

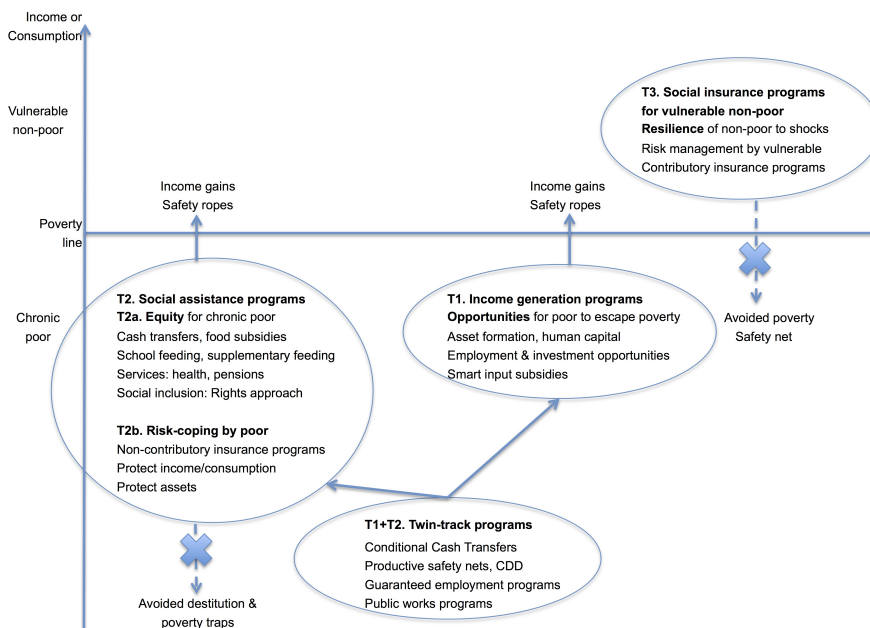
# Section Chapter 14: Social Assistance Programs and Targeting

## Types of Social Programs

Social programs are large and complex. In order to focus on their key economic characteristics, we can distinguish four types of social programs, defined in terms of a program’s economic and social objective, and its target population.

1. *Income generation programs for the chronic poor.* The objective is to provide **opportunities** for the poor to escape poverty (safety ropes). Programs may emphasize asset formation, such as human capital accumulation through education, the creation of employment & investment opportunities, or “smart” input subsidies that lead to more efficient use of resources.
2. *Social assistance programs for the chronic poor.* We can distinguish between two sub-types of social assistance programs.
  - (a) Type 2a: Non-contributory social assistance programs may reduce chronic poverty via transfers, improving **equity** for the chronic poor. Cash transfers, food subsidies, and public health services might be some examples.
  - (b) Type 2b: Social assistance may be used to improve **risk-coping** options. Index-based weather insurance, emergency stay-in-school and animal feeding programs to protect households from asset decapitalization when hit by a shock are examples.
3. *Social protection programs for the vulnerable non-poor.* The objective is to improve **resilience** and risk management. Examples include contributory social insurance programs.
4. *Twin-track programs.* Programs to both reduce immediate chronic poverty through transfers and wages (type 2), and enhance future income generating capacity through investment in productive assets (Type 1). Examples include conditional cash transfers, productive safety nets, community-driven development (CDD), guaranteed employment programs, public works programs.

This typology is depicted in the figure below.



Social programs can of course be grouped in terms of many other relevant characteristics, *e.g.*, whether the objective is to raise average consumption levels or reduce vulnerability, whether the program is contributory or non-contributory, what instruments are used to implement the program, etc.

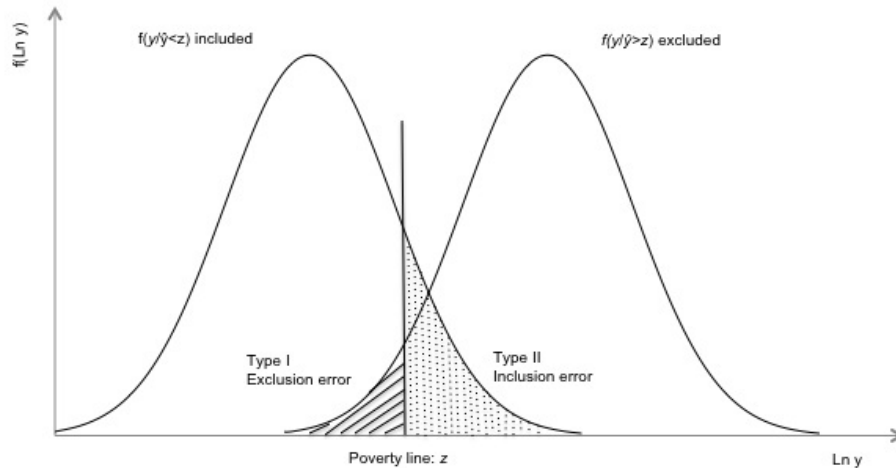
## Targeting

Targeting is very difficult due to hidden/asymmetrical/strategic information for the implementation agency about the income status of potential beneficiaries, leading to an adverse selection problem. Good targeting thus consists in devising methods to address this information problem.

1. Programs need to be targeted because budgets are limited.
2. Approaches to identify the poor:
  - (a) By income: **means tests**
  - (b) By another variable: **proxy means tests, geographical and demographic targeting.**
  - (c) By local knowledge: **community targeting**
  - (d) By choices: **self-targeting**: achieved by introducing a cost to participation that only the poor will be willing to incur: queuing, stigma, inferior goods, and work requirements.
3. Targeting errors: of exclusion (Type I) and of inclusion (Type II). Targeting implies many difficult trade-offs that need to be addressed including between: accuracy and effective budgets; low inclusion errors and political support; gender roles and effectiveness; community participation and risks of capture; incidence of benefits and costs across social classes.

