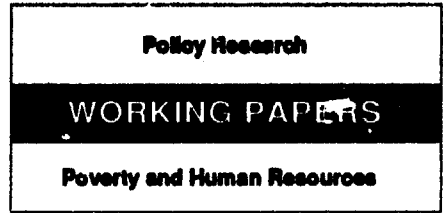


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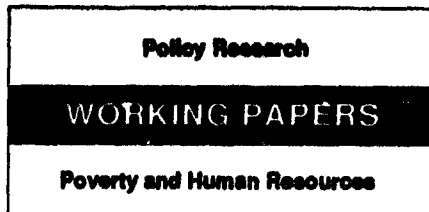
Policy Research Department  
The World Bank  
October 1993  
WPS 1201

# Five Criteria for Choosing among Poverty Programs

Margaret E. Grosh

In deciding between choices in poverty programs, the chief criteria should be administrative and political feasibility, how easy it is to target the program's benefits to the poor, whether the program addresses the real problem, and, when collateral effects are weighed, whether the net effect is to reduce poverty.

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This paper — a product of the Poverty and Human Resources Division, Policy Research Department — was prepared for a conference sponsored by the Brookings Institution and Inter-American Dialogue on “Confronting the Challenge of Poverty and Inequality in Latin America,” held in July 1992. Copies of the paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Maria Eugenia Quintero, room S13-047, extension 37792 (October 1993, 34 pages).

Grosh addresses the issue of how to choose among discreet poverty interventions such as food stamp programs, public works, or small enterprise credit schemes where little formal policy modeling is done prior to decisionmaking.

The minimum criteria on which to judge the relative merits of poverty programs, says Grosh, are five:

- *Administrative feasibility.* This depends on the detailed design of the program, the level of resources available for administration, and the degree of imperfection that can be tolerated.
- *Political feasibility.* This depends on how the program is promoted to the public, how coalitions of supporters or detractors are built, and the relative power of beneficiaries, suppliers, and administrators.
- *Collateral effects on the poverty strategy.* How will a safety net program affect, for example, the participants' labor supply, participation in other programs, and receipt of private interhousehold transfers, and how will those changes affect markets and government finances? What will be the net effect on poverty reduction?

- *Potential for targeting the poor.* Will the program reach significant numbers of the poor? How much leakage of benefits will there be to the nonpoor?

- *Tailoring the solution to the problem.* The program choice should address the real problem. Where the poor have suffered a loss of real wages rather than a loss of jobs, for example, transfers to the working poor may be more relevant than creating jobs. This criterion may seem obvious, but many proposals seem to ignore it.

Grosh illustrates her main points by applying these criteria to a range of poverty programs commonly used in Latin America. General subsidies of food prices, for example, are administratively and politically feasible and lower food costs to the consumer, but they are difficult to target to the poor and they may distort the economy, harming growth. Food stamps are easy to target to the poor, are fairly difficult to administer, depending on program design, but depending on program design, may encourage the use of schools and primary health care. But there is controversy about whether they encourage dependency and diminish the work ethic.

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World Bank

Paper prepared for a conference sponsored by the Brookings Institution and Inter-American Dialogue: "Confronting the Challenge of Poverty and Inequality in Latin America" July 16-17, 1992.

## Five Criteria for Choosing Among Poverty Programs

*Margaret E. Grosh*

### I. Introduction

This paper addresses the issue of how to choose among discrete poverty interventions such as food stamps programs, public works, or small-enterprise credit schemes. The aim of this paper is not to move forward the science of policy modeling, but to move forward the art of program selection when, for any of a variety of reasons, little policy modeling will be done prior to decision making. Without a clear framework for discussion (such as rigorous cost-effectiveness or cost-benefit analysis would provide), debates about program choice often become endless, circular polemics mired in a morass of conflicting goals, criteria, and ideology. A lack of data often forces reliance on impressionistic and conflicting information on predicted or real program outcomes, which further confuses discussions. The paper proposes a set of criteria that can help avoid that morass and to think through program choices in an organized way. It then reviews the available evidence from Latin American experience with several common types of poverty alleviation programs. The criteria proposed cover the main dimensions of cost-effectiveness analysis, although often the absence of quantitative information may render the considerations qualitative and subjective.

The paper arises from having been present at the moment when policymakers, faced with the results of the economic depressions and macroeconomic adjustment programs of the last few years, have asked, "What new welfare program do we need?" In my experience in observing and analyzing these decisions, full-fledged cost-effectiveness analysis of alternative poverty interventions is rarely done before program choices are made. These choices often take place after only a few weeks of exploration of options. Furthermore, data to use in that exploration are scarce and the level of analysis of what data do exist is usually rudimentary. Hence the need for ways of ordering our thoughts in the absence of a well-specified analytical framework.

In contrast to the resources available, the requirements for good cost-effectiveness analysis are formidable. Some of the costs, such as those of the direct program benefits and administration, can be fairly easily estimated from program budgets. But determining the gross distribution of benefits between the poor and the non-poor requires household welfare data. To estimate the *net* distribution of benefits (discounting for, *inter alia*, costs to recipients of program participation, changes in labor supply, or changes in private inter-household transfers stemming from the introduction of the program)<sup>1</sup> requires both household data and some analytic

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<sup>1</sup>See Dominique van der Walle "Whether to Target -- and How" *Outreach* Number 6 (Washington, D.C.: World Bank Country Economics Department, December 1992) and Indermit Gill, Emmanuel Jimenez and Zamarak Shalizi "Targeting Consumer Subsidies for Poverty Alleviation: A Survey and a Primer of Basic Theory" unpublished (Washington, D.C.: World Bank Country Economics Department, December 1990), pg. 10 and pp. 24-28.

sophistication. While these issues are usually handled in a partial equilibrium framework,<sup>2</sup> others (such as the effect of labor supply on the product markets from which labor might be withdrawn as a result of the postulated program, or the effects of the financing mechanism on the markets and incomes) require general equilibrium analysis,<sup>3</sup> which is even more demanding.

In addition to the strictly economic aspects in cost-effectiveness analysis, issues of administrative and political feasibility must be assessed. In part, these can be influenced through program design, reflected in its costs, and therefore addressed in the assessment of its cost-effectiveness. For example, adequate resources for salaries, equipment, supplies, transport and communications can improve the administrative feasibility of even a large or complex program. Political feasibility may be improved through direct expenditures for public relations,<sup>4</sup> or through design options that allow a certain amount of leakage to the non-poor<sup>5</sup> or that provide

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<sup>2</sup> Three examples illustrate the approach: John Newman, Steen Jorgensen, and Menno Pradhan "How Did Workers Benefit?" in Steen Jorgensen, Margaret Grosh and Mark Schacter, eds., *Bolivia's Answer to Poverty, Economic Crisis, and Adjustment: The Emergency Social Fund* (Washington D.C.: The World Bank, pg. 55-64 estimate the foregone earnings of participants in the ESF. A review of the labor supply effects of the United States' Aid to Families with Dependent Children is found in Robert Moffitt "Incentive Effects of the U.S. Welfare System: A Review" *Journal of Economic Literature* Vol. XXX (March 1992), pp. 1-61. Donald Cox and Emmanuel Jimenez, "Social Security and Private Transfers in Developing Countries: The Case of Peru" *The World Bank Economic Review*, Vol. 6 (January 1992), pp. 155-170 calculate the magnitude of changes in private interhousehold transfers resulting from the Peruvian social security system.

<sup>3</sup> For example, the effect of choices about where to obtain subsidized commodities and how to finance food subsidy programs are modeled using a general equilibrium approach by Hans P. Binswanger and Jaime B. Quizon "Distributional Consequences of Alternative Food Policies in India" in Per Pinstrup-Andersen, ed. *Food Subsidies in Developing Countries* (Baltimore: Johns Hopkins Press, 1988) pg. 85. Domingo Cavallo and Yair Mundlak "Agriculture and Economic Growth in an Open Economy: The Case of Argentina" Research Report 36 (Washington, D.C.: International Food Policy Research Institute, December 1982) use a general equilibrium framework to investigate how alternate subsidy policies affect agricultural investment and growth. The fiscal and foreign trade effects of alternate food subsidy schemes are modeled in Nora Lustig and Lance Taylor "Mexican Food Consumption Policies in a Structuralist CGE Model" in Lance Taylor, ed. *Socially Relevant Policy Analysis* (Cambridge: MIT Press, 1990) pp. 71-84.

<sup>4</sup> For example, the Bolivian Emergency Social Fund conducted a public awareness campaign when it found its beneficiaries unfamiliar with its program. See Margaret E. Grosh, *From Platitudes to Practice: Targeting Social Programs in Latin America* (World Bank Report No. 10720-LAC, 1992) Volume I, pg. 32.

<sup>5</sup> The Chilean Programa Nacional de Alimentacion Complementaria (PNAC), for example, gives rations to all children who use public health centers, with larger rations going to those who are considered to be at high risk of malnutrition. Half of the products distributed go to the 17 percent of the children at risk. Thus the program is to a degree targeted, while maintaining the political support of a universal program. For further discussion see Grosh "Platitudes to Practice" pg. 122.

markets for products of influential groups.<sup>6</sup> But other aspects of administrative and political feasibility are not easy to capture this way. The intangibles of work culture, stigma, and power relations are hard to convert into a monetary measure.

This paper focusses narrowly on how to choose among programs often suggested as part of the safety net. It takes as given that a complete poverty reduction strategy entails much more -- a thorough, permanent structuring of policies and investments in ways that will allow the poor and their children to earn higher wages throughout their productive lives. The 1990 World Development Report,<sup>7</sup> for example, concludes that a complete poverty reduction strategy requires two lines of attack to reduce poverty in the long run, while a third complementary line of action may be taken to support the poor who will remain:

(i) **Promote efficient, labor-intensive growth.** This will result in employment and earnings opportunities based on labor, which is the poor's most abundant asset. Tax, trade, exchange rate, monetary and labor policies will be important points of intervention. Investment in basic infrastructure and social and political institutions will also be required.

(ii) **Provide basic social services to the poor.** Primary health care, family planning, nutrition and primary education should be provided to the poor. These basic social services are human capital investments that help the poor to become productive workers. They are also humanitarian actions that provide a minimum standard of welfare even for those with low money incomes.

(iii) **Targeted transfers and social safety nets.** Even where the two-part strategy for long-run poverty alleviation have been fully implemented, some poverty will remain. The sick, the old and those in the poorest regions are unlikely to be able to take advantage of adequate earnings opportunities. Others will suffer from temporary setbacks owing to seasonal variations in income, loss of the family breadwinner or famine or to macroeconomic shocks. And while the long-run measures take effect, some shorter term relief may be deemed desirable.

The proposed criteria for choosing among transfer or safety nets programs are set out in Part II of the paper. In Part III, several of the most common program alternatives are sized up in terms of the criteria, using recent examples of program experience in Latin America. In Part IV, the proposed criteria are applied to the situation that was faced in Bolivia in 1986 and in Jamaica in 1988 to illustrate how the criteria accommodate country-specific details and to see whether the criteria support the (generally successful) strategies that were chosen in each case. In Part V, conclusions are drawn.

