DESIGNING EFFECTIVE ANTI-POVERTY PROGRAMS

Current Insights and New Directions

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Indonesia has made great strides in reducing poverty. As in many countries around the world, targeted social assistance programs have increasingly been part of this antipoverty strategy. These programs present challenges along two dimensions: Targeting and Implementation. Today I will discuss current research designed to address these challenges and lay out some open questions.
MANY DIFFERENT TARGETING APPROACHES

- PMT: Identify poor households based on observable assets
- Community: Empower community to identify beneficiaries
- Self-targeting: Create a mechanism through which poor choose to apply but rich do not (e.g. wait in long line to get screened)
- Each of these methods has pros and cons
In 2011, PKH expanded to 2500 new villages.

Randomized targeting method that the government implements in 400 of these villages across 3 provinces:

- Automatic Enrollment System (200 villages)

- Self-Targeting (200 villages):
  - Households must come to application site to apply
  - Application consists of PMT survey
  - Verification through home visit for those who qualify
ADVERTISING THE PROGRAM
APPLICATION PROCESS
SELF TARGETING REDUCES BOTH EXCLUSION AND INCLUSION ERROR
Objective
- Build evidence about whether TNP2K’s proposed distribution of Raskin ID cards will improve the Raskin program

Key policy questions:
- Will Raskin cards improve amount of Raskin rice that reaches eligible households?
- Will it reduce price markups by local officials?

Locations
- 572 villages within 6 Kabupaten
- Pemalang and Wonogiri (Central Java),
- Palembang and Ogan Komering Ilir (South Sumatera),
- Bandar Lampung and Central Lampung (Lampung)
RESULTS: ELIGIBLE HOUSEHOLDS IN TREATMENT VILLAGES RECEIVE APPROX. RP. 6000/HH/MONTH (21%) MORE IN SUBSIDY
Other RCTs have examined the impact of various anti-poverty programs. For example:

- Progresa (and subsequent CCTs)
- Ultra-poor asset programs
Background: 1997-2002, Mexico

What: Conditional Cash Transfer Program (CCT), where conditions based on school enrollment, attendance, preventative health
  - Roll out program in a randomized phase-in to evaluate

Why RCT: to build indisputable support for the program
  - Incumbent government’s long reign was soon to end,
  - Feared this flagship program would be scrapped by opposition

Results:
  - Improved attendance
  - Lowered incidence of disease in children
  - Increased growth for young children receiving nutritional supplements

Policy Implications: Incoming government, instead of scrapping Progresa, kept it, and renamed it Oportunidades

Further implications:
  - Scale up of CCTs (with accompanying RCTs) in many other countries
TARGETING THE ULTRA POOR

- Background: 2006, India, Pakistan, Haiti, Honduras, Peru, Ethiopia, Yemen, and Ghana.
- What: Consumption support (cash transfer), productive asset transfer (such as goats or chickens), livelihood training, savings services, and healthcare
  - Pilot the model using RCTs in 10 sites in 8 countries
- Early Results (7 pilots):
  - beneficiaries increased annual consumption by 11-36% compared to control groups
  - Increased assets, including savings and livestock, increased as well.
- Policy Implications
  - J-PAL, IPA, BRAC working to scale-up in India
1. Should the level of social assistance taper off as incomes rise?

2. Distortions caused by PMTs?

3. How do you further address exclusion error?
One striking feature of most developing country anti poverty programs is that they are binary:
- either you get them or you do not
- If you get them the amount you get is the same regardless of how poor you are

Contrast this with developed country programs, some (but not all) of which have phase-out regions
- For example, progressive income taxes are continuous
- Note there are both types in US for example: EITC is gradual, Medicaid (health insurance for the poor) is binary
Why is this? Is this optimal?
- Not from optimal tax theory: discrete cutoffs create notches (large disincentives at border) and do not provide optimal redistribution
- One explanation: tradeoff of transparency and optimal design
- Experiment one could imagine: compare program with one vs. multiple beneficiary levels
2. DISTORTIONS CAUSED BY PMTS

- One concern of social assistance programs is that it may generate a labor supply distortion:
  - If you only get benefits if you are poor, this discourages work

- Likewise, conducting a PMT could cause distortions in other ways
18th and 19th century European property taxes were based on the number of windows a property had, which was a rough proxy for how valuable it was.

Result: Very dark houses
RESULTS OF THE WINDOW TAX
Possible Idea: study different versions of a PMT in different areas (i.e. different variables in formula)

Examine impact on subsequent household investments
  - Potential tradeoff between transparency and distortions

COULD THE SAME THING BE HAPPENING WITH PMTS?
3. EXCLUSION ERROR FOR THE VERY POOR

- Common problem: exclusion error is very high
- Part of this is measurement error in consumption
- But even in self-targeting, which results in a poorer distribution of beneficiaries, only 60% of poorest applied
- Are there better ways of solving this?
In the PMT formulas, assets and demographics explain, on average, 60% of the variation in consumption.

Thus, some of the poor are often excluded, and some of the rich are erroneously included.

Can more sophisticated formulas pick this up?
CONCLUDING THOUGHTS

- Starting to make progress on targeting and implementation issues, but work remains
  - Open questions include minimizing distortions from PMT, reducing exclusion error
  - PPLS 2014 may be a very good platform for answering these outstanding issues
- Next frontier may be program design itself and new innovative types of program
research and poverty

How Research Can Overcome Poverty and Vulnerability, From Birth to Old Age
Poverty in Indonesia has halved in the last 15 years, but reduction is slowing as the remaining poor are harder and harder to reach.
Moreover, much of the population lives just above the poverty line…

Indonesian Consumption Distribution, 2011

Official Poverty Line = Rp.233,700/person/month

1.5 x Official Poverty Line

40% of Indonesians live below 1.5 times the official poverty line

Source: BPS, Susenas
...and remains vulnerable to shocks

More than half of poor households in 2010 were not poor in 2009

One in four Indonesia households were poor at least once in a three year period
Slowing poverty reduction means greater efforts to **promote** the chronic poor out of poverty are needed.

