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EXPANDING
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The Effectiveness of Targeting: Options for Uganda

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The second phase of the Expanding Social Protection Programme (ESP II) is implemented by the Ministry of Gender, Labour and Social Development, funded by the UK Department for International Development and Irish Aid, and managed by Maxwell Stamp in association with Development Pathways.

1. Introduction

As Uganda's social security system begins to expand, it is appropriate to assess the most effective means of ensuring that those who need social security are able to access it. Internationally, there are highly charged debates on the relative merits of targeting schemes at 'the poor,' or providing inclusive entitlement schemes that can be accessed by all those that are eligible. Currently, Uganda is implementing a Senior Citizens' Grant that is offered to everyone aged 65 years and over – and 60 years and over in Karamoja – although it is still only reaching this coverage in 15 districts, while being gradually expanded elsewhere. As other schemes are introduced, it will be necessary to determine how to target them.

However, targeting is complex and often poorly understood. While it is often assumed that 'the poor' should be targeted, there are growing debates about whether a fixed group called 'the poor' actually exist or whether poverty is much more complex. Furthermore, debates are rarely based on evidence but tend to reflect the beliefs and ideologies of advocates of different approaches to targeting.

This paper, therefore, will attempt to clarify the concept of targeting within the context of Uganda and discuss the most effective means of ensuring that 'the poor' and vulnerable are included in social security schemes. It will begin by discussing who are 'the poor' in Uganda before moving onto a discussion about what is meant by the term 'targeting.' It will then examine the effectiveness of different forms of targeting, before moving onto discussing different approaches to targeting and their potential effectiveness in Uganda, focusing on two common forms of poverty targeting – the proxy means test and community based targeting – and the main alternative, which is inclusive social security.

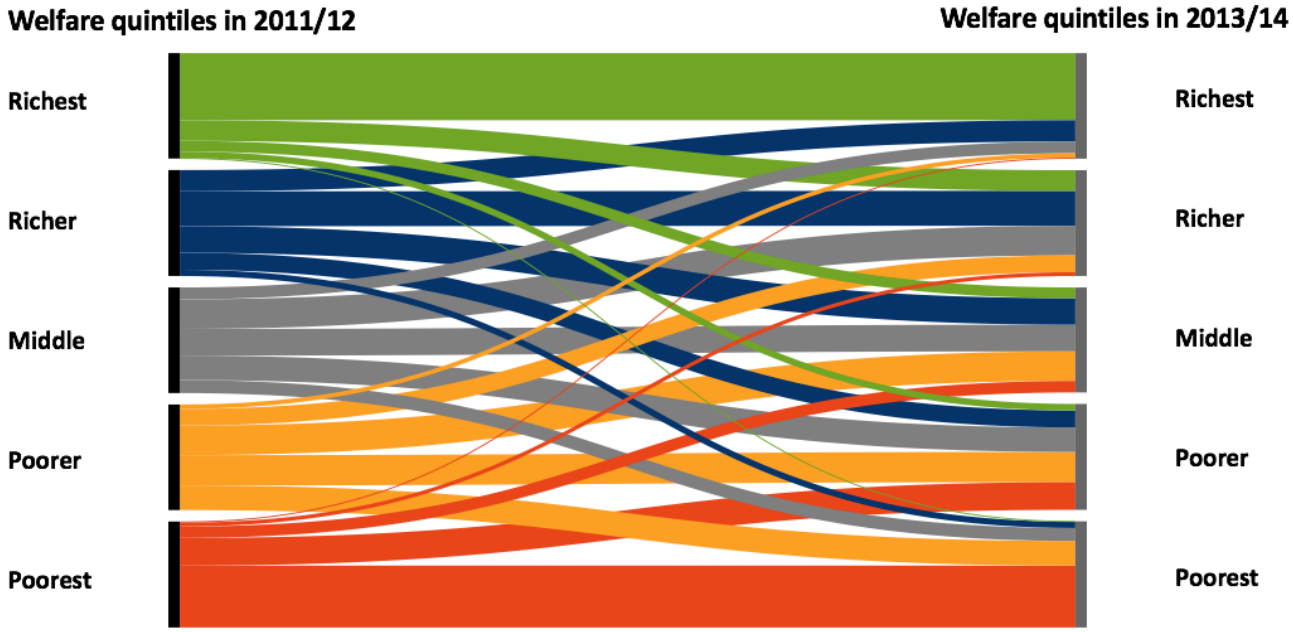
2. Who Are 'The Poor'?

While it is common to refer to 'the poor' – and to 'targeting the 'poor' – it is increasingly recognised that identifying a fixed group called 'the poor' is challenging. For example, although the official poverty rate in Uganda is 19.7%, this should not be understood as meaning that 1 in 5 people are living in poverty. Poverty lines are useful for measuring progress in tackling poverty, but are not particularly helpful in determining social policy since poverty is much more complex than a simple line. Furthermore, given that the poverty line is set at only UGX 2,400 per capita per day, it should really be regarded as highlighting extreme poverty.

While poverty lines give the impression that poverty is static, in reality it is highly dynamic. Figure 1 shows the changes in the ranking of households across Uganda, with regard to their relative consumption between 2011 and 2013. On the left hand side, the graph indicates where households were located in 2011 and, on the right hand side, where they were located in 2013. Around 42% of households in the poorest 20% of the population in 2013 had not been in that quintile in 2011. In fact, when measured against the poverty rate, 45% of households living in poverty in 2013 had not been poor in 2011.[1]

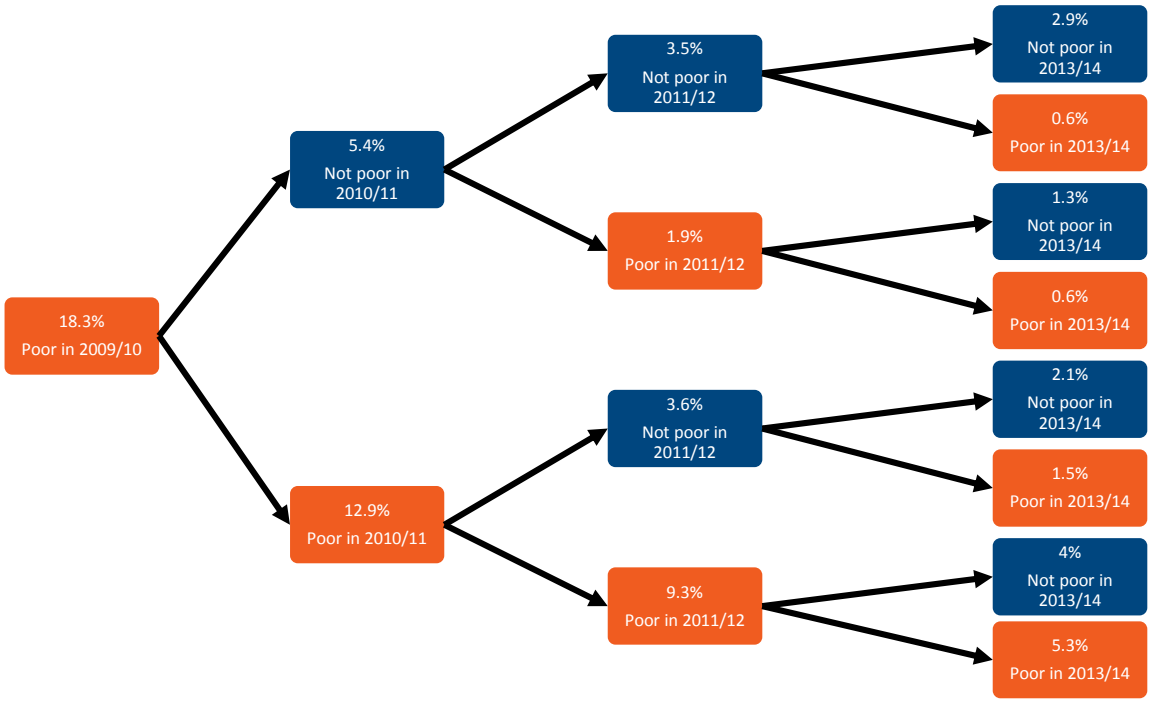
1 Analysis undertaken with panel data has some drawbacks. First, over time, the sample naturally becomes less representative of the total population because of households split-off from the data set. Second, due to non-random attrition the panel sample also becomes less representative. Causes of attrition vary. However, the most frequent causes are death or migration, both affecting specific groups (e.g. older people are more likely to die, and richer and educated individuals are more likely to migrate) (Haughton and Khandker 2009).

Figure 1: Changes in ranking of households according to consumption between 2011 and 2013[2]



