



Social Protection Discussion Paper Series

Assisting the Poor with Cash: Design and Implementation of Social Transfer Programs

Steven R. Tabor

September 2002

Social Protection Unit
Human Development Network
The World Bank

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Social Safety Net Primer Series

Assisting the Poor with Cash: Design and Implementation of Social Transfer Programs

Steven R. Tabor

September 2002

WORLD BANK INSTITUTE
Promoting knowledge and learning for a better world



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Social Safety Net Primer Series

The World Bank Social Safety Nets Primer is intended to provide a practical resource for those engaged in the design and implementation of safety net programs around the world. Readers will find information on good practices for a variety of types of interventions, country contexts, themes and target groups, as well as current thinking of specialists and practitioners on the role of social safety nets in the broader development agenda. Primer papers are designed to reflect a high standard of quality as well as a degree of consensus among the World Bank safety nets team and general practitioners on good practice and policy. Primer topics are initially reviewed by a steering committee composed of both World Bank and outside specialists, and draft papers are subject to peer review for quality control. Yet the format of the series is flexible enough to reflect important developments in the field in a timely fashion.

The primer series contributes to the teaching materials covered in the annual Social Safety Nets course offered in Washington DC as well as various other Bank-sponsored courses. The Social Safety Nets Primer and the annual course are jointly supported by the Social Protection unit of the Human Development Network and by the World Bank Institute. The World Bank Institute also offers customized regional courses through Distance Learning on a regular basis.

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Very Low Income Countries	Smith and Subbarao
Transition Economies	Fox
Non-contributory pensions	Grosh and Schwarz

1. Papers may be added or deleted from the series from time to time.

Abstract

Cash transfers can be defined as the provision of assistance in the form of cash to the poor or to those who face a probable risk, in the absence of the transfer, of falling into poverty. There are few statutory cash assistance schemes in developing countries and those that do exist tend to convey a small entitlement. Statutory cash assistance and insurance schemes are more common in transition and middle-income states. In the Organisation for Economic Co-operation and Development nations, cash transfers are the main type of social safety net protection.

Cash transfer programs are less likely to distort prices than in-kind transfer programs, and they provide the recipient with much more choice. However, administering cash transfer programs typically requires much more information for targeting and management purposes than in-kind programs, but those that are targeted to easily identifiable groups of vulnerable individuals can avoid the difficulties involved in applying means or income tests to determine program eligibility.

Cash transfers do not have to be very large to offer effective protection. If low-income households already derive some of their earnings from informal sector activities or private transfers, then a cash transfer can be used to partly close the poverty gap rather than to provide a full replacement of income.

Experience in middle-income countries suggests that adverse labor market and incentive effects arising from statutory cash transfer programs can reduce aggregate program benefits, but these effects can be overcome by building in incentives for recipients to rejoin the labor force. Cash transfer programs can also be used to combat gender discrimination. Family allowances, social pensions, and cash transfers linked to school attendance all tend to have positive gender effects.

Sustaining political support for cash transfer programs is difficult. Ensuring that the aims of the programs are widely understood and generally felt to be sound and effective is central to maintaining voters' confidence and political support.

Table of Contents

Introduction.....	1
Cash Transfers: The Landscape	4
Cash versus In-kind Transfers	7
Economic Considerations	7
Administrative Considerations	11
Political Considerations	12
Design Considerations	13
Insurance and Assistance: Matching Program Types to Needs	13
Cash Transfer Safety Net Programs when Income and Means Are Hard to Quantify	15
Allow Program Generosity to Increase with Economic Development.....	24
Avoid Adverse Labor Supply Effects.....	27
Using Cash Transfers to Advance Gender Equality.....	32
Secure Continued Political Support for the Programs	34
Building Administrative Capacity to Implement Cash Transfer Programs	36
Conclusions	39
Annex A	42
References.....	59
Boxes	
1. NGO-operated Cash-transfer Programs: The Self-employed Women’s Association in India	14
2. Family Allowances	21
3. From Welfare to Workfare: The U.S. Case	31
Figures	
1: Example of the Excess Burden Resulting From an In-Kind Subsidy.....	9
2: The Impact of an In-Kind Subsidy on Price and Income Distribution.....	9
3: Effect of the Tax to Finance Transfers on the Labor Supply of the Working Population.....	28
4: Labor Supply of the Poor With and Without Transfers.....	29
Tables	
A1. Family Allowances in Selected Developing and Transition Nations	42
A2. Social Pensions in Selected Developing and Transition Nations	44

A3. Government-supported Unemployment Insurance and Assistance Programs in Selected Developing and Transition Nations	45
A4. Pension Scheme Coverage in Developing and Transition Nations, 1996	46
A5. Government Expenditure on Subsidies and Transfers in Selected Industrialized Nations	47
A6. Percentage of Social Assistance, Unemployment Benefits, and Non-pension Cash Social Transfers Received by the Bottom Quintile of Population.....	48
A7. The Role of Cash and Other Social Transfers in Incomes in the Post-Socialist Nations, 1987-1988 and 1993-1994	49
A8. Net Public Social Expenditure in Selected OECD States, 1993	50
A9. Importance of Gifts and Transfers for Poor Households (percent)	50
A10. Summary of Assistance to Families with Children, OECD Countries.....	51
A11. Family Benefits Provided in OECD Member Countries	52
A12. Special Cash Benefits for Disabled Children in Selected OECD Countries	53
A13. Net Replacement Rates for Three Family Types in the First Month of Benefit Receipt	54
A14. Net Replacement Rates for Three Family Types for Long-term Benefit Recipients	55
A15. Selected Features of Unemployment Benefit Programs	56
A16. Unemployment Insurance Payment Rates and Benefit Duration	58

Direct Cash Transfers

*Steven R. Tabor*¹

Introduction

Cash transfers can be defined as the provision of assistance in the form of cash to the poor or to those who face a probable risk, in the absence of the transfer, of falling into poverty. Either governments or the private sector can provide cash transfers. Governments provide social assistance and social insurance programs, while private transfers include those made between households and those made by enterprises to households. While not all of these transfers are unique to a social safety net, each can serve as an important source of income protection for households during shocks or economic downturns. The relative importance of statutory and private cash transfers and of social assistance and social insurance varies by country and circumstance. In this paper, we discuss cash transfers in the widest sense, recognizing that such programs serve multiple objectives, of which social safety net protection is just one.

While cash transfers are the principle component of the social safety net in industrialized market economies, they play a far more limited role in developing economies.² ILO (2000) has estimated that more than 80 percent of the population is covered by one or more forms of cash transfer program in the industrialized nations compared with less than 10 percent of the workforce in Africa and Asia, 15 to 60 percent of the workforce in Latin America, 20 to 25 percent of the workforce in the middle-income nations of North Africa, and 50 to 80 percent of the workforce in the European transition states. In terms of public expenditures, the distinction is greater still. Very few developing country governments allocate more than 1 percent of their gross domestic product (GDP) to cash-based social assistance programs, while Organisation for Economic Co-operation and Development (OECD) member states allocate an average of 8 percent of GDP to such programs (OECD 1998a).³

In the OECD states, a wide range of social insurance and cash assistance programs has evolved over the past century to form a safety net that covers almost all segments of society.⁴

¹ The author is an economist with EMSI consulting. He wishes to extend his thanks to Margaret Grosh, John Blomquist, Alan Thompson, and Harold Alderman for comments on an earlier version of this report.

² Social protection expenditures account for 21 percent of the European Union's GDP, with expenditures in individual nations varying from 16 to 25 percent of GDP. In the industrialized nations, public spending rose from an average of 12 percent of GDP at the turn of the 20th century to 45 percent of GDP by 1990, 40 percent of which was in the form of social security expenditures (Tanzi and Schuknecht 1997).

³ This includes family allowances, unemployment assistance, social assistance, disability payments, and social pensions.

⁴ The earliest forms of government-regulated cash transfer programs in today's industrialized economies were the disability allowances for factory workers launched in the 1890s. With the spread of industrialization, the workforce was exposed to a new set of workplace-related health and income-loss risks. Governments responded by making workplace disability coverage schemes compulsory, replacing compensation schemes provided by mutual benefit societies and voluntary employer coverage programs. Over time, the principle of compulsory

In the developing economies, the role of cash transfers is largely confined to a small set of social insurance programs that provide protection to a small segment of the workforce. Examples of publicly supported family allowance, social pension, and unemployment insurance or allowance programs in selected developing and transition nations are presented in annex tables A1, A2, and A3. Data on pension coverage and replacement income rates in developing and transition economies are provided in annex table A4. The evolution of subsidy and transfer spending from the 1960s to the 1990s in selected industrialized nations is shown in annex table A5. In most cases, such programs provide limited income insurance for employees of the government, the military, and large-scale enterprises. Typically, labor or welfare laws mandate the provision of employee pensions and work-related injury, death or disability, maternity, sickness, and involuntary unemployment benefits. In some countries, benefits are also given to employees' families.

A few developing countries have cash transfer programs to assist households that are not covered by social insurance schemes. These include social pensions, family allowances, support for disabled people, orphans, and widows, conditional benefits, minimum income allowances, and temporary assistance to the unemployed.

In contrast to the situation in most medium-income developing countries, cash transfers play a major role in the transition economies. This reflects the socialist legacy of wage compression, universal coverage, public pensions with high replacement rates, and generous family allowances.⁵ Many transition governments established new funds for social assistance and unemployment compensation in the 1990s, while broadening their safety net coverage to include contributory and private pensions (Milanovic 1998; Subbarao 1999; Braithwaite, Grootaert, and Milanovic 2000).⁶ On average, the share of cash-transfer benefits that accrue to the poor ranges from 20 to 50 percent in the transition economies, a somewhat lower proportion than in most developed market economies (see annex table A6). Annex table A7 shows the important role played by cash transfers in household incomes in the late 1980s and mid 1990s in several post-socialist economies.

There are a number of reasons why fewer social protection programs are based on cash transfers in developing countries than in the transition nations or in the industrialized states. First of all, government resources are far more limited in the developing nations. Spending on all public goods, including cash transfers, is necessarily constrained. Governments typically give priority in public expenditure to measures that relieve structural (or supply-side) constraints to growth rather than to programs aimed at augmenting consumer demand or transferring income (Beattie 2000).

In addition, the structural characteristics of most developing economies do not favor the use of cash-based social insurance programs. The formal sector tends to be small and is often

coverage was extended to many other categories of income risk and contingency. Various reasons given for public intervention have included the shortsightedness of individuals in failing to protect themselves adequately, the desire to prevent "free riding" by those eager to gain the benefits but avoid the cost of social protection and the desire to achieve the widespread pooling of risks that is possible under nationwide systems (Kohler and Zacher 1982; Flora and Heidenheimer 1995).

⁵ In 1988, family allowances accounted for as much as 25 percent of average earnings for a family with two children in Hungary, 20 percent in Bulgaria and Czechoslovakia, and 17 percent in Poland, compared with just 5 to 8 percent in France, Italy, and the United Kingdom (Milanovic 1998).

dominated by public service. In the formal sector, workers have steady and reasonably high incomes, long planning horizons, and discretionary resources that can be tapped for social insurance schemes. However, this is not the case for the vast majority of those in developing economies and certainly not for the poor (van Ginneken 1999).

In most developing nations, large numbers of poor people make their living from agriculture or informal sector activities from which earnings are irregular. This makes it difficult to enforce statutory schemes that rely on regular, mandatory contributions. The predominance of self-employed and informal sector workers in developing economies also makes it difficult to collect accurate data on income and wealth. Moreover, the combination of dispersed populations and limited public service infrastructure in rural areas increases the costs of administering cash assistance schemes.

Most attempts to extend social insurance programs to the informal sector have failed because the benefits are small and the costs are high, thus reducing incentives for workers to join voluntarily (Mesa-Lago 1994). Other factors that contribute to the low coverage of cash transfer social insurance programs in developing nations include a lack of accessible information about the availability of assistance schemes, governance deficiencies, and limited institutional capacity to manage social assistance programs (van Ginneken 1999; Beattie 2000).

There is, however, a growing demand for social safety nets that incorporate some form of cash transfer in developing countries. Shocks have become more severe and more difficult to anticipate. Democratization has inspired leaders to be more responsive to the immediate needs of the poor. Less job security, heightened macroeconomic risk, rising inequity, and the global transmission of currency volatility have all contributed to growing middle-class demand for social protection (Gupta and others 1998; Chu, Davoodi, and Gupta 2000; Rodrick 1999a).⁷

For many years, the welfare policies pursued in the industrialized market economies were simply too expensive and too complex for most developing nations to consider. However, welfare reform in the industrialized world is now generating a new technology for cash transfer programs that may be more suitable for developing nations. Structural unemployment, globalization, aging populations, and fiscal pressures are forcing governments of many industrialized countries to seek more cost-effective, incentive-compatible means of providing social protection (Tanzi 2000; Ebersold 1998; Klasen 1999; Butti, Franco, and Pench 1999; Peterson and Scherer 1997).⁸

This paper explores the role of cash transfers in a social safety net. Our focus is on the role of cash transfers in developing and transition nations; we refer to industrialized country experience to illustrate principles or draw lessons. First, we describe the various sorts of cash transfer programs and discuss issues that arise in their interpretation. Turning to the design of social safety nets, we then explore key factors that affect the choice between a cash-based program and an in-kind transfer program. Next, we examine a number of design

⁷ Governments that have adopted “market-friendly” reforms are far less likely to use credit subsidies, agro-input subsidies, public enterprise support, and restrictive trade protection policies to shelter domestic firms or transfer resources to specific groups. This creates a need for less distorting forms of social protection.

⁸ In 1998, some 8 million people (or 5 percent of the labor force) in the European Union had been unemployed for one year or longer. Five million people had been unemployed for more than two years. Fewer than 70 percent of men and 40 percent of women in the 55 to 59 age group were economically active due to steady growth in early retirement (EU 1999).

considerations that influence the efficiency and effectiveness of cash transfers as a social safety net. Among the questions that we address are options for expanding coverage, the link between the generosity of the program and economic development, tailoring of programs to minimize adverse labor market effects, use of transfers to promote gender equity, and nurturing of political support for programs. Finally, we discuss strategies for building institutional capacity to manage cash transfer programs effectively.

Cash Transfers: The Landscape

Social safety net programs are those that are meant to provide (or substitute for) income to the poor or to those who face a probable risk, in the absence of the transfer, of falling into poverty. Cash transfer programs can be designed to serve a range of objectives, one of which is as a social safety net.

There are two types of statutory cash transfer programs.⁹ Social insurance refers to programs that are financed entirely or largely by contributions made for specific categories of workers and employees. Such contributions are typically mandatory and are regulated by the government. Social assistance programs refer to transfers to specific beneficiary groups, such as the destitute, the disabled, or certain classes of the elderly. These are generally financed out of government revenues. Both social insurance and social assistance are important social safety nets, with social insurance playing more of a poverty prevention role, and social assistance playing a last resort role.¹⁰

Cash transfer programs can be further divided into employment-related, universal, and means-tested programs. The payments in employment-related programs (such as social pensions, unemployment insurance, sickness, maternity, family allowance, severance pay, and workplace injury benefits) are based on the existence and duration of the worker's employment (or self-employment). The amount and duration of the cash payment is typically related to the level and duration of the worker's employment prior to the point when his or her earnings cease. In some countries, labor laws oblige employers to obtain insurance to cover defined contingencies. In others, the government requires employers to pay social insurance into publicly administered funds. Employment-related social insurance programs are normally financed by mandatory contributions by both employers and employees, with the government being the ultimate guarantor and, in some instances, a residual financier of the system.

Universal programs provide flat-rate cash benefits to all, without regard to their income, employment, or means. These are usually financed out of general revenues. These programs include pensions for persons above a certain age; income allowances or pensions for the disabled, widows, or orphans; and family allowances. Universal cash-benefit programs are generally financed from government revenues but can also be partly funded through mandatory contributions by workers and employers.

Means-tested programs establish eligibility for individual or family benefits against a standard that is usually related to subsistence needs. Benefits are typically limited to needy or impoverished applicants. Means testing can have many different forms, with different

⁹ This classification system is derived from Social Security Administration (1999).

¹⁰ A large share of the population of the developing world suffers from periodic episodes of poverty and can be classified as "transitory" or "occasionally" poor. Social insurance may provide a last resort "safety rope" function against the debilitating consequences of adverse shocks for this group of households.

weights assigned to means, needs, and income tests, as well as to family savings and other resources. While means-tested cash assistance programs can be part of national programs, they are generally administered at a local level.

While in industrialized countries cash transfer programs generally take the form of employment-related, universal, and means-tested programs, many developing countries operate cash transfer systems in which several risks are pooled together under the umbrella of provident funds. Provident funds operate as compulsory savings schemes in which contributions by specific groups of employees and employers are set aside for participating employees in a fund, which can be drawn on for their retirement or if their income generation is interrupted or can be paid to their survivors in the event of their death.

Cash transfer programs can also be categorized into those that are mandatory and those that are provided on a voluntary basis. Mandatory programs are those that are either administered by or regulated by the state. The government is the ultimate guarantor for mandatory programs and has a mixture of implementation, supervision, and oversight responsibilities.

However, not all cash transfers are mandated by the state. Voluntary and informal cash transfers play an important role in the social safety nets of developing nations. Voluntary cash transfer programs include benefits provided by employers to employees to maintain their income (such as cash benefit payments after an unexpected work interruption) and transfers provided by private charities, while informal cash transfers are transfers made within family, community, and household groups that are not mandated by law.

Voluntary cash transfers in the industrial economies can be quite large. Adema and Einerhand (1998) reported that voluntary cash transfers for the elderly and disabled in 1993 were equivalent to 0.5 percent of GDP in Denmark, 0.73 percent of GDP in Germany, 2.1 percent of GDP in the Netherlands, 1.6 percent of GDP in Sweden, 1.9 percent of GDP in the UK, and 2.4 percent of GDP in the United States.

Worldwide, the largest form of voluntary cash transfers is within-family transfer, generally in the form of intergenerational bequests and parental assistance to young families. These cash transfers, while large in absolute magnitude, play a more limited role in the social safety net. By contrast, private transfers, through religious groups, kin groups, death and burial societies, rotating fund societies, and other forms of community association play a substantial role in income maintenance and risk management in many developing economies (Ravallion and Dearden 1988; Cox and Jimenez 1990, 1993; Cox, Jimenez, and Jordan 1994; and Morduch 1999).