High vulnerability and transient poverty means greater efforts are needed to **protect** the vulnerable.

Protection and promotion mean addressing opportunities and risks at every point of the life cycle.
birth

promotion

raising healthy infants and children

using the golden age (utero, and from 0-2 years) to lay the foundations for later life

protection

children being born with low birth weight

infant mortality rates (lowering, but still high)

stunting resulting from poor nutrition
Indonesia’s child malnutrition rate is 5 times higher than Thailand.

Source: World Development Indicators
Notes: Cambodia, Indonesia, Myanmar (2010); Philippines, Vietnam (2008); Malaysia, Thailand (2006)
Prevalence of child malnutrition is the percentage of children under age 5 whose height for age (stunting) is more than two standard deviations below the median for the international reference population ages 0-59 months. For children up to two years old height is measured by recumbent length. For older children height is measured by stature while standing. The data are based on the WHO’s new child growth standards released in 2006.
Questions for Research

how can we continue the improving trend in child mortality?

if we know how to address malnutrition, why is it still so prevalent in Indonesia?
### Promotion

- Students are able to transition to higher grade levels.
- Quality of education prepares students for decent jobs.

### Protection

- Risk of early drop out due to:
  - High out-of-pocket school costs.
  - No school nearby.
  - High opportunity costs.
Over 80% of the poorest students drop out before reaching grade 10.
• Over ¾ of students perform at or below the “low” level in TIMSS in math
• No students perform at advanced level
• The reliance on out-of-pocket household spending in SMU and HE is very high

Source: Public spending from MoF and SKID, Household spending from Susenas, core module
Questions for Research

how do we increase transition to junior and senior secondary school for poorer students?

how do we improve the quality of education?

why is uptake of scholarships low, and how do we improve this?
<table>
<thead>
<tr>
<th>Promotion</th>
<th>Protection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers are able to find &quot;good&quot; jobs (decent income, high productivity, social protection)</td>
<td>Job loss</td>
</tr>
<tr>
<td>Entrepreneurs are able to scale up their businesses</td>
<td>Crop failure</td>
</tr>
<tr>
<td>Workers can improve their skills sets to find better jobs</td>
<td>Accidents and injuries at work</td>
</tr>
</tbody>
</table>
in a highly informal labor market, the quality of jobs for most workers is low

- The majority of workers are in the informal sector
- Over 80 percent of formal workers do not have a contract.
- Employees without contracts earn less and are less likely to receive any benefits.

Source: Statistics Indonesia (BPS)
productivity is low because the vast majority of Indonesia’s firms are small
youth unemployment is high compared to regional neighbors

Tingkat pengangguran kaum muda (% dari angkatan kerja berusia 15-24)

Youth unemployment rate (percent, left axis)

Ratio of youth unemployment rate to adult unemployment rate (right axis)
Questions for Research

what are the main barriers to the creation of “good” jobs in Indonesia

why do firms and unions underinvest in skills training?

What causes the glass ceiling on firm size, which prevents the growth of medium and large firms?
family

promotion

healthy mothers having healthy children

protection

mothers have a safe childbirth

children do not die at birth or infancy
Mothers in Indonesia are almost 10 times more likely to die after childbirth than in Malaysia.
Questions for Research

why do so many Indonesian mothers not use skilled birth deliveries, especially given wide access to midwives?

what else can be done to reduce Indonesia’s high maternal mortality rates?

do parent training services work? how can they be most effective?
<table>
<thead>
<tr>
<th>Promotion</th>
<th>Protection</th>
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</thead>
<tbody>
<tr>
<td>everyone can enjoy their retirement, with enough income and good health</td>
<td>disease and complications related to age</td>
</tr>
<tr>
<td></td>
<td>loss of income for old age workers</td>
</tr>
<tr>
<td></td>
<td>inability of family to take care of aged members</td>
</tr>
</tbody>
</table>
Indonesia is running out of time… the demographic bonus will reverse by 2030.
Questions for Research

what are the best ways to extend social security to today’s informal workers and tomorrow’s elderly?

what is the right balance between protection and fiscal sustainability?

what are the key challenges facing the disabled in Indonesia, and how do we address them?
constraints to exiting poverty and increasing welfare

information
incentives
resources

knowing what to do

willing to do what needs to be done

having the resources to do what needs to be done

TAHU

MAU

MAMPU
<table>
<thead>
<tr>
<th>Birth</th>
<th>School</th>
<th>Work</th>
<th>Family</th>
<th>Old Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>do not know of exclusive breastfeeding</td>
<td>belief in traditional rearing methods</td>
<td>ECD and parenting education rare</td>
<td></td>
<td></td>
</tr>
<tr>
<td>do not know the importance of education</td>
<td>opportunity cost of child’s time</td>
<td>not available, not affordable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>do not know what jobs are available</td>
<td>available jobs lack stability and security</td>
<td>job creation issues not being addressed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>do not know what constitutes an emergency</td>
<td>culturally dependent on dukun</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>do not know how to prepare for old age</td>
<td>reliance on moral economy</td>
<td>contributions not affordable</td>
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</tbody>
</table>
Some big picture research questions that go beyond the life cycle…

what are the main barriers preventing poor households from entering the middle class?

what are the main sources of household risk and vulnerability, and how do households cope?

are recent reforms in social assistance leading to adequate protection, or is more needed?

do greater investments in social protection undermine traditional social capital?

what are the drivers of increasing inequality, and what policies can promote shared prosperity?