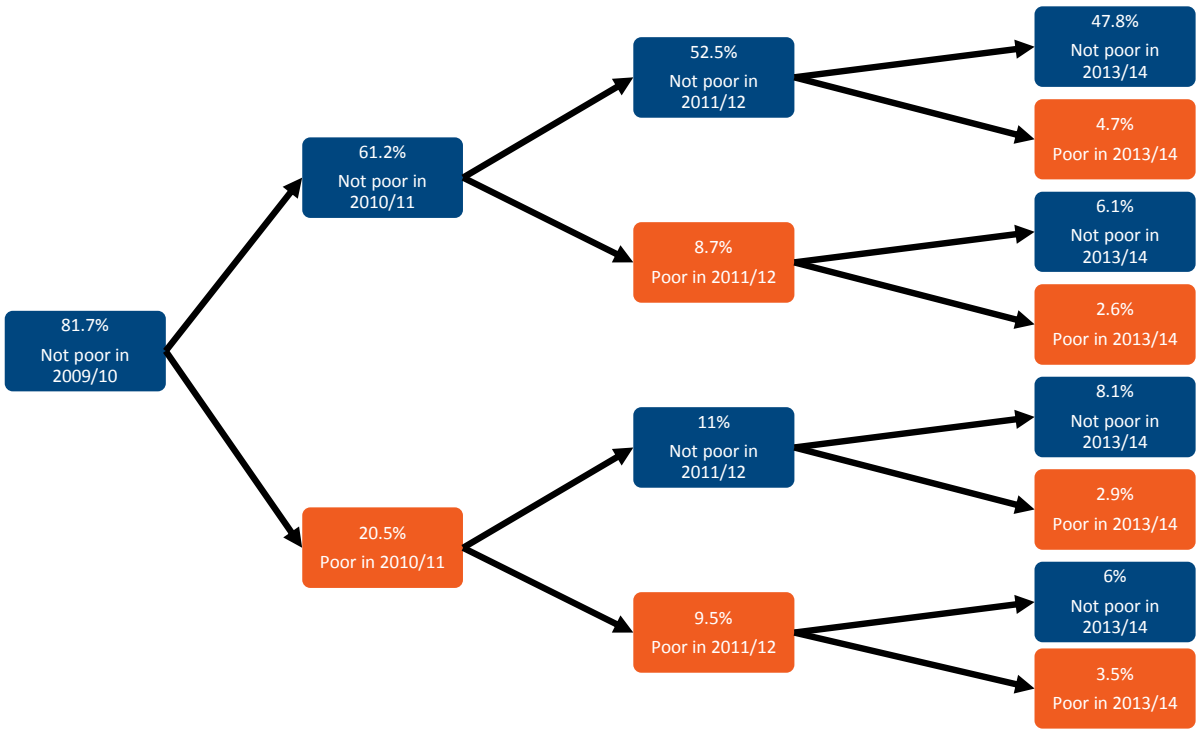
When a longer time period is examined using four points in time – 2009/10, 2010/11, 2011/12 and 2013/14 – around 52% of households spent at least one year living in extreme poverty. Figure 2 shows the proportion of households in each year living in extreme poverty, related to where they were in other years. Given that almost half of households in Uganda spent one of the four years living in extreme poverty, it would be reasonable to consider them as 'extremely poor.' In fact, if data for more years were available, an even higher proportion would have spent at least one year in poverty and could be considered as 'extremely poor' under a dynamic perspective.

Figure 2: Proportion of households living in and moving out of extreme poverty by year, for 2009/10, 2010/11, 2011/12 and 2013/14[3]



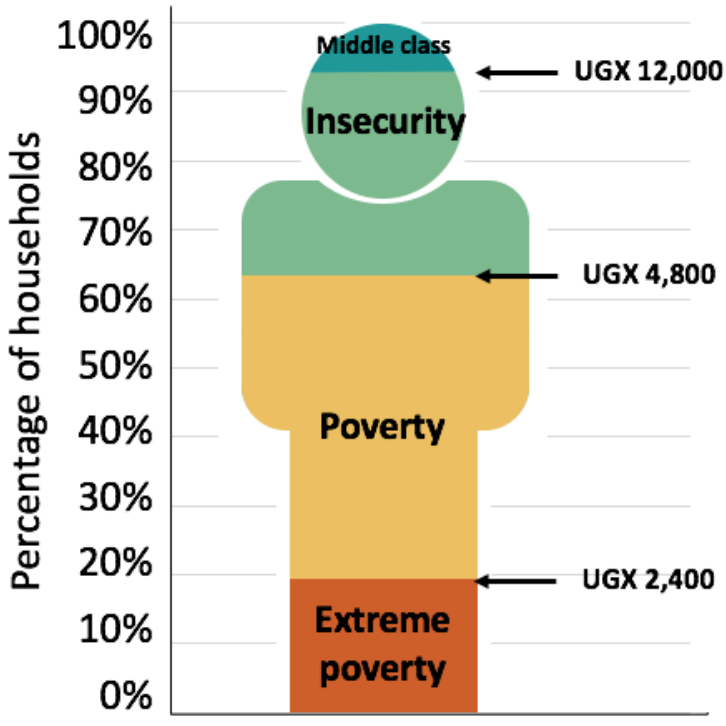
2 Source: own estimates from UNPS 2011/12 and UNPS 2013/14.

3 Source: own estimates from the balanced panel across four waves, UNPS 2009/10 , UNPS 2010/11 , UNPS 2011/12 and UNPS 2013/14.



In addition to the movement of households in and out of poverty, as Figure 3 indicates, a high proportion of Uganda's population had, in 2012, per capita consumption that, in international terms, would be regarded as making them poor. So, for example, around 19% of the population were living on less than UGX 2,400 per day, while almost 65% lived on less than UGX 4,800 per day. In fact, almost 95% of the population could be regarded as either living in poverty or insecurity, and in danger of falling into poverty at any time, given that they have per capita daily expenditures of only UGX 12,000 per day.

Figure 3: Economic classes in Uganda

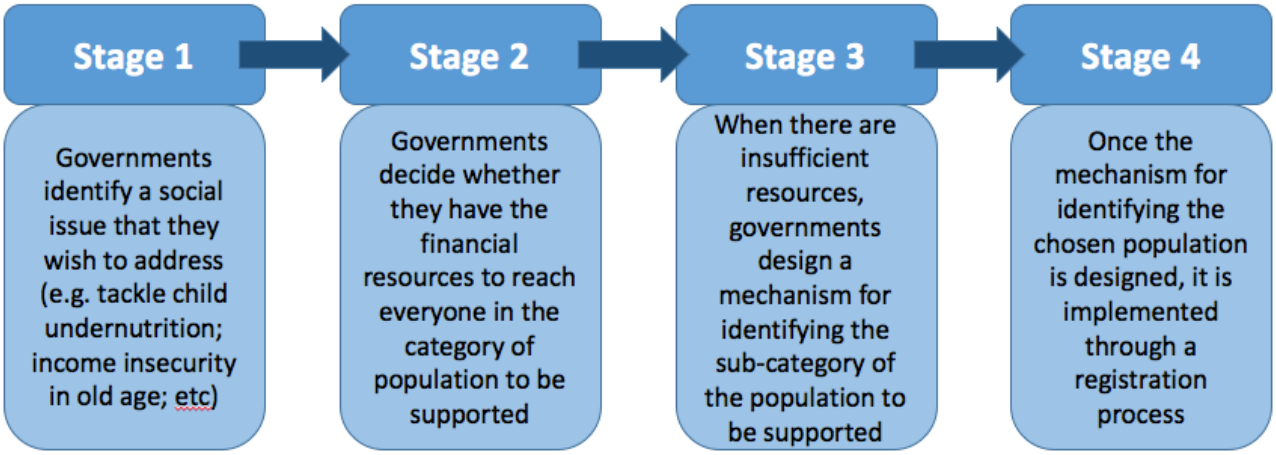


The combination of consumption dynamics and realistic poverty lines – which show that the majority of the population are either living in poverty or highly insecure (and, therefore, vulnerable to falling into poverty) – has significant implications for targeting. The key question is whether it is, in fact, possible for poverty targeting mechanisms to ever accurately identify 'the poor.'

3. What Is Meant By Targeting?

Targeting is often thought of as a simple process of identifying 'the poor' for a particular social programme. In reality, in the context of national social protection policy, targeting should be understood as comprising four stages, as countries seek to build comprehensive social security systems. These stages are summarized in Figure 4 and discussed in more detail below.

Figure 4: The four stages of the targeting process



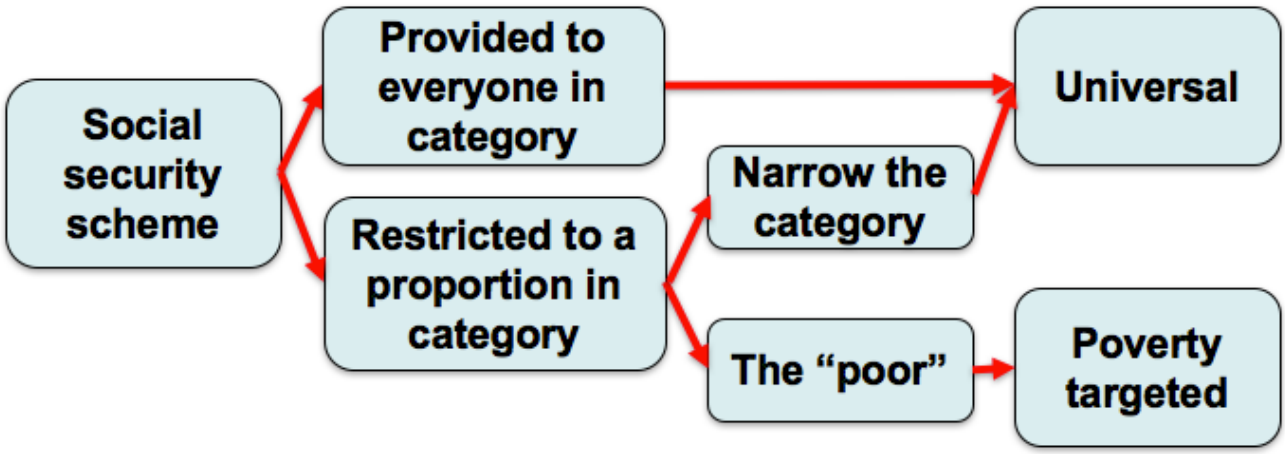
In **Stage 1**, governments decide which social issue they wish to tackle through social protection. As with Uganda's Senior Citizens' Grant, it may be to ensure that all citizens can live out their final years in dignity, with a minimum income guarantee. Or it may be to tackle child undernutrition, or to compensate people with disabilities for the additional costs they face. Sometimes, governments have a simplistic objective of tackling poverty in general, although countries rarely try to achieve this through one social protection programme alone (and, when they do try, they are unsuccessful, due to the high errors found in poverty targeting, which are discussed below). Instead, most countries establish a range of schemes, mainly focusing on tackling challenges linked to stages of the lifecycle, such as childhood, old age and disability (which is discussed further in Section 6).

Once the social issue to be addressed has been identified, in **Stage 2** governments have to decide whether they are willing or able to dedicate sufficient resources to address the issue effectively – by ensuring that everyone in the selected group is included in the programme – or whether they reduce costs by selecting a smaller number of potential beneficiaries. Schemes that offer benefits to everyone in a category – in other words, are universal – are, as will be explained in Section 6, necessarily more effective than more selective schemes, including in terms of incorporating those living in extreme poor. So, by choosing to limit the coverage, governments are necessarily choosing to have a less effective – but lower cost – programme.

