting include obtaining information, administration, incentive costs and social and political costs, depending on the method chosen (Coady, Grosh and Hoddinott, 2004). The issue of targeting might not be relevant for all schemes to be implemented because some might function on a universal basis. However, if this is not the case, to reach a choice of a method for a specific country, after considering the possibilities with respect to finance and administration, we need to ask the following questions:

- a. What type of transfer or benefit programme is introduced?
- b. What is the goal of the transfer or benefit programme and who to target?
- c. How can they be identified?
- d. What other social policy instruments exist or will be implemented in the future than can make use of the same targeting method?
- e. Does the method fit into administrative and financial capacity, identified earlier?

a) Answering this first question provides us with an overview of the important characteristics of a programme that need to be taken into account when choosing a targeting method. In our case, it is important to bear in mind that the transfer is non-contributory and provided in cash. The non-contributory nature of the scheme means that the transfer is not only aimed at previous contributors. Hence, the automatic exclusion of those that have not previously contributed does not take place and a targeting method is needed that includes only those belonging to the target group, irrespective of being a contributor or not. The provision of the transfer in the form of cash enables us to disregard the self-targeting method. Two examples of self-targeting are workfare and the subsidization of an inferior good (Coady, Grosh and Hoddinott, 2004). For the first measure, only those being unemployed will participate in the programme while in the latter case, only the poor that actually buy this good will benefit. Hence, everybody is allowed to take part in the programme but only those who are in need will do so. However, in the case of non-contributory cash transfers, self-targeting as a stand-

¹² A comprehensive overview of different targeting methods can be found in *Coady, Grosh and Hoddinot (2004) "Targeting of Transfers in Developing Countries. Review of Lessons and Experience" The World Bank, Washington DC*

alone targeting method is not viable. Cash is not an inferior good and the costs that beneficiaries have to make for receiving the benefit can not be sufficiently differentiated between those targeted and not-targeted. If benefit levels are sufficiently low, though, the costs of obtaining the benefit might be too high for the better-off and they will not apply.

b) The questions of the goal of the programme and who to target are interrelated and can also help in favouring or ruling out certain targeting methods. If the purpose is to help an area with poor infrastructure or decrease the poverty headcount in a poor area, geographical targeting might prove appropriate. When aiming to alleviate poverty among the elderly or to invest in human capital through children's education, demographical targeting might be a good option. However, determining eligibility by looking at the area of residence or age of individuals seems to be a less desirable option when the goal is to reach the poorest and reduce the poverty gap. To reach this goal, the poor as a whole, disregarding their age or residence, are to be targeted. Nevertheless, taking into consideration the budget and administrative constraints, geographical or demographic targeting might still present an option.

c) Identifying the targeted individuals relates to the information constraints inherent to targeting. To identify the poorest, obviously the income or means test is the most suitable way of targeting. However, this kind of specific information is often not available, hard and expensive to obtain and verify and therefore not feasible. Another way of identifying those in the poverty gap is the proxy means test. Although often less accurate, characteristics or variables can be selected that are more accessible. Moreover, Tabor (2002) argues that the categories and characteristics used in proxy-means testing are often more stable over a long period of time and therefore more suited to target the chronically poor. Furthermore, if such a correlation exists to geographical location and demographic factors, demographical or geographical targeting is a possible method. The non-contributory old-age pension scheme in South Africa, for example, is means-tested but excludes only 10% of the black population because poverty is so prevalent among elderly (IDPM, NCPSS Newsletter, 2003). Nevertheless, even if such a strong correlation is not present, taking into account the restrictive budget and administrative capacity, a country can choose to target less accurately but at significantly lower program costs (Neubourg, 2002). Community-based targeting might present a very suitable solution when considering the use of local and community-based agencies in the implementation of the transfer scheme, which was advocated earlier. Knowledge about who are in need of transfers and who are not is most easily accessible in the communities they live at the lowest costs (Coady, Grosh, Hodinott, 2004). For the

identification of these poor, local infrastructure is used and ownership created because the community is given responsibility. Nevertheless, the principal-agent problem, multiple interests of community members and local power structures can also be problematic for the use of community-based targeting.

d) Fourthly, as holds for the discussion with respect to administrative and institutional capacity, it is wise to consider what other social policy instruments exist or will be introduced in the future and also need a certain type of targeting mechanism. Once a certain mechanism is in place, it is less costly and requires less capacity to extend this to another programme than to set up a whole new targeting mechanism. If the set up of a targeting mechanism can be spread over different programmes, now or in the near future, one can also choose for a more accurate method requiring more capacity. However, it must also be kept in mind that different types of programmes with different target groups might be reached better in different ways. Still, overlooking possible overlap could lead to a waste of resources. It was mentioned before that community-based targeting can be a way of employing and complementing the existing infrastructure at the local level.

e) Irrespective of the targeting method considered most suitable, it needs to be implemented within the budget and administrative capacity. The more accurate the information is, the more capacity it needs to be obtained, verified and processed. There is always a trade-off between errors of exclusion and inclusion and the costs to avoid these errors. Nevertheless, means-testing demands such a degree of administrative capacity and accuracy of verifiable information that it can be assumed that is not a feasible way of targeting in developing countries. As mentioned above, less accurate ways are probably more appropriate because they can be implemented at lower costs. A combination between demographical or geographical targeting and other methods, like proxy-means test or community targeting can possibly present a possible solution. Alternatively, instead of introducing a transfer system in the whole country, which might put too much pressure on the administrative and financial capacity, geographical targeting can be used to identify the poorest area. Thereafter, a more accurate targeting mechanism can be used to reach poorest within that area.

