Chapter 6

Selecting social transfer instruments

The objective of this chapter is to describe a framework for selecting an appropriate set of social transfer instruments for a country.

Introduction: What are the appropriate social transfer instruments?

The information identified in the previous chapters – on political priorities, gender, evidence on poverty, institutional arrangements and financing – provides the evidence base for selecting an appropriate set of social transfer instruments for a country. Four central decisions define the social transfer instruments:

- Who benefits from the social transfers?
- What size of a social transfer is provided to the beneficiaries?
- Are targeting mechanisms employed to reach the poor?
- What conditionalities (if any) are imposed for eligibility?

The process of making these decisions may identify information gaps that require additional research. It may be useful to establish a consultative group of policymakers, social transfer champions and even those opposed to a more expansive strategy of social protection. This group might also include donors and civil society representatives. The following discussion provides a structured framework for understanding the key questions that must be answered in order to define a specific programme.

Who benefits from the social transfers?

Social transfer programmes generally target either household units or groups of vulnerable individuals. For example, the Zambian Kalomo pilot explicitly targets households rather than individuals and structures benefits accordingly. Most public works programmes target individuals who can supply labour, with the expectation that the transferred resources will support the worker's household. Conditional cash transfer programmes focus primarily on children, with a broader intention of family support, but rarely include the more extended household. Brazil's *Bolsa Familia* is inclusive enough to protect poor households without children. Targeted unconditional programmes generally focus on members of vulnerable groups – young children, people with disabilities, pensioners – without consideration of the needs of other household members. The issues pertaining to targeting are discussed in greater detail in chapter 7.

To protect vulnerable individuals requires dispelling a myth – that the benefits provided will exclusively support the targeted beneficiaries. Vulnerable individuals often live in poor households, where the resources from transfers are usually shared among all the members. As a result, even a perfect targeting mechanism that reaches poor children with complete accuracy will effectively provide some children with fewer resources than others. For example, a child grant recipient living in a large destitute household with no other grant beneficiaries will likely benefit less than a similar child living alone with her caregiver. This problem is referred to as "benefit dilution".

One can avoid the dilution problem by linking benefit levels to the size of households. When resources are limited, however, covering households may place greater stress on the targeting mechanism, since this approach does not limit the programme's scope solely to vulnerable groups. When poverty is widespread, the focus on households may require greater fiscal commitment – and provide a more comprehensive response.

The practical implementation of targeting involves errors: some of the poor will be excluded, and some of the non-poor will access benefits. The challenges of targeting multiply when one vulnerable group is targeted indirectly through another. For example, numerous studies of old-age pensions have documented their substantial positive impact on children's development.[1] However, the benefits to children from pensions can be haphazard. Children living with pensioners benefit, but those whose grandparents died too young to receive the pension are deprived.

The targeting process inevitably involves these types of errors and distortions, which can only be eliminated through universal provision of social transfers. When the lack of political will and resource constraints preclude universalism, policymakers must make compromises that weigh available resources, access to information and political concerns.

In practice, countries frequently adopt one of two basic approaches: (1) Many programmes identify vulnerable categories of individuals and introduce transfers into the household by targeting these groups – children, widows, people with disabilities and pensioners. These programmes can be universal

Box 6.1 Examples of answers to "Who benefits from the social transfers?"