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<sup>6</sup>For example, Nicole Ballenger and Courtney Harold "Revising Surplus Food Programs After Surpluses: The Temporary Emergency Food Assistance Program and its Role in the District of Columbia" Discussion Paper No. FAP91-01 (Washington, D.C.: National Center for Food and Agricultural Policy Resources for the Future, March 1991) pg. 2 illustrate the origin of the TEFAP program in U.S. farm commodity surpluses.

<sup>7</sup>World Bank *World Development Report 1990* (Oxford University Press, 1990), pg. 3.

## II. Proposed Criteria for Program Choice

Proposed Criteria for Choosing a Program. A minimum set of criteria on which to judge the relative merits of poverty programs is the following:

- \* Administrative feasibility
- \* Political feasibility
- \* Collateral effects on elements (i) and (ii) of the poverty strategy
- \* Targeting
- \* Tailoring the solution to the problem

It is assumed that each program option would be operated in a reasonably efficient manner. The choice referred to is not between a good school lunch program and a bad one (an easy choice) but between, for example, a good school lunch program and a good Social Fund. It is also assumed that the program is required to have an impact on the poor noticeable to them during a government's terms of office -- from one to five years.<sup>8</sup>

**Administrative feasibility.** A program must pass some minimum level of administrative feasibility before it can be viable. After that, there are degrees of administrative feasibility depending on the level of imperfections that can be tolerated and the extra resources that are available to bolster administrative capacity. The issue of administrative feasibility affects both the choice between different kinds of programs and the detailed design of the program selected.

**Political feasibility.** A program must also possess a minimum level of political feasibility if it is to be viable. After that there are degrees of feasibility depending on program design and country context issues such as the relative power of beneficiaries, suppliers and administrators, how the program is promoted to the public and how coalitions of supporters or detractors are built.

**Collateral Effects.** In adopting a safety net program, consideration should be given to the program's possible collateral effects such as changes in the participants' labor supply, participation in other programs, or receipt of private inter-household transfers, and the effects of these changes on markets and government finances. These may be positive, negative, or neutral with respect to the overall poverty reduction strategy.

**Targeting.** Poverty programs are obviously meant to reach the poor. Leakage of benefits to the non-poor reduces the effectiveness of the program because funds are used on those who are not in need. Furthermore, the program must be able to reach significant numbers of the poor to avoid the problem of undercoverage. If it is incapable of doing so, the program will be ineffective.

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<sup>8</sup>If this constraint were to be relaxed, a sixth criterion might be added to the list -- the time profile of benefits.

**Tailoring the Solution to the Problem.** The program choice should reflect the problems faced in the particular country and time. For example, where the poor have suffered a loss of real wages rather than a loss of jobs, transfers to the working poor may be more relevant than job creation. While this criterion seems almost too obvious to include, initial proposals of what to do about poverty programs seem to ignore it often enough that I maintain it on the list.

If we had fully quantitative information about program results on these criteria, we could do full cost-effectiveness simulations. We would start from a fixed program budget and a known distribution of welfare. From the budget we would deduct administrative costs and any monetary costs necessary to gain political feasibility (we would rule out of the choice set those programs for which reasonable program expenditures couldn't provide minimal administrative or political feasibility or introduce a constraint function on political feasibility as do de Janvry and Sadoulet<sup>9</sup> in their work on the political feasibility of alternate macroeconomic adjustment packages). Then we would simulate a new welfare distribution taking into account the level of program benefits possible given the remaining budget, the targeting outcomes achieved, and the direction and magnitude of collateral effects. The extent or depth of poverty could be measured by an index of poverty such as provided in the Foster-Greer-Thorbecke family of measures. The best program option would be that which, for a given budget, produced the lowest poverty measure.

In the absence of sufficient quantitative information to carry out the full program simulation, we can use the proposed criteria to marshal what evidence or guestimates are available in an organized fashion. However, without the simulation which would implicitly provide a weighting between the different criteria, we are left without a firm way of ordering preferences. I therefore suggest that program options first have to pass a rough pass/fail test on each criteria. This will eliminate those that are unlikely, whatever the configuration of other advantages, to pass muster in the end. For example, some programs might be infeasible on political or administrative grounds even if considerable ingenuity and expense went into trying to make them so. These could be ruled out. Also those programs with very large negative collateral effects might be excluded on the grounds that offsetting advantages would have to be very large or that complicated compensatory arrangements that are unlikely to materialize would be needed to make them desirable. Very poorly targeted programs (which either include big portions of non-poor or fail badly in reaching the poor) might also be omitted. Programs that do not address the problems at hand in a fairly direct manner could likewise be excluded. In comparing among programs that pass these first rough sieves of feasibility, I can only suggest reliance on professional judgment in qualitatively assessing the tradeoffs among options.

### III. A Review of Program Experience

When it is not possible to do full cost-effectiveness evaluations prior to making program recommendations, a review of recent Latin American program experience can help us

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<sup>9</sup>Alain de Janvry, Andre Fargeix and Elisabeth Sadoulet "Economic, Welfare, and Political Consequences of Stabilization Policies: A General Equilibrium Approach" unpublished (University of California at Berkeley Department of Agricultural and Resource Economics, October 1989).



to infer how the proposed program options might fare. Prudent adjustments will, of course, have to be made in those inferences for how the program proposals or context differ from the country experiences reviewed.

The following review of program experience abstracts from several issues that will affect the impact of transfer programs generally -- offsetting declines in private transfers, the effects of the taxes which support the program, and the second round effects of the responding of the income transferred. Rather, the effect of these issues is sketched briefly here.

The net benefits of public transfer schemes will be influenced by how private transfers may change as a response to them. Cox and Jimenez, for example, simulate the effect of social security receipt on private transfers in Peru. Average social security payments were about 30 intis,<sup>10</sup> and the average amount by which social security was estimated to reduce transfers was 10 intis,<sup>11</sup> so that the net benefits of the social security payments were about a third lower than gross benefits. If this result is widely applicable to other countries and programs, then any estimate of the cost-effectiveness of a government transfer programs that does not make allowance for changes in private inter-household transfers will overestimate the program's impact.

We do not yet have evidence as to whether the response of private transfers differs depending on the form in which the transfer is received -- i.e. whether in cash, in kind, or in reduced prices for commodities or services. Indeed, we do not have evidence for any of the specific programs reviewed in this section on how interhousehold transfers were influenced by the programs. Lacking empirical evidence on the issue, we will assume here that behavioral responses do not differ by the form of transfer. Thus we can abstract from the issue of how large offsetting declines in private transfers might be (which addresses *whether* governments should provide transfers) and can go forward with our choice among programs (which addresses *how* government should provide transfers).

The net benefits of public transfer schemes will also be influenced by how they are financed. Binswanger and Quizon, for example model the effect for several food policy options in India. When assuming that the hypothetical programs are financed through foreign aid, the improvement in real per capita income of the poorest rural quartile is 0.86 percent for urban ration shops, 5.2 percent for untargeted subsidies, and 17.6 percent for food stamps. Assuming that the same programs are financed through a domestic excise tax results in improvements in incomes of 0.3 percent, 4.3 percent, and 16 percent, respectively.<sup>12</sup> Thus the modeling of the financing mechanism reduces benefits to these groups from two-thirds to one tenth of the level predicted when the tax effects are not considered.

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<sup>10</sup>Cox and Jimenez, "Social Security and Private Transfers in Developing Countries: The Case of Peru" p. 161.

<sup>11</sup>Cox and Jimenez, pg. 167.

<sup>12</sup>Binswanger and Quizon, "Consequences of Alternative Food Policies in India" Table 22.1, pp. 306-309.

In the review presented here, I abstract from the issue of how any of the programs would be financed. The implicit assumption is that the question is not whether or how to raise revenue and spend it for a poverty program, but having decided that a certain amount of existing revenue should be spent on a poverty program, which kind of poverty program should it be? Again, I concentrate not on *whether* to have a program, but on *how*.

A third indirect effect of transfer programs is that the recipients of the transfers will spend them. This in turn may improve the welfare of those who supply the products they purchase. It is such an effect that accounts for the increase (albeit small) in the welfare of the rural poor when urban ration shops directly benefitting only urban residents were modeled by Binswanger and Quizon in the above example. A second example comes from an evaluation of the employment effects of the Bolivian Emergency Social Fund. A general equilibrium model estimated that of the total employment effect of ESF expenditures, 53 percent was due to indirect effects and only 47 percent to direct effects<sup>13</sup> (e.g. a multiplier effect of 1.1).

I abstract from the responding effects of program transfers in the following review, again in order to focus more study on direct program effects.

Finally, I should clarify here that although several of the programs reviewed use food as a transfer mechanism, it is the implicit income transfer that is studied here, rather than the extent to which that income improves nutrition. Although it is often the intent that transfers will be used to improve nutrition, the empirical evidence as to the extent of this effect is mixed.<sup>14</sup> But since it is the pre- and post-transfer income-based poverty index that is the outcome measure suggested to compare programs, it is the income effect of the transfers that matter here, whether they be embodied in food or in some other vehicle. Without more preamble, let me move to the program review.

### General Food Price Subsidies

General food price subsidies have been used in many countries over the years. The subsidies that have been studied the most are those in Mexico, Brazil and Argentina, though there are less widely circulated studies for others, such as Jamaica and Venezuela.<sup>15</sup> In most

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<sup>13</sup>Unidad de Análisis de Políticas Económicas "Modelo para Medir el Impacto Macroeconómico de los Proyectos del Fondo Social de Emergencia" unpublished paper prepared for the Bolivian Emergency Social Fund, La Paz, Bolivia, January 1988, pg. 13.

<sup>14</sup>For a review, see Jesse R. Behrman "The Action of Human Resources and Poverty on One Another: What We Have Yet to Learn" Living Standard Measurement Study Working Paper No. 74 (Washington, D.C.; World Bank, October 1990) pp. 80-86.

