Targeting low income households

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Session 3: Improving income support and redistribution


www.oecd.org/els/social/inequality/emergingeconomies

Summary

- Conceptual framework: anti poverty programs in the context of SP systems
- The use of targeted subsidies to complement limited contributory social insurance coverage
- Typology of programs and targeting approaches
- Targeting and poverty reduction outcomes
- Downsides and limitations: program quality differentiation, savings effects and labor market behavioral effects
- Future challenges:
  - Strengthening work opportunities
  - Incentivizing savings
  - Strengthening safety nets and human capital development
Poverty prevention and human capital development – central SP goals with financing needs and behavior effects

Social Protection Objectives

- CONSUMPTION SMOOTHING
- POVERTY PREVENTION
- HUMAN CAPITAL DEVELOPMENT

INSTRUMENTS
- Savings/risk pooling
- Transfers / redistribution
- Active policies

FINANCING ARRANGEMENTS
- Workers’ contributions
- Payroll taxes
- General revenues
- Earmarked taxes

INSTITUTIONS
- Governance
- Monitoring and evaluation
- Public/private sector

INDIVIDUALS’ BEHAVIOR
- Formal / informal
- Job search effort
- Retirement
- Job switching

FIRMS’ BEHAVIOR
- Formal / informal
- Job creation
- Job destruction

PROVIDERS’ BEHAVIOR
- Service quality
- Service costs
- Service coordination

PUBLIC SPENDING
- Fiscal sustainability
- Allocative efficiency

Coverage of social insurance remains low in Africa, LAC, South and East Asia

Coverage (active members / labor force)
- 0 to 25
- 25 to 50
- 50 to 75
- 75 to 100
Social assistance spending: an important complement to social insurance

Worldwide Comparison of Social Assistance and Social Insurance Spending


Poverty targeted income support and social insurance programs have expanded, worldwide

- Social pensions
- Subsidised health insurance
- Conditional Cash Transfers
- Unconditional Cash Transfers
- In-kind transfers (mostly food-based programs)
- Public works programs / employment guarantees
- Social investment funds

**Common goal:** provide cash or in-kind support to the poorest households to alleviate poverty
Many MIC programs combine geographic and household targeting to determine eligibility. Priority areas selected using geographic targeting (micro-area poverty maps) often based on censal data.
Household targeting systems in CTs

- **Selecting households in qualified areas**
  - Some programs select all demographically qualified h/holds (eg with children under 15)
  - Others also apply poverty or means tests
- **Proxy means-testing** (most LAC countries, Turkey, etc.):
  - Eligibility based on a weighted index of characteristics (score) that are easily observed and hard to manipulate
  - Multi-dimensional notion of poverty
  - Fewer labor disincentives
  - But requires agency credibility and can be gamed
- **Means-testing** (eg Brazil)
  - More transparent for the beneficiaries
  - But verification of income is a challenge
  - Incentive problems: labor supply / informality effects

Community based targeting in LIC

- Larger role given to communities (Bangladesh, Cambodia, Kenya, etc.)
  - In many places communities are asked to gather the information used
  - Often quite specific guidelines given so that it is something of a loose PMT
  - Occasionally more latitude given to communities to decide own criteria
Exit policies

- Demographic: e.g. children move out of age category
- CCTs: Non-compliance with conditions
- Poverty status:
  - Recertification cycle to verify continued poverty (PMT or declared income)
  - Links to social insurance and other databases: informality
- Workfare: time limits on individual and on program

Brazil’s Bolsa Familia: a sui generis model

- World’s largest CCT: > 12 million families, 25% of population, operates nationwide, 0.4% of GDP
- All municipalities participate, Social Assistance office (CRAS) registers families’ self-declared per-capita income in cadaster
- Social Development Ministry (MDS) administers national cadaster and determines program admission and exclusion
- 2 cut-offs for benefit entitlement: extreme poor: <US$40/person/month and poor: <US$80/person (about 1/3 of min wage)
- Extreme poor get bigger benefit (av. 10% of pre-transfer income).
- MDS uses national h/hold and censal data to estimate eligible households in each municipality and sets a fuzzy budget quota
- Municipalities that are soft checking incomes can end up with a queue of apparently qualified but unfunded beneficiaries
- Beneficiaries must update Cadaster declaration every two years
- Beneficiary turnover is low but in 2010, 5% of beneficiaries nationwide dropped for not updating records.
Targeting can work: eg CCT benefits

Eg. non-contributory programs have helped close the gap in pensions...(examples from LAC)...
... eg health insurance coverage

Health Insurance Coverage by Income Decile

- Non-contributory Health Insurance
- Both Contributory and Non-contributory Health Insurance
- Contributory Health Insurance

... and transfers can definitely reduce poverty

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<tr>
<td>Median per capita consumption (US $)</td>
<td>0.66</td>
<td>0.52</td>
<td>1.19</td>
<td>0.75</td>
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<td>Average transfer (% of per capita consumption)</td>
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<td>30%</td>
<td>13%</td>
<td>3%</td>
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<tr>
<td>Impact on per capita consumption (%)</td>
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<td>21%</td>
<td>10%</td>
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<tr>
<td>Impact: headcount index (% points)</td>
<td>1.3**</td>
<td>5.3**</td>
<td>2.9**</td>
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<tr>
<td>Impact: sqd. poverty gap (% points)</td>
<td>3.4**</td>
<td>8.6**</td>
<td>2.2**</td>
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But there are downsides.....

**Health:**
- Targeting success sometimes depends on quality differentiation, creating two classes of system
- Differentiated mandates of subsidized social health insurance or national health systems
- Often subsidized services have poor quality and severe queuing

**Pensions:**
- Social pensions have to be small to avoid undermining savings incentives and limit the fiscal cost (eg Bolivia’s Renta Dignidad)

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Incentive effects of transfers and subsidies depend on targeting and eligibility rules

- Programs targeted with Proxy Means Tests have modest or no reductions in adult labor market participation / work effort for (eg CCTs in Mexico, Ecuador, Cambodia).
- Universal entitlements (for given demographic groups such as children or old people) will not normally affect work incentives but have higher costs for a given reduction in poverty or inequality, unless the targeted demographic group is uniformly poor.
- CT programs that are targeted based on declared income, without work requirements, are likely to have informality effects undermining job quality and possibly, growth (the Levy hypothesis)
- Workfare programs where benefits are set too high – which they often are – can displace private employment and have very high per capita program costs, limiting coverage.
Future challenges for targeted subsidies

- Urban areas / moderate poor / some savings capacity:
  - Incentivize secondary education, training, work search
  - Subsidize employment
  - Use subsidy to promote savings and social insurance participation by informal sector workers
  - Tapered withdrawal of subsidy to avoid poverty traps
  - Packages (such as free health plus access to subsidized pensions savings) are an attractive option

- Rural areas / extreme poor / no savings capacity:
  - Strengthen targeted safety nets with significant benefits
  - Income effects can be more important than price effects even in CCTs
  - Human capital accumulation for the poor depends on service quality and access, not just on stimulating demand
  - Strengthen links from income support to other systems (education, health and nutrition; other SP programs)

Moving ahead...

- Priorities, intervention mixes and implementation speed will differ across countries and regions
- What can be done depends on what exists
- Make sure that each step fits within a long-term vision for the SP system:
  - Universal
  - Integrated and coherent
  - Where redistribution is transparent and progressive
  - Where incentives and opportunities to save and to work and human capital accumulation are systematically reinforced, not undermined
Thank you!