Cash transfer systems can be further classified in terms of the duration of their coverage. Cash transfer benefits that are provided to compensate for risks of long-term poverty from income loss include those arising from old age, disability, and death. In many countries, this group of programs is administered jointly and has pooled financing, and inter-related qualifying conditions and benefit formulas. Short-term cash transfer benefits include sickness and maternity benefits, work injury benefits, and unemployment allowances. Social assistance programs and family allowances that are means tested and conditional on certain recipient behaviors provide cash support that is often for an intermediate duration.

Governments use a mixture of "direct" and "near" cash transfers to buffer households from poverty. Near-cash transfers are government programs that reduce a household's tax liability in exchange for household spending on defined categories of "social" goods. These programs can include tax credits to partially offset the cost of private expenditures on housing, health care, and education.¹¹ When food stamps and other coupon-based forms of social assistance are widely exchanged in the marketplace, these are also classified as near-cash transfers.

In summary, the contribution of cash transfers to the social safety net includes all of the following:

- Cash-based social assistance and social insurance (for safety net purposes)
- Employment-related, universal, and means-tested safety net cash transfer programs
- Statutory and voluntary safety net cash transfers
- Long-term, intermediate-term, and short-term poverty contingency management programs
- Cash and near-cash safety net benefit programs.

Evaluating cash transfers net of tax (rather than gross) provides a more accurate measure of how much they increase the purchasing power of beneficiaries. Some categories of cash transfer benefits are frequently subject to taxation.¹² Tax rates also vary considerably across countries, which influences how much of the cash assistance households can actually use to meet their consumption requirements (Adema 1998). OECD (1999) has prepared estimates of the value of cash social assistance, both gross and net of tax, for its member countries in 1993. These are presented in annex table A8.

In some cases, what may appear to be a positive income transfer to the poor may well have a negative net welfare effect if the tax system is highly regressive. Chu, Davoodi, and Gupta (2000) cited evidence to suggest that tax systems in developing countries are considerably more regressive than those in industrialized nations. Where tax systems are highly regressive and transfers are poorly targeted, low-income families may pay more in tax to finance government cash transfers than they actually receive in safety net benefits.

Public expenditure on cash transfers--whether gross or net of tax--is not a measure of the adequacy of the program.¹³ The same level of spending in two different countries may reflect a generous replacement rate in the low-wage country but a lower replacement rate in the high-wage country. Spending may be high in one country because it has a large dependent population and low in another country because it has a more successful economy

¹¹ Adema and Einerhand (1998) estimated that near-cash tax breaks for social transfer purposes were equivalent in 1993 to 1 percent of GDP in Germany, 2.2 percent of GDP in the United States, and 3.6 percent of GDP in the United Kingdom.

¹² This gives rise to the fiscal churning problem discussed in Musgrave (2000).

¹³ Large social transfer programs do not necessarily reach the poor. In 1993 and 1994, more than half of those who had been unemployed for more than three months received no unemployment assistance or social assistance in Greece, Italy, and Portugal according to the European Community Panel Study (EU 1999). In Italy, less than a quarter of cash transfer expenditures (some 25 percent of GDP) reaches the poor. More than 80 percent of the value of the minimum pension was paid to families with incomes more than twice the poverty line. The social protection system in Italy has been referred to as "the poverty of welfare" because of its poor targeting, impenetrable complexity, and ineffectiveness in combating poverty (Rostagno and Utili 1998).

and a far lower benefit-dependent population. Some countries rely more on in-kind or informal transfers to provide safety net assistance, while others rely more heavily on statutory cash transfer programs.

Cash transfers can often have effects that go well beyond the immediate resource transfer. In some countries, cash transfers are a central part of the social contract.¹⁴ They serve to even out differences in life chances, to encourage greater equity between generations, and to redress inequities due to race, gender, or health status. They are used to promote social inclusion, industrial harmony, and social solidarity. Cash transfers are also used to reduce uncertainty, foster entrepreneurial risk-taking, and provide all citizens with a sense of security (Atkinson 1999). Both the direct and the indirect effects of cash transfers have important consequences for social welfare.¹⁵

Cash versus In-kind Transfers

In designing social safety nets, developing country governments are faced with the choice between cash and in-kind transfers. A range of economic, administrative, and political considerations influences this choice (Grosh 1994; Jimenez 1993).

Economic Considerations

From an economic efficiency perspective, cash transfers are generally deemed to be superior to in-kind transfers because they do not directly influence market prices. Economic efficiency is enhanced to the extent that the marginal benefit of goods and services sold in an economy is equivalent to their marginal social cost. When policymakers intervene to set prices that are different from the marginal social benefit or marginal social cost, as occurs in the case of in-kind transfer schemes, resources will be used inefficiently (Blackorby and Donaldson 1988).

In other words, transfer programs that lower prices of target goods for the poor will cause individuals to produce more of these goods than they would in the absence of the program. Resources that could be used more efficiently in producing other goods and services are allocated to the production of these target goods for the poor. In the process, a certain amount of economic efficiency is sacrificed.

¹⁴ See Goodin and others (1999) for an empirical comparison of the direct and indirect effects of welfare transfers in a liberal (United States), corporatist (Germany), and social democratic (Netherlands) society using a 10-year panel of income and transfer data.

¹⁵ The importance of the indirect effects of cash transfers for reducing poverty is illustrated by the example of Poland in the 1990s. Grootaert (1995) and Milanovic (1998) reported that in the mid 1990s Poland was spending close to 4 percent of its GDP on cash transfers (unemployment benefits, family assistance, and social assistance) and nearly 15 percent of its GDP on pensions. Concerns were expressed about the fiscal sustainability of transfers and their limited impact in reducing poverty, and improvements in the targeting of social assistance to the poor were called for (Braithwaite, Grootaert, and Milanovic 2000). Keane and Prasad (2000) have questioned the evidence of rising inequity in Poland. They argued that the rapid growth in spending on pensions and unemployment benefits compensated social groups that were adversely affected by Poland's transition reforms, paving the way for rapid structural reform, privatization, and a speedy resumption of economic growth. They concluded that transfers that reduce inequality could facilitate "painful" economic reform and, in so doing, contribute to more rapid economic growth. They also show that those transition countries that had large transfer programs were able to contain growth in income inequality and had the highest rates of economic growth in the first eight years of transition.

Cash subsidies provide recipients with greater freedom of choice and give recipients a higher level of satisfaction at any given level of income than is the case with in-kind transfers.¹⁶ With an in-kind transfer program, beneficiaries consume more of the subsidized target good than they would in the absence of the program. This results in consumption of the subsidized target good beyond the point at which its marginal benefit (or value to the beneficiary) is equal to its marginal social cost. The deadweight loss of a price-distorting subsidy is the difference in the overall consumption benefit (utility or welfare) that a recipient would enjoy from a price-distorting subsidy if that transfer had instead been given as an unrestricted cash grant. Presuming no positive externalities in consumption and production, the more inelastic the demand and the more elastic the supply of a subsidized target good, the greater the deadweight, or efficiency, loss.

By contrast, in-kind payments are often used as a means of controlling, modifying, or otherwise influencing the behavior of recipients. In-kind transfer programs provide basic food, health care services, or schooling to those who otherwise could not afford these services or are unlikely to purchase adequate services even if they did have adequate resources. In practice, the degree to which in-kind assistance influences actual household consumption behavior hinges on whether or not the in-kind assistance is infra-marginal (in other words, less than what is normally consumed) or not.

At the level of the market, an in-kind subsidy can lead to an excess burden on taxpayers because the cost of the subsidy is greater than the value of the benefit received by the transfer recipient. This is illustrated in figure 1. The value to the transfer recipient of an in-kind subsidy, such as access to housing at a subsidized price, is equal to the area under the demand curve (A). The total fiscal cost of the subsidy is the amount A+B. Amount B, or the excess of the cost over the value of the subsidy to the beneficiary, is the excess burden of the subsidy program. For policymakers, the larger the excess burden (area B), the greater the degree to which a cash transfer program could make recipients equally well off at a far lower fiscal cost.

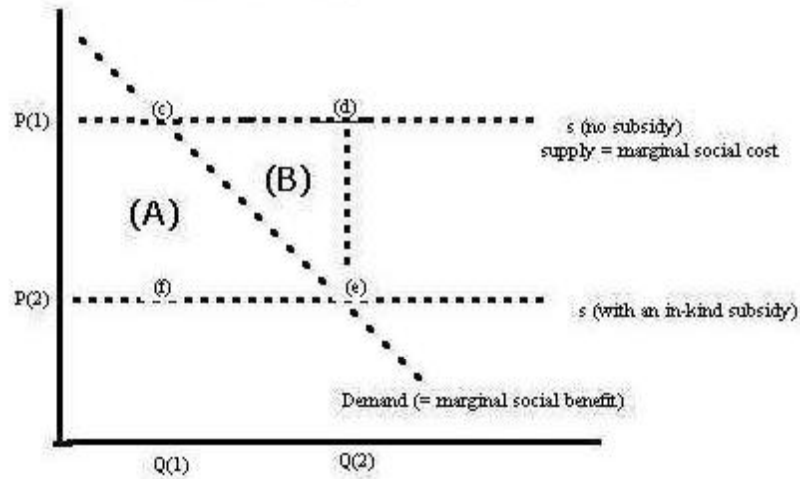
In-kind subsidies not only influence the price of a “subsidized good.” They can also influence the market price of nonsubsidized goods. When this happens, producers of those goods gain and households that do not benefit from the subsidy lose. The net result is that income distribution changes, possibly in a way that voters find unacceptable. While cash transfers will also influence income distribution, these income distribution effects are an explicit objective of the cash program rather than an unintended effect.

Figure 2 illustrates the problem of in-kind subsidies and adverse income distribution effects. Imagine that the government has decided to provide a basic service (such as health care) at no charge to a low-income population. Before the subsidy is provided, the low-income population consumes Q_1 of health care services and the rest of the population consumes an amount B. At the equilibrium price $\$P_1$, the market clearing amount consumed is QM_1 . When low-income households are provided with access to health services at no charge, their consumption rises to QM_1 . Adding QM_1 to the demand to the demand curve $D(\text{other})$ yields the final post-subsidy demand curve. At this level of demand, the equilibrium price rises to $\$P_2$. Facing a higher price, consumption by the group that buys health care services at the market price will fall to point B. Total market demand at the higher price ($\$P_2$) will be the sum of the consumption of the

¹⁶ For a more complete discussion of the economic welfare implications of in-kind versus cash transfers, see Hyman (1999).

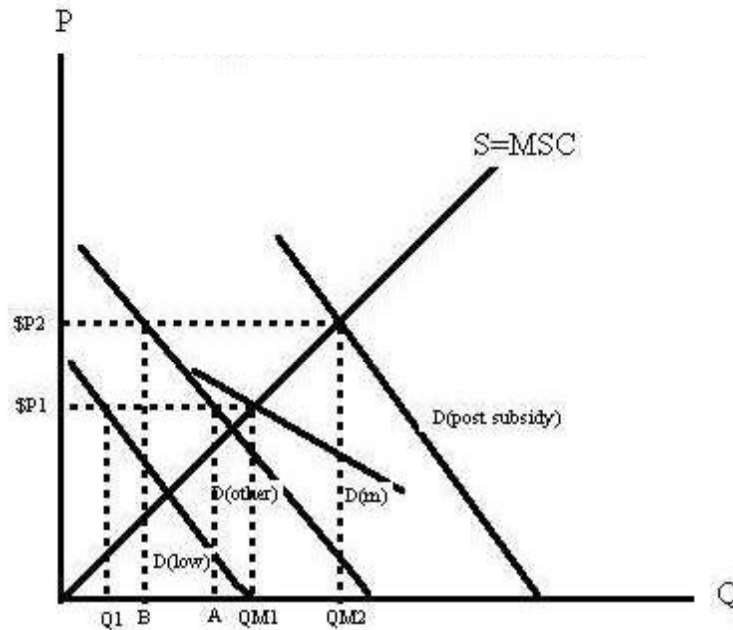
subsidized group (QM1) and at the free market price (\$P2), which is B. Income distribution will be affected because suppliers of health care services will earn a higher income while consumers who are ineligible for the subsidy will pay more (and consume less) for their health care services, in addition to financing the tax costs of the health care subsidy.

Figure 1: Example of the Excess Burden Resulting From an In-Kind Subsidy



Note: The cost of the subsidy is represented by the rectangular area A+B. The net benefit to recipients is represented by the triangle I-C-E. (B), the difference, is the excess burden of the subsidy.

Figure 2: The Impact of an In-Kind Subsidy on Price and Income Distribution



From a macroeconomic management perspective, cash transfer programs are generally deemed to be superior to in-kind transfer programs because they increase the predictability of public outlays and can automatically stabilize the economy over the course of the business cycle (in other words, increase when the economy rises and fall when the economy slows).¹⁷ The main disadvantages of cash transfer programs from a macroeconomic management perspective are that they reduce scope for discretionary fiscal management and may be subject to expenditure creep.

Unlike in-kind subsidy programs, cash transfer programs are not normally affected by changes in product prices or the cost of living. This helps to safeguard the cash transfer program budget from unexpected surges in inflation or product prices. As a result, it is easier to forecast budget requirements.

In-kind assistance programs, by comparison, require changes in their plans and designs to meet changes in demand. For example, an economic downturn may increase private demand for subsidized housing. However, it may be one or two years before this higher demand is reflected in a higher budget allocation for subsidized housing, and perhaps another two or three years before government agencies and the private sector are able to increase the actual supply of subsidized housing. These long time lags in policy responses in in-kind assistance programs mean that they cannot be used as macroeconomic stabilizers.

However, the "automatic" stabilizing effects of cash-based entitlements also contribute to a certain loss of fiscal control. Cash transfer programs are generally established under legal statutes outside of the annual budget framework. Segregated payroll taxes or other earmarked taxes are commonly used to finance them. The fact that cash-based transfers are typically governed outside of the annual budget process and may be partly financed by earmarked taxes reduces their short-term fiscal flexibility.¹⁸ Because they are outside the budget, social assistance and social insurance programs are also less likely than on-budget expenditures to be subject to annual public expenditure priority-setting and performance scrutiny.

Often the value of the cash transfer benefit is indexed to changes in the general price level, living costs, or the minimum wage. In an economic expansion, the level of prices and wages tend to rise. As they do, indexation automatically increases the fiscal cost of cash-based entitlements. When economic conditions deteriorate, more people apply for cash transfer programs. This contributes to upward pressure on the outlays for cash transfer programs in both good and bad years, resulting in expenditure creep, or a constant upward

¹⁷ Fiscal stabilizers refer to the role of fiscal policy in expanding demand when the economy is slowing and reducing demand when the economy is expanding. This can contribute to price stability by reducing price pressures when the economy is overheating and stimulating demand when the economy is slowing. Lindbeck (1997) questioned the validity of the automatic stabilizer function of transfer payments. He noted that in countries with generous welfare states, the budget deficit tends to "explode" in deep recessions. Rapid buildup of public debt due to higher welfare spending obligations may forestall recovery because households may doubt the government's ability to meet promised benefit commitments or may fear future tax increases and respond by building precautionary savings.

¹⁸ It also exposes the cash transfer programs to the fiscal risk of having inadequate resources to cover their regulatory commitments. The inability of public pension and other social welfare funds in parts of Latin America and the transition nations of Europe to meet their regulatory transfer requirements contributed to growing public concern over the viability of the social protection system. The failure of companies to honor work separation commitments to workers in a number of states adversely affected by the Asian financial crisis inspired governments to develop special programs to assist the urban unemployed.

trend in program expenditure requirements. A persistent increase in the cost of entitlement programs can crowd out other forms of essential public spending, contribute to fiscal deficits, and lead to an increase in the tax burden (Tanzi 1997).

Some cash transfer programs target benefits more accurately to the poor than others. Generally, the poor are more likely to receive social assistance cash payments than they are to receive social insurance payments. This is true for a wide range of both developing and developed economies (see annex table A6). In well-managed social assistance programs, households in the bottom income quintile of the population receive from 50 to 80 percent of the total cash transfer. In less effective programs, households in the bottom income quintile may receive as little as 10 percent or less of the social assistance cash transfer. Between a quarter and a half of unemployment benefits typically accrue to households in the bottom income quintile in most industrial nations and transition economies.

Administrative Considerations

Cash transfer systems require a larger and more sophisticated institutional structure than in-kind transfer systems. Once that administrative system is in place, however, the costs of operating a cash transfer system are likely to be lower than that of an equivalent in-kind transfer system, such as a food stamp, public works, or commodity subsidy scheme (Grosh 1994). Unlike food stamp or voucher programs, cash transfer programs do not need to incur the costs of printing, securing, collecting, or processing quasi-cash claims. Unlike public works programs, there is little need for site-specific design or technical supervision services. Also, the logistics of moving cash from one point to another are fairly straightforward compared with moving large quantities of a subsidized commodity.

From an administrative point of view, "cash" is less costly to the recipient because it is universally accepted. Also, there is no stigma attached to the use of cash for the recipient as compared to the use of an in-kind subsidy such as food stamps (Ranney and Kushman 1987).

The principle administrative disadvantage of any form of cash transfer is the fact that "cash" cannot be self-targeted. Unlike basic foodstuffs or housing services, an "inferior" category of cash cannot be created to ration access to the needy. Criteria for program eligibility must be established, cash must be provided only to those whose eligibility can be verified, and their eligibility must be periodically reconfirmed. This imposes a significant administrative burden even for the simplest cash transfer scheme (Blackorby and Donaldson 1988).

In practice, cash transfers are rarely distributed as "cash" per se but are more often distributed in the form of personalized checks or postal money orders. These are either distributed directly or mailed out by a welfare office, local government agency, or a financial institution appointed by the government. The checks must be cashed at banks, post offices, or other financial institutions. The welfare offices must have an accurate information system in order to prepare the checks, and the recipients must generally show a valid identification in order to receive and cash them. The beneficiaries must have a fixed abode and must establish proof of eligibility to receive the cash transfer payment. Ultimately, they must also have access to financial institutions. Personalized checks can only reach large numbers of beneficiaries if the welfare agency, post office, and banking system are extensive and relatively sophisticated.

With the spread of banking infrastructure, some countries are adopting the use of "direct deposit" programs in which cash benefits are regularly deposited in the bank accounts for recipients. The use of direct deposit procedures for making payments has been adopted in the United States where it is used for almost three-quarters of all beneficiary transfers (OECD 1999).

In some countries, the use of automated teller machines is bringing cash transfers within reach of those who do not normally have access to the banks. The social pensions program in rural South Africa is one example of the use of cash point machines to reach large numbers of rural beneficiaries (Case and Deaton 1996).