### Types of Targeting Errors

- An **error of exclusion (Type I error)**: when we categorize a poor (eligible) person as “non- poor” (non-eligible).
- An **error of inclusion (Type II error)**: when we categorize a non-poor (non-eligible) person as “poor” (eligible).



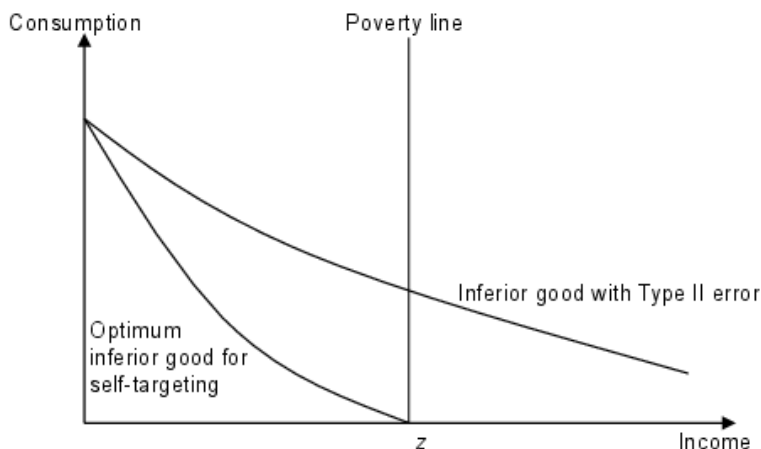
		Classification	
		“Poor”	“Non-poor”
Actual status	Poor	OK	Type I error
	Non-Poor	Type II error	OK

We can decrease Type II error by raising  $z$ , but this increases Type I error. Hence, there is a trade-off between the two losses: fewer Type I errors can be achieved at the cost of more Type II and vice versa.

## Self-targeting

Have to impose a cost on participation that the poor are willing to incur, but not the non-poor. Instead of trying to guess the type of a person (poor or non-poor), self-targeting seeks to have each person willingly reveal her type.

### Example: Inferior Consumption Good



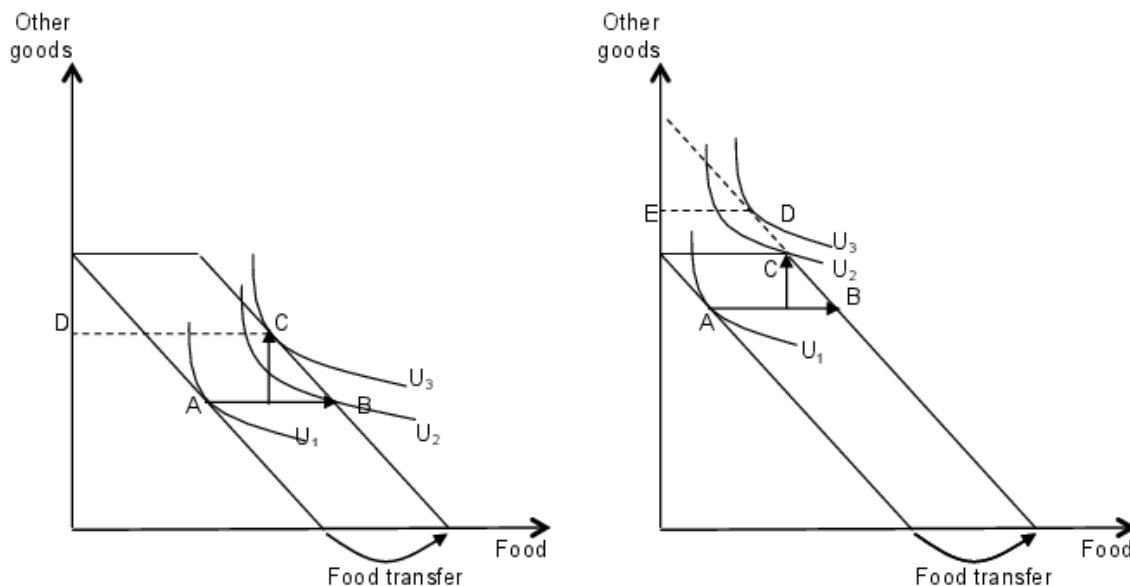
### Example: Workfare programs Two types of workers:

- Low type (poor): get a wage  $w_L$ , working full time ( $l_L = 8$ ), they get an income of  $w_L l_L < z$ .
- High type (non-poor): get a wage  $w_H$ , working full time ( $l_H = 8$ ), they get an income of  $w_H l_H > z$ .

In order for the self targeting to work, the work contract has to have the following characteristics:

- An *incentive compatibility constraint*: The non-poor are not willing to participate since:  $w_L < w < w_H$ .
- A *participation constraint*: The poor are willing to participate since:  $w\bar{l} + w_L l'_L > w_L l_L$  where  $\bar{l} + l'_L = 8$ .  $l'_L$  is residual time that they can use to work on the labor market at their going wage.
- A *poverty elimination constraint*: Participation takes the poor out of poverty since: Income with workfare =  $w\bar{l} + w_L l'_L > z$ .

## In-Kind vs. Cash Transfers



*Please label the following points in both graphs (see chapter 13 for completed diagram):*

A	Consumption Before Transfer
B	Consumption After Transfer if No Substitution
C	Actual Consumption After Transfer
D	Ideal Consumption After Transfer

**Infra-marginal transfer:** The food transfer is smaller than the optimal level of food consumption under substitution  $\implies$  equivalent to equal value in cash.

**Extra-marginal transfer:** The food transfer is more than the optimal level of food consumption  $\implies$  households consume more food than they want to (unless there is a secondary market).