<sup>15</sup>For Mexico, see Nora Lustig "Fiscal Cost and Welfare Effects of the Maize Subsidy in Mexico" in Per Pinstrup-Andersen, ed. *Food Subsidies in Developing Countries* (Baltimore: Johns Hopkins Press, 1988) pp. 277-288 and Nora Lustig "Food Subsidy Programs in Mexico" Working Paper 3 (Washington: International Food Policy Research Institute, January 1986). For Brazil, see Geraldo M. Calegar and G. Edward Schuh "The Brazilian Wheat Policy: Its Costs, Benefits and Effects on Food Consumption" Research Report 66 (Washington: International Food Policy Research Institute, May 1988). For

Table 1: Summary of Program Assessments

	General Food Price Subsidies	Food Stamps	Food Commodities through Clinics	School Feeding	Social Funds	Micro-enterpris Credit
Administrative Feasibility	usually good	medium to high requirements depending on design	medium to high requirements depending on design	medium requirements	agility may require exceptions to procurement and civil service standards	demanding, usually successful only on very small scale
Political Feasibility	excellent	controversy over dependency, effect on work ethic	usually good, occasional objections to paternalism	excellent	popular with people; may have opponents in bureaucracy	good
Collateral Effects	distorts economy - deleterious to growth	depending on design, may encourage use of primary health care or schools	increases use of preventive health care	encourage school attendance and learning	can provide basic infrastructure; and/or social services	complements growth
Targeting	poor	good	good	variable - from neutral to good	not well measured yet; job benefits well targeted, infrastructure/ service benefits may be less so	excellent
Contribution to Problem	lowers food cost to net purchasers	reaches working poor and/or vulnerable groups	provides pregnant/lactating women and young children synergy of health care/health education/income transfer	lowers implicit cost of schooling	provides temporary, full-time work to young male heads of household	improves lot of the informal sector w/obj grow during hard times

cases, the bulk of the subsidy value has gone to staple items that are a larger share of the food basket for the poor than for the non-poor. In Latin America, their contribution to the poor's

Argentina, see Yair Mundlak, Domingo Cavalho and Roberto Domenech "Agriculture and Economic Growth in Argentina, 1913-84" Research Report 76 (Washington: International Food Policy Research Institute, November 1989) and Domingo Cavalho and Yair Mundlak "Agriculture and Economic Growth in an Open Economy: The Case of Argentina" Research Report 36 (Washington, D.C.: International Food Policy Research Institute, December 1982). For Jamaica, information is taken from internal World Bank sources and Statistical Institute of Jamaica (STATIN) and World Bank "Preliminary Report: Living Conditions Survey, Jamaica" Kingston, Jamaica, October 1988. For Venezuela, information is taken from internal World Bank sources.

welfare has ranged from less than 5 percent of the poorest quintile's food expenditures in Jamaica in 1988 to more than 25 percent of the poorest quintile's food expenditures in Mexico in 1977.<sup>16</sup>

**Administrative Feasibility.** General food price subsidies can be administered in a variety of forms.<sup>17</sup> Governments can import the items through monopoly trading agents at one price and sell to the distribution chain at a lower price, as was the case in Jamaica. If the good is locally produced, the price can be regulated, leaving the cost to be borne as an implicit tax on the producers. Alternately, governments can purchase locally grown crops through a state commodity board and sell at a lower price, as done in Mexico.<sup>18</sup> The common use of food subsidies<sup>19</sup> indicates that their administrative feasibility is generally good.

**Political Feasibility.** Low food prices can be very popular politically. Net consumers are always happy to receive their benefits. As the beneficiaries can range from the lion's share of the urban population to the lion's share of the whole population depending on which commodities are subsidized, the benefits can be very widespread indeed. And they usually include the politically vocal urban and middle-class groups.

**Collateral Effects.** General food price subsidies can distort the free market and may work against the measures aimed at improving long-term growth in the economy, especially in agriculture.<sup>20</sup> Implicit consumer food subsidies maintained through artificially low producer prices can reduce farm production and incomes. Reducing consumer prices will increase demand, which is often met through imports which require scarce foreign exchange. If a large portion of the price subsidy is provided implicitly through an overvalued exchange rate, then incentives in the economy in general are distorted. How severe these drawbacks are will depend on how large the subsidies are, on how they are financed and on the effects of a series of macroeconomic and

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<sup>16</sup>STATIN and World Bank, Living Conditions Survey, pg. 62 and Lustig, Food Subsidy Programs, pg 6.

<sup>17</sup>See discussions in Malcolm Bale, "Agricultural Trade and Food Policy: The Experience of Five Developing Countries" World Bank Staff Working Paper No. 724 (Washington D.C.: World Bank, March 1985) pp. 10-15 and Alberto Valdes, "Explicit versus Implicit Food Subsidies: Distribution of Costs" in Per Pinstруп-Andersen, ed. *Food Subsidies in Developing Countries* (Baltimore: Johns Hopkins Press, 1988) pg. 85.

<sup>18</sup>Lustig, "Fiscal Cost and Welfare Effects" pg.278.

<sup>19</sup>Bale, "Agriculture Trade and Food Policy" pg. 13.

<sup>20</sup>See Per Pinstруп-Andersen "The Social and Economic Effects of Consumer-Oriented Food Subsidies: A Summary of Current Evidence" in Per Pinstруп-Andersen, ed. Food Subsidies in Developing Countries (Baltimore: Johns Hopkins Press, 1988) pp. 3-20, Grant M. Scobie "Macroeconomic and Trade Implications of Consumer-Oriented Food Subsidies" in Per Pinstруп-Andersen, ed. Food Subsidies in Developing Countries (Baltimore: Johns Hopkins Press, 1988) pp. 49-76, and Bale "Agricultural Trade and Food Policy".

agricultural policies. Calegar and Schuh's<sup>21</sup> analysis of Brazilian wheat price subsidies, for example, estimates that the economic inefficiencies (deadweight losses) induced by the program were worth about 15 percent of its cost.

Targeting. General food price subsidies tend to benefit the rich more than the poor in absolute terms but not in relative terms.<sup>22</sup> In the case of Jamaica's general food subsidies (that now have been eliminated), the subsidized foods were well chosen, in the sense that the subsidized staples constituted a larger share of the food budgets of the poor (3.7 percent) than of the rich (1.1 percent).<sup>23</sup> The rich, however, spent much more in absolute terms than the poor did, so that only 14 percent of the transfer benefits accrued to the poorest quintile of the population and 26 percent to the richest (see Table 2). This same pattern can be observed in the other countries for which incidence information is available.

The incidence of food price subsidies will be determined by the income and price elasticities of the commodity that is subsidized. If commodities with negative income elasticities can be found, then the incidence of the overall subsidy will be progressive.<sup>24</sup> But there are apparently few examples of food commodities with these characteristics (and that are also important in the food basket and have production patterns that lead to easy administration of subsidies). Governments have typically subsidized commodities with low but positive income elasticities, which has led to the incidence patterns observed above.

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<sup>21</sup>Calegar and Schuh, "The Brazilian Wheat Policy" pg. 10.

<sup>22</sup>Whether this effect is classified as progressive or regressive varies by the definitions of the terms used. If progressivity is defined as meaning an action that equalizes the welfare distribution then (abstracting from financing issues) this distribution of benefits is progressive. A more demanding definition of progressivity requires that the absolute benefit be larger for the poor than the rich. By this definition, the distribution of benefits is regressive.

<sup>23</sup>STATIN and World Bank, Living Conditions Survey, pg. 62.

<sup>24</sup>A negative income elasticity means that if the household's income goes up, the amount spent on the commodities will go down. This is rare. For most staples, the share of the total budget spent on the item will decline, but the absolute amount spent will rise with income. It is also possible for the subsidization of commodities with high own- and cross-price elasticities for the poor but with low own- and cross-price elasticities for the rich to result in progressive incidence. Many staples also show high own-price elasticities for the poor but low own-price elasticities for the rich and there is some evidence of similar patterns in cross-price elasticities. Of course, the same features of importance in the poor's food basket and suitable production patterns must still obtain. For a simple primer on these issues see Chapter 7 "Purchasing Power: Income and the Price of Food" in Philips Foster *The World Food Problem: Tackling the Causes of Undernutrition in the Third World* (Boulder: Lynne Rienner, 1992), pp. 113-136; for a more detailed treatments, see Harold Alderman The Effects of Food Price and Income Changes on the Acquisition of Food by Low-Income Households (Washington, D.C.: International Food Policy Research Institute, 1986).

**Tailoring Solution to Problem.** Food typically comprises the largest share of the consumption basket, accounting for over half of it for the poor in most cases.<sup>25</sup> Food price subsidies, therefore, may be an attractive ways of keeping total living costs down.

Table 2: Incidence of General Food Subsidies							
Percent of Subsidy Benefits Accruing to Quintile							
Country	Commodity	Year	Poorest	2	3	4	Richest
Brazil (Metro area of Belo Horizonte)	Rice	1974	19 <sup>a</sup>	66 <sup>b</sup>			15 <sup>c</sup>
	Wheat		15 <sup>a</sup>	62 <sup>b</sup>			23 <sup>c</sup>
Jamaica	Powdered Milk, Wheat, Cornmeal	1988	14	20	20	21	26
Mexico	Corn, Sorghum, Beans, Wheat, Rice	1984	20 <sup>d</sup>		80 <sup>e</sup>		

<sup>a</sup> those with incomes < Cr\$ 11,299 (18.4 percent of population)  
<sup>b</sup> those with incomes > Cr\$ 11,299 and < Cr\$45,200 (62.6 percent of population)  
<sup>c</sup> those with incomes > Cr\$ 45,200 (19.0 percent of population)  
<sup>d</sup> those with incomes < 1.5 minimum salaries (33.7 percent of population)  
<sup>e</sup> those with incomes > 1.5 minimum salaries (66.3 percent of population)

Sources:  
 Brazil: Calculated using Calegar and Schuh, "Brazilian Wheat Policy", Table 28, pg. 53, for the population weights, and Tables 11 and 13, pg. 37 and pg. 39 for annual per capita subsidies.  
 Jamaica: Statistical Institute of Jamaica and World Bank "Living Conditions Survey" pg. 62.  
 Mexico: Incidence figures are taken from World Bank data.

### Food Stamps Programs

Currently Jamaica, Venezuela, Honduras and Mexico are operating food stamp programs.<sup>26</sup> In the first three cases, the coupons are denominated in currency and are

<sup>25</sup>World Bank World Development Report 1990 pg. 36.

<sup>26</sup>For information on Jamaica's program see Margaret E. Grosh "The Jamaican Food Stamps Programme" *Food Policy* Vol. 17, No. 1, (February 1992), pp. 23-40. For Venezuela, see Haydee Garcia and Alberto Levy, "Venezuela: Beca Alimentaria," in Margaret E. Grosh, *From Platitudes to Practice: Targeting Social Programs in Latin America* (World Bank Report No. 10720-LAC, 1992) Volume II, Annex XXI. For Honduras, information comes from personal involvement in project

redeemable in many participating commercial outlets with little attempt being made to ensure that they are used for any particular items. In Mexico, the Tortivale program benefit is a specified weight of tortillas, and must be taken in only that form.

The income transfer has generally provided a transfer to recipients of a few percent of their consumption bundles on an ongoing basis. The scale of programs has varied, but for the largest programs, probably reaches on the order of a third to half of poor households. Where the collateral benefits are obtained, the increase in preventive health services or enrollment should foment human capital formation and labor productivity in the households that did not previously use those services.

Administrative Feasibility. The administrative burden of food stamps can be thought of in three parts. The first is the selection of beneficiaries. This may be relatively complicated, for example, when means tests are used in each household as is the case in the Mexican Tortivales, the Honduran Bono Madre Jefe de Familia (BMJF) and the Family Plan part of Jamaica's food stamp scheme. Or it can be much simpler, with benefits going to all those using a designated social service as is the case in the Honduran Bono Materno-Infantil (BMI), the Venezuelan Beca Alimentaria and the maternal-child categories of the Jamaican food stamp program. The means tests require more sophisticated administrative capacity, although the administrative burden on the schools or clinics, even in the simple programs, of food stamp paperwork and of additional clients should not be underestimated.

The second major task is distributing the food stamps. The logistical requirements of regularly handing out stamps to tens or hundreds of thousands of beneficiaries are not inconsiderable. Performance has generally been acceptable, but there is apparently room for improvement. The Mexican Tortivale program has avoided the need for monthly distribution of food stamps by providing members with reusable plastic cards that certify them as eligible for one kilo of tortillas daily from designated tortilla shops.

Food stamps do not require the public sector to haul and store food commodities as do many otherwise similar food supplement programs. The savings in transport costs and food wastage can be considerable. In Colombia, the administrative costs of the food coupon program were estimated to be 25 percent, whereas for a parallel food commodity distribution program they were 70 percent.<sup>27</sup>

Finally, food stamp programs require a reclamation process. Commercial stores must be recruited to receive food stamps in payment for purchases, and instructed as to how to convert the food stamps into cash. In all the countries that use food stamps, this has gone smoothly and is regarded as a much smaller logistical problem than the selection of beneficiaries or the distribution of stamps.