A key issue is that many developing countries may not have the administrative infrastructure needed to operate an extensive cash transfer system. A large proportion of the poor may live in rural areas, far from the effective reach of government welfare and employment offices. Large numbers of the poor may have no fixed abode or may live in shantytowns that are not recognized by local governments. The poor may have limited access to financial institutions for check cashing services. Some poor rural households may be located in areas in which home production and barter are the predominant forms of exchange, meaning that cash is only of limited use to them.

Political Considerations

Despite the economic and administrative advantages of cash transfer programs, it is often difficult to mobilize sustained political support for them. The fact that cash transfers convey greater freedom of choice to the recipient also creates the possibility that household members will use transfers to purchase goods and services that many governments would prefer not to directly finance, such as liquor, cigarettes, and gambling. To the extent that cash assistance is associated in the minds of the voters with consumption of "demerit" goods, this may weaken the appeal of cash assistance programs to a broad electorate.¹⁹

There are other reasons why politicians may favor in-kind transfers rather than cash assistance. Providing in-kind assistance is a more visible way for politicians to assure their electorate that the basic needs of the poor have been provided for. Producers of basic goods and services (for example, builders, farmers with excess commodities, and health care providers) are also more likely to lobby politicians to provide social assistance in the form of the goods or services that they produce than they are for cash transfers.

When commodity subsidies are being scaled back, politicians may find it easier to explain the need for assistance to sustain consumption of the previously subsidized goods than to explain the more general need to augment incomes. For example, when general food subsidies were eliminated in Indonesia, Jamaica, Sri Lanka, and Zambia, these were replaced by targeted programs in which the poor were given food stamps (or access to food at a preferential price) to buy staples.

Where poverty is associated with poor income management, politicians may prefer to support assistance programs that involve behavior modification. Support that require school

¹⁹ Hyman (1999) cited this as the key reason why fully two-thirds of the United States' federal social assistance transfers in 1997 were in the form of in-kind transfers, of which Medicaid and food stamps were the most significant.

attendance by recipients' children, participation in nutrition or health education courses, or utilization of public health services may influence household behavior in ways that are conducive reducing poverty in the long term.

Design Considerations

How cash transfer programs are designed matters as much, if not more, than the choice between a cash transfer and an in-kind transfer program. While a well-designed cash transfer program can significantly alleviate poverty, a badly designed program can do more harm than good. Six design considerations are discussed in turn.

Insurance and Assistance: Matching Program Types to Needs

For formal sector workers, insurance is an important social protection, but social assistance (whether private or public or both) is needed for those who fall outside the insurance net, including those who are self-employed and those who derive their income from informal sector activities.

Insurance Can Play an Important Role in the Safety Net. The larger and deeper the formal sector in an economy, the greater the role that workplace-related social insurance can play in a safety net oriented towards cash transfers. For those who are employed by the formal sector, employer-related insurance-based schemes may be the most appropriate way to offset employees' risk of poverty due to loss of employment, old age, illness, maternity, or industrial accident. Insurance-based schemes have the advantage that they have no need to establish eligibility for benefits other than by requiring contributions.²⁰

Statutory social insurance programs are unlikely to provide workers outside the formal sector with an effective social safety net (Bailey 1994; van Ginneken 1999). The main reason for this is that the type of poverty risks traditionally covered under statutory schemes such as unemployment insurance may have little relevance in agrarian economies in which the poor simply cannot afford to be unemployed. Droughts, floods, or other natural and man-made disasters can trigger contemporaneous income losses among large rural populations. The unexpected loss of a spouse or close relative, a major illness or the breakup of the family can lead to large and sudden changes in household expenditure requirements (World Bank 2000a). These are risks that most statutory social insurance systems are ill equipped to address.

What is needed to provide the poor in developing countries with suitable social insurance coverage that incorporates community-specific knowledge and the underwriting (in value terms) of small risks (see box 1). One way of providing such coverage is through the use of microinsurance. Cooperatives, credit societies, nongovernmental organizations (NGOs), and community-based organizations already play an important role in expanding the access of low-income families to microinsurance in several developing economies. These insurance schemes generally provide a lump sum benefit to families who have suffered a serious illness, the death of a family member, or a major property loss. The better schemes have been able to tailor their social insurance products to meet the priority interests of their members, contain their administrative costs, and promote cohesion among their members. In some cases, partnerships

²⁰ Public subsidies for formal sector social insurance schemes may ultimately have a regressive effect on income distribution. Paukert (1968) showed that this might exacerbate poverty and inequity because of the favorable income position of formal sector workers to begin with.

among governments, donors, and NGOs have been used to lower contribution costs, provide subsidies for the very poor, and provide reinsurance guarantees (ILO 2000).

However, Those Outside the Insurance Net Need Social Assistance. Cash transfer assistance is one of the few options for those who cannot be expected to work or to gain an adequate income from employment such as the disabled, socially excluded children, the homeless, substance abusers, widows, and widowers. In many countries, there are special assistance programs that provide monthly cash allowances (and other support) to these groups. For disability and elderly assistance programs, cash transfers range from 25 to 50 percent of the minimum wage in low-income and middle-income countries, with higher levels of replacement income in upper-income nations.²¹

Box 1. NGO-operated Cash-transfer Programs: The Self-employed Women's Association in India

The Self-employed Women's Association (SEWA) was founded in 1972 as a trade union whose members are mainly poor women who work primarily as vendors, home-based workers, and laborers. SEWA operates a voluntary Integrated Social Security Program, in which 14 percent of its members (some 32,000 women) have joined. The scheme covers health insurance (up to Rs. 1,000), death and disability insurance (up to Rs. 10,000), and property insurance (up to Rs. 5,000). The insurance premium is about Rs. 60 (US\$1.50) per year for property and health insurance and an additional Rs. 15 for death and disability coverage. SEWA also manages a fixed deposit scheme in which members can make a one-time payment of Rs. 500 to Rs. 700 to obtain lifetime insurance coverage. In addition to premiums collected from members, one-third of the premium cost is financed through interest received from a grant provided by the German Technical Cooperation Agency and one-third through subsidies from the Life Insurance Corporation of India and the United India Insurance Company. The Indian Ministry of Labor has supervised the SEWA program and provides funding to the Life Insurance Company of India to help to defray premium costs.

Source: Jain (1999).

Cash Assistance Can Complement Private Transfers. In some developing countries, government-sponsored cash assistance is a last line of defense for households against adverse income shocks. Households typically rely first on their own savings and private transfers.

Morduch (1999) found that private transfers tend to be more important in rural settings and in low-income regions than in major metropolitan regions. He also found that private transfers are more important in “normal” periods than during shocks or severe emergencies.

Studies in Indonesia, the Philippines, and Russia and in the OECD states show that low-income families are likely to be net recipients of private transfers and that these transfers are probably quite significant to the beneficiaries. It is estimated that transfers account for between 2 and 41 percent of income for net receivers and between 1 and 8 percent of income for net givers (see annex table A9). In a study in Kyrgyzstan, Cox, Jimenez, and Jordan (1994) found that private transfers are provided to just 12 percent of the households but account for more than one-third of the incomes of the households who receive them. Cox,

²¹ Whitehouse (2000) reported that the “destitute” is a much smaller share of the retired population in eastern Europe and Latin America than in the OECD nations because their life expectancy is much shorter than that of average income earners.

Jimenez, and Jordan (1994) concluded that poverty incidence would be 25 percent higher among those receiving transfers had they not received them.

Empirical evidence suggests that informal transfers offer little protection during shocks or periods of covariate risk. Morduch (1999) reports that transfers in India typically amount to less than 10 percent of the size of typical income shocks in bad periods. Following the 1984 drought in the Sahel, transfers comprised less than 3 percent of the losses of the poorest households.

Sometimes informal private transfers may lead to the accumulation of debt and obligations that the poor cannot escape. In these instances, substituting a public “safety net” for a private coping system may be the best way to help families to break out of poverty. Understanding the ways in which low-income families normally cope with poverty (and the implications of their private coping strategies) can help government agencies to design cash transfer programs that complement appropriate household coping mechanisms.

Cash Transfer Safety Net Programs when Income and Means Are Hard to Quantify

In most industrialized nations, the government uses a combination of income and means tests to establish eligibility for cash assistance programs (see annex table A10). Incomes are recorded, savings and other assets are listed, and all of the information is reviewed and verified. Means tests are adjusted to take into account family size and other needs, while information is verified by checking pay stubs, tax receipts, and purchase receipts. In most cases, social workers will interview applicants, verify their living conditions, and confirm their eligibility for the program. The administrative cost of cash transfer programs ranges from 7 to 11 percent of total program costs in many OECD countries (OECD 1998a).

One of the major impediments to the use of cash transfer assistance programs in developing nations is that the means tests and income tests used to establish and verify beneficiary eligibility in the industrialized nations are too expensive to apply and would likely exclude large numbers of the poor. Experience in several developing countries suggests that it is the perceived fairness of both the targeting criteria and the decisionmaking process that has a critical influence on beneficiaries’ compliance and on the program’s effectiveness (Pritchett 2000). The poor may be excluded from programs if the criteria are too complex or demanding. If the criteria are not widely understood, the eligible poor may not apply and the better-off (and better-informed) households may lobby to become eligible. If local communities are excluded from the decisionmaking process regarding eligibility criteria, local officials may choose to exercise excessive discretion in implementing the eligibility guidelines.

The fact that incomes and means are difficult to capture and that the criteria used for screening must be widely understood and accepted does not mean that cash transfer programs cannot be targeted or that beneficiaries cannot be effectively identified. There are several ways in which beneficiaries can be screened, identified, and verified, even in settings in which accurate income and means information is difficult to obtain.

Income and Means-tested Programs Are Sometimes Possible. In some cases, incomes and means tests are possible, particularly in middle-income developing and transition economies. For example, Kyrgyzstan implemented a full means-tested unified monthly benefit program in 1998 in which family incomes were subject to detailed calculation, taking into account wages,

pensions, other benefits, crops produced for own consumption and sale, cattle, and other sources of family wealth. Households whose income was below Som 100 (the guaranteed minimum income or GMI) were compensated for the difference between their actual income and the GMI. In 1999, the number of beneficiaries in the unified monthly benefit program was estimated to be 574,000 or some 13 percent of the total population. The GMI was set initially at a level estimated to be between one-fifth to one-third of the poverty line (ILO 2000).

In most developing nations, sophisticated income and means tests are unlikely to work well in practice because a large number of the poor earn their incomes in informal sector activities, have their savings in assets and other nonfinancial forms, or have income sources that are difficult to verify (such as transfers from kin). Without pay slips or bank records, it is difficult to verify their incomes and means, and poor households are unlikely to have written income or expenditure records. Even the task of submitting a written benefits application may be daunting for them. In such circumstances, the costs of collecting accurate income and means information can be very high (van de Walle 1998), and when programs rely on household members recalling details of their incomes or expenditures to assess their eligibility, this is liable to lead to significant under-reporting of both.

Categorical Indicators Can Be a Proxy for Formal Means or Income Testing. In some circumstances, it may be more appropriate to use categorical indicators (or proxy means tests) to identify program beneficiaries rather than to use a formal income or means test. Very simple means tests that rely on either specific social or geographic categories of the poor or proxies for income and assets can be used. These have been shown to yield reasonable targeting outcomes (Grosh 1994).

Categorical approaches rely on individual or family characteristics that are highly correlated with poverty but are more readily observable. The elderly, the disabled, orphans, the homeless, substance abusers, widow/widowers, single-parent families, and disaster victims are some of the social categories used to target social assistance. The main advantage of using such categories is that the beneficiaries are administratively easy to identify, provided that eligibility is clearly defined.

In some cases, the vast majority of the poor can be identified by using just a small number of categorical indicators. Milanovic (1998) showed that in Bulgaria, Estonia, and Hungary, if programs were to target the elderly, large families, and the unemployed, they would capture more than three-quarters of the poor. Using categorical indicators to define program eligibility may be the only way to capture the “hard core” poor (such as the homeless, institutionalized children, and substance abusers) as they are often socially excluded from both the labor force and from family and enterprise-related sources of social assistance (La Cava and Nanneti 2000).

Proxy means tests are an increasingly popular way of targeting cash transfers. This involves collecting multiple indicators at the household level that are more easily observed than income but that are highly correlated with it. Proxy means tests originated in Chile and are now used in social assistance programs in Armenia, Brazil, Colombia, Ecuador, Indonesia, Russia, and Zimbabwe (Grosh and Baker 1995; Sambanis 1999). In proxy means-tested programs, indicators such as quality of housing, ownership of durable goods, access to services, education attainment, and the occupational characteristics of the household head are used to assess the household’s living standards. The kinds of easy-to-observe indicators that

are used in proxy means tests tend to be fairly stable over time. As a result, this method works better at targeting the chronically poor than in targeting those whose incomes have fallen during crisis periods.

One of the best (and most sophisticated) examples of the use of a proxy means-tested cash transfer program is Chile's social passport (FICHA CAS) system, which started in 1980. A simple form was originally used to collect information on 14 household variables. These were given a score and combined with information from household surveys and reports from social workers' visits to determine eligibility for family allowances and social pensions. In the early 1990s, the FICHA CAS survey form was revised to collect information on the household's income, wealth, and access to social services. Then the information was computerized and eligibility automatically determined. An evaluation of the FICHA CAS program showed that 72 percent of the program benefits reached the poorest 30 percent of families and that administrative costs were just 5.4 percent of total costs. Impersonal scoring helped to ensure that the needy enroll and that families exit when their welfare standards improve (Subbarao 1999).²² Chu, Davoodi, and Gupta (2000) reported that improving the program's targeting raised the share of benefits that accrued to the poorest quintile in Chile from 32 percent in 1992 to 40 percent in 1996.

Geographical Screening Can Be Used to Target Cash Transfers. Geographical screening can also be used to screen households for cash transfer programs. In countries such as Bolivia and Chile where poverty is concentrated in certain regions and the distances between affluent and poor regions are great, geographical targeting can be used to complement the use of other forms of categorical indicators (Grosh 1994; World Bank 2000a).

Geographic "osmosis" can also be used as a way of extending program coverage from programs that have been pilot-tested in major urban centers to the surrounding secondary cities and rural areas. For example, a minimum livelihood protection scheme (cash assistance scheme) was first established in Shanghai in 1994. By the late 1990s, it had been extended to 129 other cities and five rural regions--Guandong, Guangxi, Shandong, Shanxi, and Shanghai (Hu, Cai, and Zhai 1999).

However, geographic targeting may also exacerbate regional inequity if local governments are obliged to finance cash transfers. Differences in the fiscal capacity of "poor" and "wealthy" jurisdictions may lead to people in poorer jurisdictions losing out. Milanovic (2000) reports on such a case in Latvia. In that nation, the social assistance program is highly concentrated, providing nearly 20 percent of the income of the 1.5 percent of Latvian households who receive it. However, the program was found to exclude those with equal levels of impoverishment who lived outside of the capital city, Riga, because the transfers were funded primarily by local sources of finance. Similar results were reported in the case of locally financed social assistance programs in China (Hu, Cai, and Zhai 1999).

Community-based Assessment Can Be Used to Target Cash Transfers. In community-based assessments, a local authority or committee is empowered to made decisions about

²² The 1981 Chilean social security reforms also streamlined the number of bureaucracies that provided the benefits, lowered contribution rates, standardized benefit coverage, and established a mandatory privatized savings plan operated by regulated intermediaries, the *Fondos de Pensiones*. All workers must contribute 10 percent of their monthly earnings for retirement coverage. The *Fondos de Pensiones* also provide disability and survivor's insurance for which the workers must pay an additional charge (Diamond 1996).

who should receive the program's benefits. The main advantage of community-based assessment is that people who are familiar with the community identify those who are truly needy. The main disadvantage of this approach is the risk that local elite groups will claim program resources for themselves.

The social assistance (NE) program in Albania involves the use of block grants and the selection of beneficiaries by the local government. Under the NE program, families apply to the local community's social assistance office. The program administrator estimates the household's needs according to its size and landholdings. The program defines core compensation in terms of a standard amount for the first adult in the household and lower amounts for other household members in different age brackets. Any unemployment insurance benefits and pensions that the household receives are subtracted from this amount. Also subtracted is an estimate of potential earnings from any land owned by the household. This is based on a formula that multiplies per capita land ownership times a coefficient that varies by the quality of the land owned. Households whose earnings are above the maximum limit (set in August 1996 at 5,375 lek or US\$51.43) receive no benefits.

An evaluation conducted between August and November 1996 showed that virtually half of all of Albania's poorest households received some assistance from the NE program. Relatively few of the comparatively well off households received any assistance. The poorest decile of income earners received 36 percent of the total NE expenditures. The evaluation concluded that local authorities appear to have access to information on beneficiaries that is not easily captured in household surveys and that they use this information to allocate program benefits.

Another example of a community-targeted program is the means-tested pension in Bangladesh, which was launched in 1998. Ninety people in each of the nation's 4,479 districts receive a pension of 100 takas (about two dollars) per month, with the beneficiaries being chosen by local religious and other community leaders (ILO 2000).

Conditional Cash Transfers. Another way of targeting cash transfers is to link their receipt to school attendance, energy consumption, or attendance at health clinics or nutrition centers. Conditional cash transfers have the dual benefit of involving the agencies that deliver public services (in other words, schools, clinics, or utilities) in the targeting while encouraging behavior from recipients that reduces the risk of them falling into poverty in the future.

Several countries operate assistance programs that make cash transfers conditional on either basic needs triggers, such as utility offset payments in post-socialist states, or behavioral changes as in the case of education and health grants in various parts of Latin America.

Cash transfers are provided in a number of post-socialist states to defray the cost of utilities above a certain limit for most households. The rationale behind these utility offset payments is that low-income households, especially pensioners, cannot afford to pay the cost of even a basic (often termed "lifeline") amount of heating, electricity, and water services. This is especially the case in countries where pensions remain fixed and utility tariffs are adjusted to eliminate subsidies. It is also compounded by the fact that many households live in (newly privatized) apartments where they have no way to regulate their own energy use. In these instances, the government gives the household a cash transfer, conditional on the household's inability to afford a "lifeline" amount of basic utilities.

Since 1996, Lithuania has operated such a conditional transfer program. Under that program, households whose monthly utility bill (for heating, electricity, gas, and water) exceeds 25 percent of their income are given a cash subsidy to cover the excess cost. A ceiling is placed on the subsidy amount based on certain technical norms. These take into consideration the size and expected energy use of a standard residential property. A preliminary evaluation of the program suggests that the benefits mainly accrue to low-income pensioners and that transfers have been especially important in preventing extreme hardship during the winter months (Lazutka 2000).