However, reducing coverage does not necessarily imply using poverty targeting. As Figure 5 indicates, governments can choose to reduce coverage in different ways, including by narrowing the category. So, for example, if a government decides to provide a pension to all older people but does not have sufficient funds to reach everyone, it could decide to begin with a higher age of eligibility, which is reduced over time. In this way, it would maintain the advantage of the simplicity of universal coverage while also reaching the oldest and most vulnerable older people. Nepal, for example, began its pension with an age of eligibility of over 75 years and, after a few years, reduced it to 70 years. Indeed, Uganda's decision to expand the Senior Citizens' Grant by initially targeting the oldest 100 people in each

sub-county follows the same principle. If governments choose to target 'the poor,' they will also have to accept all the disadvantages that come with this option, which are discussed further below.

Figure 5: Outline of the choices if governments wish to restrict the number of beneficiaries of a social security scheme



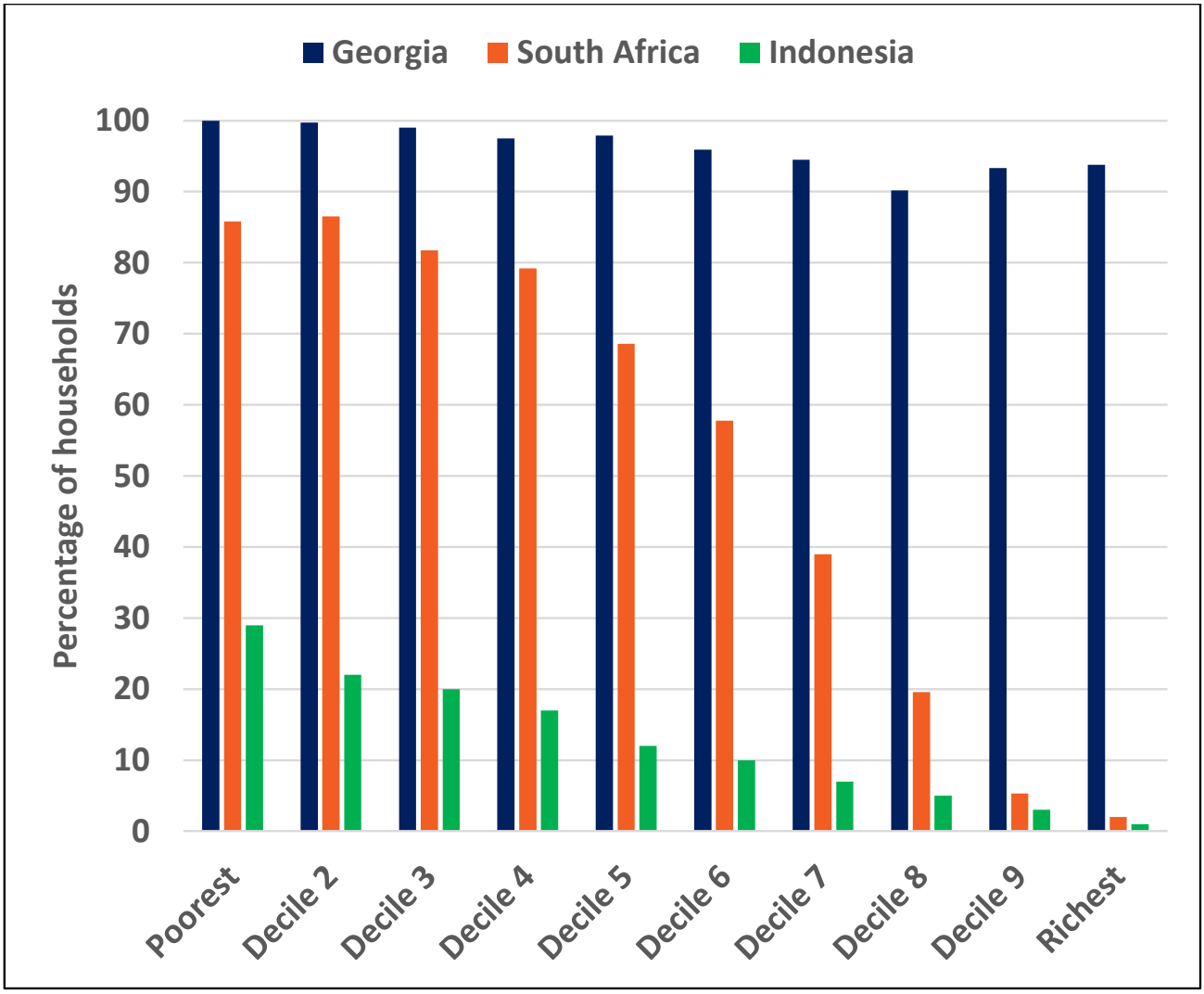
In Stage 3, governments design the actual mechanism for identifying recipients. If the programme has maintained universal coverage – even with a reduced category – then this is a simple process, as everyone within the category receives the programme. However, if the choice has been to target 'the poor,' the design is more complex, and some options are outlined in Section 5. As will be explained, all options result in the majority of 'the poor' missing out, unless the government chooses to exclude only a small proportion of the more affluent.

Stage 4 is the actual process of implementing the selection mechanism, through registration. Poor quality implementation can result in a range of errors and these will be discussed further in Section 4. However, the more complex the selection mechanism, the more likely that errors will happen during implementation.

4. Effectiveness Of Targeting Mechanisms

As indicated above, by design universal schemes are very effective in reaching their target population, including those living in extreme poverty. Figure 6, for example, shows the targeting effectiveness of Georgia's old age pension, which is provided to everyone over the age of 60 years. It indicates the percentage of older people in each consumption decile that are beneficiaries of the scheme and, as can be seen, coverage of the poorest older people incorporates almost no exclusion error. It is only among those who a better-off that there are higher rates of exclusion, but they are still very low and probably result from people voluntarily choosing not to apply for the scheme, since they regard the value of the pension as too low. While some argue that the inclusion of more affluent older people is problematic, for others it is not an issue since they will have contributed to the country throughout their lives and, therefore, the pension is their entitlement, as citizens.

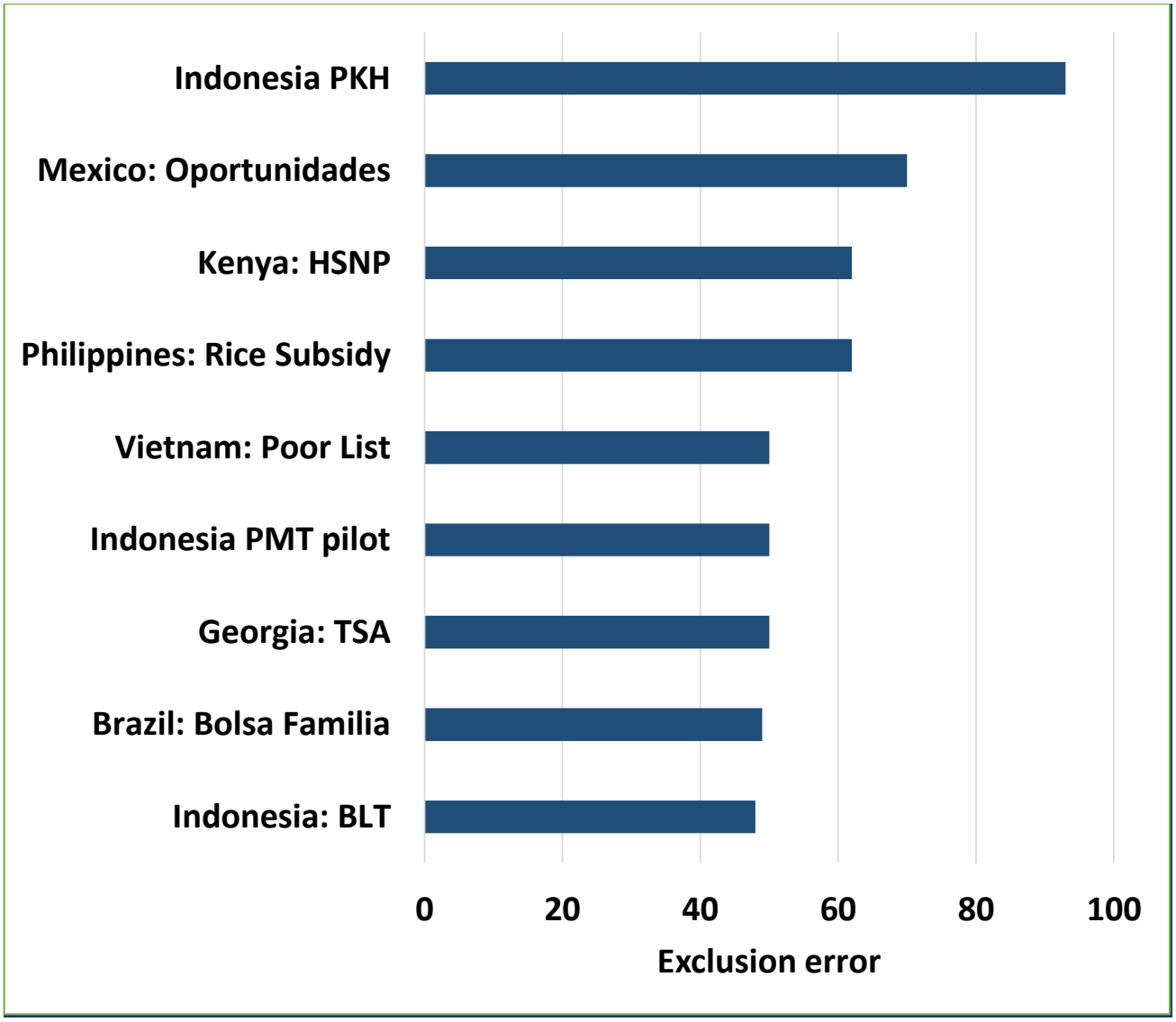
Figure 6: Coverage across consumption deciles of Georgia's old age pension[4]



However, all poverty targeting in developing countries has high errors. Figure 7 sets out the exclusion errors across a range of programmes when measured against coverage (in other words, what proportion of the intended beneficiaries that are excluded). The minimum exclusion error is around 50% of intended beneficiaries, which is the case with the well-known Bolsa Familia programme in Brazil. But, when coverage is low, the errors increase. So, for example, the Program Keluarga Harapan (PKH) scheme in Indonesia, which aimed to reach the poorest 5% of households, was found by the World Bank to have a 93% exclusion error (Alatas et al 2014). All of these programmes are in countries with greater administrative capacity than Uganda, so it would be expected that programmes targeting the poor in Uganda would have higher errors than those outlined in Figure 7.