Political Feasibility. More concerns seem to be expressed about the political feasibility of food stamp programs than for many other poverty programs. Two objections are

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missions. For Mexico, see Judy L. Baker, "Mexico: The Tortivales Program," in Margaret E. Grosh, *From Platitudes to Practice: Targeting Social Programs in Latin America* (World Bank Report No. 10720-LAC, 1992) Volume II, Annex XVII.

<sup>27</sup>From Tomas Uribe "Food Coupons in Colombia: Origins, Current Situation, Replicability and Prospects" World Bank, Health and Nutrition Division, October 1980, pg. 22.

expressed. First, Latin Americans often brand food stamps as *asistencialista*.<sup>28</sup> Food stamps are seen as creating dependence on the state by the recipients rather than as empowering the recipient to do without the state's support. As this criticism is equally applicable to many other safety net programs, why food stamps in particular receive so much criticism in this vein is somewhat unclear.

A second concern, usually voiced by international agency staff, is that well targeted food stamps programs may have too small a political constituency to maintain their share of budget. The Colombian and Sri Lankan food stamps schemes are cited as examples of this.<sup>29</sup> This analysis is somewhat simplistic as it fails to take into account the opportunities that governments have to build supporting coalitions and to make choices in program design and publicity in order to build support.<sup>30</sup> At any rate, to the extent that fine targeting limits budgetary support, this would affect not only food stamps but also other equally well targeted programs with other forms of benefits.

Collateral Effects. Food stamp programs can have significant collateral benefits in the form of increasing the coverage of basic social services. The extent of the collateral benefits depends on the initial coverage levels and the design of the programs. The contrast in the design of the Honduran, Jamaican and Mexican program and their results is illustrative.

In Honduras, the BMI program provides food coupons worth US\$3.70 monthly to pregnant and lactating women and children under age five who use preventive care in participating public primary health centers. The participants register for the program and receive the food stamps at the health clinics. In order to maintain eligibility, they must show they are using a minimum of preventive health services -- growth monitoring and immunization for the children and pre- and post-natal care for the women. During the program's pilot phase, the number of such visits to the participating health centers increased markedly over previous years (see Table 3).

In Jamaica, the maternal-child portion of the food stamp program is supposed to work in a broadly similar way. There have, however, been problems in implementation. The health care workers have not provided the main labor inputs in the clinics. Rather officers from the Ministry of Labour, Welfare and Sport have visited clinics on a rotating basis for a few days each month to carry out registrations. The delivery of food stamps sometimes takes place in the clinic but frequently it does not and, in any case, it usually occurs when the clinic's health services are closed. This means that the participant does not get both the food stamp and health care for a single investment in travel and waiting time. Thus little increase in the use of preventive care could be expected. Indeed, the pattern of health care use changed little after the

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<sup>28</sup>This assertion is based on numerous conversations throughout the years with government officials from many countries.

<sup>29</sup>World Bank World Development Report 1990 (Oxford University Press, 1990) pg. 92 and Harold Alderman "Food Subsidies and the Poor" in George Psacharopoulos, ed. Essays on Poverty, Equity, and Growth (Oxford: Pergamon Press, 1991) pp. 172-202.

<sup>30</sup>For a fuller discussion of why these examples are simplistic, see Grosh "Platitudes to Practice" pp. 11-13.



introduction of the food stamp program in 1984.<sup>31</sup> This outcome may be acceptable considering that Jamaica had excellent coverage of preventive services before the food stamp program was introduced. To wit, 90 percent of the population lived within 10 miles of a health center providing free preventive care by well trained nurses. Malnutrition rates were measured at only 7.4 percent for children under the age of three in a 1985 household nutrition survey.<sup>32</sup> Vaccination rates were 73 percent for oral polio and 71 for diphtheria-pertussis-tetanus vaccines among children 9 to 59 months of age.<sup>33</sup>

Activity	Urban Centers	Rural Centers	Total
Well child check-up	132	171	155
Growth monitoring	137	230	186
Pre-natal, first visit	108	11	46
Pre-natal, follow-up	99	60	79
Post-natal	56	6	34
Total	119	140	131

Source: PRAF

In Mexico, the Tortivale program has not been linked with health care use in any way, nor has the Family Plan part of Jamaica's programs.

Targeting. The targeting of food stamp programs can be quite good, depending on the exact criteria used. In a review of 30 targeted social programs in Latin America, the Jamaican food stamp program (the only one with incidence that is well quantified) rated in the top half of programs for the share of benefits accruing to the poorest 40 percent of households.<sup>34</sup>

<sup>31</sup>Margaret E. Grosh, Kristin Fox and Maria Jackson "An Observation on the Bias in Clinic-Based Estimates of Malnutrition Rates" Working Paper 649 (Washington: World Bank, April 1991) Table 5, panel A, pg 11 shows little change in health care use from 1984 to 1985 or 1986 (as measured by the percentage of children making their first visit to public clinics before they reached six months of age and children under three participating in growth monitoring).

<sup>32</sup> D. Ashley and K. Fox "Child Nutrition Survey" Ministry of Health, Kingston Jamaica, December 1985, Table 30 pg. T-30, using grades II and III on the Gomez scale as the definition of malnutrition.

<sup>33</sup>Ashley and Fox, "Child Nutrition Survey" Table 51, pg. 5-51.

<sup>34</sup>Margaret E. Grosh, *From Platitudes to Practice: Targeting Social Programs in Latin America*, World Bank Report No. 10720-LAC, Volume I, Table 4.2, pg. 36.

**Tailoring Solution to Problem.** Food stamps can increase the purchasing power of the poor. Eligibility may be contingent upon low incomes which allows the working poor to benefit. Or it may be contingent on the use of preventive health care by vulnerable groups so that the combined health intervention and income transfer protects them from the risk of malnutrition.

### **Food Commodity Distribution**

Food commodity distribution has long been one of the most common options for combatting poverty. Chile's Programa Nacional de Alimentacion Complementaria (PNAC), for example, has its roots in 1924. Many of these programs operate through health clinics, giving food packets to all pregnant or lactating women and young children, as in the Chilean PNAC or Venezuelan Programa Alimentario Materno-Infantil (PAMI), to those meeting certain risk criteria, as in the Dominican Republic's Programa Materno-Infantil (PROMI) or Peru's Programa de Alimentacion y Nutricion para Familias de Alto Riesgo (PANFAR), or to malnourished children only, as in Jamaica's Supplemental Feeding Program.<sup>35</sup>

Many of the logistic and targeting considerations relevant to food commodity distribution programs are parallel to those concerning food stamp programs operated through the health system. The income transfer will be a few percentage points of the family's food basket over an extended period. Collateral health benefits may accrue subject to the same design features discussed for the food stamps programs.

**Administrative Feasibility.** The identification of beneficiaries is usually manageable. Since these programs are geared to pregnant and lactating women and young children who come to clinics (either to all or to those who have biomedical risk factors of the kind that the health providers are used to assessing) there is a natural way to identify and screen beneficiaries. These programs usually do not try to do the kind of means tests that can be somewhat complicated in the food stamps programs. The transportation and storage of the food commodities, however, can present large and expensive logistical problems. Delays and losses

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<sup>35</sup>For information on the Chilean PNAC see Isabel Vial, Rosa Camhi and Antonio Infante, "Chile: El Programa de Alimentacion Complementaria (PNAC): Evolucion y Mecanismos de Focalizacion," in Margaret E. Grosh, *From Platitudes to Practice: Targeting Social Programs in Latin America*, (World Bank Report No. 10720-LAC, 1992) Volume II, Annex V. For information on the Venezuelan PAMI see Haydee Garcia and Alberto Levy, "Venezuela: El PAMI," in Margaret E. Grosh, *From Platitudes to Practice: Targeting Social Programs in Latin America* (World Bank Report No. 10720-LAC, 1992) Volume II, Annex XXII. For information on the Dominican Republic's PROMI see Judy L. Baker, "Dominican Republic: Targeting Maternal-Child Health Care through PROMI," in Margaret E. Grosh, *From Platitudes to Practice: Targeting Social Programs in Latin America* (World Bank Report No. 10720-LAC, 1992) Volume II, Annex XII. For information on Peru's PANFAR see Gustavo Yamada, "Peru: The Feeding and Nutrition Program," in Margaret E. Grosh, *From Platitudes to Practice: Targeting Social Programs in Latin America* (World Bank Report No. 10720-LAC, 1992) Volume II, Annex XIX. Information on Jamaica's Supplemental Feeding Program comes from personal involvement in project missions.

in deliveries are common.<sup>36</sup> These problems can be worse in remote areas and where terrain is difficult. Perhaps the cleanest comparison of the impact of storage and transport costs is that cited above for Colombia -- otherwise similar programs showed administrative costs of 70 percent for food commodity distribution compared to 25 percent for food stamp distribution. Musgrove's study of many maternal-child related food commodity distribution programs shows that food costs as a share of total costs range from 10 to 100 percent, with the median at 71 percent. The remainder consists of administrative costs, transportation costs and, in some cases, the non-food benefits of the programs.<sup>37</sup>

Political Feasibility.<sup>38</sup> Food commodity distribution programs seem to be more politically acceptable than food stamp programs. This may be due to the more uniform link to the health care system, the maternal-child orientation of the programs or the view that food rations are more likely to be used in worthy ways than cash.<sup>39</sup>

Collateral Effects. Food distribution programs operating through health clinics can bring about increases in health care use where it had previously been low, depending on the same factors as discussed above for food stamps programs linked to health care. In Venezuela, for example, there are anecdotal reports of increases in clinic utilization<sup>40</sup> similar to those reported for the Honduran BMI.

Targeting. The incidence of benefits in food commodity programs fall in the same range as for other types of targeted programs, with 60 to 80 percent of benefits accruing to the poorest 40 percent of households.<sup>41</sup> Leakage will be higher when all comers are eligible, lower when only those meeting some risk criteria are eligible and lowest when only the malnourished qualify. Coverage will be determined by the extent of the coverage of the public health system and by the eligibility criteria. Where the public health system does not cover large segments of the poor, the food commodity programs will not be able to reach them either. The

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<sup>36</sup>Philip Musgrove, "Feeding Latin America's Children: An Analytical Survey of Food Programs" Latin America and Caribbean Technical Department Regional Studies Program Report 11, (Washington: World Bank, November 1991) pp. 84-86.

<sup>37</sup>Derivation based on Musgrove, "Feeding LAC's Children" Table A-14 columns 2 and 3, page 1-45.

<sup>38</sup>This paragraph is based on numerous conversations through the years with government officials from many countries.

<sup>39</sup>Economists, of course, contend that whether received in food itself, in food stamps or in cash, so long as the value of the transfer is less than would have been spent on food, the transfer's effect on overall food purchases will be identical, irrespective of the form in which it is given. If the household is given a kilo of powdered milk or of tortillas, it will implicitly save the price of those commodities which it would otherwise have purchased. Thus the money saved can be used as flexibly as could a cash transfer. It may partly be spent on extra food, but some will also be spent on raising the level of non-food consumption.