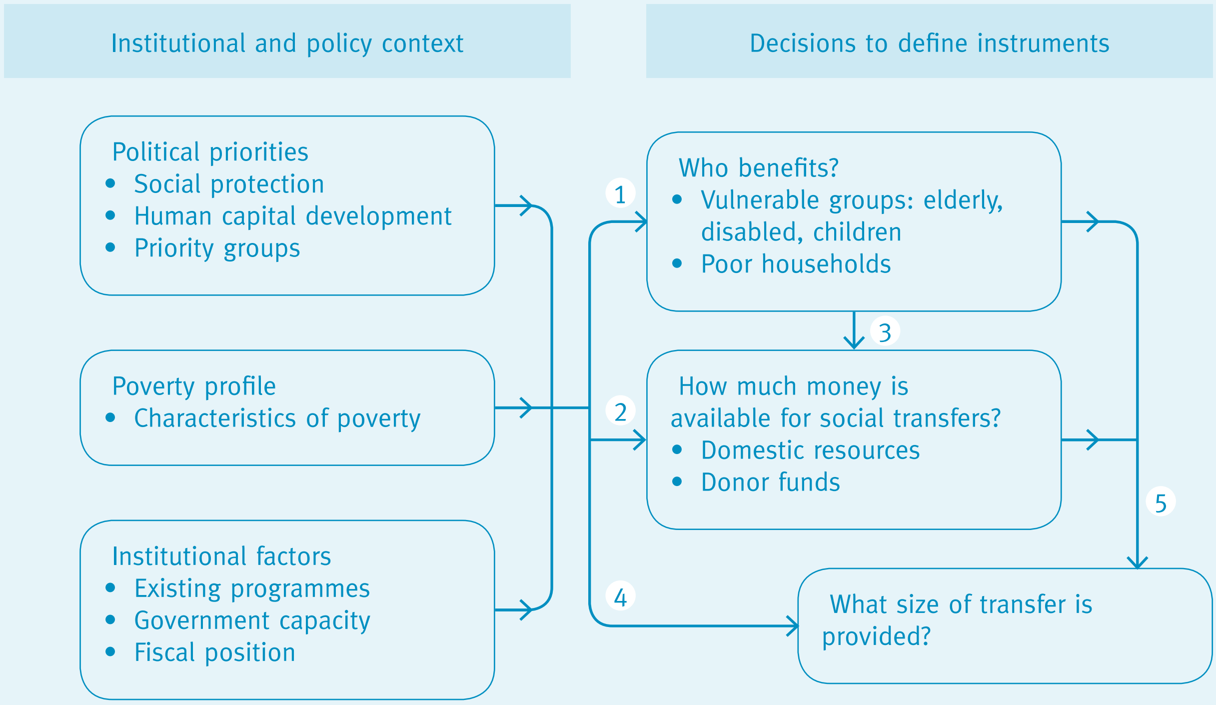
Programme	Who benefits?	Main advantages	Main disadvantages
Zambia's Kalomo Pilot	The poorest households (lowest decile)	• Comprehensive approach to poverty affecting households • Effectively reaches the poorest	• Requires expensive community targeting • Many severely poor households are excluded
Brazil's *Bolsa Familia*	Poor families, particularly children	• Benefits a vulnerable group with an effective instrument • Gaps in coverage are offset by other instruments targeting vulnerable groups	• Take-up rates still relatively low • High cost to deliver benefits
India's Employment Guarantee Scheme in Maharashtra	Households with unemployed workers	• Indirectly targets households • Gaps in coverage are offset by other instruments targeting vulnerable groups	• Low wage undermines social protection • High cost to deliver benefits
South Africa's social grants	Vulnerable groups: children, the elderly, those with disabilities	• Rights-based approach benefiting some of the most vulnerable groups in the country • Relatively high take-up rates	• Large gaps in coverage • Benefits to vulnerable individuals are diluted if households are large

or targeted to the poor. (2) Some programmes explicitly focus on households and aim to transfer resources for the benefit of all members. Since the scope of these programmes is not limited to vulnerable groups, they usually rely on more sophisticated targeting mechanisms to reach the poor.[2]

There is no consensus among policymakers or social policy analysts on how to address this issue. The problem is as much political as it is technical. Some policy analysts conclude that the best targeting relies on easily identified categories linked to poverty and vulnerability – such as age, location and degree of exclusion – and provides transfers universally to these targeted groups.[3] Others are confident that the challenges of more sophisticated targeting can be surmounted, so that resources can be more efficiently allocated to the poor.[4]

