



# Linking Research and Action

STRENGTHENING FOOD ASSISTANCE AND FOOD POLICY RESEARCH

## Cost-Effective Safety Nets What Are the Costs of Reaching the Poor?

Which social safety-net programmes reach poor households? How cost efficient are they? This research shows that public works programmes have great potential for targeting poor households. However, there is great variability in their performance. Human capital subsidies provide a promising approach for addressing poverty and have been shown to have a substantial impact on nutrition, health, and education outcomes.

There is growing recognition that public social safety-net systems can play a crucial role both in protecting households from poverty and in promoting long-term development. Indeed, for many of the world's poor, public safety-net programmes are their only hope for a life free from chronic poverty, malnutrition, and disease. However, their performance has been variable, reflecting a number of shortcomings that undermine their effectiveness. Frequently, a large portion of safety net budgets is eaten up by administrative costs, corruption, and operational inefficiency. Or the transfers (in the form of food, other in-kind transfers, or cash) themselves fail to reach the most vulnerable groups.

Typically three broad intervention types absorb the bulk of governments' safety net budgets: public food subsidies (including both universal and targeted

subsidies), public works, and human-capital subsidies in education and health sectors. Empirical evidence clearly shows that universal public food subsidies are rarely a cost-effective way of getting resources to the poor, reflecting both high leakages to the non-poor and economic inefficiencies resulting from distorted consumer and producer prices. Leakages of subsidies to the non-poor due to poor targeting increase the budget cost of transferring subsidies to the targeted poor population. Due to this leakage, it costs governments \$3.3 to transfer \$1 to the poor through universal food subsidies. For this reason, this modality for food distribution to the poor is often viewed as a stopgap policy until more effective policy instruments can be developed. Although the targeting of public food subsidies (e.g., through ration shops) can improve cost effectiveness, their performance has not always been satisfactory, often reflecting the high administrative costs, corruption, and leakages to the non-poor. Again, focusing only on leakages (i.e., ignoring administrative costs), on average it costs \$2.6 to transfer \$1 to the poor.

Traditionally, one of the most popular programmes has been public works, which employ the poor on projects that maintain or create a physical asset—a road, an irrigation system. More recently, human capital subsidies in the form of transfers conditioned on poor children attending school or health clinics are increasing in popularity. Both of these interventions are attractive because they can simultaneously help alleviate current poverty as well as future poverty by increasing household and community assets.

Which social safety net pro-

grammes reach poor households? How cost efficient are they and what lessons have we learned to improve them? Insights generated from recent research can refine the way public resources (cash or food) are transferred to pull households out of poverty.

### Insights from IFPRI Research

A recent IFPRI/World Bank study has reviewed the available evidence on the design and performance of social safety-net programmes from 47 countries across Africa, Asia, Eastern Europe, and Latin America. The findings show that such programmes are generally successful at getting a high proportion of transfers to the poor, with the poor receiving, on average, around 25 percent more than they would without targeting. This increases to 35 percent when universal food subsidies are not included. However, both the large variation in performance (within targeting methods, programme types, and regions) and the large number of poorly targeted programmes found in practice (a staggering one quarter were benefiting the non-poor) highlight the need to pay sufficient attention to detailed programme design and implementation issues. Research indicates that public works and human capital development hold strong promise for improving the livelihoods of the poor. But research also tells us that much more can be done to design these programmes to better transfer resources and pull households out of destitution.

### Implications for Food Assistance Programming

Public works programmes that transfer resources in the form of cash or food

appear to have great potential for targeting poor and vulnerable households. They also have the added advantage of building up physical assets in communities as well as providing training for individuals. Because of targeting leakage alone, it costs, on average, \$1.6 to transfer \$1 to poor households. But there is great variability in performance: the best four public works programmes cost \$1.3 to transfer \$1 to the poor (compared to over \$4 for the worst four). Certain *design features* have been found to be crucial to the overall performance of public works. Somewhat counter intuitively, low wages are critical. Projects need to pay low wages so as to attract only those who would find public works projects to be the most worthwhile employment opportunity. Targeting improves with low wages because the non-poor select out. Location also matters. When public works programmes are placed in very poor areas, are active during off-peak seasons or during economic downturns, and permit flexible working hours to accommodate the livelihood patterns of the poor, they can be particularly effective at addressing vulnerability.

Because these design features are often not in place, studies have shown that participants often lose income from other sources in order to participate in public works projects. These lost wages can constitute anywhere from 25–50 percent of what they could earn from public works. Using a 25 percent wage loss, the cost of transferring income to poor households through public works is calculated to increase from \$1.3 presented above to \$1.7 for every dollar transferred to the poor. The *choice and quality of project output* also matter and community participation in the selection and implementation of projects have been shown to have high returns. However, although the emphasis on community asset maintenance or creation gives these programmes greater

benefits in terms of the community as a whole, it also means that these programmes can be a very costly way to transfer income to poor households. For example, when materials, management, and equipment account for 30 percent of total programme costs, the total costs of transferring resources to the poor through public works raises to \$2.4 to transfer \$1.

**Human Capital Subsidies**, which are transfers of food or cash conditioned on households investing in their children's nutrition, health, and education status, provide a promising approach for addressing poverty. Invariably, the poorest households are not only poor in terms of income and consumption levels, but also in terms of their nutrition, health, and education levels. By increasing human capital in poor households, these types of programmes can contribute significantly to breaking the inter-generational transmission of poverty.

Human capital subsidies are generally very well targeted, using a combination of geographic, demographic, proxy-means and community targeting methods. Because, on average, 68 per-

cent of the budget. Combining this with the targeting efficiency, human capital subsidies cost in total \$1.7 to transfer \$1 to the poor and out perform the best public works programmes discussed above.

Human capital subsidies also have been shown, through rigorous evaluations, to have a substantial impact on nutrition, health, and education outcomes. For example, in Bangladesh's Food for Education Programme, it has been estimated that by giving food assistance linked to school attendance, primary school enrolment increased from 9 percent to 17 percent. Other education programmes, particularly in Latin America, have proven even more successful. In Nicaragua, one of the lowest income countries in Latin America, human capital subsidies resulted in an increase in primary school enrolment rates by 22 percentage points (from 69 to 91 percent). The impacts of these programmes on nutrition and health are equally impressive. In Mexico's programme, there was a significant increase in child growth and a reduction in the probability of stunting for children in the critical age range

#### Comparing budget costs per unit of income transferred to poor households

Programme intervention	Cost to transfer \$1 to poor households	
	Leakages of transfers to non-poor households	Leakages plus other costs
Public works	\$1.6 (\$1.3-\$4)	\$3.0 (\$2.4-\$7.6)
Human capital subsidies	\$1.4 (\$1.25-\$2.3)	\$1.7 (\$1.6-\$2.9)

Notes: Numbers refer to average cost of transfer (with the range given in brackets). For public works, other costs include lost earnings (25 percent of project wage) and management and material costs (30 percent of programme budget). For human capital subsidies, other costs include administrative costs associated with targeting, implementing, and monitoring the programme (20 percent of programme budget).

Source: See reference below.

cent of the benefits accrue to poor households, it costs \$1.4 per \$1 transferred to the poor, i.e., slightly lower than the average leakage cost of public works. In addition, administrative costs appear to be relatively low, on average,

of 12 to 36 months. These results are consistent with a 16 percent increase in mean child growth per year.

David P. Coady (2003) "Choosing Social Safety Net Programmes and Targeting Methods in LDCs," International Food Policy Research Institute, Washington, D.C. Contact author at [d.coady@cgiar.org](mailto:d.coady@cgiar.org).

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