<sup>40</sup>Haydee Garcia, conversation, April 23, Alajuela, Costa Rica.

<sup>41</sup>Grosh, "Platitudes to Practice" Figure 4.8 pg 47.

lure of the food can increase the use of services where they are physically accessible, but where there are no services, there can be no food supplement program.

Tailoring Solution to Problem. The programs are tailored to situations where the combination of poverty, low use of preventive health services and ignorance of good health practices causes malnutrition and illness among those who are most biologically vulnerable. The food commodity helps to supplement income, and the tie to preventive health services and health education helps to achieve the synergy of benefits necessary to reduce malnutrition effectively.

### **School Feeding**

School feeding programs have long been very popular. Every country with a population of more than 1 million in Latin America and the Caribbean Region has them, though not always on a large scale.<sup>42</sup> Indeed, the reason that they do not frequently crop up as a safety net idea may be partly because they are already so prevalent. Of course there is scope for expanding their coverage or increasing the food rations delivered. Typically, school feeding provides a small indirect income transfer. The form of the transfer is such that in the neediest families it may improve their children's school attendance and/or learning.

Administrative Feasibility. Since so many school systems of widely divergent degrees of sophistication have school feeding programs, they are clearly broadly feasible.

Political feasibility.<sup>43</sup> The political feasibility of school feeding programs is excellent. Politicians, the community at large and beneficiary households all think that school feeding is a good thing.

Collateral Effects. School feeding programs have at least the potential for producing collateral education benefits. These can come from helping to improve attendance. The effect is produced by lowering the real costs of schooling or providing an in-kind income transfer.<sup>44</sup> School feeding programs can also help to improve learning. Hungry children are less attentive. Feeding children before or early in the school shift (which may mean a breakfast or snack rather than lunch) can help to increase attention and learning.<sup>45</sup> School feeding programs are not likely to have large impacts on child nutrition. The children are past the age when they are most vulnerable, the amount of calories and days per year of feeding are small and the children are likely to receive less food at home if they are fed at school.<sup>46</sup>

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<sup>42</sup>See Musgrove, Feeding Latin America's Children, Table A-14, pg 1-45.

<sup>43</sup>This paragraph is based on numerous conversations throughout the years with government officials from many countries.

<sup>44</sup>Beryl Levinger "School Feeding Programmes: Myth and Potential" Prospects, Vol XIV, NO. 3, (1984) pp. 369-376.

<sup>45</sup>Marlaine E. Lockheed and Adrian Verspoor Improving Primary Education in Developing Countries (Oxford University Press, 1991) pg. 75.

<sup>46</sup>Dean T. Jamison and Joanne Leslie "Health and Nutrition Considerations in Education Planning" report prepared for UNESCO and the United Nations Administrative Committee on Coordination -- Subcommittee on Nutrition, February 1990, pg. 26.

**Targeting.** School lunch programs in some countries, for example Costa Rica, include all students rather than focusing only on the needy.<sup>47</sup> Others, such as those in Jamaica, are provided to schools in poor areas.<sup>48</sup> In Chile, both poor schools and the poorest students in the schools are targeted.<sup>49</sup> In Costa Rica, 62 percent of the lunches are served to children from the poorest households while in Jamaica, the figure is 72 percent and in Chile, 79 percent.<sup>50</sup> In countries with less than full enrollment, school lunches are not a good vehicle for reaching the very poorest, as they are the children least likely to be in school.<sup>51</sup>

**Tailoring Solution to Problem.** School feeding programs provide in-kind income transfers and can be targeted to schools in poor areas. Also, since one possible survival strategy for households is to take children out of school and increase their labor activities, as is apparently happening in Peru<sup>52</sup>, new or expanded school feeding programs may help to counter that incentive and to keep the children in school.

### **Social Funds<sup>53</sup>**

Social Funds have become quite popular in Latin America since Bolivia first developed the Emergency Social Fund (ESF) in 1986. By a Social Fund, I mean a demand driven institution set up to finance many small development projects. The projects are proposed, carried out and supervised by other agencies, which are usually a mix of non-governmental organizations, municipalities and the local offices of national or regional agencies. To be

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<sup>47</sup>All schools participate in the program, and it is only since 1990 that there has been an attempt to differentiate the subsidy levels so that poor schools receive higher per lunch subsidies. See Juan Diego Trejos, "Costa Rica: Los Comedores Escolares," in Margaret E. Grosh, *From Platitudes to Practice: Targeting Social Programs in Latin America* (World Bank Report No. 10720-LAC, 1992) Volume II, Annex VII.

<sup>48</sup>See Judy L. Baker, "Jamaica: The Nutribun and School Feeding Program," in Margaret E. Grosh, *From Platitudes to Practice: Targeting Social Programs in Latin America* (World Bank Report No. 10720-LAC, 1992) Volume II, Annex XIV.

<sup>49</sup> See Isabel Vial, Rosa Camhi and Antonio Infante, "Chile: Experiencias y Dilemas en la Focalizacion del Programa de Alimentacion Escolar (PAE) ," in Margaret E. Grosh, *From Platitudes to Practice: Targeting Social Programs in Latin America*, (World Bank Report No. 10720-LAC, 1992) Volume II, Annex V.

<sup>50</sup>Grosh, *From Platitudes to Practice*, Table 4.2, pg 36.

<sup>51</sup>Grosh, "Platitudes to Practice" Table 8.5, pg. 140.

<sup>52</sup>Enrollment rates among children age 11 to 20 in the poorest three deciles of Lima's population fell from 81 to 76 percent between June/July and November of 1990, apparently partly as a result of households' trying to cope with the adjustment program imposed in August of that year. No similar decline was shown for middle income youth. Instituto Cuanto Ajuste y Economia Familiar 1985-1990 (Lima, Instituto Cuanto, 1991) Table 43 pg. 90.

<sup>53</sup>This section is drawn from World Bank project documents in support of these programs, as well as from the specifically cited references.

financed, a project must use labor-intensive methods for any construction activities. The mix of projects to be funded usually includes a large share of construction or rehabilitation of basic infrastructure (clinics, schools, small scale water and sanitation, roads) and a smaller share of social service provision (personnel and/or provisions for clinics, day-care centers, school feeding programs, adult education, etc.). Microenterprise projects are sometimes sponsored under the umbrella of a Social Fund (Bolivia's ESF, Honduras). Sometimes employment is an explicit goal (Bolivia's ESF, Haiti, Honduras, Nicaragua) and sometimes the benefits of the infrastructure or services provided are listed as the main goal (Bolivia's Social Investment Fund [SIF], Guatemala, Guyana).

Very large numbers of people can benefit from the services or infrastructure produced by a Social Fund. The benefit per household can be very large, as when water or sewerage services are provided to a relatively small number of households. In other cases, larger numbers of households will benefit less directly, such as those who use roads that are being better maintained than previously. The number of workers who receive wage benefits are usually a very small fraction of the openly unemployed, their jobs are very short lived and their foregone earnings can be a large share of actual earnings.

Administrative Feasibility. Social Funds themselves require excellent administration, which is usually made possible by waiving the civil service pay scales, inter-institutional consultation and planning procedures and procurement policies which are assumed to bog down the rest of the public administration. The great virtue of Social Funds is that they can operate in an environment where the surrounding actors are less agile. Indeed, that is one of their main reasons for existence. When the agencies that might otherwise implement large scale poverty programs are too deficient to do so, then Social Funds are a way to circumvent the problems of generally low administrative capacity.

Political Feasibility. Social Funds can be quite popular with the beneficiaries of the projects and with the workers. Established agencies may have cause either to welcome Social Funds or to oppose them.

The popularity of the Social Funds with the beneficiaries of their projects stems largely from their demand-driven nature and their relatively streamlined bureaucratic procedures. Rarely have local groups received funding for their projects in such short turnaround times. The popularity will probably be greatest when the portfolios of the Funds are large enough to reach large numbers of communities and when they include a wide range of project activities.

In Bolivia, workers' reactions to being employed by the ESF were generally positive. They were grateful for their employment when jobs were so scarce, although some complained of the low pay, lack of job security and lack of training.<sup>54</sup>

The first factor that will affect the reaction of the established agencies to the Social Fund is whether they perceive the funds that flow through Social Funds as additional to or in substitution for funds that would have come to themselves. Central ministries especially may see themselves as having lost out as a result of the creation of the Social Fund. In contrast,

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<sup>54</sup>Ramiro Molino Rivera and others "Proyecto de Promocion e Investigacion del Fondo Social de Emergencia: Reporte Final" report prepared for the Emergency Social Fund (La Paz, Bolivia, 1988), pp. 18-23.

the municipalities or even the individual school or health districts may see the Social Fund as a new and unexpected source of financing that is additional to the old channels.

A second factor is whether the Social Fund's project selection criteria agree with those of the established agencies and/or were arrived at in concert with them. Clearly, where criteria differ, there is room for conflict. Consulting the line agencies when establishing the project selection criteria and allowing them a short no-objection period to each project during the appraisal process can help to mute their opposition.

**Collateral Effects.** Social Funds can claim to address all three prongs of the overall poverty reduction strategy to a greater or lesser degree. If carefully selected, the infrastructure projects should encourage economic growth. The rural road rehabilitation activities, for example, should improve market access and the returns to agricultural activities in remote regions. The rehabilitation of the schools and clinics and the social service provision projects should contribute to the provision of social services to the poor. The provision of work and labor income to the unemployed is the main safety net contribution, although some of the nutrition projects also contribute through the income transfer element of the food commodities that are distributed.

However, Social Funds may produce fewer of these collateral benefits than would successful investments of equal amounts of money directly in infrastructure or service provision. For example, their project selection criteria may be less rigorous than those of the sectoral ministries or may include factors (such as labor content or poverty targeting criteria) that run counter to getting the highest investment return. Social Funds that operate with an emergency mandate and a view to maximizing the quantity rather than the quality of investment are especially likely to have this problem.

How much of a contribution the projects make to improving infrastructure and service provision is difficult to assess. The individual projects are very small and because they are demand driven, they often look like a patchwork rather than a coherent tranche of an infrastructure development plan. Nonetheless, in some countries, the overall scope of investment can be significant. In Bolivia, the total investment channeled through the ESF in 1989 was equal to about one third of the public investment executed through traditional channels.<sup>55</sup> In Honduras, the scale has been a bit smaller, but the FHIS has funded projects in every *municipio*.<sup>56</sup> It has repaired about 10 percent of health posts nationwide, and is estimated to be able to build about five times as many classrooms each year as the Ministry of Education.

**Targeting.** Wage benefits to workers in Social Funds are self-targeted, in that unskilled, physically demanding work is offered at the market wage, which tends to be low. Only the poor are expected to be willing to accept such work. In some Social Funds, poverty maps are used to help target projects. For example in Honduras and Guatemala, the size of each *municipio*'s allotment of funds depends upon its poverty index. In most of the Social Fund projects, the project type is also used as a targeting technique. The menu of activities sponsored is also supposed to help to avoid leakage to the non-poor. For example, community water taps

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<sup>55</sup>Margaret E. Grosh "How Well Did the ESF Work: A Review of Its Evaluations" in Steen Jorgensen, Margaret Grosh, and Mark Schacter Bolivia's Answer to Poverty, Economic Crisis and Adjustment: The Emergency Social Fund (Washington: World Bank, 1992), pg. 47.