2.5 What is the size of inclusion and exclusion errors?

The occurrence of inclusion and exclusion errors is mentioned in existing literature in the discussion of social protection but not deemed important when assessing the feasibility of a social protection programme. However, large errors and consequently the disability of

reaching the target group can do more harm than good and should therefore be taken into account.

As can be seen from the discussion above, targeting is foremost a problem of information and the lack of indicators on the needy persons. As a result of this lack of (accurate) information, eligible persons are excluded and those not targeted included in the programme. However, the problem does not merely lie in the information flow from the needy person to the administrative and implementing agency, but also from this agency back to the needy person. Outreach and informing the people of the transfer system is an important issue to ensure considerable take-up and coverage. Eight months after the inception of the GAPVU programme in Mozambique in 1991, only 0.6 percent of the target group was reached. Once clear goals were set for the number of recipients to be reached at certain points in time, recruitment rates significantly increased (Low, Garrett and Ginja, 1999). Furthermore, the distribution of transfers is important in reaching the recipients. The National Pension Scheme (NPS) of Namibia tries to accommodate its beneficiaries by paying the cash transfers into a bank account or at designated cash points. However, despite the options presented to the beneficiaries, problems persist in the provision of transfers. Many do not have access to a bank account, the cash points are limited and consequently too far away and the electronic ID cards needed for collecting the transfer at the cash point get damaged or lost (Schleberger, 2002) Hence, another trade-off can be observed. Excluding the ones that are in need by a complicated and inaccessible application and collection procedure or including the better-off by making it too easy and accessible.

Conditional cash transfers can be a way to decrease the inclusion error due to specific behaviour that excludes the better-off from the programme. Making transfers conditional upon school attendance or regular health visits ensures that the poor do not only benefit from an increase in their income in the short-run but also protect themselves against shocks and make an investment in human capital to alleviate poverty in the long run (Rawlings, 2004). This approach has been taken in several programmes in Brazil. For example, in the Bolsa Escola programme, a monthly benefit was given to a family of which all their children attended school (Tabor, 2002). However, conditional cash transfer schemes also lead to a degree of exclusion that is not desired. Children that live far away from the nearest school or clinic, for example, already have a disadvantaged position and will be further set back by this type of programme design.

In the case of non-contributory targeted cash transfers, it is important to find a balance between the accuracy of reaching the target group and the administrative costs involved in doing so. Moreover, the disbursement of the cash transfers should be executed carefully.

Conclusion

The discussion in this paper demonstrates that non-contributory targeted cash transfers are a useful tool in improving the lives of the poor in the short run and reduce poverty in the long run. The induced-growth and growth-elasticity arguments as developed by Ravallion (1997) clearly show that a decrease in inequality reduces poverty. This decrease in inequality can be brought about by a non-contributory targeted cash transfer scheme. The non-contributory nature of the transfers ensures a large coverage rate, especially including those that work in the informal sector. Due to the size of poverty in developing countries and creation of disincentives, targeting of cash transfers is required. However, this is very well possible due to the differentiation of the poor and consequently the possibility to identify various groups among the poor. The provision of cash transfers causes few costs both for the individual as well as the market as a whole. Despite these arguments in favour of non-contributory cash transfers, it can not be concluded beyond doubt whether it is feasible or not to implement non-contributory targeted cash transfers in developing countries.

Ample political support, administrative and financial capacity, a suitable targeting method and low degree of exclusion and inclusion errors are crucial for every country to implement a certain social protection or transfer scheme. Nonetheless, the sizes and importance of these different hurdles differ for every country. One country might find little support the implementation of a non-contributory targeted cash transfer scheme, while another has little budget or administrative capacity. Despite the heterogeneity of problems that developing countries might experience, several recommendations can be put forward.

Recommendations

- Despite large start-up costs, the non-contributory targeted cash transfer scheme should be implemented in its definite form immediately from its introduction onwards. This will avoid political and infrastructural costs in the future, inherent to making adjustments to the transfer scheme;
- While introducing the scheme in its intended, this does not have to be done on a country-wide scale. Geographic or demographic targeting can be used to single out a

smaller group within the society, after which a more accurate targeting method can be employed to reach the poorest;

- To relieve financial pressure, benefits can be kept at a low level at its introduction and increased as the budget grows. However, it should always be kept in mind not to replace or crowd-out informal security mechanisms;
- There should be a careful assessment of what existing infrastructure can be employed for the implementation of the transfer scheme, either at the central or decentralized level. This can reduce the start-up costs and increase administrative capacity;
- Besides the governmental institutions, the civil society and private sector should also be included in the implementation of the scheme, thereby spreading the administrative and executive burden over different institutional levels;
- Other existing or future policy measures that demand similar procedure for application or implementation should be considered for possibly sharing infrastructure and capacity;
- The choice for a targeting method should be made while bearing in mind the budgetary and administrative constraints. Inherent to the choice of a targeting method is the trade-off between accuracy of targeting and its costs and administrative capacity required. Instead of choosing for the most accurate method, it is wiser to choose a method that demands lower costs and suits the administrative capacity;
- Integration of the targeting method for non-contributory targeted cash transfers with targeting methods used for other measures can relieve the pressure with respect to administration and budget;
- To limit the size of exclusion and inclusion errors, outreach and distribution of the cash transfer are important to consider. The target group should be well-informed of the existence of the scheme and its accessibility.

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