4 Source: Analysis undertaken by Development Pathways, using household survey datasets from South Africa, Georgia and Indonesia.

Figure 7: Exclusion/inclusion errors of a range of poverty targeted programmes in developing countries5



5. Poverty Targeting Options

Despite the high errors in poverty targeting, advocates continue to press for more effective targeting mechanisms. A range of mechanisms are promoted for use in developing countries – including in Uganda – with most advocacy behind the proxy means test (PMT) and community based targeting (CBT). Yet, both face significant challenges, which are discussed below.

5.1. Proxy means test

The PMT is based on the belief that it is possible to accurately predict household incomes by measuring household characteristics. The PMT methodology uses the national household survey as its basis. The first step in developing a PMT is to undertake analysis of the household survey to identify proxies that have some correlation with household consumption. These are usually based on demographics (such as age, number of people in the household, etc), human capital (such as level of education of the household head), type of housing (such as the type of roof, walls, floor and toilet), durable goods (such as whether a household has a radio, refrigerator or television) and productive

5 Sources: Veras et al (2007); Soares et al (2010); World Bank (2012); Fernandez and Velarde (2012); Alatas et al (2016); Kidd and Gelders (2016a); Kidd, Gelders and Bailey Athias (2016); Leander and Merttens 2016).

assets (such as whether a household owns animals). A set of multiple proxies with the best correlations, which can supposedly be easily measured and observed, are chosen and a scorecard is created.

Once the scorecard is developed, the PMT can be implemented by undertaking a survey of households to determine their scores. Often, this is done as a census with enumerators visiting as many households as possible in a country or a particular region but, sometimes, households are asked to apply individually. The enumerators are expected to verify the answers to the questions, to reduce the chances of fraud.

However, programmes using the PMT have consistently high targeting errors. Indeed, a recent report indicates that its use in northern Kenya on the Hunger Safety Net Programme resulted in little better than random selection while, in Mexico, exclusion errors have been measured at around 70% (Silva-Leander and Merttens 2016; Veras et al 2007). Indeed, the 93% error reported earlier with Indonesia's PKH programme used a PMT.

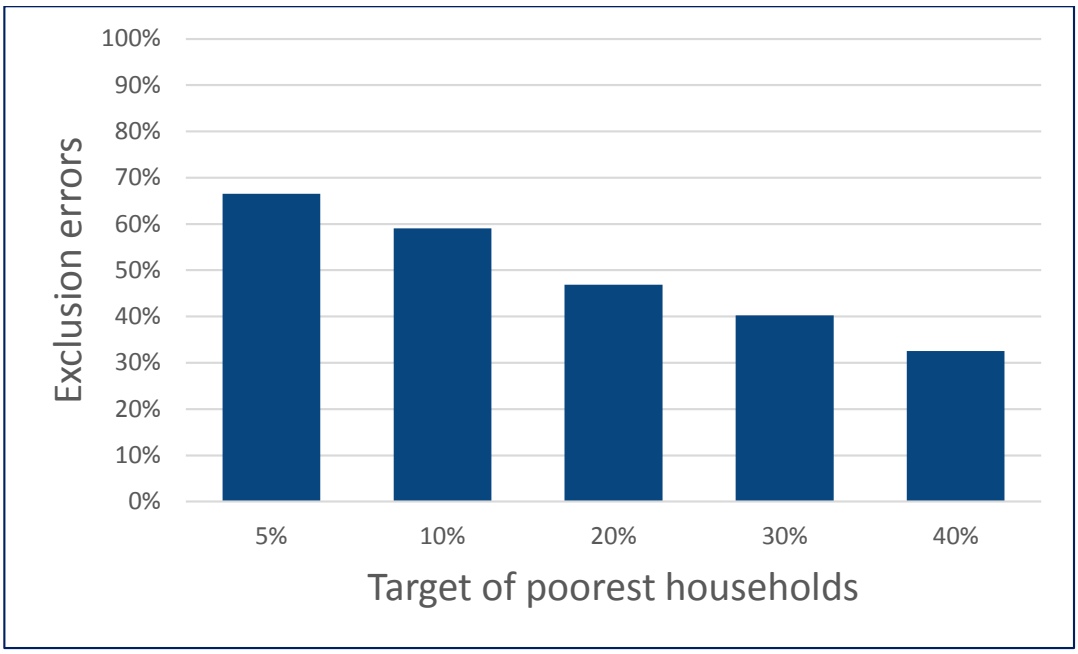
Errors are incorporated into the proxy means test in a number of ways, with the most problematic being:[6] in-built errors in the design; implementation errors; and, errors introduced over time, due to infrequent recertification. Each is discussed below.

5.1.1. In-built design errors

One of the big challenges with the proxy means test is that it incorporates a very high design error: in other words, even prior to implementation, it generates significant exclusion and inclusion errors. This is the result of a poor correlation between the proxies and income. If the PMT were perfectly correlated, it would generate a R-squared value of 1 but, in reality, most PMTs have R-squareds of between 0.4 and 0.6, indicating that around half of household incomes are left unexplained.

To illustrate the challenges with the PMT, an example was developed for Uganda. It has a R-squared value of 0.55, which is a very good performance. Figure 8 indicates the exclusion and inclusion errors against different levels of coverage. At 5% coverage, the design error is 66% but even at 20% coverage around 47% of intended beneficiaries would be excluded from a social security scheme.

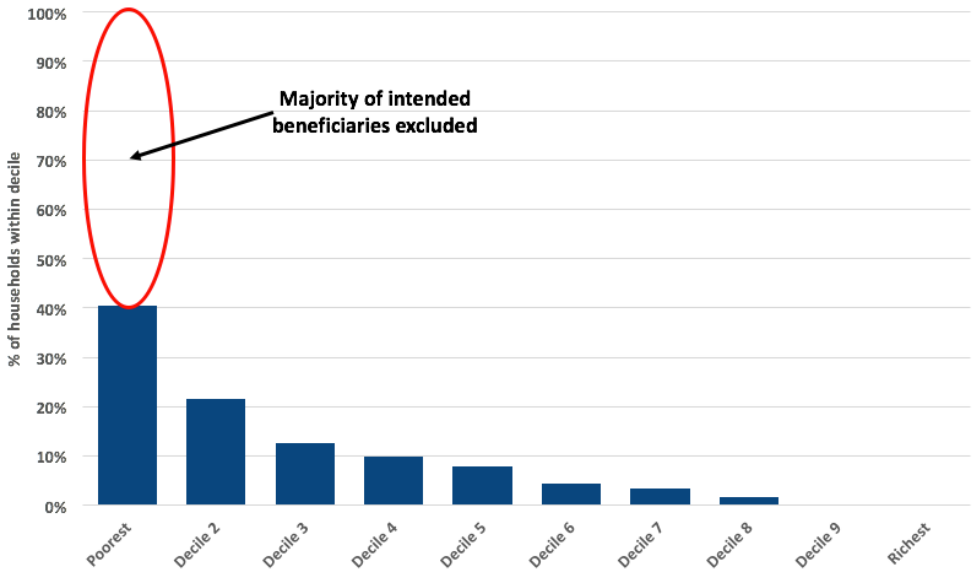
Figure 8: Exclusion design errors at varying rates of coverage for a PMT in Uganda



6 See Kidd and Wylde (2011) and Kidd et al (2016) for further information.

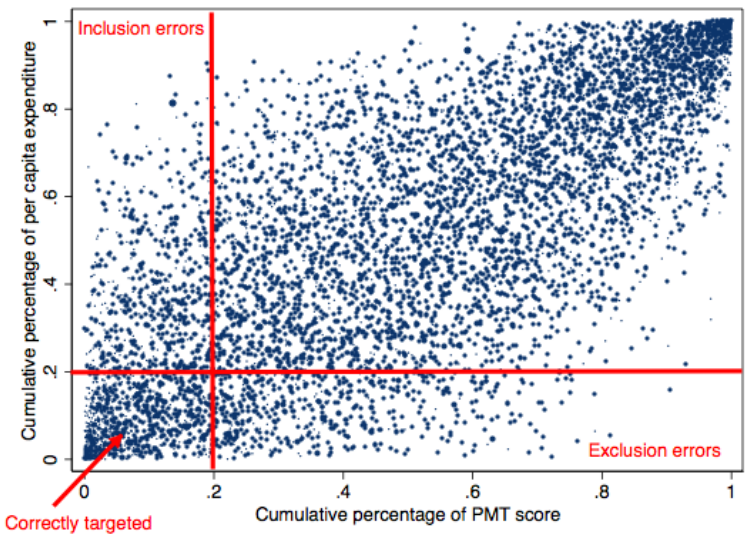
Another way to examine the errors is to see where those selected by a PMT are found across the consumption spectrum. Figure 9 shows the proportion of households in each decile that are reached by a PMT targeted at the poorest 10% of households. Only 40% of households in the target population are selected, with significant leakage to the more affluent consumption deciles.