<sup>56</sup> A *municipio* corresponds approximately to a county in the U.S. nomenclature.

and latrines are unlikely to appeal to well-off communities that have indoor plumbing in each household.

A full evaluation of the targeting of Social Funds should include both the targeting of the wage benefits to workers and of the flow of benefits from the projects that are implemented. To date, little evidence exists on either point except for a study of workers in urban projects funded by the Bolivian ESF and a very small survey of project beneficiaries of the Honduran FHIS, plus studies of the geographic targeting of each program.

In Bolivia, simulations were done of the likely earnings of workers on urban ESF projects had they not worked for the ESF compared to how much they probably made while working for the ESF. These showed that 76 percent of ESF workers would have belonged to the poorest 40 percent of the economically active urban population without their ESF jobs. With the jobs, only 15 percent fell in this range.<sup>57</sup>

One piece of evidence exists from the Honduran FHIS regarding the income levels of the beneficiaries of the infrastructure projects after they were completed. A small survey was done of 92 households served by 18 social infrastructure projects. All the households that benefitted from the projects had income levels below the poverty line used by the Inter-American Development Bank.<sup>58</sup> While this survey is too small to be conclusive, this first piece of evidence on the subject suggests that indeed targeting by project type may work.

Targeting by geographic areas seems to have been less favorable in both Bolivia and Honduras.<sup>59</sup> In Bolivia, richer areas received markedly more funding than poorer areas. In Honduras, the funding pattern is less clear. Both assessments are inexact, however, because they cannot assess to what extent the projects in the richer cities actually benefit only the poorer households therein.

Tailoring Solution to Problem. The employment provided by the Social Fund projects is largely full-time and temporary. Individual projects last for only a few months. Much of the work is done on even shorter daily or weekly contracts. The construction works are contracted out to private sector contractors who are accountable for the quality and cost of the infrastructure investment, but who have complete liberty to hire whomever they chose as workers. The workers are, therefore, presumably chosen on the basis of their output and reliability. The result is that many have come from the construction trades.<sup>60</sup> In general, the workers are young male heads of households.

Thus, how well Social Funds meet the needs of the right individuals depends partly on the country and the way the goals have been expressed. In general, Social Funds will

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<sup>57</sup>John L. Newman and others, "How Did Workers Benefit?" pg. 61.

<sup>58</sup>Sergio Vargas-Olea "Evaluacion Ex-Post de Proyectos Financiados por el Fondo Hondureno de Inversion Social" report to the Interamerican Development Bank (Washington, January 1992), Table 2 and pg. 4.

<sup>59</sup>See Grosh, "How Well Did the ESF Work?" Table 3.4 pg. 42 and World Bank Report No. 10291 Table 2, pg.8.

<sup>60</sup>Newman, Jorgensen, and Pradhan, "How Did Workers Benefit?" pg. 62.



not be able to reach specifically defined groups such as those laid off from public enterprises or those hurt most by structural adjustment policies. Instead they tend to help a subset of the general and chronically poor and underemployed.

### **Microenterprise Credit**

The "best practice" microenterprise credit programs have several common characteristics. They offer small initial amounts of credit, with subsequent loans being contingent on a good repayment record. They charge market interest rates. They use group lending with community guarantees rather than formal collateral. They have flexible repayment schedules and excellent repayment rates. They start on a very small scale and grow gradually, which allows for some learning by doing on the part of the agency and the community. It also ensures that supervision and training activities can keep pace with the lending activities.<sup>61</sup>

Microenterprise credit organizations in 9 Latin American countries are affiliates of ACCION, a non-profit organization that encourages the creation of solidarity group microenterprise credit schemes.<sup>62</sup> A number of other countries have other kinds of credit schemes.<sup>63</sup> Many of these are tiny. In a review of 17 programs in operation in the mid-1980s, the largest had about 15,000 beneficiaries and most had fewer than 10,000. The size of loan that they offered was also very small, with the largest sums loaned ranging from US\$140 to US\$10,000.<sup>64</sup>

Administrative Feasibility. ACCION affiliate programs that had been operating for at least two years were able to cover at least half of their operating costs (exclusive of start-up capital), and some programs did even better.<sup>65</sup> How far and fast these programs can expand is unclear. In general, the scope seems very limited, although Bolivia's PRODEM lent more than US\$9 million in its first three and a half years of renewed activity after the economic crisis there. Its repayment rate never fell below 99 percent during that time.<sup>66</sup> Bangladesh's Grameen Bank

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<sup>61</sup>Helena Ribe and Sharon L. Holt "Developing Financial Institutions for the Poor and Reducing Barriers to Access for Women" Discussion Paper 117 (Washington: World Bank, 1991) and Maria Otero "Solidarity Group Programs: A Working Methodology for Enhancing the Economic Activities of Women in the Informal Sector" in Marguerite Berger and Mayra Buvinic eds. Women's Ventures: Assistance to the Informal Sector in Latin America (West Hartford, Connecticut: Kumarian Press, 1989), pp. 83-101.

<sup>62</sup>Otero, "Solidarity Group Programs" pg. 84.

<sup>63</sup>Margaret Lycette and Karen White "Improving Women's Access to Credit in Latin America and the Caribbean: Policy and Project Recommendations" in Marguerite Berger and Mayra Buvinic eds. Women's Ventures: Assistance to the Informal Sector in Latin America (West Hartford, Connecticut: Kumarian Press, 1989), pg. 36.

<sup>64</sup>Lycette and White, "Improving Women's Access to Credit"

<sup>65</sup>Otero, "Solidarity Group Programs" pg. 94.

<sup>66</sup>Ribe and Holt, "Developing Financial Institutions" pg. 27.

with 800,000 beneficiaries and Indonesia's Badan Kredit Kecamatan (BKK) with 2.7 million beneficiaries indicate that larger scale operations ought to be possible.<sup>67</sup>

Political feasibility.<sup>68</sup> Microenterprise credit is generally very popular in Latin America. It is easy to sell on the basis that it "provides fishhooks to fishermen", thereby achieving permanent increases in the well-being and independence of the participants. Issues of dependency or reliance on charity are seldom raised.

Collateral Effects. Microenterprise credit schemes support the growth component of the overall poverty strategy. A series of very small studies (usually of fewer than 100 participants) has shown that microenterprise credit schemes have helped to raise participants incomes from 5 to 75 percent. However, they have been less effective in increasing the number of jobs that are available in each enterprise.<sup>69</sup>

Targeting. In the "best practice" microenterprise credit schemes, the targeting can be excellent. A survey of eight solidarity group programs in Colombia shows that program beneficiaries came from the poorest quintile of the economically active population in urban areas.<sup>70</sup>

Tailoring Solution to Problem. These projects are well suited to meeting the problems that prevail in most Latin American economies. The informal sector which is where the clients of these schemes are concentrated, contains many of the poor in the first place. But it is also the place where those who have lost jobs in the formal economy may first turn to look for opportunities.

#### IV. Applications

Let us look now at the choices of program made by two countries -- by Bolivia in 1986 and by Jamaica in 1988.<sup>71</sup> By applying the proposed program choice criteria to the decision making process that each of these countries went through, I hope to be able to provide

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<sup>67</sup>Ribe and Holt, "Developing Financial Institutions" Table 5, pg.22.

<sup>68</sup>This paragraph is based on numerous conversations through the years with government officials from many countries.

<sup>69</sup>Otero "Solidarity Group Programs", pp. 96-97.

<sup>70</sup>Otero, "Solidarity Group Programs" pg. 89

<sup>71</sup>I was part of the Bank social sectors team that helped to formulate and supervise the World Bank loans made in support of these programs (loans BO-1829, BO-1332, B0-2127 in support of the Bolivian Social Funds and JM-3111 in support of Jamaica's Human Resource Development Program). This section is based on my recollections and interpretations of extensive contact with government officials and the World Bank team from September 1986 through May 1991 in the case of Bolivia and from January 1988 to the present in the case of Jamaica. Due to the interpretive nature of the "stories" I tell here, it is difficult to supply references in the same degree of detail as in the objective review sections of the paper. Of course, references are provided wherever possible.

an example of how to take into account specific country circumstances in weighing program options and to assess the criteria's validity in practice. Of course, this test of the criteria will only work if the programs chosen were good ones. Both the Bolivian and Jamaican programs have been featured in numerous World Bank fora as good examples of poverty reduction programs<sup>72</sup> and both programs were continued by governments of the opposition party. So the assessment that they are good programs is widely shared. As it turns out, the proposed program choice criteria do point toward the choices made.

### **Bolivia's Choices in 1986**

In the mid-1980s, Bolivia was just emerging from a prolonged and drastic economic crisis. Hyperinflation was running at about 24,000 percent, GDP per capita had fallen by over 20 percent since 1980, the public sector deficit was running at about a quarter of GDP and the economy was breaking down. In 1985, draconian stabilization and adjustment measures were put in place.<sup>73</sup> Inflation was quickly brought to a near standstill, but growth took much longer to reestablish. Bolivia had always been one of the poorer countries in the hemisphere, but the deterioration of the economy and of the public sector's ability to deliver social services left the poor even worse off than they had been previously.<sup>74</sup> The gross primary school enrollment rate was 87 percent, infant mortality was 111 per thousand live births, and only about a quarter of one year old children were fully immunized for polio and diphtheria-pertussis-tetanus.<sup>75</sup>

In 1986, the Bolivian government had tamed inflation and it began to look at the next set of problems. In particular, it wanted to do something about poverty for reasons both of real humanitarianism and of pragmatic politics. The poor had suffered from the years of economic decline and there was limited social tolerance for years of waiting for sector reforms to bear fruit. The government wanted an anti-poverty program that would be effective and visible and that would have an immediate impact.<sup>76</sup>

The government proceeded to investigate the suitability of a number of different programs to the circumstances and problems that Bolivia was then facing. Let us now see how relevant each of our criteria were in this process of evaluating each of the programs.

First, the elimination of **general food price subsidies** was among the sweeping adjustment reforms that aimed to eliminate distortions in the economy. Thus rather than be

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<sup>72</sup>See, for example, World Bank Poverty Reduction Handbook (Washington: World Bank, 1992) Box 6.7, pg. 6-8 and Box A7.30, pg. A7-31.

<sup>73</sup>Mark Schacter, Margaret Grosh, Steen Jorgensen "What, Why, How? A Primer on the ESF" in Jorgensen, Grosh and Schacter, pp. 2-3.

<sup>74</sup>Schacter, Grosh, and Jorgensen "A Primer on the ESF" pg. 3.

<sup>75</sup>UNICEF The State of the World's Children 1989 (Oxford University Press, 1989) Table 4, pg. 100; Table 1, pg. 94; and Table 3, pg. 98.

<sup>76</sup>Katherine Marshall "The Genesis and Early Debates" in Jorgensen, Grosh and Schacter, pg. 25.

considered among the options for a poverty alleviation scheme, their elimination was part of the prompting to have some other kind of anti-poverty program.<sup>77</sup>

The government considered a **food commodity distribution scheme** but, in the end, rejected the idea.<sup>78</sup> In the first place, the scheme would have depended on international food donations which were deemed to discourage local production. Thus, rather than collateral benefits, the scheme was thought to have collateral costs. It was also decided that there was insufficient administrative capacity to carry out food commodity distribution programs uniformly throughout the country, although several non-governmental organizations had programs that were important in some regions. It was also seen as politically undesirable as the hand-out approach was regarded as paternalistic and counter to the spirit of the adjustment program. Finally, there was some discomfort with the targeting of existing food commodity distribution programs. While the criteria were sensible, there were reports of very poor implementation.