Throughout Latin America, there are a number of programs that provide cash grants to low-income families with young children on the condition that the families visit health centers and/or keep their children in school. The underlying concept of the programs is similar to that of the conditional transfer programs; in other words, cash grants are given to the poor conditional on them behaving in ways that reduce child labor and lead to a long-term improvement in their children's human capital. The programs provide a modest safety net transfer that helps to reduce the household's current poverty while increasing the educational attainment and/or health outcomes of its members. Such programs also aim to reduce child labor by requiring minimal attendance in school. Some of these programs support upgrading the quality of schools and health facilities used by the poor (Sedlacek, Ilahi, and Gustafsson-Wright 2000).

In Brazil, a number of such conditional transfer programs have been introduced in recent years (World Bank 2000c):

- The school scholarship (*bolsa escola*), which started in 1995 in Brasilia and Campinas. Under this program, a monthly salary is paid to each family if all of their children are in school each month. By 1998, there were 60 such programs operating in different municipalities that provided assistance to some 200,000 families. The programs are financed and implemented by local governments. These programs target families with incomes less than half the minimum wage.
- The federal government started the *peti* program of educational grants in 1996. By 1999, it was reaching 130,000 mainly rural children. Designed to combat child labor, the program aimed at funding education for children who otherwise would be likely to work. *Peti* pays a transfer to local schools for every child in the program. Most of this transfer is intended to fund the *jornada ampliada* or the extended school day.
- The school savings program (*poupanca escola*), which started in Brasilia in 1995, deposits a certain amount of money in a savings account for students receiving the school scholarship who are promoted to the next grade. Up to half of the amount deposited can be withdrawn when the student finishes fourth grade and enrolls in fifth grade. Another withdrawal can be made when the student finishes eighth grade and enrolls in the first year of secondary school. Once again, only half of the amount can be withdrawn. The student can only withdraw the entire amount deposited if he or she finishes secondary school. If the student quits school at any time, he or she loses the amount that has been deposited.
- The literacy scholarship, also implemented in Brasilia, is a program in which the government or an NGO "buys" the first letter written by an adult at the conclusion of his or her literacy course.

In Mexico, the *Progresa* program replaced the tortilla subsidy in 1997. By 1999, it was reaching some 31 states and covering 2.3 million families. In addition to providing grants to families who keep their children in school and participate in public health programs, *Progresa* provides complimentary support to schools and health clinics in the form of additional funding. *Progresa* uses a combination of a minimum income line (or the cost of a standard food basket) and an index based on assets and access to services to determine who is eligible to participate. The level of the grant increases as the child grows older, reflecting the higher opportunity cost of keeping children out of the workforce. It is also higher for girls in secondary school to try to reverse a tendency for girls to drop out of school at an early age.

Recent evaluations of these programs have found that they are generally well targeted, they elicit substantial community support, and they have made positive strides toward achieving their behavioral objectives. In the case of the *bolsa escola* program, a comparison of program data (the experiment group) and school census data (the control group) revealed that drop out rates among beneficiaries were much lower (0.4 percent in 1996) than among nonbeneficiaries (5.6 percent). A larger proportion of the children in beneficiary households enters the school system at the right age than do their nonbeneficiary counterparts. Children in beneficiary households have a higher promotion rate (80 percent) than their counterparts in nonbeneficiary households (72 percent). Also, transferring a minimum wage--R\$130 in November 1998--to families whose average household per capita income was R\$44.35 significantly improved their living standards (Sedlacek, Ilahi, and Gustafsson-Wright 2000; World Bank 2000c).

The Mexican *Progresa* program has also demonstrated positive results. A systematic comparison of program and control groups revealed that the program increased primary school attendance by 2.2 percent from a high base of 92 percent. The gains in secondary enrollment were even more significant; it increased by 8.4 percent from a base of 65 percent. The number of health visits increased by 20 percent in areas covered by the *Progresa* program but by only 5 percent in areas where it was not. For families with children under the age of five, it increased by 30 percent and for those with pregnant women by 16 percent. In terms of household nutrition, there is evidence that beneficiary families increased their expenditure on some important food items by one-third more than nonbeneficiary households (Sedlacek, Ilahi, and Gustafsson-Wright 2000).

The conditional transfer programs have not been without their problems. Cash transfers for energy offsets tend to discourage energy conservation. For the education-related transfer programs, undercoverage of the poor is a problem, especially when assistance is tied to the presence of school-age children. The rationale for setting the cash grant at one level or another must balance administrative simplicity with the need to combat immediate poverty on the one hand and the need to provide compensation for the income loss that families are likely to incur if children are not working on the other. While decentralized implementation has been shown to be reasonably effective in improving targeting, the poorest jurisdictions are the least able to afford to finance transfer programs from their own revenues.

Conditional transfer programs that are targeted add an additional layer of policy and complexity to the social safety net. Their designers need a fairly sophisticated understanding of what problem they are trying to address and, therefore, what progress they hope to achieve. Is poverty most acute for those who cannot afford utilities? Is poverty reproduced from generation to generation because of a lack of educational achievement? If so, how can one ensure that utilities are affordable or that students will attend school and receive a reasonable

education? Setting safety net program priorities becomes more complicated when assistance is explicitly linked to a range of objectives that involve modifying the recipients' behavior.

Easy to Verify Assistance Programs: Family Allowances and Social Pensions. Another way of overcoming the high information cost of cash transfer programs is to design programs that either provide universal benefits or incorporate easy-to-verify criteria for identifying beneficiaries. The main advantage of such programs is that eligibility is relatively easy to access and verify. The main disadvantage is that some portion of the program's benefits is bound to leak to the nonpoor.

One of the least information-intensive types of categorical cash transfer programs is the family assistance grant (see box 2). These can take various forms, such as child benefits, family allowances, birth grants, child-related tax deductions, and child care allowances. These cash transfer programs provide assistance to families to defray the costs of raising children and supporting household dependants (see annex table A11). In Europe, family allowances were one of the earliest forms of anti-poverty programs (see box 2). Among the OECD nations, the Nordic countries spend the most on family transfers, with benefits ranging from 3 to 5 percent of GDP (OECD 1998b). Several transition economies also had family allowance programs that cost as much as 4 to 6 percent of GDP in the mid 1990s (Braithwaite, Grootaert, and Milanovic 2000).

Box 2. Family Allowances

The family is the main form of social organization in most countries. Governments provide family allowances to help to offset the costs associated with raising children and to ensure that children have adequate nourishment and shelter.

Some family allowance systems are designed to be either implicitly for or against large families. An example of the former is Spain, where families with three or more children are given higher allowances as well as a range of other concessions. Examples of the latter are the programs in Korea and Iran that restrict benefits to families with two children or less. While not pro-family in orientation, many programs offer additional assistance to cover the higher costs associated with large families, such as the large family supplement in Australia and the higher rates of assistance for later children in larger families in Belgium, France, and Norway.

The generosity of the benefits varies considerably in family assistance programs, largely through limits set on age eligibility for assistance. Japan, for example, restricts child assistance payments to families with children younger than three years of age. The Slovak Republic provides benefits up to the age of 26 if an individual is still a student.

Venezuela adopted a family allowance program in 1996 aimed at families with children in school in marginal urban, indigenous, or frontier areas. A subsidy of approximately US\$9 per month per child was provided up to a maximum of three children per family. Almost all of those eligible (almost 3.1 million children) benefited from the family allowance. The administrative costs of the program were reported to be quite low, at 0.28 percent of total costs (Leach 1999b).

In the majority of countries, family assistance programs give a flat-rate benefit to all families depending on the number of children (or dependants). The main advantages of the flat rate benefit are the "universal appeal" of the program and the fact that a flat rate benefit provides more assistance to the poor than to the wealthy. However, the main disadvantages are the targeting error and the high fiscal costs.

In a number of countries, family assistance programs are means tested, with income or asset screening tests used to exclude upper-income earners. In Australia, both cash transfers and family assistance tax relief are means tested to exclude about the top 20 percent of income earners. In 1997, Greece substantially increased its family assistance benefits while limiting access to the bottom half of the income spectrum (those earning less

than dr.7 million per year). Since 1998, Italy has means tested its family allowances and has limited these to wage earners and pensioners.

Family benefits can also be made more progressive by altering the benefit structure to give preference to low-income families. Italy, for example, provides higher cash benefits to families with lower incomes. Luxembourg has a sliding scale for family allowances, with no allowances at all provided to those families with incomes above LF.2.4 million.

Many countries also have special provisions for handicapped children in their family allowance programs. In Turkey, families with disabled children are eligible for special pensions. Spain, for example, provides three gradations of payments according to the assessed disability of the child. Ireland and the United Kingdom have additional programs of financial support for families providing home-care for disabled children.

Source: OECD (1998b).

Demographics may dictate against the provision of universal family transfers in developing countries. In the industrialized nations, only 18 percent of the total population consists of children between the ages of 0 and 14. In developing countries, the share ranges from 44 percent in sub-Saharan Africa, to 35 percent in South Asia, and 32 percent in South East Asia, Latin America, and the Caribbean (ILO 2000).

The degree to which family allowances assist the poor depends very much on the correlation between family size and poverty, whether or not the programs are further restricted to certain categories of the poor, and the way in which the programs are financed (Lanjouw and Ravallion 1995; Atkinson, 1995). In Hungary, the poor typically have much larger families than the nonpoor, meaning that the poor benefit more from family, maternity, and childcare allowances (Grootaert 1997). In Rumania, family allowances were designed to benefit low wage earners with large families but were confined to employees of state enterprises, few of whom would be classified as poor. One study found that 80 percent of family allowances accrued to the non-poor (Hassan and Peters 1994) in Bulgaria because of the weak correlation between family size and poverty. In several transition states, family allowance benefits are financed from payroll taxes that are also used to fund retirement benefits,²³ forcing a trade-off between old-age and child-based assistance (Braithwaite, Grootaert, and Milanovic 2000; Subbarao 1997).

In several post-socialist economies, family assistance payments have been eroded by inflation and have become increasingly inadequate to offset child-rearing costs for low-income groups (Sipos 1994; Fajth 1994; Fajat and Zimakova 1997). In some transition states, allowances for children placed in foster or institutional care are significantly higher than family allowances provided to low-income families. This has contributed to a doubling of the number of children placed in infant homes between 1989 and 1998 in Armenia, Belarus, Bulgaria, Estonia, Kazakhstan, Latvia, Romania, and Russia (UNICEF 1999).²⁴

²³ In Russia, the family allowance, allowance for disabled children, and allowances to single mothers not receiving alimony are all financed from the pension fund. In Lithuania, disability allowances, maternity leave, family allowances, and social assistance for the destitute are also financed from the pension fund.

²⁴ Fajath (1994) and Fajath and Zimakova (1997) attributed the rapid increase in the number of children placed in institutional care to deepening poverty, rising health care costs (including for birth prevention services), and limited benefits for the unemployed and the destitute.

Cash transfers to the disabled are another example of needs-based assistance programs based on readily verifiable beneficiary characteristics (see annex table A12). Cash transfer programs for disabled individuals cost more than 2 percent of GDP in Finland, Luxembourg, the Netherlands, Norway, Portugal, Sweden, and the United Kingdom. These countries have a high ratio of disabled beneficiaries (more than 3 percent of the workforce), and benefits are most prevalent amongst older workers (OECD 1998a).

Careful specification and application of beneficiary eligibility requirements is one of the keys to designing suitable social assistance programs for the disabled. There is a tremendous range in the incidence of those classified as disabled, depending on whether disability is defined using strict medical criteria (as an inability to work on health grounds) or in terms of an inability to earn income in one's traditional vocation. Where a more "vocational" definition of disability has been used, such programs have often been used to compensate those who have become unemployed due to economic restructuring. This has tended to swell the ranks of those classified as disabled, contributing to competition for funding between those classified as medically and vocationally disabled.

While disability compensation is sometimes provided to the disabled (or their families) in developing countries, it is more often the family, a nonprofit organization, or the community that bears this assistance burden. In addition to cash transfers, there is also considerable scope in most developing economies for programs aimed at preventing disabilities and for community-based care and reintegration (Elwan 1999). Programs aimed at encouraging the inclusion of the disabled in the workforce through employer subsidies and sheltered employment can also be used to target cash benefits to the disabled while promoting their inclusion, empowerment, and full participation in society.

Social pensions are another form of cash transfer program with low information costs. In countries that have experienced a rapid demographic transition, increasing numbers of poor individuals are likely to survive into old age. The elderly poor are also likely to be especially vulnerable to economic shocks that affect the value of their savings or the earnings of their offspring.

Flat-rate social pensions are financed either from general revenues, a flat-rate earnings tax, or a surcharge on payroll contributions.²⁵ Access to such programs is typically based on residency and a birth or school record. Because women tend to live longer than men, social pensions may help to redress income inequities resulting from gender bias.

In most industrialized economies, social pensions consist of a flat-rate benefit with a means-tested supplement (in cash and in kind) for people with low incomes. These are generally paid to those above 65 years of age. Social (public flat rate) pensions in 1995 were equivalent to 27 percent of average wages in Australia, 31 percent in Austria, 29 percent in Belgium, 14 percent in Canada, 36 percent in the Czech Republic, 25 percent in Finland, 45 percent in France, 37 percent in the Netherlands, 42 percent in New Zealand, 19 percent in Norway, 15 percent in Sweden, 44 percent in Switzerland, 20 percent in the United Kingdom, 15 percent in Greece, 29 percent in Ireland, 18 percent in Italy, 24 percent in Japan, and 22 percent in the United States (Kalisch, Aman, and Buchele 1998).

²⁵ France is an exception, with taxes on alcohol and non-alcoholic drinks subsidizing the basic pension.

Botswana and South Africa are the only African nations to provide statutory social pensions to all of their elderly population (Case and Deaton 1998). In most developing nations, publicly guaranteed pensions are given only to those who contribute to statutory schemes, effectively excluding large numbers of rural and informal sector households. Where there is no publicly funded social pension, the benefits of statutory old-age income security are largely confined to public sector employees and workers in the formal sector, the vast majority of whom are not poor.

Several countries in Latin America require that social insurance systems pay a flat-rate minimum pension to all of the elderly as a way to combat poverty in old age.²⁶ Where the coverage of the social insurance system is relatively extensive, as in Argentina, Brazil, Chile, and Uruguay, the evidence suggests that the poorest urban elderly groups rely almost entirely on social pensions. In those parts of Latin America in which social pension coverage is limited, the elderly poor rely primarily on their own earnings (ILO 2000). Monthly minimum social assistance pensions in 1998 were US\$113 in Argentina, US\$109 in Brazil, \$52 in Chile, \$25 in Costa Rica, and \$134 in Uruguay (ILO 2000).

Recent pension reforms in Latin America have expanded coverage to the elderly poor. In 1996, Bolivia converted its contributory state pension system, which had been plagued by insufficient funds and small coverage, into a universal pension system with individually capitalized and privately managed retirement accounts. The 1996 pension law also created the *Bono Solidario* (*Bonosol*), which is a fixed payment (of US\$248 per person or one-third of per capita GDP) for the first five years to all those over the age of 65.²⁷

Allow Program Generosity to Increase with Economic Development

How generous should a cash transfer program be? Ultimately benefit generosity is a balancing act in which considerations of need, affordability, and the expected incentives of the program all play a role. On all three counts, there are reasons to believe that cash transfer programs in lower-income countries should be significantly less generous than in upper-income countries and that the transfers should become gradually more generous as the country's economic development proceeds.²⁸

Benefit generosity is commonly defined in terms of replacement income. This compares cash benefits (either gross or net of tax) to past earnings, the earnings of an average production worker, the minimum wage, or average incomes. By definition, a high replacement income is more generous than a low replacement income. Benefit generosity is also expressed in terms of ease of access to benefits, the duration of benefits, the level of in-kind assistance provided in conjunction to cash benefits, the stringency of benefit-retention requirements, and the size of

²⁶ In Latin America, about a quarter of those in the bottom income quintile are people 65 years of age and older (World Bank 2000a). In parts of Latin American (such as Bolivia, the Dominican Republic, and Paraguay), low-income elderly households continue to work and draw the majority of their income from their earnings. In others (such as Argentina, Brazil, Chile, Panama, and Uruguay), public pensions provide the majority of household earnings for the poorest pensioners (ILO 2000).

²⁷ Initially, the *Bonosol* program suffered from funding shortfalls and fraud problems. This was a result of the lack of an accurate birth and death registry (Leach 1999a).

²⁸ Chu and Gupta (1997) made this argument forcefully for the transition states. Mabbett (1996) showed that social insurance programs (including public pensions) are unlikely to have a significant impact in reducing or preventing poverty in countries with a weak link between paying benefits on the basis of contributions or work history and living standards. Mabbett illustrated this using data from Moldova.

co-funding requirements for public insurance and assistance. Income replacement rates for low-income families receiving a typical package of social insurance and assistance benefits in the OECD states are shown in annex tables A13 and A14.

The 1952 United Nations Convention on Social Security established a set of minimum standards for the coverage and generosity of social security systems. International Labour Organization (ILO) Convention No. 102: Social Security (Minimum Standards) identifies nine main areas of social security contingencies: medical care, sickness benefit, unemployment benefit, old-age benefit, employment injury benefit, maternity benefit, invalidity benefit, family benefit, and survivor's benefit. The Convention states that social security programs should replace at least 70 percent of income. As of 1999, more than 100 states have ratified one or more parts of this convention. However, very few developing countries meet the ILO Minimum Standards test, in terms either of the risks covered or the generosity of the benefits that they provide (ILO 2000).

Social (cash-based) assistance programs in developing countries typically provide benefits that are considerably less than “minimum incomes” and certainly far less than the “minimum standards” requirements established under the ILO Minimum Standards convention (ILO 1952). For example, in China, regular social assistance in rural areas was paid to 3 million people at rates that varied (in 1994) from 120 to 280 yuan per month or one-quarter to one-third of the poverty line income. In urban areas, social assistance payments ranged from 481 to 585 yuan per month or just under a third of the average poverty line income (Hu, Cai, and Zhai 1999). In India, a monthly social assistance pension ranging from Rs.50 to Rs.120 is granted to the elderly, widows, and the disabled without income or family support. These payments are less than 10 percent of the poverty line household income in most states (Jain 1999).

One of the most frequent complaints about both social insurance and social assistance in developing countries is that the sums provided are too small to eliminate poverty for the beneficiary groups (van Ginneken 1999). However, this raises an important question--should cash assistance benefits in developing countries be more generous?