The starting point for the selection of the appropriate social transfer instrument is the determination of the scope. Will the programme target older people, children, those with disabilities, and/or another vulnerable group? Alternatively, will the programme encompass all members of the household? Ideally, the answer to the question "Who benefits from the social

Box 6.2: Decision-making that defines social transfer instruments



This diagram illustrates some of the key decisions required to define social transfer instruments. The evidence base for the decisions is the institutional and policy context – the political priorities, the profile of poverty in the country, and institutional factors such as existing programmes, government capacity and fiscal resources. These factors influence the decision of who benefits from the social transfers (arrow 1). These institutional and policy factors also influence the allocation of resources to social transfers (arrow 2). In addition, the choice of beneficiaries may influence the resources available since policymakers and donors may be more likely to fund priority groups (arrow 3).

The institutional and policy context influences the size of the transfer: depending on the depth of poverty, policy objectives and the needs of different types of households in various circumstances (arrow 4). The choices of beneficiaries and resources allocated defines a budget constraint that influences the size of the transfer – the average size of the transfer multiplied by the number of beneficiaries cannot exceed the resources allocated (arrow 5).

transfers?" is "All those who are poor and vulnerable". Usually, however, resources are limited and it is difficult to identify this group. Sometimes there is greater political will to target specific groups, in particular the poorest and most vulnerable. The answer to this question should reflect the policy and institutional context – the political objectives, the poverty profile and the other institutional factors affecting the decision-making process. Box 6.1 summarises some of the key advantages and disadvantages of various approaches to answering this question.

Options assessment and identification of instrument(s)

The identification of appropriate instruments builds on the forward-looking vulnerability analysis and an assessment of options, weighing key contextual factors and any pre-existing social protection programmes, in order to select the most appropriate instrument(s). Box 6.2 illustrates several of the key factors that affect the choice of instrument. A wide range of social protection instruments are available for building a social protection system, but only a subset can be implemented rapidly enough to serve as effective responses to crises such as the economic downturn.

The choice of appropriate instruments depends on each specific country's social, economic, governance, cultural and institutional context. Countries with largely formal labour markets or mostly urban populations will likely select different instruments than those with informal labour markets or primarily rural populations. The country's fiscal space and administrative capacity also affect the feasibility and effectiveness of different interventions. The poverty profile – and particularly poverty dynamics – will also play a role in identifying the most appropriate instruments. The country's governance context influences the available options. For example, fragile states will face substantial challenges in implementing national-scale programmes. Countries with greater capacity may find opportunities in crisis to improve and refine any existing social protection programmes and systems. Options include tackling fiduciary risk, rationalising programmes and social expenditure, and strengthening registration, payments and monitoring systems.

In many cases, unconditional cash transfers provide the most appropriate short- to medium-term response. The World Bank describes this choice as the "mainstay of safety net programmes and the standard against which other programmes are judged... cash transfers of adequate coverage, generosity and quality are the best option".[5] If a country possesses limited fiscal space and aims to deliver as much benefit as possible to the poor per unit expenditure, an unconditional cash transfer is one of the most efficient instruments available.[6] Countries with greater fiscal resources and substantial administrative capacity have more choices, such as employment guarantee schemes, linkages to job training and unemployment insurance, as the following diagrams illustrate.

Figure 6.1 depicts how country characteristics affect the relative appropriateness of alternative instrument choices. Figure 6.2 organises these principles into a decision tree, mapping the thought process countries might consider in choosing appropriate social protection interventions.