The government did not consider introducing a **food stamp program**, probably because at that time very few of them existed in the developing world. The same concerns about inadequate administrative capacity and paternalism as were expressed in the case of commodity distribution would have applied to food stamps. Furthermore, in a country that was just emerging from hyperinflation, the notion of a nominally denominated stamp would have been unattractive to recipients, and one denominated in quantities would have been unattractive to merchants due to the difficulties of setting a reimbursement formula with high inflation.

A **school lunch program** would have been subject to most of the same objections as were raised against a food commodity distribution program. While it might have had some collateral benefits for education, it would have relied on food aid which was deemed a disincentive to local production. The transport and management logistics would have been as administratively complex as those for food commodity distribution. It would also have had the same paternalistic touch that the government sought to avoid. Finally, the targeting would probably have been mediocre at best. The poorest families were the least likely to have children in school and the poorest communities were the least likely to have the administrative capacity to implement such a program.

Some attention was given to the possibility of introducing a **microenterprise credit scheme**. The collateral effects would have been attractive as successful microenterprise credit can help to foster growth of incomes and sometimes employment in the poor segments of society. Also, this seemed to be an appropriate solution to Bolivia's particular poverty problem. Few of the poor had been able to protect their financial assets from the drastic inflation, and thus, small enterprises had been decapitalized. However, there was a great deal of public suspicion about the idea which threatened its political sustainability. This was due to Bolivia's history of large-scale, government subsidized credit schemes with very poor repayment records, which had left the state with large uncollectible debts from loans which had mostly benefitted the rich and well-connected. But the main reason why the government finally decided against a microenterprise credit scheme was that it would not be administratively feasible on the extensive scale that would be required for both visibility and impact (though the Emergency Social Fund

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<sup>77</sup>Marshall "The Genesis and Early Debates" pg. 29.

<sup>78</sup>Steen Jorgensen "Who Needs an ESF?" in Steen Jorgensen, Margaret Grosh, and Mark Schacter Bolivia's Answer to Poverty, Economic Crisis and Adjustment: The Emergency Social Fund (Washington: World Bank, 1992), pg. 112.

that was eventually chosen did devote 4 percent of its funds to cooperatives and small credit projects).

Eventually, the Bolivian government chose a **Social Fund** (the Emergency Social Fund or ESF) which became the centerpiece of all of its poverty programs. As a complimentary strategy, the level of financing for the Ministry of Health was increased to approximately its pre-crisis level,<sup>79</sup> while at the same time, the government initiated major, internationally financed projects first in health and later in education.<sup>80</sup>

The idea of a Social Fund fit all of the project selection criteria proposed here fairly well. Its administrative feasibility was much enhanced by being granted the necessary exceptions to civil service pay, planning and procurement rules. In consequence, its record shone especially brightly in contrast to the broken down public agencies with a mandate in the same sectors.

Also, the political feasibility of a Fund that provided funds for locally inspired projects was good. It pleased recipient communities and workers, and, since many of the executing agencies were local governments of the opposition party, support for the coalition government was fostered. Although there was initial resistance from other institutions, it was overcome through the concerted efforts of the ESF management.

On targeting criteria, the ESF set itself easily achievable standards for reaching the poor, but was not concerned with confining itself to reaching only the poorest of the poor. One of the common refrains of the time was that poverty was so widespread in Bolivia that the ESF was "playing with an infinite dartboard. Wherever it threw a dart [in other words, financed a project] it came up with a winner [in other words, it served the poor]". It had clear collateral benefits in that it rehabilitated or expanded the country's insufficient infrastructure and social service provision.

The ESF was tailored to Bolivia's specific problems in that it provided jobs which helped to ameliorate the unemployment increases and seemed a suitable short term employment alternative for the politically powerful miners who were laid off *en masse* as part of the adjustment measures.<sup>81</sup>

A further advantage of the ESF was that, since it served as a financing agency for small projects in a very diverse portfolio, it could finance some of the other interventions on a smaller, more manageable scale. Indeed, it funded food commodity distribution, school lunches and the rehabilitation of the basic infrastructure in health and education, and it contributed a

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<sup>79</sup>Margaret E. Grosh "Social Spending in Latin America: The Story of the 1980s" Discussion Paper 106 (Washington, World Bank, 1990) Table A.IV.1 pg. 97.

<sup>80</sup>For example the World Bank's credit in support of health (BO-8001) was approved in December 1989. Its credit in support of education was identified in 1990 and is scheduled for appraisal in 1993.

<sup>81</sup> Subsequently, it turned out that miners comprised a small part of the workers hired and that only a small proportion of miners worked for the ESF. John L. Newman, Steen Jorgensen and Menno Pradhan, "How Did Workers Benefit?" in Steen Jorgensen, Margaret Grosh, and Mark Schacter eds., Bolivia's Answer to Poverty, Economic Crisis and Adjustment: The Emergency Social Fund (Washington: World Bank, 1992), pg. 57.

major part of the recapitalization of the most successful of the NGOs' microenterprise credit projects.

Table 4: Summary of Country Applications

	General Food Price Subsidies	Food Stamps	Food Commodities through Clinics	School Lunches	Social Funds	Micro-enterprise Credit
<b>Guatemala's Choice in 1986</b>						
Administrative Feasibility of National Program	assured	no	no	no	yes	no
Political Feasibility	good	poor	poor	poor	good	fair
Collateral Effects	preclusive costs	undetermined	mixed	mixed	positive	positive
Marketing	very poor	dubious	dubious	dubious	acceptable	excellent
Marketing Problem to Solution	good	acceptable	acceptable	acceptable	good	good
<b>Jamaica's Choice in 1988</b>						
Administrative Feasibility of National Program	assured	assured	dubious	likely	dubious	no
Political Feasibility	excellent	good	good	excellent	good	good
Collateral Effects	preclusive costs	neutral	positive	slightly positive	positive	positive
Marketing	poor	good	good	good	acceptable	good
Marketing Problem to Solution	excellent	very good	good	acceptable	poor	acceptable

### Jamaica's Choices in 1988

In 1988, Jamaica faced a situation similar to, if less acute than, Bolivia's two years earlier. GDP per capita had declined by 20 percent between 1972 and 1987. The social sectors had suffered funding cutbacks over several years with real current expenditures in health and education 32 percent lower in 1985/86 than in 1982/83.<sup>82</sup> The situation was, however, less drastic than had been the case in Bolivia. Inflation had peaked at 28 percent in 1984. And prior to the funding cutbacks, Jamaica had achieved excellent coverage and good quality in most of its social service delivery. The gross primary enrollment rate was 107 percent, infant mortality was 18 per thousand live births, and over 80 percent of one year old children were fully immunized against polio and diphtheria-pertussis-tetanus.<sup>83</sup>

The Jamaican government went through a similar process of choosing among the various program options for poverty alleviation interventions. Consideration was given to food stamps, clinic-based food commodity distribution, school feeding, and employment programs. Once again, our criteria prove to have had retrospective relevance to the decision making process.

Before adjustment, Jamaica had subsidized a handful of imported staple foods. Explicit subsidies were relatively small, accounting for only about 4 percent of the food basket consumed by the poorest quintile in 1988<sup>84</sup>, though, as the exchange rate was somewhat overvalued, the implicit subsidy on a broader range of goods was larger.<sup>85</sup> The adjustment policies for Jamaica eliminated explicit subsidies and liberalized the exchange rate. Thus as in the case of Bolivia, **general food subsidies** were not a candidate for the poverty programs reviewed.

Jamaica already had a large **food stamp program**<sup>86</sup> which had been introduced in 1984 when general food subsidies had been eliminated in a previous round of adjustment measures (they had been reinstated in 1986). The program reached about 400,000 beneficiaries with a transfer then worth US\$1.80 monthly. One half of the program granted benefits to poor households as identified by a means test or by the registration lists for the Poor Relief and Public Assistance programs. The other half of the program was for pregnant and lactating women and children under five who registered and received food stamps at public primary health clinics. This part of the program was self-targeted in that the stamps were distributed through public health clinics (which the rich tend not to use) and the time costs of standing in line to register and pick up stamps acted as a disincentive on the non-poor.

The administrative feasibility of the food stamp program had already been proven. Although it had its share of imperfections, the program was operational. The food stamp

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<sup>82</sup>Margaret Grosh "Social Spending in the Latin America" Table A.IV.1 and A.IV.2, pg. 97.

<sup>83</sup>UNICEF The State of the World's Children 1989 (Oxford University Press, 1989) Table 4, pg. 100; Table 1, pg. 94; and Table 3, pg. 98.

<sup>84</sup>STATIN and World Bank, Living Conditions Survey, pg. 62.

<sup>85</sup>Bale, "Agricultural Trade and Food Policy" pg. 24.

<sup>86</sup>This program was included in the review in Section III. The most comprehensive description is Grosh, "The Jamaican Food Stamps Program".

program offered the political attraction that the government would be able to announce that while the food subsidies were being cut, the value of the food stamps for the purchase of the same commodities would be increased to compensate. However, food stamps do not reach the same numbers of people as do food subsidies, with the vocal, politically active middle classes being the ones most likely to lose out. Although linking food stamp distribution to public health clinics can sometimes provide significant collateral benefits in encouraging the use of primary health care, no noticeable collateral benefit had been achieved in the Jamaican program at that time. The targeting of food stamps was quite good. Also, food stamps were a good way to tackle one of the key causes of poverty in Jamaica, namely the rise in food prices, especially of the commodities that had previously been subsidized. Thus, there were several good reasons for the government to consider expanding its food stamp program.

Jamaica also had in place a small **food commodity distribution**<sup>87</sup> program that gave food packages to families whose children had been identified through the public health system as showing signs of moderate or severe malnutrition. The program was already operating in the clinics nationwide, so in that sense, it had expanded as far as it could. Nevertheless, it might have been possible to loosen the criteria for the supplemental feeding program to include mildly malnourished children or all children as an alternative to increasing the value of the food stamps.

Although the small program was shown to be administratively feasible, a dramatic expansion probably would not have been. The health service in general was understaffed and stretched to the limit and adding a major new burden was not administratively feasible. Furthermore, the most problematic part of the supplemental feeding program had been getting the food commodities through customs and into the clinics. The donor agencies had already agreed to the monetization of food aid in support of the food stamp program, so the appeal of expanding the supplemental food program (thereby multiplying the food handling problems) as opposed to the food stamp program was slight.

Because the supplemental feeding program was effectively tied to health care use, it might have achieved more collateral benefits than food stamps. However, preventive health care coverage was already largely satisfactory so there was not much room for gain. Furthermore, the effectiveness of the link between supplemental feeding and health care depended to a great extent on the small scale of the program, and this might have been lost if the number of beneficiaries had expanded by tenfold or more.

The targeting of the supplemental feeding program with its eligibility restricted to only malnourished children seemed to be excellent. If the criteria had been less restricted, it would probably have been similar to the targeting achieved by the food stamp program. Finally, expanding the supplemental feeding program would have been as appropriate a response to Jamaica's poverty problems as the maternal-child part of the food stamp program, but supplemental feeding would not have been able to reach the numbers of the working poor that the means-tested part of the food stamp program could.