If benefits are very small, then the program may not provide much of a safety net, and it may become quite expensive to administer. In extreme cases, the costs of ensuring compliance may be even greater than the benefits provided to the poor. However, the fact that some programs provide only a small cash transfer does not imply that a significantly more generous benefit level is warranted.

The first reason for this is that a full income-replacement cash transfer may not be needed to close the poverty gap in developing countries. In many upper-income countries, an interruption of the employment of a household member implies that the household's earnings will fall significantly and household income must be substantially "replaced" if poverty is to be avoided. In developing economies, a change in employment status may simply mean that the breadwinner has shifted from the formal to the informal sector or from relying mainly on his or her own earnings to relying more on an informal transfer from a family member.

In developing countries, the poor population cannot afford to be “unemployed” for very long. The poverty gap for these households is not a full replacement of income but is the difference between what they are able to earn in the informal sector plus what they are able

to receive in private transfers and the level of expenditures they need to meet their minimum consumption standards. The poverty gap will vary by various categories of poor households but, in practice, it is less than the replacement income of a family whose earnings are at the level of the poverty line.

A second reason why generous programs may not be appropriate is affordability. Domestic revenues in developing countries range from 15 to 20 percent of GDP. In industrial nations, domestic revenues are two to three times this amount (Tanzi and Schuknecht 1997). A low domestic revenue base precludes developing country governments from funding generous cash transfer programs for a large segment of the population.

If the poverty deficit (in other words, the sum of all individual poverty gaps) is as much as 3 to 5 percent of GDP, it would probably require cash transfers of two to three times that amount (with expected leakage and targeting error) to raise the incomes of all poor families at least to the level of the poverty line. This implies that transfers on the order of 6 to 15 percent of GDP would be required to close the gap fully, but these are amounts that few developing country governments are able to mobilize.

The third reason why less generous programs may be appropriate in a developing country setting has to do with adverse incentive effects. The more generous the cash transfer program, the more such programs are likely to discourage (or crowd out) private transfers, to encourage individuals to behave in ways that will gain and retain their program eligibility, to discourage thrift and precautionary savings, and to encourage those not covered by the program to try to claim benefits as well. This is especially the case in countries where there is a large near-poor population.²⁹

It is easier to specify the appropriate size of cash transfer benefits if we divide the target poor population into two groups. The first are those who are unable to work, are unlikely to have recourse to private transfers, and have few savings to fall back on. Victims of natural disasters would fall into this category. For this group, a cash transfer program would have to be set at or close to a “minimum income” level to offset the risk of poverty.

The second, and typically much larger group, is the working (or community-assisted) poor. The cash assistance needed to defray the poverty risk for this group is equal to their expected poverty gap. This is the difference between the household’s poverty threshold income and its likely earnings, expected private transfers, and net drawdown of its private savings.

For certain groups--such as farmers experiencing a seasonal downfall in a commodity price--the poverty gap may be both so small and temporary that the appropriate level of cash assistance would be too small and too limited in duration to be provided in a cost-effective manner. For those households suffering from structural (or chronic) poverty, the poverty gap may well be larger and less volatile over time. A cash transfer program that provides a level of benefits equivalent to the average poverty gap for this group can be expected to play a valuable role in protecting minimum consumption standards.

²⁹ Generous transfer programs may simply crowd in the rich and crowd out the poor. Milanovic (1998) reported that, in the mid 1990s, the share of the poor that received no social assistance was 90 percent in Estonia, 67 percent in Hungary, 93 percent in Poland, and 87 percent in Russia. In Bulgaria, 88 percent of social assistance leaked to the nonpoor (Hassan and Peters 1994).

Household needs (in other words, poverty gaps), program affordability, and the expected magnitude of adverse incentive effects change as a country's economic development proceeds. At a higher level of economic development, a larger segment of the labor force tends to be employed in a wide range of urban-based, formal sector occupations. Both life expectancy and time spent in retirement increase (World Bank 1996). The need for more generous cash transfers to protect against poverty will be greater in circumstances in which opportunities for informal sector employment, self-employment, and home-production of subsistence goods are less readily available. The importance of private transfers and community coping mechanisms tends to diminish as economic development proceeds. With economic growth and urbanization, tax bases broaden and government resources increase. Urbanization also creates certain economies of scale in screening recipients and administering cash transfers. Moreover, as the number of working poor households diminishes, the minimum wage tends to rise above the level of the subsistence poverty line.

Avoid Adverse Labor Supply Effects

One of the key challenges in the design of cash transfer systems is to balance the individual's need for assistance against the adverse effects on the labor supply that may arise from providing transfer payments. The actual effects that cash transfers have on the labor supply depend very much on the causes of unemployment, the institutional characteristics of the labor market, and the manner in which transfer programs are designed (Atkinson 1996, 1999). However, experience in the industrialized economies suggests that cash transfer programs can put upward pressure on wages, bias consumption toward leisure instead of labor, stimulate shirking behavior, discourage job searches, encourage early retirement, introduce rigidities into the labor market, and ultimately raise the long-term unemployment rate (Kanbur, Keen, and Tuomala 1994; OECD 1998b,c; Karni 1999). Because labor is abundant in most developing nations, measures that discourage employment can both reduce the long-run economic growth rate and penalize the poor.

In developing and transition economies, incentives to seek work are very strong indeed. However, many of the poor find work in the informal or shadow economy. High rates of payroll taxes that are used to finance social benefits are cited as one of the principal causes of tax evasion and of a tendency for development to take place in the informal or unregulated sector (Schneider and Enste 2000).³⁰ A strong incentive to avoid the burden of tax and social security contributions combined with a high degree of regulation and the deterioration of public sector services inspires many people to operate in the shadow economy. The close links between welfare spending, high taxes on labor, over-regulation, a low tax yield, and low-quality public services may trap them there.

Cash transfer benefits can contribute to setting poverty traps, in which the incentives for an individual to seek work (and lose benefits) are less than the incentives for them to remain as a transfer recipient (Meyer 1995; Ellwood 2000). Generous unemployment insurance programs in Algeria, for example, have contributed to high rates of long-term unemployment and chronic fiscal imbalances (Ruppert 1996). In Hungary, the Netherlands, Poland, and the

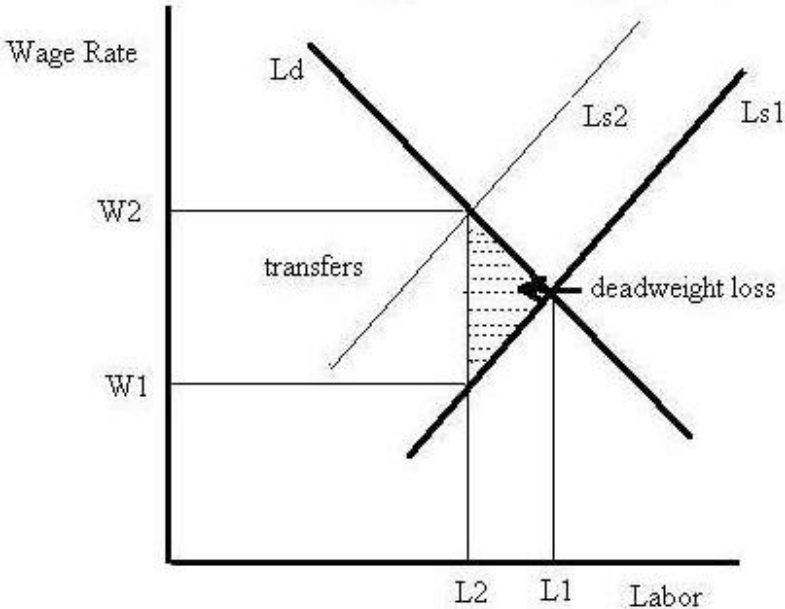
³⁰ Schneider and Enste (2000) reported that the shadow economy as a share of GDP in 1989-90 was 65 percent in Bolivia, 37 percent in Chile, 68 percent in Egypt, 61 percent in Guatemala, 39 percent in Malaysia, 76 percent in Nigeria, 62 percent in Panama, 44 percent in Peru, 50 percent in the Philippines, 40 percent in Sri Lanka, and 71 percent in Thailand. The share of the shadow economy in transition economies in 1994 to 1995 was reported to range from 30 percent (Uzbekistan) to 54 percent (Ukraine) of GDP.

United States, generous occupational disability programs have resulted in a large segment of the labor force becoming classified as permanently disabled (OECD 1999).³¹

The main ways in which transfer programs affect the labor market can be illustrated using a highly simplified model of the labor market (see figure 3). Imagine that there are two groups. The first group consists of the employed (group A) who are taxed to finance transfer payments, and the second (group B) consists of the recipients of transfer payments.³² The levying of the tax to finance transfers causes the labor supply curve to shift from Ls1 to Ls2, the equilibrium wage to rise from W1 to W2, and employment demand to fall from L1 to L2. Transfers to group A are represented by the square box and the deadweight loss resulting from the transfer by the triangular box. The loss, in terms of the value of forgone economic output, is the difference between production at output level L1 and output at a lower level of employment L2.

How does the transfer affect the labor market activity of the recipient? At one extreme, we can imagine that transfer recipients comprise solely those who are simply unable to work (young children, invalids, and the very elderly). In this case, their labor supply is unaffected by changes in the wage rate, and transfer payments have no effect on their employment.

Figure 3: Effect of the Tax to Finance Transfers on the Labor Supply of the Working Population



At the other extreme, imagine that transfer recipients comprise those who could potentially work (or increase their work effort), such as the structurally or cyclically unemployed. This group’s labor supply responds to higher wages, and must decide, at the margin, between working in the formal sector or receiving a transfer payment. In this case,

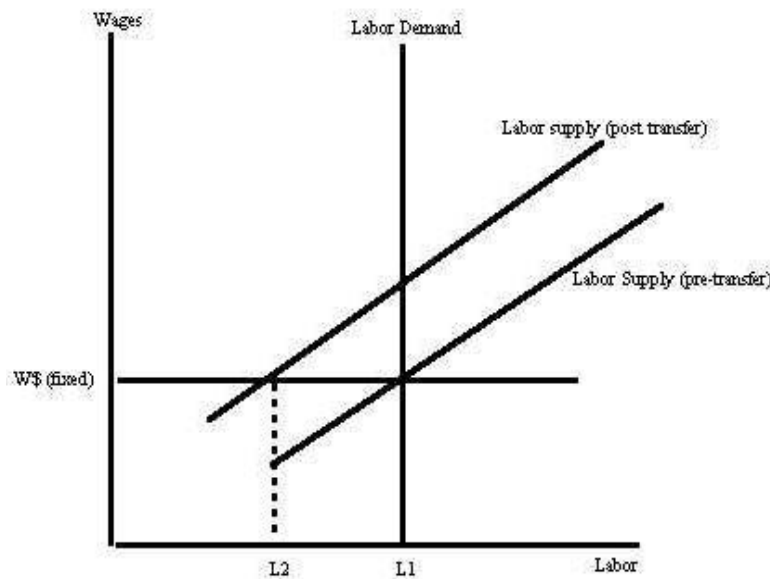
³¹ OECD (1999) reported that disability transfer recipients range from 7 per 1,000 labor force participants in Chile to 200 per 1,000 labor force participants in Poland.

³² The latter group may well be unemployed or working in low-productivity positions in the hidden economy.

the transfer payment increases the reservation wage at which recipients are willing to accept employment or to increase their level of employment. This is illustrated in figure 4. The labor supply curve of the transfer recipients shifts to the left, from L_s (pre-transfer) to L_s (post-transfer) because they receive some income without working. The effect on employment depends on the nature of labor demand. If labor demand is perfectly elastic (in other words, is not affected by the wage rate) and the wage rate is fixed, then employment falls from L_1 to L_2 with a maximum loss of output.

While these simplified models ignore important features of the labor market, they do illustrate the risk that overly generous transfer programs will raise wages and reduce employment, both among those who bear the cost of the transfers and among transfer beneficiaries. In terms of the impact on the poor, much depends on who the transfer recipients actually are. The lower the labor demand and the supply elasticities of the transfer recipients, the lower the potential output loss and the lower the risk that adverse labor supply affects will offset the welfare-improving effects of safety net transfers.³³ The more that cash transfers are provided to those groups who cannot be reasonably expected to work (or work more), the lower the likely adverse labor supply effects.

Figure 4: Labor Supply of the Poor With and Without Transfers



Cash assistance programs may cause recipients to become welfare dependent over the long term because of the disincentives to graduate from assistance (Besley and Coate 1992).³⁴ The combined effects of increased taxation and reduced benefits may make it financially more attractive for beneficiaries to remain in cash assistance programs than to graduate from them,

³³ Sahn and Alderman (1996) quantified the effects on labor market supply resulting from food subsidies in Sri Lanka.

³⁴ Vodopovich (1995) reported that the escape rate for unemployment in Slovenia was very low until all an individual's unemployment benefits were exhausted, illustrating the effect of excessive benefit generosity on job search.

especially if graduation implies being employed in a low-wage job.³⁵ In countries that have minimum income guarantees, the marginal effective tax rate (METR) may be 100 percent throughout the low-income range, because unemployment and social assistance transfers tend to decrease as individual earnings rise. In some instances, the METR can exceed 100 percent when the cost of additional employment-related expenses (such as transportation, clothes, and childcare), forgone benefits (such as public health insurance coverage), and taxes paid are higher than the difference between the transfer payment and expected earnings.

There are a number of ways in which cash transfer systems can be designed to minimize the risk of welfare dependence, including narrowly targeting transfers to those who are unable to work, raising the contribution levels required to qualify for assistance, increasing the duration of the qualifying period for employment-related benefits, invoking penalties for voluntary unemployment, applying strict job-search requirements, broadening the definition of suitable employment, subjecting benefits to tax, providing lower benefits to young workers, and setting benefit levels for those who can work below the prevailing minimum wage. Examples of OECD unemployment insurance programs, and their qualification criteria, are presented in annex tables A15 and A16. In the case of disability programs, requiring medical re-certification tests of workers classified as vocationally (or socially) disabled has significantly reduced disability numbers in some countries (OECD 1999). Requiring employers to pay initial disability benefits in the Netherlands, Sweden, and the United Kingdom has also cut down on claims. Subjecting beneficiaries to a strict savings or means test can also discourage voluntary unemployment (Buchele and Scherer 1998).

Ensuring that work is financially more attractive than cash transfers is another way of reducing the transfer-inspired welfare trap effect.³⁶ What has come to be known as “employment-oriented” or “active” welfare strategies incorporate a range of approaches to making work financially attractive, including:³⁷

- Providing “supplementary” payments to assistance recipients who work more than a minimum amount of time each week (Canada's Self-Sufficiency Project)
- Paying an early re-employment allowance to unemployed workers who find a job quickly (Korea)
- Providing earned-income credits (earnings subsidies or payments to households from the tax authorities) for low-income earners (U.S. Earned Income Tax Credit)
- Providing subsidized counseling, training, and apprentice and job placement services as part of active case management, for individuals receiving assistance (Australia, New Zealand, United Kingdom, and United States)
- Providing time-bound assistance or tax relief for childcare, transport, and other work-related expenses for low-income households (Japan)
- Providing incentives for the spouse of an unemployed person to work by assessing and allocating individual entitlements to benefits (Australia)

³⁵ The marginal effective tax rate (METR) is defined as the percentage of the increase in income that is paid in all forms of taxation plus forgone benefits over a defined income range.

³⁶ Making social benefits more “employment friendly” is at the heart of the European Union’s European Employment Strategy (U.K. Department of Social Services 2000; EU 2000).

³⁷ Meyer 1995; OECD 1998b; Kalisch, Aman, and Buchele 1998.

- Encouraging part-time work by modifying benefit rules to allow part-time workers to retain their earnings and their benefits (Australia, Canada, Denmark, Germany, and Ireland)
- Adopting “intensity rules” in which replacement rates fall with increased use of unemployment insurance and benefits are lower for those with a longer duration of previous claims (Canada)
- Providing cash assistance and/or selected categorical benefits, such as one-time employment entry payments, access to subsidized healthcare services, or continued benefits, for a period after the individual has found employment (Australia and Germany).

One of the most far-reaching social assistance reforms that aimed to encourage those able to work to do so were the welfare reforms enacted in the United States in 1995 and 1996. Prior to these reforms, a single low-income parent who was unemployed and receiving benefits and another single, low-income parent who was working would have practically the same income net of tax and benefits. After the reforms, a single parent working full-time at the minimum wage would have a disposable income almost twice as large as that of an unemployed single parent (Ellwood 2000). The U.S. welfare-to-work reforms are described in box 3. The main lesson for developing countries from these reforms is that measures designed to make working financially attractive to beneficiaries of safety net cash assistance can have a positive long-term effect on employment, reduce transfer budgets, and ultimately help to reduce poverty.

Box 3. From Welfare to Workfare: The U.S. Case

The U.S. Personal Responsibility and Work Opportunity Act requires most welfare recipients to work. Under the previous programs, a female head of a low-income family was eligible for cash transfers under the Aid to Dependant Women, Families and Children, food stamps, Medicaid, and possibly housing subsidies. Since the Act was passed, after the person’s first US\$2,000 of earnings, benefits are to be phased out at a rate of 67 cents for each dollar of earnings for the first four months of employment. Most welfare recipients have found that, since they have been working, their income (net of tax and benefits) actually fell.

Under the 1996 welfare reforms, recipients who receive funds under the Temporary Assistance to Needy Families (TANF) program are provided with assistance in developing work skills and finding work. Means-tested cash transfers are limited to a five-year period; grants are provided to states to subsidize childcare services for the poor; cash benefits are reduced to teen mothers who do not establish the paternity of their children; bonuses are paid to the five states that make the largest reduction in out-of-wedlock births; and parents with children over the age of five who refuse an offer of work approved by case workers will lose their benefits. Eligibility for most programs was abolished for non-citizens, and food stamp eligibility for non-elderly adults without children was curtailed.

The different states are given considerable discretion in implementing the TANF program. Michigan provides childcare and educational support to recipients and refers mothers to organizations that assist with home-to-workplace transport. Florida reduces assistance payments for additional children born to families receiving assistance. Massachusetts limits income support to two years in a five-year period and requires all able-bodied recipients to find work within 60 days. Teen parents are also obliged to complete high school to receive benefits. Minnesota has mandated work programs for recipients but has allowed public assistance recipients to keep more benefits as they return to work. Mississippi has involved the church in job placement programs. Wisconsin creates community service jobs for the poor and uses private job placement organizations to help TANF recipients find appropriate work.