Figure 9: Percentage of households selected in each consumption decile when a PMT targets the poorest 10% of the households



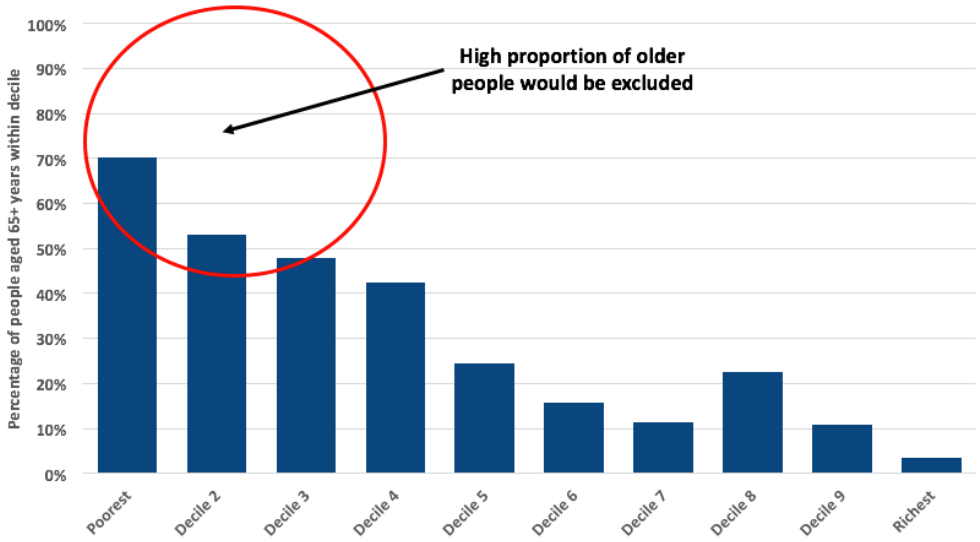
Not only is the PMT inaccurate, its selection is also relatively arbitrary. Figure 10 presents a scatter-graph in which each household in Uganda's 2012/2013 household survey is mapped according to its ranking of consumption predicted by the PMT, as well as by its actual consumption. If the PMT were accurate, all households would be lined up along a straight line from the bottom left corner to the top right. Instead, households are scattered across the graph with the PMT predicting some very poor households to be rich and vice versa. If a programme were targeted at the poorest 20% of the population, all those to the left of the vertical red line would be selected by the PMT. However, in reality, the poorest 20% of households are those under the horizontal red line. So, the diagram shows which households are the 'inclusion' and 'exclusion' errors, as as well as those correctly targeted.

Figure 10: A scattergraph showing the distribution of households in Uganda when ranked against actual consumption and consumption predicted by the PMT



If a proxy means test were introduced into the Senior Citizens' Grant (SCG), the programme's effectiveness in reaching the poorest and most vulnerable older people would be significantly reduced. Currently, in those districts where the SCG is offered to everyone over 65 years of age, virtually all older people are included in the programme, including those living in the greatest poverty. However, if the PMT were used to select the 30% poorest older people in the country, as Figure 11 indicates, a high proportion of the poorest older people would be excluded just through the design errors. As the next section indicates, however, as happens with all proxy means tests, further errors would be introduced during implementation.

Figure 11: Proportion of older people aged over 65 years in each consumption decile who would be included in the SCG if targeted at the poorest 30% (design errors only)



5.1.2. Implementation errors

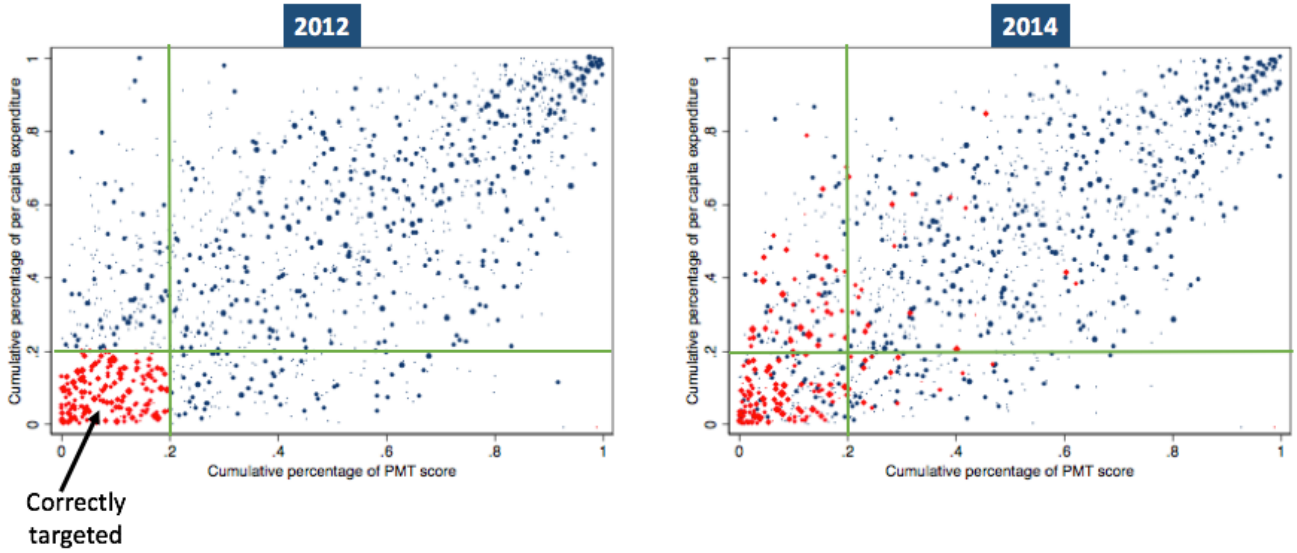
Additional errors are incorporated into the PMT during implementation, when households are assessed using the scorecard. Surveys are challenging, in particular when enumerators are not well trained or take short-cuts. In Indonesia, for example, an average of almost 15% of the cells in the 2011 PMT scorecard were filled in inaccurately, rising to over 37% in one area (SMERU 2011). Furthermore, even if the information is accurately entered, respondents often lie about their possessions or other proxies, many of which are difficult to verify. There is also evidence from Cambodia of local leaders falsifying answers when used as enumerators, almost certainly so that they could increase the number of poor people in their villages and obtain more resources (Booth 2011).

5.1.3. Errors due to infrequent recertification

As discussed earlier, household incomes and consumption are dynamic: those living under the poverty line one year are not the same group as those under the poverty line the next year, so targeting effectively implies hitting a moving target. Since PMT surveys are relatively expensive and administratively very challenging, governments are reluctant to repeat them and, often, it is years before recertification is undertaken. In some areas of Mexico, for example, registration for the Oportunidades programme had not been repeated for more than 10 years (Zoletto 2011).

However, as household consumption changes over time, many households that were initially accurately selected will move out of poverty, while many that were excluded will fall into poverty. Figure 12 shows a scattergraph of households as scored by the PMT in Uganda's panel survey dataset in 2012 and where those accurately targeted have moved to after two years (in red). Many of them would no longer be accurately targeted either due to changes in their PMT score or in their consumption. The logical conclusion is that, to ensure that accuracy does not degrade further, PMTs should be updated frequently. Governments, therefore, need to be willing to assume this expense, but, as explained, few do.

Figure 12: Scattergraphs showing the movement of accurately targeted households between 2012 and 2014



5.1.4. Overview of PMTs

PMTs are best conceptualised as rationing devices rather than a targeting mechanism. When resources are limited, PMTs tend to select a higher proportion of poorer households than better-off households, rationing the benefits in a generally pro-poor manner. However, the majority of poor households remain excluded from the programme. Indeed, many of those subjected to the PMT perceive it to be a lottery which, to a large extent, it is. However, this perception means that the mechanism is not trusted by communities, who cannot understand why many people living in extreme poverty are excluded, but better-off people are included.

5.2. Community based targeting

The other main option proposed by advocates for poverty targeting in developing countries is community based targeting. The main argument put forward in its favour is that 'communities know best' who is most in need within their communities. Yet, others would argue that this is based on a romantic view of communities which, in reality, comprise many sub-groups often in tension with each other. This is particularly the case in larger communities that have been formed in recent decades as a result of population movements and migration.

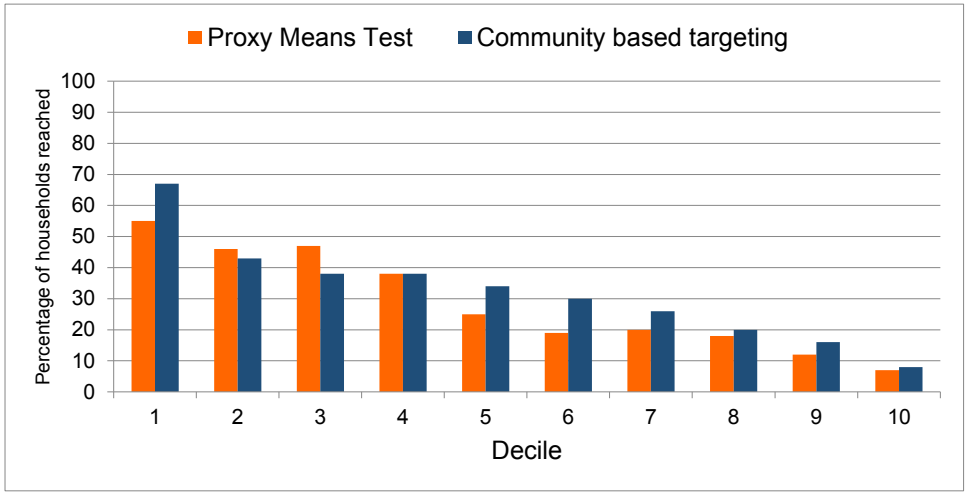
There are also many varieties of community based targeting, each of which leads to different results. These include:

- Community leaders or elites make the decision on who should benefit from a scheme.
- The entire community makes the decision in a large meeting, either with or without external facilitation (although, in reality, it is rare for everyone to turn up, since these meetings can take a long time and many people cannot afford the opportunity cost).
- Communities are given selection criteria by an external authority and are asked to select households based on those criteria. This could be done by local elites and leaders, or in community meetings.
- Facilitators work with communities in a more intensive process, often engaging across smaller groups, supporting the development of local criteria, and enabling the community to apply those criteria to rank households from 'poorest' to 'richest.'