Conclusions

This chapter has identified issues informing the selection of an appropriate social transfer programme for a country. The ultimate choice will be subjective, political and hopefully informed by the policy evidence. Each country's decision-making process will be different, and rarely will all the information

Determinants	Indicator value	Appropriate instruments
Fiscal space	Low	Unconditional cash transfers
	High	Employment guarantee programmes, cash transfers, unemployment insurance, training programmes
Administrative capacity	Low	Cash transfers
	High	Employment guarantee programmes, cash transfers, unemployment insurance, training programmes
Geographic regions	Rural	Employment guarantee programmes, cash transfers
	Urban	Cash transfers
Labour markets	Formal	Unemployment insurance, training programmes
	Informal	Unconditional cash transfers
Dynamics of poverty	Chronic	Unconditional and conditional cash transfers
	Transitory	Employment guarantee programmes, cash transfers, unemployment insurance, training programmes

Figure 6.1 How the social, policy and institutional context affects choice of instrument

identified in this chapter be available. How does a policymaker go about the process of choosing the most appropriate kind of programme to meet the needs of a particular group? The following five-step outline summarises the key issues raised in this chapter, providing a starting point for making the necessary decisions. Box 6.3 applies these five steps to the case of Lesotho's old age pension. The subsequent chapters provide additional information to further illuminate these considerations and inform this selection.

Steps to selecting a social transfer instrument:

- Identify the priority groups of households or individuals that will participate in the programme. Adopt a household focus that targets social transfers to the poorest in the country. Alternatively, identify priority groups based on poverty, vulnerability and policy objectives (e.g. the elderly, young children, people with disabilities).
- Quantify the available long-term sustainable funding based on secure domestic resources (which may require raising taxes or permanently reallocating expenditure) and verify long-term donor support. Keep in

Labour markets	Formal				Informal			
Administrative capacity	Low		High		Low		High	
Poverty dynamics	Chronic	Transitory	Chronic	Transitory	Chronic	Transitory	Chronic	Transitory
Appropriate instrument	Unconditional cash transfer	Cash transfer	Conditional and unconditional cash transfers	Guaranteed work scheme, unemployment insurance, training programmes	Unconditional cash transfer	Unconditional cash transfer	Conditional and unconditional cash transfers	Guaranteed work scheme
Justification	Relatively easy to implement Spurs domestic consumption Helps households meet critical needs	Relatively easy to implement Benefits those who move rapidly in and out of poverty Helps households meet critical needs	Builds human capital Helps households meet critical needs	Creates infrastructure Income support to vulnerable Allows for high-risk, high-reward job searches Builds marketable skills	Relatively easy to implement Spurs domestic consumption Helps households meet critical needs	Relatively easy to implement Benefits those who move rapidly in and out of poverty Helps households meet critical needs	Builds human capital Helps households meet critical needs	Creates infrastructure that yields long-term benefits Income support to those temporarily affected

Figure 6.2 Decision tree: social protection determinants and appropriate policy interventions

Box 6.3. Revisiting Lesotho

Consider a hypothetical illustration of how the five-step process would apply to Lesotho.

- Policy-makers evaluate the profile of poverty in Lesotho and identify the elderly as the top priority. First, compared to other groups, their poverty has increased significantly over the past decade due to eroding support networks and their increasing responsibility for orphans and vulnerable children. Politically, the recent election campaign focused on addressing poverty among the elderly, and the government appreciates its mandate. It would be possible to identify secondary priority groups, but even this modest proposal has earned dubious looks from international advisors, and the government prefers to proceed cautiously.
- Perhaps due to multilateral organisation scepticism, no long-term substantial donor funding is forthcoming. Government estimates potential sustainable resources ranging between M100 – M200 million (approximately 1-2% of national income, 5-10% of government spending). Proceeding cautiously, the government allocates an amount from the lower end of the range.
- The minimum transfer threshold is estimated, based on living standards analysis and comparisons with social pension systems in Namibia, Botswana and South Africa, with adjustments for differences in per capita incomes and living costs. The minimum is set at M150 (US$25). Debates over the optimal level languish in indecision until a policymaker's back-of-the-envelope calculations demonstrate that for now, the minimum threshold is the most they are willing to spend. The tentative allocation finances the extension of the minimum pension transfer to all elderly 70 years of age and older. The choice between 68 and 72 was fuzzy, but policymakers apparently found the round number appealing. The selection fully utilised the funding policymakers were willing to commit, but they discussed reconsidering extensions after two years of experience. A major priority was not over-committing in establishing this new social contract.
- Policymakers and social policy analysts applied the targeting tests, but given the distribution of poverty in the country, the reduction of inclusion errors from even perfect targeting was relatively small. The costs of targeting, on the other hand, were very high – due to the difficulty in verifying the assessment information, the potential loss of political support and the unnecessary social exclusion created by the resulting stigma.
- No conditionalities were relevant for the target group, so the conditionalities test was not applied.