To make minimum wage work finally attractive, the United States introduced an Earned Income Tax Credit (EITC) program for low-income earners in 1995. Under the EITC, low-income families who are working and who file a tax return receive a subsidy payment from the government. This was equivalent to 40 percent of the first US\$8,900 of income for a family with two children in 1996, declining thereafter by 21 percent for each additional dollar of income. In 1999 terms, all families earning less than US\$29,000 per year would receive payments from the government rather than paying taxes. In 1998, some 15 million families in the United States benefited from the EITC. In 1996, nearly US\$20 billion, or almost half of all welfare spending in the United States, was in the form of EITC payments.

Implemented during a strong economic expansion, the U.S. welfare reforms have significantly reduced the numbers of unemployed recipients of cash transfers. From 1994 to mid 1999, the number of AFDC/TANF caseloads was cut in half, from 5.0 million to about 2.5 million, with a similar reduction in the number of food stamp caseloads. Workplace participation rates by unmarried, single-parent households rose from 55 percent in 1996 to 76 percent in 1999. Official poverty rates for households headed by single females declined from 35 to 40 percent in the early 1990s to just under 30 percent in 1999. Open unemployment rates were below 4.5 percent from April 1998 to June 2000 while black, female, and Hispanic unemployment rates were at a record low. Various studies conclude that between one-third and two-thirds of the reduction in poverty and increase in employment can be explained by the strong economy, with the balance attributed to effects of changes in the design of the welfare programs.

Source: OECD (1999); Ellwood (2000); Blank (2000).

Using Cash Transfers to Advance Gender Equality

In many countries, women tend to be the heads of low-income, single-parent households where the risk of poverty is greatest.³⁸ In developing countries, girls are likely to be discriminated against in schooling, and women are more likely to be involved in informal sector employment or agriculture where statutory social protection measures are least effective (Luckhaus 2000; ILO 2000; Moghadam 1993).

In many developing countries, if families are too poor to send all of their children to school, they tend to send their sons but keep their daughters at home. Providing these households with cash transfers in the form of child benefits can help them to afford to send all of their children to school. Not only does this help to reduce educational discrimination against girls, but it also provides mothers with opportunities to re-enter the labor force (ILO 2000). Conditional cash grants that pay a higher amount to families if a daughter is enrolled in school can also help to combat gender discrimination in schooling.

A number of the conditional cash transfer programs implemented in recent years in Latin America explicitly aim to reverse gender discrimination. Mexico's *Progreso* program, for example, provides higher cash payments to poor families whose daughters attend secondary school. In Brazil, the *bolsa escola* (school scholarship) program provides a cash transfer to the female head of household (World Bank 2000c).

Social pensions are also of particular importance to women in developing countries because the life expectancy of women is generally longer than of men. In old age, women are more likely to be widowed and to have exhausted their savings than men. Even if budget

³⁸ For example, in the United States, 23 percent of all children lived with an unwed mother in 1998. Seventy percent of the children living in a family with a never-wed mother were living near or below the poverty line in 1995, as were 45 percent of those children being raised by a divorced mother. In 1993, 71 percent of the women receiving AFDC (Aid to Families with Dependent Children) were single mothers.

constraints restrict the payment of a social pension only to people of an advanced age (65 or even 70 years old), this is still likely to benefit women (Beattie 2000).

Social insurance systems in most countries tend to discriminate against women, thus aggravating other aspects of gender bias. With few exceptions, women's labor in the home (caring for children, the elderly, or people with disabilities) is not recognized as "labor" by employment-related social insurance or assistance programs. Wage rates and earnings are typically lower, conditions of employment more precarious, and occupational choices more limited for women than for men. This leads to discrimination against women in terms of their lack of access to pension and other employment-related entitlements. In the event of a family breakup or the death of a woman's husband, affected women are often not entitled to present or future unemployment or pension benefits.

There are a number of possible sources of direct and indirect discrimination against women in the legislation and practice of cash transfer programs, including:

- Different treatment of economically active married women compared with men in social security systems due to the idea that the woman is dependent on her husband. Social protection rights that a married woman may have acquired through her own employment may be denied to her because of the protection she is supposed to receive as a dependent person.
- Persistence of the notion of the male breadwinner as the contact point for the social protection system and a lack of recognition of women as workers with family responsibilities. As a result, women cannot acquire the same entitlements as men. In many schemes, the wife still has to prove that she is the family breadwinner before she can draw family allowances for her children.
- Women workers predominate in those sectors not covered by statutory schemes, such as domestic, part-time, or occasional work or in the informal sector. Common-law wives, divorcees, or those who are separated from or have been deserted by their husbands may also lose their rights to the social security benefits of the insured persons--their husbands.
- Qualification for long-term benefits, such as retirement or invalidity benefits, often requires the payment of contributions for many years or over an entire working life. Because women are likely to be in the labor force for shorter and less continuous periods than men, they may not be eligible for universal employee benefits.

Overcoming gender bias in social protection programs may have an important impact on household welfare. Cash transfers provided to women typically have a greater poverty-mitigation effect than when the equivalent cash transfer is given to men. Studies in Brazil and the United Kingdom have shown that women's marginal propensity to consume household "essentials" from cash income is significantly higher than that of men (Lundberg, Pollak and Wales 1997; World Bank 2000c).

Over the last two decades, some progress has been made in taking these gender considerations into account in social protection systems in the OECD countries. There has been more progress, however, in incorporating "equal treatment" provisions into the statutory requirements of social protection systems rather than in using cash-based social assistance programs to redress de facto sex discrimination (Luckhaus 2000). Some approaches that have

been adopted in various countries to increase gender equality in social protection legislation include:³⁹

- Incorporating the legal requirement not to discriminate on the grounds of gender in social security legislation
- Granting family allowances to the person in the household who assumes the principle responsibility of caring for children
- Providing cash benefits to women for maternity, parental, and educational leave (in recognition of the role that women play in bearing and raising children and to facilitate women's re-entry into the labor force)
- Paying benefits to caregivers for invalids and the disabled
- Incorporating credits for home care services in the computation of pension legislation
- Expanding cash assistance for child-care services
- Providing parents with opportunities to take paid leaves of absence from their jobs in regulated employment contracts
- Developing special cash assistance programs for low-income, single-parent households funded from general revenues, including provisions to defray childcare costs and the cost of training and workplace reintegration.

Collection of gender-specific data on poverty rates, program coverage, earnings, employment conditions, and the costs of maternity and childcare services can be useful for identifying ways to reform cash transfer assistance programs. Reviewing social protection legislation to identify instances of direct and indirect discrimination can also identify opportunities to reduce gender inequality.

Secure Continued Political Support for the Programs

Transfer programs without long-term political support provide little more than stopgap assistance. When programs frequently stop and start, this weakens the public's confidence in the security of future benefits and undermines incentives to pay contributions (for insurance-based programs) or to vote for existing budget-financed programs (Grosh 1994). Sustaining the right sort of political support for cash transfer programs is a major challenge.

Paradoxically, it is rarely inequality that inspires politicians to provide transfer payments to the poor. Inequity and political support are closely related but often not in the inverse manner that one might expect. Reviewing the empirical debate on inequality and political support for redistribution, Benabou (2000) remarked that “efficient re-distributions meet with a wide consensus in a fairly homogenous society but face strong opposition in an unequal one” (p. 97).

Transfer programs are susceptible to political interference, particularly in pre-election periods and in countries ruled by unstable coalitions (Alesina and Rodrick 1994). Politicians, faced with the short-term imperative of winning re-election, may make generous short-term welfare commitments prior to an election, secure in the knowledge that these programs can

³⁹ OECD 1999; Luckhaus, 2000.

be halted once the elections are over or that their costs can ultimately be passed on to future generations (Aurbach 2000).

Where politicians become directly involved in selecting beneficiaries and distributing cash transfers, program costs can escalate and targeting errors increase. One example of this phenomenon is the Sumurdhi program in Sri Lanka. Under that program, some 60 percent of Sri Lanka's nation's population receives a monthly cash transfer of Rs.500 (equivalent to US\$7) or nearly 1.5 percent of GDP. Nevertheless, the program fails to reach nearly 40 percent of the poor. Politicians have used the program to create 36,000 jobs for their supporters as Sumurdhi administrators. Also, household survey data have shown that the program discriminates against ethnic minorities, refugees, and those in urban slum and new settlement areas (Gunatilaka 2000; World Bank, 2000b).

In many cases, social assistance programs are launched in the aftermath of a "crisis." When a crisis strikes, politicians inevitably demand an immediate response. This can lead to the introduction of programs that are expedient but poorly planned (Subbarao et al, 1997). During a crisis, the numbers of poor households may be increasing rapidly. Faced with the need to distribute assistance quickly, beneficiary screening may well have to be ad hoc with limited coordination with existing programs. The question of whether these crisis response programs would be financed under normal circumstances is also rarely raised. However, the fact that politicians do tend to initiate cash transfer programs at moments of crisis suggests that it is advisable to have a stock of transfer program proposals on hand for such contingencies.

In the wake of a shock, one of the choices that policymakers must make is whether social assistance should be given to the chronically poor and/or the newer, more vocal poor. Pritchett (2000) characterizes this as the difference between a safety rope to put a brake on downward income mobility and a safety net to establish a minimum income floor for all. The urban middle class that has fallen into (or near to) poverty as a result of the crisis may have more political clout than the chronic, rural poor. Cash-based social assistance for the new and vocal urban poor may result in priority being given to "safety-rope" programs such as unemployment insurance or employment severance assistance instead of programs aimed at sustaining minimum income levels.

Even under less crisis-prone circumstances, the degree to which cash transfer programs garner political support depends on the importance that voters (or special interest groups) attach to these programs. This has important implications for targeting. If social assistance programs are very tightly means tested, then only a small proportion of the population will derive direct benefits from the program. Often this will be the group that has the least audible political voice. Other voters may support such programs because of perceived self-interest or empathy. Some may lend their support to these programs if they feel that they may need such assistance themselves at a later date. Others may support such transfer programs if they prefer to have the state take on a supportive role that would otherwise fall to them. There may also be those who believe that a transfer program will significantly reduce a social problem that directly affects them, such as crime or homelessness. Also, there are those who sell goods and supply services to the poor who will also benefit from the expected income transfer.

Ultimately, the degree to which narrowly targeted transfer programs are able to garner political support depends on whether or not the middle- and upper-income classes perceive that such programs will benefit them. If this is not the case, this narrows the constituency in

favor of the program to the very poorest groups, whose political influence and strength may not be sufficient to carry the votes needed to sustain the program over time (Gelbach and Pritchett 1997). If politicians are mainly accountable to a middle class that does not expect to benefit much from a narrowly targeted transfer program, then cash transfer programs may need to be universal or near universal in order to sustain political support (van de Walle 1998). Very tight means testing can also create political conflicts between “eligible” and “near-poor” groups because local people’s perceptions of “need” may differ from the criteria used to screen program participants.

Broadly targeted cash transfer programs may have wider voter appeal, either because all classes of voters share directly in the benefits or because voters have more confidence that the people whom they care about will benefit from such programs in the near future. Unlike more selective schemes, universal transfer programs may enjoy a higher level of public confidence because they offer less opportunity for fraud or favoritism. Rodrick (1999a) reported that more than 80 percent of the voters polled in Latin America, including those in the upper income classes, support an increase in cash transfer programs that are broadly targeted, such as unemployment assistance and public pension benefits.⁴⁰

The degree to which a cash transfer program garners political support can hinge on voters’ perceptions of the soundness of the program. If a transfer program does not appear to be actuarially sound, if program leakages are excessive, or if the link between transfers and poverty reduction is questionable, then stakeholders may not find the program credible. The importance of maintaining credibility is one reason why many social security systems devote considerable resources to assessing the program’s performance and fostering public awareness of the program and its benefits.

Sometimes it is not the voters but the stakeholders themselves who influence the design of cash transfer programs. In the case of most social insurance programs, the terms and conditions governing cash transfers are enshrined in the labor laws. Changing these laws typically requires the involvement and concurrence of organized labor, employers’ associations, and the government.

In the case of social assistance programs, the government welfare agency may have considerable authority over the program. In these cases, what decisions are made is heavily influenced by the incentives faced by the leaders of such institutions. If, for example, those agencies whose expenditures increase the most are rewarded the most (by getting more staff and a higher budget), then transfer programs may be expanded for reasons that have more to do with the agency’s own needs than with the needs of the program’s beneficiaries.

Building Administrative Capacity to Implement Cash Transfer Programs

Inadequate institutional capacity in the public sector is one of the main barriers to effective implementation of cash transfer programs in developing countries. It has been observed in an ILO report that "in some countries, public social security schemes were commonly viewed as

⁴⁰ Mulligan and Sala-I-Martin (1999) developed several political economy arguments to explain why poorly targeted transfers may be an optimal income transfer policy. One of these is that generous, universal public pensions are a way to induce the elderly to retire because aggregate GDP is greater if they do so. Creating space in the labor market for the young may increase returns on human capital investment, augment demand for technological advance, and spur endogenously driven growth.

inefficient public monopolies which provided poor service to their members... And among social security staff there was often low morale owing to poor conditions of service and inadequate training" (ILO 2000, p. 222).

Caution must be exercised in making generalizations about the institutions that administer cash transfer programs. In practice, these programs are implemented in a different way in almost every country. In some countries, the Ministry of Labor oversees the programs. In others, the ministries responsible for Social Welfare, Health, or Internal Affairs play a greater role.

Implementing the cash assistance program is often only one of many parts of the workload of the agency in question. In Sri Lanka, for example, there is approximately one program administrator for every 85 recipients. In addition to administering monthly transfers, the animator is also responsible for developing savings societies and supervising local capital works projects. In Italy, minimum income benefits are administered by regional authorities and local municipalities, in addition to their other local government duties. In Germany, child benefits (*kindergeld*) are administered through local labor offices. In Greece, the Office for Employment and Manpower administers most benefits other than social insurance and provides a range of employment registration and job search services. In Ireland, the Department of Health, in addition to its duty to deliver core health services, provides cash payments to the blind and administers maternity cash grants.

In developing nations, the ILO has found several common institutional problems in the administration of cash assistance and cash insurance programs. These include political interference in staffing and investment policy; fragmentation of policymaking and administrative responsibilities; excessive administration costs; poor terms of service for staff; neglect of compliance, enforcement, and policy research functions; difficulties in maintaining records; excessively complex procedures; delays in processing benefit claims; and a failure to ensure that contributors and beneficiaries understand the principles and requirements of the various schemes (ILO 2000). Fiscal pressures to contain staff growth have also limited the ability of social security offices to reach eligible beneficiaries and to offer adequate counseling and employment search services to recipients.

A number of countries have launched administrative reforms to improve the management of their cash transfer programs. In Malaysia, the Philippines, and Uruguay, the computerization of payments and records has reduced processing times for benefit claims and helped to cut down on claim fraud. In South Africa, the use of computerization and modern cash dispenser technology has enabled the government to deliver social pension and family assistance payments in rural areas, while reducing opportunities for corruption. Several countries have consolidated responsibility for program oversight and management to reduce program overlap, broaden contribution bases, and provide more uniform levels of coverage. In some countries, specialist functions, such as investment management, the maintenance of premises, computerization, and the rehabilitation of facilities have been contracted out to the private sector (OECD 1998b).

The development of multi-pillar pension and disability insurance systems has helped to restore public confidence in the social security systems of Chile (1982), Uruguay (1995), and Mexico (1997). Tapping private sector skills in the areas of fund management, insurance, and

administration has eased the burden on public social security administrators and has improved service quality (Orszag and Stiglitz 1999).

Social assistance recipients are often seen as second-class citizens, which in turn leads to the provision of “second class” administrative services. One way to avoid this is to administer all pension benefits and social allowances through the same organization. This simplifies the administrative arrangements as recipients go to the same person at the same office for all of their benefit requirements. It also makes it easier to protect against fraud by maintaining a single register of benefit recipients.

Social security organizations in the industrialized nations have become much more concerned about their service and performance during the past decade. The introduction of public service charters, which specify the level and quality of service that citizens have a right to expect from public agencies, have been a key part of the public service reforms in Australia, France, and the United Kingdom. In Australia, New Zealand, and the United Kingdom, responsibility for the policy and monitoring aspects of transfer programs has been separated from responsibility for the delivery of entitlements. In Italy, the 1997 Financial Law created a single social fund for social policies under the Department of Social Affairs to consolidate and improve management of the many different beneficiary-specific funds. The Greek government is introducing a single identification number for social security programs to facilitate automation and allow information sharing among its more than 300 social security funds.

Several OECD member states have increased the emphasis that they put on program monitoring, performance benchmarking, and stakeholder consultations as part of the reform of their cash transfer programs. Mexico has established councils of community development to discuss social policy reforms. In Canada, two years of public consultations preceded the introduction of the Employment Insurance Reforms.

To combat fraud, several nations have centralized income recordkeeping, tightened penalties for fraud, and expanded the authority of the social welfare services to investigate and prosecute benefit fraud. Greece has mounted a major effort to combat disability pension fraud by clarifying the medical criteria for disability certification, applying uniform testing procedures, and making use of disability boards and open appeals processes. Australia employs a fraud detection system that uses income cross-checks from several government data sources, beneficiary reviews on the basis of a computer-generated risk assessment model, and the use of mobile review teams to solicit information about recipients from friends, neighbors, and the general public. The Australian authorities estimate that these fraud prevention moves saved nearly A\$300 million in 1995-1996 (OECD 1998c).

For several decades, welfare policy has dominated the research agenda of the OECD, the European Union, national social security administrations, scores of universities, and many publicly funded research institutes. The Luxembourg panel income survey and the OECD Caring World Survey are valuable sources of information for assessing the impact of social safety net programs, benchmarking programs, testing reform hypotheses, and building social assistance policy models. Expert advisory panels have been convened in almost every OECD nation to examine issues related to transfer program reform. Also, research has played a major role in guiding reforms at both the national and regional level.

Conclusions

Economic theory would lead us to believe that cash transfers are the preferred means of assistance, and thus the question arises why they are not used more often in developing countries. Cash transfers are virtually always targeted, while many in-kind transfers or subsidies are not. There is no way to self-target or create an inferior form of cash, except perhaps with considerable stigma, so cash-based programs are always information-intensive.

In many countries, the limiting constraint to mounting a cash transfer program is a lack of administrative capacity. Often the country's bureaucracy does not have the capability to assess and verify eligibility for cash transfers, much less retain payment records for large numbers of poor households. Also, the poor may not have access to financial institutions to collect their payments. Insurance-type cash transfer programs will have a limited impact in low-income countries. In social insurance schemes, it can be difficult to collect premiums and tailor products to meet the needs of those households who derive their income from a host of informal sector activities. Even in those countries where cash transfers are administratively feasible, politicians may prefer to be associated with in-kind assistance programs.