There is no evidence that community based targeting can be used accurately to identify 'the poor.' For example, the World Bank undertook an experiment in Indonesia to test out community based targeting, comparing it with a proxy means test. As Figure 13 indicates, the results were very similar, with around half the target group being excluded (30% of the population were targeted). For many years, Rwanda tried to implement community based targeting at

national level – the Ubudehe targeting mechanism – but, once the government realised it was not producing accurate results, it introduced a simple form of proxy means test (although there is no evidence that this works any better). And, in Bangladesh's well-known 'Graduation' programme, which aims to select the most destitute women, around half of those selected were not even living in poverty (Bandiera et al 2016).

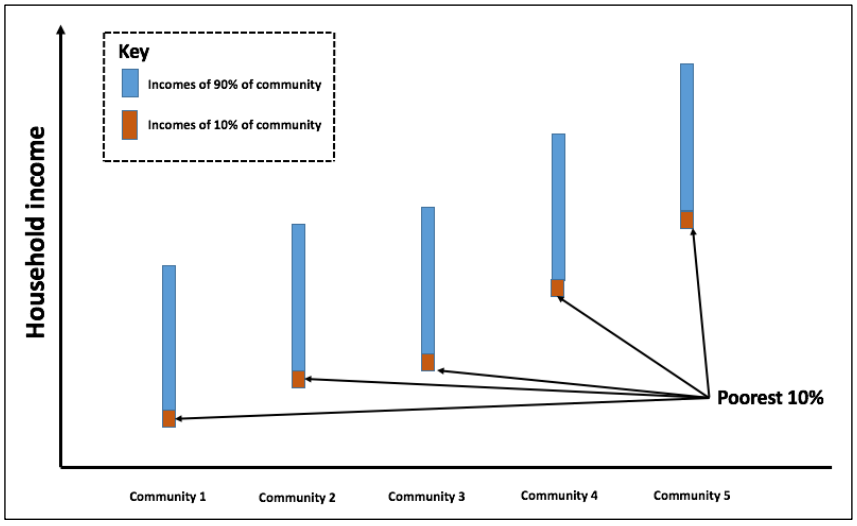
Figure 13: Proportion of households in each consumption decile selected by proxy means testing and community based targeting in Indonesia[7]



There is a range of reasons for the inaccuracies of community based targeting. When it works well, it is able to select the most destitute in the community – as these are often easy to identify – but they are normally a very small proportion of household. Across the rest of community members, decisions are more arbitrary, due to the relative similarity of most households – combined with income dynamics – and the inability of communities to differentiate between them. However, in many cases, the socially excluded in communities tend to be excluded from selection while the more powerful control selection, often in their favour. In effect, normal power relations in communities are often replicated in community-based targeting (c.f. Isik-Dikmelik 2009; Kidd et al 2011).

A further challenge with community based targeting is that it is often based on a fixed quota for each community (such as the poorest ten percent of the population). Yet, as illustrated by Figure 14, the wellbeing of communities varies greatly so that the poorest ten percent in a relatively well-off community may have higher standards of living than the more affluent in a poor community. In effect, quotas can lead to beneficiaries from poor communities being under-represented in national programmes while those from more affluent communities are over-represented. Furthermore, even if community based targeting worked perfectly within individual communities, at a national level, it would impact on the accuracy of community based targeting.,

Figure 14: Ideal comparison of use of quotas across communities in community based targeting, and relative incomes of poorest 10% of the households



Although communities can be given the responsibility of selecting beneficiaries, it is very rare for the reasons for their choices to be formally recorded. As a result, there is no proper audit trail within the selection process, making it impossible for government to hold communities to account for the decisions they make or to check for fraud. Yet, since governments are financing these schemes using taxes from the citizens of the country, an effective auditing process should be an essential component of any selection mechanism. Furthermore, the ab-

7 Source: World Bank (2012).

sence of records also makes it very challenging for community members to appeal against their exclusion: indeed, it is rare for effective grievance mechanisms to be established for community based targeting, thereby undermining the right of individuals to access social security.

So, while community based targeting may be the best option available for a small-scale programme working in a few communities, it would be a strange option for a national scheme. There is no evidence that it can work well: in Rwanda, community based targeting was abandoned when it became linked to the receipt of a benefit of real value – subsidized health insurance – since communities responded by identifying many more people as 'poor' than in previous years.[8] A choice of community based targeting could also be understood as implying that a government is abdicating its responsibility to select the most appropriate people for a scheme – by transferring responsibility to communities – thereby not fulfilling its mandate to ensure that tax revenue is spent well.

5.3. Other costs of poverty targeting

As well as being inaccurate and relatively arbitrary, a range of other challenges – or costs – are associated with poverty targeting. These include: the creation of work disincentives; social costs; moral costs; and higher administrative costs. Each is discussed briefly below.

5.3.1. Creation of work disincentives

If individuals or households are provided with transfers on the basis that they live in poverty, they may be disincentivised from working if any additional income brings them above the eligibility criteria for the poverty targeted scheme and results in their being removed from the scheme (see Box 1 for a more detailed explanation). While the disincentive to work as a result of means testing is commonly recognised in developed countries, across developing countries evidence has recently been found in Georgia, Argentina and Uruguay.[9]

Box 1: Poverty-based selection and disincentives to work – a simple illustrative example

Let us assume that a country provides families with young children with a social protection benefit of $10,000 per year. Choices on the selection mechanism are likely to have a significant impact on the actual incomes of those families.

In a country that selects families earning less than $10,000, a family earning $9,000 would receive an income of $19,000. However, a family earning $11,000 would have the entire social protection benefit withdrawn – an extremely high marginal rates of taxation – leaving them with only their income from work, in other words $11,000. It would make sense for them to work less and earn $9,000 since this would increase their income to $19,000.

In contrast, in a country providing universal benefits, a family earning $9,000 would have an overall income of $19,000 while a family with an earned income of $11,000 would have an overall income of $21,000. There would be no disincentive to work. Instead, work would guarantee a higher income. Children in these families would be much better off.

5.3.2. Social costs

There are many examples of poverty-based selection causing social conflict in communities, in particular with proxy means tests, but also with community based targeting.[10] In part, this is due to the relatively arbitrary nature of the

8 Previously, the Ubudehe mechanism in Rwanda was mainly used as a monitoring mechanism, to determine the country's progress in poverty reduction. Once it was linked to access to health insurance, it was effectively undermined as communities sought to maximise benefits for their members.

9 See Kits et al (2013); Gasparini and Garganta (2015); Bergolo et al (2015).

10 Adato (2000), Adato et al. (2000), Adato and Roopnaraine (2004), Widjaja (2009), Ellis (2008), Hobley and Paudyal (2008), Mgemezulu (2008), Huber et al (2009), Hannigan (2010), Kidd and Wylde (2011a), Cameron and Shah (2011) and Hossain (2012)

proxy means test selection methodology and the inaccuracy of all targeting methods. Community members cannot understand why some people living in poverty are selected while others are excluded. In Rwanda, in 2015, 40% of households nationally complained about their poverty classification (LODA 2016). In Mexico, Nicaragua and Indonesia, non-recipients – many of whom live in poverty – have remonstrated about their feelings of despair, frustration, envy, resentment and jealousy.[11] There is evidence of direct conflict: for example, in some communities in Mexico, when social protection recipients were cleaning the streets, the non-recipients threw rubbish; in others, fences mended by recipients were subsequently knocked down by non-recipients.[12] A study in Indonesia found that 30% of villages protested against the proxy means test when it was rolled out while Cameron and Shah (2011) found that crime increased by 5.8%.

Indeed, there is good evidence of communities across developing countries opposing poverty targeting. In Asia, Africa and Latin America, communities often claim: 'We are all poor here.'[13] In Malawi, for example, a community argued: 'We are one group of people therefore targeting some and leaving out others is not right.'[14] Indeed, there are many instances of communities subverting selection processes by redistributing benefits to everyone. In Indonesia, for example, it is normal practice for the benefits from the Raskin scheme – which provides rice vouchers to the poor – to be shared with everyone in the community.

A further social cost of poverty-based selection is the stigmatization of potential recipients, as noted by Sen (1995) and Grosh et al (2008). Sen (1995) argues that: 'Any system of subsidy that requires people to be identified as poor and that is seen as a special benefaction for those who cannot fend for themselves would tend to have some effects on their self-respect as well as on the respect accorded them by others.' In Malawi's Social Cash Transfer programme, some beneficiaries found the process of making their names public to be very painful.[15] In the Nepal context, Jha et al (2009) have noted how community-based selection can result in greater stigma of those chosen. In fact, Hobley and Paudyal (2008) found evidence of people manipulating wealth-ranking processes to avoid being labeled as 'poor' since this affects the social status of the household and their daughters' marriage chances.

5.3.3. Moral costs

Sen (1995) argues that poverty targeting implicitly rewards dishonesty and cheating. If the non-eligible can successfully lie about their income – or, in the case of the proxy means test, the assets they possess or their characteristics – they are, in effect, rewarded by the state with access to a social protection programme. Given the rewards for deceit, cheating is common in poverty-based selection processes. In Malawi's Social Cash Transfer programme, for example, 9% of households created 'ghost' members, presumably to increase their chances of being selected for the programme.[16] A key reason for Mauritius's move away from poverty based selection to universal access for its old age pension in 1958 was because of complaints from those honestly declaring their income that they were losing out while those cheating the system were being rewarded.[17]

A key challenge that governments face by instituting poverty-based selection processes is that they may well incentivize moral degeneration across society, potentially undermining the social contract. It is evidently not in a nation's interest to create a group in society that believes that 'cheating the system' is an acceptable livelihoods choice.

5.3.4. Administrative costs

All poverty targeting methodologies are complex, requiring significant amounts of information. In contrast, a simple universal programme demands minimal information – for example, the Senior Citizens' Grant only requires the age of the beneficiary – and, as a result, are much simpler to deliver. Therefore, the administrative costs associated

11 Adato (2000), Adato et al. (2000), Adato and Roopnaraine (2004) and Hannigan (2010).
12 Adato (2000).
13 See: Kidd (1999), Adato (2000), Adato et al (2000), Adato and Roopnaraine (2004), Mgemezulu (2008), Huber et al. (2009), Ellis (2008) and Hannigan (2010).
14 Mgemezulu (2008).
15 Miller et al (2008).
16 Miller et al (2008).
17 Willmore (2006).

with poverty targeting are much higher, since the selection process is slower, administrative structures need to be much more robust, more staff are required, and the oversight of the process is more demanding. The additional administrative costs reduce the value for money of poverty targeted schemes.