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<sup>87</sup>This program was covered in the review in Section III.



**School lunches<sup>88</sup>** were considered as part of the safety net. Administratively, it seemed feasible to expand the existing programs. Their political feasibility was excellent. School lunches are non-controversial and valued. The targeting of the lunch programs was not well quantified at the time that the government was choosing its anti-poverty program, but, in fact, it is as good as that for the food stamps program.<sup>89</sup> Moreover, school lunches are thought to have had positive education benefits in Jamaica. Finally, they addressed the concern about poverty only in the general sense of providing an indirect income transfer, but they were appropriate in that they could reach the working poor.

The government considered implementing an **employment program**, though not of the Social Fund variety. The intention was for it to operate through the Ministries of Agriculture and Public works to implement programs using short term workers. The projects would be selected by the ministries rather than being proposed by local groups. The labor-intensive activities that were envisaged for this program were in areas that, if each project was carefully selected and designed, could have had collateral benefits -- such as reforestation and watershed management, rural road rehabilitation, drainage and flood control.

The administrative feasibility of the program was less than certain. The program proposed was quite large and would have relied on the line agencies for selecting and implementing projects. At the time, the agencies had been suffering from several years of cutbacks and some loss of institutional capacity and were unlikely to have been able to manage as large a program as fast as was initially proposed.

The political feasibility of the program would probably have been quite good. Employment provision carries less stigma than food stamp transfers, and the communities to have benefitted from the works would presumably have appreciated them. Furthermore, elections were approaching and the laborers could have been expected to vote for the party that had provided them with jobs.

The rate of return to the projects will never really be known. Theoretically they could have been acceptable with adequate selection criteria and administration, but since these were uncertain, so were the rates of return. Similarly, how well the program would have been targeted will never be really known. However, it is likely that the level of wages and the kind of work to be offered would probably have caused the program to reach the moderately poor. But since most of these were not openly unemployed, they would have foregone income possibly not much less than their earnings on the program would have been.

The appropriateness of an employment program to the problems faced in Jamaica was also doubtful. During the years of structural adjustment the unemployment rate had fallen markedly. Thus, rather being hurt by unemployment, the poor were hurt by falling real wages among those employed.<sup>90</sup> This meant that an employment program that provided part-time work

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<sup>88</sup>This program was also covered in the review in section III, with information from Baker "The Nutribun and School Feeding Program"

<sup>89</sup>STATIN and World Bank, Living Conditions Survey, pg. 56 and 67.

<sup>90</sup>Michael Witter and Patricia Anderson "The Distribution of the Social Cost of Jamaica's Structural Adjustment 1977-1989" University of the West Indies, Consortium Graduate School and Institute for Social and Economic Research, May 1991 Chapter IV, pp, 60-94.

to large numbers of employed heads of household or secondary workers would be more appropriate than one that provided fewer full-time jobs. Preliminary indications of this were already available in 1988.

In the end, Jamaica chose a coordinated package of initiatives that came to be called the Human Resources Development Program (HRDP). The largest expenditures were for the expansion of the food stamps and school feeding programs. A slot was left open for employment programs, but these did not materialize on a large scale, partly because international aid agencies declined to help finance them. In addition, a number of measures were taken to improve the quality of basic health and education services. These included an increase in the share of government financing going to the social sectors, an increase in the share of social sector expenditure going to primary education and primary health and some cost recovery and efficiency incentives. Schools and clinics were repaired, pharmaceutical stocks were refurbished, training for teachers and nurses was expanded and textbooks were provided.

## V. Discussion

The review of program experience in general and of the stories of choices among programs in two specific settings leads to three broad conclusions. First, and perhaps most obvious, is how little evidence exists on many facets of program impact, particularly on the magnitude of externalities and of behavioral responses to program participation.<sup>91</sup> Second, there is a great deal of overlap in the general range of results for different types of programs. Third, the magnitude of each element that determines overall cost-effectiveness is very sensitive to details of design and context.

By way of illustration of these issues, let us draw together information on just two dimensions of three kinds of programs. The share of administrative costs and the incidence of the food stamp, food commodity and school feeding programs discussed in section III are shown in Table 5. The number of empty cells is readily apparent (and would be much greater of if the other criteria and program types were included in the table). Where information is available, there are larger differences between the highs and lows for different program types than among the means among the program types. For example, the share of administrative costs in the food commodity programs cited ranges from 3 to 22 percent of the total program budgets. In contrast, the mean for the share of administrative costs for these programs is about 9 percent for food stamps, about 11 percent for food commodities and about 6 percent for school lunches. There is less diversity in the incidence, with all programs getting from 62 to 80 percent of the program benefits to households in the poorest two quintiles of the population. But again, there is no clear ranking among programs.

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<sup>91</sup>I have confined the review here to program analysis done for Latin American countries. This is perhaps somewhat artificial, but in keeping with the focus of the conference and with my comparative advantage. A broader review of worldwide evidence would probably not alter the conclusions reached here. Even if it did, there is an argument that the Latin American examples cited are more likely to be relevant to the design of programs for other Latin American countries to the extent that commonalities of history, culture, institutions, development models, and the like influence program outcomes. Looking beyond the confines of this paper, this argues for the importance of good program evaluations both as part of program design and on the research agenda of those concerned with poverty in Latin America.

Table 5: Administrative Costs and Incidence in Food Stamps, School Lunch and Food Commodity Distribution Programs		
	Administrative Costs as a Share of Total Budget	Percent of Benefits Accruing to Poorest 40% of Households
<b>Food Stamps</b>		
Jamaica - Food Stamps Program	10	75
Honduras - BMJF	12	n.a.
BMI	6	n.a.
Mexico - Tortivales	12	n.a.
Venezuela - Beca Alimentaria	3	n.a.
<b>School Lunches</b>		
Chile	5	79
Costa Rica	n.a.	62
Jamaica	7	72
<b>Food Commodity</b>		
Chile - PNAC	6	69
Dominican Republic - PROMI	12	80
Jamaica - Supplemental Feeding	n.a.	n.a.
Peru - PANFAR	22	n.a.
Venezuela - PAMI	3	n.a.
Source: Grosh "Platitudes to Practice" Table 4.2.		

The effect of the less well measured factors is just as difficult to rank *a priori*. The review in Section III showed that the extent of collateral benefits in these programs can range from none to large. The degree of political acceptability also differs with context. There was concern that school feeding was paternalistic in Bolivia in 1986, but not in Jamaica in 1988. Food stamps seem somewhat less politically acceptable than the other programs, but the factor is intangible and highly variable between countries. And of course the suitability to the need will vary according to the country and the circumstances it faces at the time of choosing among programs.

Comparisons of Social Funds to these three program types are further complicated by the multidimensional nature of the benefits of Social Funds. To compare the wage benefits from Social Fund employment projects with transfers from food stamp, food commodity, or school feeding programs is tempting but false. The targeting comparisons could favor either program, depending on the country-specific details. The direct transfer programs, however, would have much higher (more favorable) transfer-to-total cost ratios than a Social Fund. The Social Fund would have basic administrative costs in the same range as the other programs, but will have additional non-transfer costs in the form of equipment, materials, and skilled labor for the employment projects. Furthermore, Social Funds will have much higher costs of participation (including the income foregone by Social Fund laborers) than the food stamp or commodity programs. After discounting for these, Social Funds would compare badly indeed if the

comparison is based only on the distribution of wages. But to evaluate Social Fund projects only on their wage distribution is to ignore the benefit stream from the infrastructure created or rehabilitated -- which is always an important, and sometimes the predominant, goal of the programs. Unfortunately we don't yet have good information on the distribution or even of the magnitude of the benefits from the infrastructure for most of the Social Funds. Even if we did, the calculation of how that might affect the incomes of those who have access to the infrastructure is tricky.

In trying to compare the micro-enterprise credit programs to the others there are two problems -- scale and the different nature of the benefit. The microenterprise credit projects reviewed were only a fraction of the size of the other kinds of projects. Also they provide what is intended to be a permanent boost in earnings capacity rather than a temporary transfer of income. Metaphorically stated, the problem is "is it better to feed a hundred people for one day, or to give one of them a fishhook?" Adequate economic evaluation of that problem requires a dynamic framework with a long time horizon.

The first round comparisons of general food price subsidies with targeted food stamp/commodity/school feeding programs is rather more straightforward. With targeting and administrative costs in the ranges observed, the targeted options may do somewhat better in simulations of how a given level of expenditure will change poverty.<sup>92</sup> These comparisons become more complicated when the various collateral effects are calculated, but perhaps more dissent is generated by the subjective issues of whether particular targeted options can meet minimum levels of administrative and political feasibility.

Together the paucity of information on outcomes, the diversity of outcomes within program type according to details of design and context and the similarity of outcomes across program type preclude this paper from arriving at a fully generalizable set of simulated cost-effectiveness calculations or ranking of programs. Rather, it provides the following general hypotheses or rules of thumb, which can be used in reviewing program options in a specific country context.

- (i) where administratively and politically viable, targeted transfer programs are likely to be more cost-effective than general food price subsidies;
- (ii) well managed microenterprise credit schemes are usually able to reach only a very limited number of beneficiaries;
- (iii) Social Funds must produce a significant flow of benefits through the infrastructure or social services they provide in order to be competitive options. As mechanisms only to transfer income in the form of wage benefits, they will be less cost-effective than transfers imbedded in food stamps, food commodity distribution or school lunches;
- (iv) food commodity distribution programs will always have higher transport and spoilage costs than food stamps programs, but have many other characteristics in common, so there is a mild prejudice in favor of distributing food stamps rather than food commodities;

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<sup>92</sup>Judy Baker and Margaret Grosh "Poverty Reduction Through Geographic Targeting: How Well Does It Work?" Living Standard Measurement Study Working Paper Series No. 98 (Washington, D.C: World Bank, forthcoming) pp. 15-16 provide such a comparison based on administrative costs, targeting outcomes and transfers for beneficiary. Collateral effects are not considered.

(v) where income transfer is the goal, among food stamps, food commodities, and school feeding programs, the details of program design, institutional capacities and secondary objectives will determine the selection among programs that often fall in the same general range of cost-effectiveness with regard to the transfers they provide.

(vi) any of the above expectations may be proved false in particular circumstances, depending on the details of program design and country context.

This paper has proposed five criteria for choosing among programs designed to ameliorate poverty in the short run -- administrative feasibility, political feasibility, collateral effects, targeting, and the tailoring of the solution to the problem. It has marshalled the evidence available on how general food price subsidies, food stamp programs, food commodity distribution programs, school feeding, Social Funds and micro-enterprise credit schemes in Latin America have performed according to these criteria. When applied to the choice of programs that were made in Bolivia in 1986 and in Jamaica in 1988, the five criteria proposed here did point to the choices that were made in each country, choices that were widely deemed to be successful and appropriate. Thus, I conclude that the program choice criteria proposed here are sensible. In the short term they can help organize debates about program choice when full cost-effectiveness analysis of various options is not to be done. It is to be hoped that in the medium term our knowledge of the magnitude of the various effects discussed here will be more extensive so that we can have more complete and robust rules of thumb. In the long term, it is to be hoped that we will be able to do rigorous cost-effectiveness analysis more often and leave aside these rule of thumb inferences.

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