As a country becomes more economically developed, this increases the scope for using cash transfers in its social safety net. With economic development, a larger segment of the labor force is employed in the formal sector, financial infrastructure becomes accessible to more people, and the bureaucracy is better able to apply income and means tests. As the institutional capacity to target households and process payments improves, a range of administrative, economic, and public finance considerations favors the choice of cash over in-kind transfers.

The main economic advantage to cash transfers, compared with other forms of social safety net programs, is that they do not directly distort prices. This has important economic efficiency implications. A second advantage is that cash transfer payments can help to stabilize the macroeconomy. Moreover, once the administrative infrastructure is in place, the cost of operating cash transfer programs is often far less than the cost of providing assistance in kind. Also, there is less of a stigma attached to the receipt and use of cash than to the use of in-kind benefits by program beneficiaries.

Cash transfers can be given in the form of assistance, insurance, near-cash tax benefits, and private transfers. It is the total effect of all of these various cash transfers that ultimately influences household welfare. In developing nations, an important issue is the degree to which cash transfers complement or crowd out private, informal transfers.

Many transition and industrialized nations have extensive cash transfer programs in place that make considerable transfers to both the poor and to middle-income groups. These programs often have objectives other than poverty alleviation, although these aims in themselves may have an important, albeit indirect, impact on reducing poverty. Certainly the degree to which cash transfer programs contribute to industrial harmony and social cohesion is important for reducing poverty in the long run.

No single set of cash transfer programs is suitable for all poor households in all countries. Programs should be carefully tailored to meet the priority needs of different categories of poor households for income assistance and contingency management. Involving

organizations with knowledge of local communities may extend the reach of appropriate social insurance products to low-income communities.

Beneficiary selection is often a bottleneck for cash transfer programs, especially in circumstances in which formal income and means tests are impractical. Low-information cost approaches, such as categorical, geographic, and community-based screening, can be used to select program beneficiaries. These screening approaches have been successfully applied in a wide range of circumstances. Cash transfers that are made conditional on meeting basic needs, such as utility offsets or education grants, have also been shown to have positive results.

Cash transfer programs that are simple in design are often easiest to establish and implement. Family allowance and social pension programs tend to be less complex than other forms of social assistance. These can make a significant contribution to the social safety net if the poor have larger families than the nonpoor and if the elderly poor are unlikely to have access to savings or private transfers.

Cash transfer programs in developing countries need not be as generous as those in middle-income or industrialized economies. A full-replacement income may not be needed when the poverty gap is just a small fraction of the minimum income level. In most developing nations, private transfers and informal sector employment may be the first line of defense against economic shocks for most households. In any event, most developing country governments simply cannot afford overly generous cash transfer programs.

In the long run, both the financing and the cash transfer itself can have an adverse effect on the labor supply. Some adverse effects of transfer programs on the labor market include upward pressure on wages and a higher level and duration of unemployment or underemployment. Recipients may become trapped in poverty if the value of their benefits exceeds the net income that they would gain by returning to work. To minimize these adverse labor market effects, the usual modern approach is to support those who cannot work (or work more than they already do) and to design assistance programs that make working financially more attractive than the receipt of cash transfers.

A cash transfer program can be an important instrument for overcoming gender discrimination. Three of the ways in which gender equality can be promoted in developing countries are to link cash transfers to the provision of schooling for girls, to provide family assistance, and to offer social pensions to the elderly.

Politics inevitably play an important role in cash transfer programs. These programs are often launched quickly in response to crises, at which point policymakers must balance the needs of the “new” poor and the “chronic” poor. In such circumstances, it may be appropriate to have suitable initiatives ready to be put into action at short notice.

Programs must have sustained political support if they are to play an effective role in a social safety net. Programs that frequently stop and start will undermine voter confidence. Ensuring that the aims of the programs are widely understood and generally felt to be sound and effective is central to maintaining voter confidence and fostering political support. To build a broad-based constituency in favor of a cash transfer program, benefits may need to be provided to some nonpoor households as well as to poor households.

Limited institutional capacity is one of the main barriers to managing cash transfer programs effectively. Among the approaches that have been adopted in recent years to improve the administration of cash transfer programs include automation, the use of modern cash dispenser technology, better recordkeeping, consolidating program management responsibilities, and contracting out functions that can be done better by the private sector. In industrialized nations, governments have built their institutional capacity to implement cash transfer programs by separating policymaking for the program from its administration, introducing program performance charters, having regular monitoring of the program's performance, consulting with stakeholders, taking active measures to combat program fraud, and using research to guide the reform of the program.

Annex A

Table A1. Family Allowances in Selected Developing and Transition Nations

<i>Nation</i>	<i>Eligibility criteria or funding</i>	<i>Cash benefit</i>
Algeria	Non-agriculture employees, 25 percent employer and 75 percent government funded, provided to children under 17, 21 if student or disabled	Families earning less than 15,000 dinars get 600 dinars per month (US\$10) up to the first five children and 300 (US\$5) dinars per month per child thereafter
Armenia	Universal program, low-income supplement provided for urban families with incomes below 60 percent of minimum wage	450-650 Dram per month per child, 700 dr. (US\$1.2) per month per child for unwed mothers, birth grant of 3,000 dr., low income supplement of 10 percent of minimum wage per child
Bolivia	Employees only, employer bears all costs; children from 1 to 19 years of age	Monthly allowance per child, prenatal milk allowance, birth grant of 1 national minimum wage, nursing allowance for 12 months after birth, and burial allowance of 1 minimum wage per child deceased under age 19
Bulgaria	Universal; different schemes for students, single mothers, and military	8,540 leva (US\$5) per child and doubled for a handicapped child.; one minimum wage birth grant for first child, 2 for second, and 2.5 for third
Costa Rica	Any indigent not eligible for contributory pension; includes those over age 65, widows with dependents under age 18, disabled persons, widows over age 50, and orphans; financed by 5 percent of payroll tax and 20 percent of sales taxes	8,500 colones (US\$33) per month and 10 percent extra for each additional dependent up to a maximum of three
Hungary	Families with 1 or more children under age 16 or up to age 20 if still a student; financed by government	Birth grant of 150 percent of minimum pension; 3,800 forints (US\$17) per month for first child, 4,700 for second, and 5,900 for third and subsequent; 7,500 forints per disabled child
Iran	Employees with 720 days of contributions to social insurance fund	3 times the lowest daily wage payable per region for the first two children plus a marriage grant of one month's salary
Kyrgyzstan	Households whose income in past three months was lower than 100 percent of the minimum guaranteed income.; limited to single-parent families and families in which parent is disabled or unemployed	100 percent of guaranteed minimum income if mother is on leave to care for one or two infants; 150 percent of guaranteed minimum income if mother is caring for three or more children under the age of 16
Lebanon	Employees covered under social insurance scheme only	Up to 5 children covered, children must be under age 16 and wife must be unemployed; maximum allowance of 75 percent of minimum wage of which 20 percent is paid to the wife and 11 percent each for up to five children
Madagascar	Employees who have been working for at least six months, students, and registered unemployed persons; financed by a 8.25 percent payroll tax; children up to age 14 or 20 if a student	4,000 francs (US\$1) per month for first child, 3,000 francs for the second, 2,000 francs for the third; lump sum payment of 25,400 francs for each birth
Mali	All employees with 1 or more children; financed from an 8 percent payroll tax and government subsidies	880 CFA francs (US\$1.3) per month per child, 4,089 CFA francs prenatal allowance, and 4,500 CFA francs birth grant
Mauritius	Families with income under Rs. 10,000 (US\$405) per year and children under age 10	Rs. 50 (US\$2) per month for families with three or more children
Poland	Children under age 16 or 20 if student, family income must be less than 50 percent of the national average during the previous trimester	35.3 zlotys (US\$10) per month for eligible spouse and 1 st and 2 nd child, 43.7 zlotys for third child, 54.6 zlotys for 4 th and subsequent child; sick child's care allowance 115 zlotys per month; and birth grant of 240 zlotys per month
Rumania	All children under age 16 or age 18 if a student or disabled	65,000 lei (US\$7) per month per child.; doubled if a disabled child; supplementary allowance of 40,000 lei for families with 2 children, 80,000 lei for three, and 100,000 for 4 or more.; also a birth grant of 339,788 lei for each birth after the second

<i>Nation</i>	<i>Eligibility criteria or funding</i>	<i>Cash benefit</i>
South Africa	Means-tested, government funded	Child support grant of up to 100 rand (US\$17) per child per month for up to six children
Sri Lanka	Families earning less than 1,000 Rs. per month	Family allowance of Rs. 500 (US\$7) per month
Thailand	Employees of firms with 10 or more employees; government subsidy for one-third of costs; maximum of two children under the age of 6	Baht 150 (US\$4) per month per child
Ukraine	Income-tested program; families with three or more children or disabled children; children under 16 or 18 if student; single mothers receive an additional benefit ; government funded	50 percent of minimum wage per child; families with 4 or more children receive 200 percent of minimum wage; single mothers receive 50 percent of minimum wage for each child under 16

Source: U.S. Social Security Administration (1999).

Table A2. Social Pensions in Selected Developing and Transition Nations

<i>Country or cash transfer</i>	<i>Eligibility criteria</i>	<i>Cash benefit</i>
Algeria	Age 60 for men, 55 for women with 15 years coverage, universal coverage	2,300 times the minimum hourly wage
Armenia	Disabled or single persons with limited means	Dram. 3,500 (US\$8) in basic pension plus 1,300 dr. [for each dependant
Bolivia	Social pension (Bonosol) paid to those over age 65, for those deemed eligible using an incomes-test.	US\$248 per year for the first five years and thereafter adjusted every three years by the Superintendent of Pensions
Botswana	Universal coverage to all over 65, government financed	100 pula (US\$23) per person per month
Bulgaria	Low-income persons over age 70 or totally disabled and over age 16; unemployed for more than 3 months because of a failed enterprise for men over age 57 and women over age 52	34,650 lev (US\$21) per month
Georgia	Paid to those with no means of support, including earnings from family or relatives; payable also to disabled persons and widows; eligibility determined by local departments. of labor and social services; funded by government.	18 lari (US\$14) per month if single, 24 lari if family of 2 or more members
Kazakhstan	Payable to survivors who are ineligible for insurance-funded pensions; financed by government	80 percent of the minimum old-age pension
Kyrgyzstan	Social assistance allowance provided to nonworking citizens, those otherwise ineligible for survivors or disabled persons pension	100 percent of guaranteed minimum living standard (GMS) to men over 65 and women over 55 years of age and to high altitude residents over 55 years of age; 150 percent of GMS paid to mothers with five or more children; 100 percent to 200 percent of GMS paid to disabled persons.
Mauritius	Universal pension to all citizens, government funded	Rs.1,300 (US\$54) per month to age 90, Rs. 5,000 from age 90-100; an extra Rs. 920 payable if 100 percent disabled
Russia	Disabled citizens or those who meet the age requirements (65 for men and 60 for women, orphans under age 16) who are not eligible for employment-related old-age, disability of survivor's pensions	Two-thirds of minimum old age pension per month
South Africa	Means-tested and age 65 for men and 60 for women; government funded	Up to 500 rand (US\$87) per month and double that for married couples
Ukraine	Unemployed persons who are not eligible for other old-age, survivors, and disability pension; men of 60 years of age and women of 55 years; disability if it began in childhood	50 percent of the minimum old-age pension
Uruguay	All employees and self-employed persons with incomes below 5,000 new Uruguayan Peso's (US\$480)	50 percent of average earnings in last 10 years with minimum pension of 100 percent the minimum wage at time of retirement

Source: U.S. Social Security Administration (1999).

Table A3. Government-supported Unemployment Insurance and Assistance Programs in Selected Developing and Transition Nations

<i>Country or cash transfer</i>	<i>Eligibility criteria</i>	<i>Cash benefit</i>
Algeria	Salaried workers: workers pay 1.5 percent and employers 2.5 percent of wages, workers must have paid social insurance for three years and have been searching for 6 months for work	Benefits paid for 12 to 36 months; first quarter benefit equal to 80 percent of reference salary; second quarter 80 percent, 3 rd quarter 60 percent, and 4 th quarter 50 percent; reference salary linked to average salary plus 50 percent of minimum guaranteed salary.
Barbados	Employed persons, excluding self-employed and government workers.; insured pays 0.25 percent of earnings and employer 0.75 percent of earnings; must have been insured for 52 weeks	50 percent of average insurable earnings for up to 26 weeks in a 52 week period
Brazil	Unemployment not due to misconduct; insured must lack other resources to support self and family, financed from government from earmarked taxes	50 percent of last three months salary up to three times the minimum wage; payable after a 60-day waiting period for up to 4 months in a 16-month period; employee also has access to employer savings fund (8 percent of wages) for unemployment, retirement, marriage, and other contingencies
Bulgaria	Involuntary unemployment, may not refuse suitable offer, registered within 7 days at unemployment office; financed by a 4 percent payroll tax	Full-time employees receive 60 percent of earnings during last six months but not less than 90 percent or more than 140 percent of minimum national wage; 6-12 month limit
Ecuador	Employees in private and public sectors; employee contributes 2 percent of earnings and employer 1 percent of payroll; two years of contributions for eligibility	Lump-sum annual payment with terms fixed each year; payable once after 60 days of unemployment
Hungary	All wage earning and salaried persons with two years insurance; employee contributes 1.5 percent of earnings and employer 5 percent of payroll; only those who do not refuse a reasonable offer of employment are eligible	70 percent of average net earnings for first year and 50 percent for second year up to a maximum of two times the national minimum wage
Kyrgyzstan	Universal coverage of all citizens, employee 0.5 percent of wages, employer 1.5 percent of payroll, and government as needed; covers involuntary employment and for those registered at employment offices	Benefits not to exceed six months and range from 100 percent to 150 percent of the minimum wage
Mexico	All employees; employer financed and government subsidy for social security portion	Employers obliged to pay 3 months salary plus 20 days pay for each year of service.; social security pays 95 percent of pension for those age 60-64 and unemployed
Ukraine	Unemployment insurance and assistance financed by 1.5 percent payroll tax and government Subsidy; open to those registered at employment office and with no other income above minimum wage	100 percent of average wage in previous job for 60 days, 75 percent for 90 days, and 50 percent for next 210 days.; unemployment assistance for additional 180 days at 75 percent of minimum wage; thereafter a dependants lump-sum payment of 50 percent of minimum wage

Source: U.S. Social Security Administration (1999).

Table A4. Pension Scheme Coverage in Developing and Transition Nations, 1996

<i>Economy</i>	<i>Pensioners as a share of the population older than 59 (percent)</i>	<i>Average monthly benefit as a percentage of average monthly earnings (percent)</i>
Benin	3.43	n.a.
Egypt	39.71	n.a.
Ghana	2.21	n.a.
Kenya	1.36	n.a.
Mauritius	118.6	15.1
Mozambique	0.23	n.a.
Senegal	2.4	n.a.
Sudan	0.25	n.a.
Togo	8.7	n.a.
Uganda	0.48	n.a.
China	20.6	70.4
Indonesia	1.9	n.a.
Jordan	21.3	19.7
Kuwait	88.2	n.a.
Korea, Republic of	n.a.	40.3
Malaysia	4.2	37.5
Pakistan	2.09	14.0
Saudi Arabia	10.9	n.a.
Singapore	35.2	6.0
Sri Lanka	39.07	12.1
Turkey	61.3	49.1
Albania	192.3	30.6
Belarus	137.8	42.4
Bulgaria	144.4	28.6
Croatia	94.5	42.8
Czech Republic	162.8	35.1
Estonia	140.6	29.6
Hungary	147.5	36.5
Lithuania	136.6	24.8
Moldova, Republic of	120.7	31.9
Poland	148.0	57.1
Romania	145.2	22.2
Slovakia	168.8	34.8
Argentina	70.8	42.1
Barbados	4.9	n.a.
Brazil	106.3	34.7
Chile	86.0	53.4
Colombia	11.8	n.a.
Ecuador	24.3	18.5
El Salvador	24.3	67.9

<i>Economy</i>	<i>Pensioners as a share of the population older than 59 (percent)</i>	<i>Average monthly benefit as a percentage of average monthly earnings (percent)</i>
Guyana	54.7	31.0
Mexico	32.0	43.4
Nicaragua	24.0	21.6
Panama	51.1	48.9
Trinidad and Tobago	63.0	15.9

n.a. Not available.

Source: ILO (2000).

Table A5. Government Expenditure on Subsidies and Transfers in Selected Industrialized Nations

(percentage of GDP)

<i>Country</i>	<i>1960</i>	<i>1980</i>	<i>1995</i>
Austria	17.0	22.4	24.5
Belgium	12.7	30.0	28.8
France	11.4	24.6	29.9
Germany	13.5	16.8	19.4
Ireland	n.a.	26.9	24.8
Italy	14.1	26.0	29.3
Netherlands	11.5	38.5	35.9
Norway	12.1	27.0	27.0
Spain	1.0	12.9	25.7
Sweden	9.3	30.4	35.7
Switzerland	6.8	12.8	16.8
United Kingdom	9.2	20.2	23.6
Average	10.8	24.0	26.8

n.a. Not available.

Source: Tanzi and Schuknecht (1997).

Table A6. Percentage of Social Assistance, Unemployment Benefits, and Non-pension Cash Social Transfers Received by the Bottom Quintile of Population

<i>Economy (year)</i>	<i>Social assistance</i>	<i>Unemployment benefits</i>	<i>All non-pension cash social transfers</i>
<i>Transition economies</i>	28 (16)	29 (19)	22 (8)
Slovakia (1992)	52	37	31
Estonia (1995)	36	56	26
Bulgaria (1995)	36	46	19
Hungary (1993)	35	33	29
Poland (1993)	29	26	25
Romania (1992)	23 ^a	25	25
Russia (1994)	6	8	12
Ukraine (1995)	6	0	8
<i>Market economies</i>	42 (17)	27 (15)	23 (6)
Australia (1989)	78	50	30
United States (1991)	70	15	19
United Kingdom (1991)	55	29	33
Chile (1990)	51	57	31
Finland (1991)	43	20	26
West Germany (1984)	40	26	14
Belgium (1992)	35	38	23
Ireland (1987)	35	34	28
Netherlands (1987)	31	11	18
Norway (1986)	27	13	21
Switzerland (1982)	25	20	16
Sweden (1987)	21	10	9

n.a. Not available.

a. Also includes other unspecified allowances.