There is little robust evidence on the administrative costs of poverty targeting and, often, costs are much lower than they should be because the targeting itself is carried out poorly. However, the proxy means test surveys in Pakistan in 2009 cost US$60 million, as did a similar survey in Indonesia. The costs are reduced by not repeating these surveys on a regular basis although, in reality, to maintain even the limited accuracy that they have, they should be repeated annually. The high administrative costs of poverty targeting could be invested in transfers themselves, if a simple more universal mechanism were used.

If poverty targeted programmes were to cut back on administrative costs but remain targeted at those living in extreme poverty, the accuracy of selection would be compromised and fraud would increase. The proxy means test is, in reality, a relatively cheap means of carrying out a means test but its lower cost comes at the price of much lower accuracy when compared to a robust means test measuring income. All initiatives to improve the effectiveness of poverty targeting require higher investments in administration, which will further increase the costs of programmes, using resources that could otherwise be invested in the transfers themselves.

6. Inclusive lifecycle social protection as a targeting option

An alternative to poverty targeting is inclusive lifecycle social protection. All countries eventually move towards building lifecycle social protection systems and away from schemes for the 'poor' in general. In effect, at the point of the policy choice in the targeting process, they prioritise reaching groups of the population that are at particular risk, due to their stage in the lifecycle. The main priority groups tend to be older people, people with disabilities and children but, over time, other categories are incorporated. While poverty targeted schemes focus on addressing the symptoms of poverty, lifecycle schemes address key underlying causes of poverty.

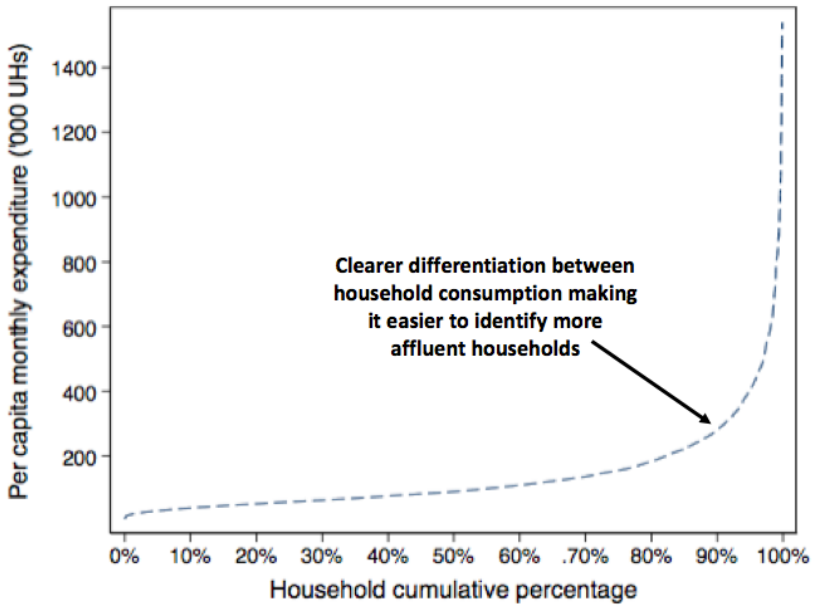
Furthermore, lifecycle schemes – when designed well – are entitlements and offered to all citizens once they fulfil the requirements. So, everyone can expect to receive a benefit if they reach old age, become disabled, or have a child. As a result, lifecycle schemes tend to be popular and governments are more willing to invest in them since they recognize that greater generosity will be supported by the majority of the population. In contrast, investment in poverty targeted schemes tends to be unpopular with the majority of citizens, since they are reluctant to have their taxes used on schemes from which they are excluded.[18]

Lifecycle schemes become fully effective if they are inclusive. This means that they are provided to everyone in the eligible category of the population or, at least, to the majority. Their greater effectiveness is based on the fact – as indicated by Figure 15- that higher coverage is associated with lower exclusion of the poorest members of society. Indeed, the lowest exclusion of those living in extreme poverty is associated with universal schemes, such as the Senior Citizens' Grant: when everyone is eligible for a scheme, then it is much easier for the poorest and most excluded to access schemes also.[19] Furthermore, in a context such as Uganda, high coverage makes sense due to the high proportion of the population living under internationally recognized poverty lines as well as the high number of people falling into poverty across short periods of time and the many people with highly insecure livelihoods who are vulnerable to falling living standards (as explained in Section 2).

Inclusive lifecycle schemes are not always universal. South Africa, for example, offers the majority of people access to its Old Age Pension, Child Support Grant and Disability Benefit by, in effect, practising affluence testing. Rather than trying to identifying the poorest – which, as explained earlier – is an impossible task to do accurately, governments attempt to exclude those that are affluent. This is likely to be an easier task than identifying the 'poor' since – as Figure 13 shows – while there is minimal difference in the incomes of the majority of the population, there is much greater differentiation in the incomes of the most affluent.

18 See Sen (1995), Pritchett (2005), Mkandawire (2005) and Kidd (2015) for more information.
19 See Kidd (2014) for a more detailed discussion.

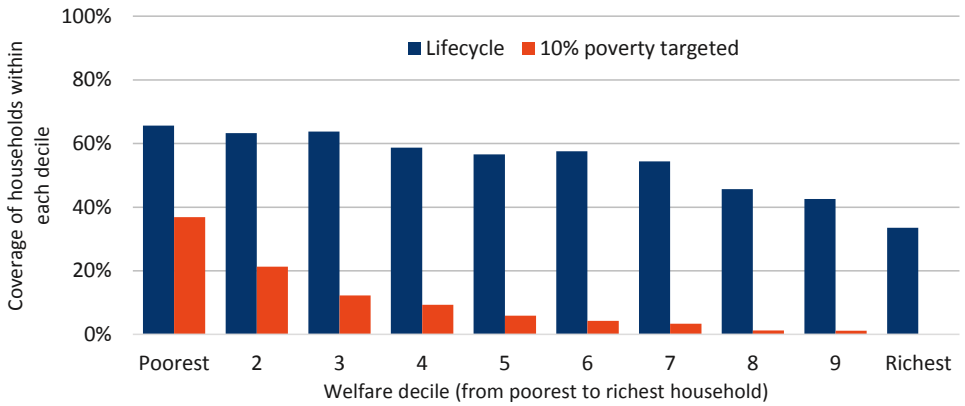
Figure 15: Consumption of households in Uganda from poorest to richest – in 2012 – showing potential for affluence testing



Experience in developed countries shows that inclusive lifecycle systems are built over decades. Countries begin with one programme – often an old age pension similar to the Senior Citizens' Grant – and, over time, introduce other inclusive schemes, such as disability benefits and child benefits. Over time, this builds a social security floor, which covers the majority of the population, offering essential income security when they need it. Countries may complement these basic entitlement schemes with much smaller schemes targeted at those living in poverty but, until targeting can be done accurately in developing countries, this remains highly problematic.

Figure 16 presents a comparison of targeting effectiveness between an inclusive lifecycle system and a scheme targeting only the poorest 10% of the population in Uganda. The inclusive lifecycle system includes the Senior Citizens' Grant for everyone over 65 years, benefits for all children and working age adults with a severe disability, and a child benefit for 70% of children aged 0-4 years (with the latter being rationed initially on the basis of a lower age of eligibility combined with affluence testing). The targeted scheme is aimed at the poorest 10% of the population. The coverage of the inclusive lifecycle system is much higher, in particular among those living in the greatest poverty, with around 66% of the poorest decile included in the system, compared to around 40% from the targeted scheme. If the age of eligibility of older people were to fall or the age of children were to rise, the coverage would be even higher and, as Uganda develops, it would be expected that its social protection system would become even more inclusive.

Figure 16: Coverage of lifecycle and poverty targeted social security systems



The inclusive system would be more expensive than the poverty targeted option, but would also be much more effective in including the poorest and most vulnerable while bringing much greater social and economic benefits.[20] It is a common fallacy that lower investment in social security is positive. If the full benefits of social security are to be generated – which are summarized in Box 2 - it needs to be recognized that higher levels of investment are both necessary and positive. The inclusive system proposed in this paper – and which is described in more detail in Kidd and Gelders (2016b), alongside potential impacts on poverty and inequality – would cost only 1% of GDP, while

20 This paper focuses only on targeting. A subsequent paper will also examine the costs and impacts of an inclusive lifecycle social security system.

a number of developing countries spend over 3% of GDP on social security and the average level of investment in developed countries is 14% of GDP. If programmes are targeted only at those living in extreme poverty, many of the benefits from higher investment will be lost. Furthermore, governments implementing an inclusive system of social protection for all citizens will benefit from the popularity of the schemes, which will feedback into political rewards.

Box 2: The benefits of higher investment in social security

A higher level of investment in social security could bring significant social, economic and political benefits to Uganda, enhancing the nation's social infrastructure. The provision of an old age pension for all citizens would ensure that every Ugandan lives their final years in dignity. Offering a child benefit would enable families to invest in their children, making significant inroads into the scourge of stunting that is holding back the cognitive development of so many of the nation's children, while also enabling families to keep their children in school. This will, in the long-term, significantly enhance the quality of the nation's workforce. Disability benefits would enable persons with disabilities to overcome the significant cost barriers they face in obtaining jobs, while also ensuring higher quality care for those that cannot work. Indeed, there is strong evidence from around the world that, once families receive a guaranteed regular and predictable cash transfer they feel more secure and more willing to invest in productive assets and income generating activities. Furthermore, old age pensions enable grandparents to care for their grandchildren, enabling mothers of young children to return to the labour market.