Based on the application of the five-step process, policymakers might reasonably have selected a universal pension targeted to people 70 years and older.

SOURCE: Authors.

mind that available resources may depend on the type of programme being proposed, so this amount may be adjusted during the programme selection process.

- Determine the sizes of the social transfers for each beneficiary. First, estimate the range of possible transfer sizes, from the minimum to the optimal levels. The transfer amount would not necessarily be the same for every household or individual, but the rule needs to be clearly specified. Calculate the cost of the transfers in the absence of mechanisms to target the poor, and without conditionalities (i.e. human capital or labour supply).
- If funding is inadequate, apply the targeting test to determine whether

Short term

- Low-income countries with limited fiscal space and administrative capacity may find cash transfers the simplest and most cost-effective instrument for social protection. Countries in other circumstances may have additional options, including employment guarantee schemes, unemployment insurance programmes and job training initiatives.
- Low- and middle-income countries without social protection programmes may benefit from an immediate implementation of initial scale interventions. While these will not provide an adequate response to the crisis, they will provide evidence of what works and build national capacity to scale up. Beginning now with an initial scale intervention is a low-risk step that will expedite a more deliberately selected strategy for scaling up.
- Low- and middle-income countries with existing programmes, even pilots, may benefit by building on these to expand the scale and scope of coverage and increase benefits. Given the time required to build new interventions from scratch and the imminent threat of the economic downturn, existing programmes are likely to provide the most effective immediate response in most countries.
- Development partners and regional and international financial institutions may provide vital resources – both financial and technical, particularly for those countries with no existing interventions.

Medium term

- Immediate interventions – such as cash transfers and other easily implementable social protection interventions – provides a rapid and effective initial response. Over time, these interventions can develop into more socially protective instruments reaching those most affected by the crisis. Initial pilots can be scaled up to protect the most vulnerable. Existing interventions can evolve into more effective and developmental programmes. In particular, by incorporating complementary social and economic interventions, the longer term developmental impact can be maximised.

Long term

- Appropriate social protection interventions for addressing the economic downturn may also help inoculate against future economic shocks. Many industrialised countries developed social security systems as a coping response to the Great Depression in the 1930s, and then retained them as they recognised their substantial social value. Later, economists realised they served as effective automatic stabilisers, countering some of the negative impacts of future economic downturns. Over the longer horizon, governments in low- and middle-income countries can benefit by institutionalising effective social protection interventions rather than scaling them down after the global economy recovers.

Figure 6.3 Short-, medium- and long-term actions supporting appropriate policy responses

a targeted approach will generate the same social protection at a lower cost (or a better outcome for the same cost).
- Apply the conditionality tests to determine whether conditionalities will provide a greater level of long term social protection.

Endnotes

1 Barrientos (2004), Case and Deaton (1998), Duflo (2003), Samson et al. (2004).

2 The alternative – embraced by civil society coalitions in Namibia, South Africa and other countries – involves a universal grant to everyone in the nation.

3 Shepherd, Marcus and Barrientos (2005), page 4.

4 Coady, Grosh and Hoddinott (2004).

5 World Bank (2008a), pages 12, 30.

6 Grosh (2009).