Note: Shares for transition and market economies are unweighted averages. Standard deviations are shown between brackets. Countries are ranked according to the share of social assistance accruing to the lowest quintile. Individuals are ranked by their households' disposable per capita income.

Source: World Bank data. See http://www.worldbank.org/safety_nets.

Table A7. The Role of Cash and Other Social Transfers in Incomes in the Post-Socialist Nations, 1987-1988 and 1993-1994

(percentage of GDP)

<i>Economy</i>	<i>Wages</i>		<i>Cash Social Transfers</i>		<i>Non-Wage private sector income</i>		<i>Social transfers in kind (health and education)</i>		<i>Total</i>	
	<i>1987-1988</i>	<i>1993-1994</i>	<i>1987-1988</i>	<i>1993-1994</i>	<i>1987-1988</i>	<i>1993-1994</i>	<i>1987-1988</i>	<i>1993-1994</i>	<i>1987-1988</i>	<i>1993-1994</i>
Eastern Europe	33	32	11	15	10	19	7	9	62	75
Bulgaria	27	25	11	14	9	21	7	11	55	71
Czech Republic	41	32	12	13	4	24	9	12	67	82
Hungary	32	37	13	19	10	14	7	12	63	83
Poland	27	32	9	20	22	25	7	9	65	85
Romania ^a	35	33	9	9	3	14	4	5	52	61
Slovakia	42	31	13	13	4	17	11	6	70	68
Slovenia	28	34	11	16	10	20	7	7	57	77
Baltics	43	35	8	12	9	14	9	8	70	69
Estonia ^b	46	33	9	11	8	10	11	8	73	62
Latvia	38	33	8	14	8	12	8	9	62	69
Lithuania ^b	46	40	8	10	12	18	9	8	76	76
Slavic republics	41	29	8	9	6	16	6	9	61	63
Belarus	40	37	6	8	7	17	7	12	59	74
Moldova	43	23	7	8	8	28	10	12	69	72
Russia	41	26	8	9	5	23	5	7	59	64
Ukraine	42	25	9	12	7	8	7	10	66	55

a. 199293 instead of 199394.

b. Does not include home consumption.

Note: All regional means are unweighted. Regional means as calculated avoid the rounding off errors.

Definitions: Wages equal income from employment. Social cash transfers equal pensions, family and child allowances, sick leave payments, unemployment benefits and social assistance. Non-wage private sector income equals income from sales of agricultural products, entrepreneurial income, interest and dividends, income from abroad, gifts, and income (or consumption) in kind. Health and education equals total government expenditures on health and education.

Source: Milanovic (1998).

Table A8. Net Public Social Expenditure in Selected OECD States, 1993**(percentage of GDP at factor costs)**

<i>[[Please provide stub head]]</i>	<i>Denmark</i>	<i>Germany</i>	<i>Netherlands</i>	<i>Sweden</i>	<i>United Kingdom</i>	<i>United States</i>
1. Gross direct public social expenditures	35.2	32.4	34.0	42.4	26.9	16.3
Direct taxes and social contributions paid on transfers	4.5	2.9	6.5	5.9	0.2	0.1
2. Net cash direct public social expenditure	30.7	29.6	27.5	36.5	26.7	16.2
Indirect taxes on consumption out of net cash transfers	4.5	3.3	2.7	4.1	2.6	0.5
3. Net direct public social expenditure	26.3	26.3	24.7	32.4	24.0	15.7
Tax breaks for social purposes on public and private social expenditure	0.1	0.9	0.1	0.0	0.4	1.2
4. Net current public social expenditure	26.4	27.2	24.9	32.4	24.4	17.0
5. Gross direct mandatory private social expenditure	0.7	1.8	-	0.7	0.3	0.5
Direct taxes and social contributions paid on mandatory private cash transfers	0.2	0.6	-	0.2	0.0	0.0
Indirect taxes on consumption purchased out of net mandatory cash transfers	0.1	0.2	-	0.1	0.0	0.0
6. Net current mandatory private social expenditure	0.4	1.0	-	0.4	0.2	0.5
7. Net current publicly mandated social expenditure (4+6)	26.7	28.2	-	32.8	24.6	17.5

- Not available.

Source: Adema (1998).**Table A9. Importance of Gifts and Transfers for Poor Households (percent)**

<i>Economy (year)</i>	<i>Percentage of households giving transfers</i>	<i>Percentage of households receiving transfers</i>	<i>Percentage of poor households receiving transfers</i>	<i>Share of transfers in pre-transfer income of poor households</i>
Bulgaria (1995)	15.0	17.0	21.1	48.4
Jamaica (1997)	13.1	53.0	65.9	51.8
Kazakhstan (1996)	20.2	28.8	37.0	67.1
Kyrgyz Republic (1996)	15.7	35.5	61.4	48.4
Nepal (1996)	17.4	44.7	58.1	57.9
Panama (1997)	15.5	37.8	42.5	37.6
Peru (1994)	14.3	37.3	48.2	36.4
Russian Federation (1997)	23.7	25.2	30.9	79.7

Note: Poor households are those in the lowest quintile of the household income distribution.*Source:* World Bank (2000a).

Table A10. Summary of Assistance to Families with Children, OECD Countries

<i>Economy</i>	<i>Age range</i>	<i>Low-income families</i>	<i>Larger families</i>	<i>Age of children</i>	<i>Cash benefits or tax relief</i>	<i>Universal or income test</i>
Australia	To 16, 18 if student	Yes	Yes	Cash 13-15, tax 0-4 years	Both cash and tax relief	Means tested
Austria	To 19, 27 if student	Yes	Yes (tax)	10-18, 19+ years cash	Both cash, tax credits	Universal
Belgium	To 16, 25 if student	Yes	Yes	6-12, 12-16, 16+	Cash	Universal and means tested
Canada	To age 18	Yes		0-6 years	Tax credit	Means tested
Czech Republic	To age 16	Child < 3, single wage		6-10, 10-15 years	Cash	Universal
Denmark	To age 18	Yes		0-6 years, 0-2 more	Cash	Universal
Finland	To age 17	No	Yes	0-2 years	Cash	Universal
France	To age 18		Yes, more if over 3	10-15, 16-17 years	Cash	Means tested
Germany	To 18, 27 if student	Yes	Yes	No difference	Cash	Universal
Greece	To 18, (basic benefit), to 22 if student	Yes	Yes (income tested)	No difference for basic payment	Cash and tax relief	Employees, universal
Hungary	To 16, 20 if student	No	Yes	Infant care (IC) 0-2 years	Cash	Universal, Infant care employees
Iceland	To age 16		Yes	0-6 years	Tax relief	Universal
Ireland	To 16, 19 if student	Yes	Yes	No difference	Cash	Universal
Italy	To age 18, no age limit	Yes	Yes	No difference	Cash tax relief	Means tested and universal
Japan	To age 3	No	Yes	No difference	Cash and tax relief	Means tested
Korea	To age 20	No	No	No difference	Tax relief	Universal
Luxembourg	To 18, 27 if student	Yes	Yes	6-11, 12+ years, no difference	Cash, tax relief	Universal and means tested
Netherlands	To age 18				Cash	Universal
New Zealand		Yes		12+ years	Cash	Means tested
Norway	To age 16	No	Yes	0-2 years	Cash	Universal
Poland	To 16, 20 if student	No	No	No difference	Cash	Means tested
Portugal	To 15, 24 if student		Yes	10 months nursing allowance	Cash	Employees, Social Security recipients
Slovak Republic	To 15, 26 if student	Yes	No	6-10, 10-15, 15-25 years	Cash	Means tested
Spain	To age 18	No	Yes	No difference	Cash and tax	Universal
Sweden	To 16, 20 if student	No	Yes	No difference	Cash	Universal
Switzerland	To 16, 25 if student	Supplements in some cantons	Yes	No difference	Both cash and tax relief	Employees and the self-employed
United Kingdom	To 16, 19 if student	Yes			Cash	Universal

Source: Kalisch, Aman, and Buchele (1998).

Table A11. Family Benefits Provided in OECD Member Countries

<i>Economy</i>	<i>US\$</i>	<i>Extra for additional children</i>
Australia	1,920	Same amount per additional child
Austria	1,378	Same amount per additional child
Belgium	1,354	Amount increases for the second and third child (all subsequent children entitle a household to benefits at the third child rate)
Canada	-	-
Czech Republic	611	Same amount per additional child, increases with age (means tested)
Denmark	1,128	Amount per child, related to the child's age
Finland	1,086	Amount increases with each additional child
France	1,236	Same amount per child for first two children; subsequent children entitled to an increased benefit amount
Germany	-	Family benefits exist only in the form of tax allowances (DEM 6,912 per child)
Greece	298	Amount for first child, increases with each additional child
Hungary	483	Amount for first child, increases with each additional child
Iceland	506	Amount for first child; each additional child receives ISK 58 944; children above 7 receive reduced rates
Ireland	533	Same amount per child for first two children; IEP 468 from the third child
Italy	1 805	Amount for first child, increases with each additional child; benefit is means tested
Japan	366	Same amount per child for first two children; the amount is doubled for third and subsequent children, however only children under 3 are entitled to benefit which is income tested as well
Korea, Republic of	-	-
Luxembourg	1,005	LUF 109,284 for two children, LUF 221,544 for three children
Netherlands	584	Amount increases per child and as children age
Norway	1,208	NOK 11,628 for two children, NOK 13,092 for three children, NOK 13,740 for four children
Poland	227	Same amount for additional child
Portugal	390	PTE 34,200 for second child, and PTE 33,240 for third child
Spain	290	Amount per child is means tested
Sweden	798	SK2,400 (US\$240) for the third child; SK7,200 (US\$720) for the fourth child
Switzerland	1,228	Same amount per additional child
United Kingdom	887	GBP 468 is paid for subsequent children
United States	1,140	TANF is financial assistance to the whole family based on number of family members

- Not available.

Note: U.S. dollar rates are calculated at purchasing power parity.

Source: OECD (1999).

Table A12. Special Cash Benefits for Disabled Children in Selected OECD Countries

<i>Economy</i>	<i>Nature of assistance or special provision for disabled children</i>
Australia	Child disability allowance for children who require substantially more care. Non-means tested and available up to age 16 or older if student.
Austria	Additional family allowance payable if a child is permanently disabled up to age 19.
Belgium	Family allowance payable up to age 21 if disabled plus a special supplement allowance.
Canada	Childcare expense deduction available for older children.
Czech Republic	Family allowance available up to age 26 for disabled child, special supplement paid.
Germany	No age limit on family allowance for disabled child.
Greece	Additional benefits according to the medical condition of the child. Further aid may be available from the parent's social security fund.
Hungary	Special family allowance paid to the family for disabled child.
Ireland	Domiciliary care allowance for disabled child age 2-16 living at home.
Italy	No age limit or means test. Higher income thresholds on family allowance for disabled child.
Japan	Special child-rearing allowance payable until age 20; special allowance paid for handicapped persons over 21 years of age.
Luxembourg	Special family allowance supplement for seriously disabled child.
New Zealand	Non-means tested flat rate handicapped child's allowance.
Portugal	No age limit on family allowance if the child is totally disabled.
Slovak Republic	Child allowance up to age 26 for a disabled child.
Spain	No age limit or means testing for family allowance for a disabled child. Special supplements for disabled child that increase with the level of disability.
Sweden	Family allowance available for child attending special schools for the disabled.
Switzerland	Canton schemes provide special allowance and extended family assistance payment duration up to age 25.
Turkey	A disabled person who is a son of a deceased insured person continues to receive orphan's pension without age limit. Daughters are provided the orphan's pension on condition that they are not married.

Source: Kalisch, Aman, and Buchele (1998).

Table A13. Net Replacement Rates for Three Family Types in the First Month of Benefit Receipt

(after tax and including unemployment benefits, family, and housing benefits; 66.7 percent of APW level)

<i>Economy</i>	<i>Single</i>	<i>Couple (2 children)</i>	<i>Lone parent (2 children)</i>
Australia	52	86	68
Austria	57	79	78
Belgium	84	75	81
Canada	62	69	67
Czech Republic	74	84	77
Denmark	89	95	89
Finland	72	94	83
France	83	86	96
Germany	69	74	78
Greece	55	48	52
Hungary	83	87	88
Iceland	77	87	89
Ireland	45	73	72
Italy	36	52	48
Japan	68	64	71
Korea	52	52	52
Luxembourg	82	87	87
Netherlands	92	90	86
Norway	65	74	84
Poland	56	61	59
Portugal	87	86	86
Spain	70	78	78
Sweden	77	90	96
Switzerland	73	84	84
United Kingdom	73	83	69
United States	59	51	51

Note: APW refers to average production wage earnings level. Sixty-seven percent would be comparable to the OECD relative poverty line.

Source: OECD (1999).

Table A14. Net Replacement Rates for Three Family Types for Long-term Benefit Recipients
(after tax and including family and housing benefits; 66.7 percent of APW level)

<i>Economy</i>	<i>Single</i>	<i>Couple (2 children)</i>	<i>Lone parent (2 children)</i>
Australia	52	86	69
Austria	54	76	75
Belgium	61	79	85
Canada	35	77	77
Czech Republic	41	100	100
Denmark	67	92	82
Finland	79	100	84
France	55	60	60
Germany	75	61	82
Greece	0	5	6
Hungary	60	71	72
Iceland	74	100	82
Ireland	45	73	72
Italy	39	75	67
Japan	47	95	81
Korea	17	69	52
Luxembourg	67	91	83
Netherlands	84	94	84
Norway	52	73	82
Poland	53	55	57
Portugal	61	86	71
Spain	35	61	55
Sweden	84	100	100
Switzerland	88	93	85
United Kingdom	73	95	81
United States	10	61	51

Note: APW refers to average production wage earnings level. Sixty-seven percent would be comparable to the OECD relative poverty line.

Source: OECD (1999).

Table A15. Selected Features of Unemployment Benefit Programs

<i>Economy</i>	<i>Benefit type</i>	<i>Prior employment qualification</i>	<i>Fixed or earning-related payments</i>	<i>Payment taxable</i>	<i>Maximum duration of payment</i>
Australia	UA	Nil	Fixed	Yes	Indefinite
Austria	UI	26 weeks/12 months; 52 weeks/2 years if first claim, max benefit duration	ER	No, UI and UA set as percentage% of after-tax income	30 weekwk
	UA	If 156 weeks/3 years Nil	ER		Indefinite
Belgium	UI	312 days/18 months	ER	Yes	Indefinite
Canada	UI	420-700 hrs/year	ER	Yes	42 weeks
	SW	Nil	Fixed		Indefinite
Czech Rep.	UI	12 months/3 years	ER	No	26 weeks
Denmark	UI	26 weeks/3 years	ER	Yes	5 years
Finland	UI	26 weeks/2 years	ER	Yes	500 days in 4 years
	UA	Nil	Fixed	Yes	Indefinite
France	UI	91 days/12 months	ER	Yes	60 months
	UA	5 years/10 years	Fixed		Indefinite
Germany	UI	360 days/3 years	ER	No	78-832 weekdays
	UA	150 days/year or exhausted UI benefits	Fixed	No	Indefinite
Greece	UI	125 days/14 months	ER	Yes	12 months
	UA	60 days/2 years	ER	Yes	3 months
Hungary	UI	48 months employment	ER	Yes	2 years
Iceland	UI	400 hrs/12 months	Fixed	Yes	5 years
Ireland	UI	39 weeks/12 months	Fixed	Yes	15 months
	UA	Nil	Fixed	No	Indefinite
Italy	UI	1 year/2 year	ER	Yes	180 days
Japan	UI	6 months/ 12 months	ER	No	90-300 days
Korea	UI	6 months	ER	No	30-210 days
Luxembourg	UI	6 months/12 months	ER	Yes	1 year/2 years
Netherlands	UI	29 weeks/39 weeks for basic benefit and 4 years/5 years for extended	ER	Yes	6 months-4.5 years
	UA	3 years/5 years	Fixed	Yes	12 months
New Zealand	UA	Nil	Fixed	Yes	Indefinite
Norway	UI	Prior earning requirement	ER	Yes	3 years
Poland	UI	180 days/year	ER	Yes	9-24 months
Portugal	UI	540 days/2 years	ER	No	10-30 months
	UA	180 days/1 year	Fixed	No	10-30 months
Slovak Rep.	UI	1 year/3 years	ER		6 months
Spain	UI	12 months/6 years	ER	Yes	Up to 24 months
	UA	Exhausted UI or worked 6 months	Fixed	Yes	6-18 months
Sweden	UI	5 months/12 months	ER	Yes	300 days

<i>Economy</i>	<i>Benefit type</i>	<i>Prior employment qualification</i>	<i>Fixed or earning-related payments</i>	<i>Payment taxable</i>	<i>Maximum duration of payment</i>
	SW	Nil	Fixed	Yes	150-450 days
Switzerland	UI	6 months during a base period of 2 years	ER	Yes	150-400 days
United Kingdom	UI	1 year/2 years	Fixed	Yes	26 weeks
United States	UI	Yes	ER	Yes	26 weeks

ER Earning related payment.

SW Social welfare

UA Unemployment assistance

UI Unemployment Insurance

Source: Kalisch, Aman, and Buchele (1998).

Table A16. Unemployment Insurance Payment Rates and Benefit Duration

<i>Economy</i>	<i>Payment rate (percent)</i>	<i>Minimum benefit, yearly (US\$)</i>	<i>Maximum benefit, yearly (US\$)</i>	<i>Duration (months)</i>
Australia	-	-	-	-
Austria	57	1,519	11,975	12
Belgium	60	7,167	11,405	No limit
Canada	55	-	18,355	45 weeks
Czech Rep.	60	-	4,485	6
Denmark	90	-	16,387	60
Finland	90	5,191	12,094	23
France	75	8,293	57,978	60
Germany	60	-	29,520	12
Greece	40	2,800	6,150	12
Hungary	65	1,472	2,943	12
Iceland	Flat	2,208	8,831	60
Ireland	Flat	5,200	-	15
Italy	80	-	11,285	12
Japan	80	-	18,067	10
Korea	Flat	3,384	19,937	7
Luxembourg	80	-	34,378	12
Netherlands	70	9,878	26,139	60
Norway	62.4	-	17,296	36
Poland	Flat	2,536	-	18
Portugal	65	5,532	10,787	30
Spain	70	5,758	13,052	24
Sweden	75	6,216	15,243	10
Switzerland	70	-	33,851	5
United Kingdom	Flat	-	3,944	6
United States	50	4,524	15,600	6

- Not available.

Note: Payment rates are expressed as a percentage of gross earnings. U.S. dollar values are converted at purchasing power parities.

Source: OECD (1999).

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