By investing in a system of inclusive social protection – that, over time, offers access to all citizens whenever they need it – the national social contract will be strengthened, social cohesion and political stability will be enhanced, and Uganda will become an increasingly attractive country to outside investors. Furthermore, by increasing the flow of cash into communities across Uganda, local markets will be stimulated, offering opportunities to entrepreneurs, both large and small. Indeed, a recent study by FAO across a number of African countries indicated that each dollar spent on social protection would generate between 30% and 150% of additional income in communities (FAO 2014). At a national scale, this would be a significant stimulus to national economic growth.

Uganda's Senior Citizens' Grant (SCG) has already demonstrated the benefits of investing in inclusive social security. As Kidd (2016) describes, evidence suggests that the SCG has helped reduce hunger, diets have improved and there are indications of reductions in wasting among children. Many beneficiaries have used the pension to invest in productive activities, while employment has increased among those working age members in pensioner households (probably mothers of children). Children have benefited from the generosity of their grandparents in terms of less hunger, improved nutrition and greater access to school. As a result of the inflow of cash into communities, local markets have become more dynamic, benefitting entrepreneurs while generating greater employment. Importantly, the citizens of Uganda living in communities where the SCG is implemented are now able to live their final years in greater dignity and have been increasingly re-integrated into communities, including receiving more informal support from their relatives.

7. Conclusion

Debates on targeting options are very much debates about a government's – and a country's – commitment to investment in social security and, more broadly, its commitment to its citizens, in particular the most vulnerable. Countries with less commitment tend to invest in schemes targeted at those living in poverty, which, as a result, tend to be poor quality schemes – with high errors – and not popular with the majority of citizens. They are also much less effective in reaching those living in poverty while impacts are much less. As the World Bank (2015) has stated: 'The historical…….evidence suggests that the forces pushing for better targeting are more regularly motivated by cutting entitlement bills and ensuring financial sustainability than by helping the poor.' A country that is committed to investing in its citizens by providing them with income security will establish inclusive, lifecycle social security schemes as the basis of its national social protection system, and be willing to pay the price that comes with a more effective system.

The Senior Citizens' Grant is an excellent example of an inclusive lifecycle scheme, which aims to ensure that all Ugandans can live their final years in dignity. If a decision were taken to target the Senior Citizens' Gran at older people living in poverty, its effectiveness would be undermined: at least half of the poorest and most vulnerable older people would be excluded, and the scheme would lose its popularity. Indeed, the World Bank (1994) has pointed

out the advantages of universal old age pension coverage stating: 'Administratively, this is the simplest structure, with the lowest transaction costs, for the public pillar- an important advantage in developing countries with limited institutional capacities and incomplete record-keeping systems. It avoids the disincentive to work and save inherent in means-tested plans. Its universal coverage helps ensure that the poverty reduction objectives are met, [and] provides a basic income for all old people.'[21]

Furthermore, the Senior Citizens' Grant provides a great example of the type of inclusive lifecycle scheme. Similar schemes should, over time, be extended to children and persons with disabilities, ensuring that the state fulfils its obligation of progressively realizing the right to social security of all its citizens. Analysis of the impacts of a more inclusive lifecycle social security system can be found in Kidd and Gelders (2016b).

As Uganda develops and its economy strengthens, the country needs to continue to invest in all its citizens, ensuring equality of opportunity for everyone. Targeting those living in poverty denies the equal opportunity of access to social security, in particular to the most vulnerable. And, given that there is no example yet in developing countries of good practice in identifying those living in poverty – with errors above 50% the norm – Uganda should take great care in developing a social security system based on poverty targeting. The majority of the population is, in reality, in need of social protection and the state needs to be doing all it can to address this need, given the significant benefits that are generated by a comprehensive social protection system.

Annex 1: Technical annex on the proxy means test

Methodology

Regression based PMT

The PMT used in this analysis is based on OLS estimates of a linear model of household per capita expenditure in natural logs on observable characteristics. In other terms, the PMT can be written as the following,

$$\mathbf{PMT_i} = \exp(\hat{y}_i) = \exp\left(\hat{\boldsymbol{\beta}}\boldsymbol{X_i}\right) \forall\, i = 1, \ldots, N$$

where ŷ_i is the predicted value of household i's per capita expenditure in logs, and β̂ is a vector of estimated coefficients associated to the vector X of covariates[22]. Our approach is similar to that found in Brown, Ravallion & van de Walle (2016).

Choice of covariates (X)

The choice of variables in the model followed the literature and practice observed around the world as to what are considered standard variables. In our basic PMT, we have included variables on household head characteristics, household composition, housing characteristics, and location of household. We also kept to variables present in all surveys considered in our analysis. Table 1 describes in detail each variable considered in detail.

Data

Three datasets were considered for our PMT analysis: The Uganda National Household Survey (2012/13), and the last two waves of The Uganda National Panel Survey (2011/12 and 2013/14). The sample in each dataset is restricted to households with no missing values or non-specified values in any given variable. Additionally, in the panel dataset, we restrict to observations present in both waves of the panel. The last three columns of Table 1 present summary statistics of the selected variables for the sample considered in each dataset.

The PMT weights were constructed using the UNHS survey. When analysing the dynamics of the PMT scores in the

21 A more recent - 2005 - World Bank report re-affirms this view, stating that a universal pension 'is probably the best way to provide poverty relief to the elderly. Considering the difficulty of identifying who among the elderly is poor, the principal merit of the program is that its universality avoids the targeting issue' (Holzmann et al., 2005, p. 95).

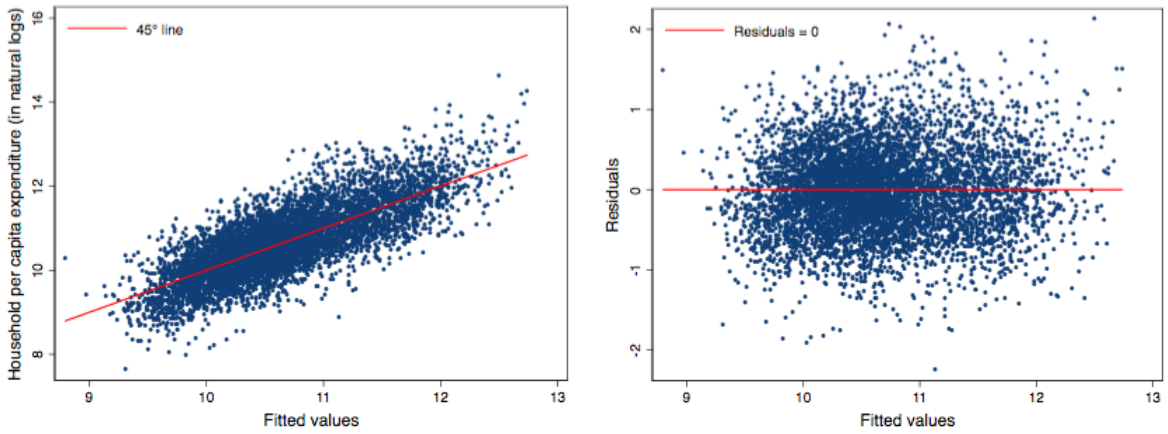
22 Sample survey weights were considered.

UNPS datasets, we construct PMT scores for the households in each wave using the weights obtained from the regression analysis on the UNHS survey. This is to better simulate what happens in practice, where the design is usually conducted in a sample survey and the scores computed on a different sample, and most time in different years.

Estimated weights

The estimated weights for each variable is also presented in column 3 of Table 1. The sign of each coefficient is as predicted, and statistically significant at a 5% significance level. The goodness-of-fit measured by the R2 is 0.55. Compared to previous studies this is within the range of what has been considered normal. For example, Brown et al. (2016) in a recent study across a number of countries obtained R2s ranging from 0.34 to 0.65. Figure 1 presents diagnostic plots of the regression coefficients. The plots show no major concern to worry in terms of the regression assumptions. However, from the plot on the left of figure 1, one can already note that the poor's predicted consumption is mostly overestimated, whereas the rich has underestimated fitted values. This can be observed by crossing two horizontal lines in the plot. One closer to the x-axis, and the other further above. Note that there will be more scatter points to the right of the 45° line in the bottom horizontal line than in a horizontal line above. This is further highlighted in figure 2, where the residuals are plotted against the actual consumption (in logs). Households at the bottom of the expenditure distribution have negative residuals, and households at the top, positive residuals.

Figure A1. Actual vs. fitted plot (left) and Residuals vs. fitted (right)



Note: these are diagnostic plots of regressing household per capita expenditure (in natural logs) on a number of correlates.

Figure A2. Residuals vs household per capita expenditure in logs

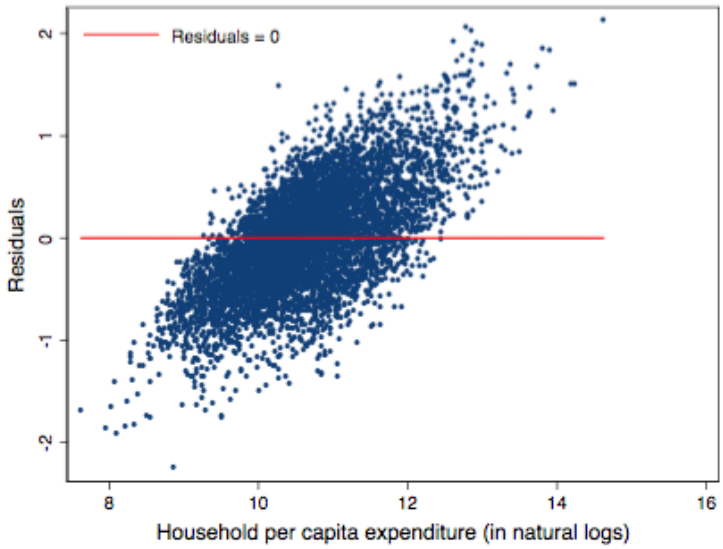


Table 1. PMT weights, and summary statistics of each variable of interest

Variables	Definition	OLS estimate (SE)	Mean [SD]		
			UNHS - 2012/2013	UNPS - 2011/2012	UNPS - 2013/2014
Dependent variable					
lnpcexp	Natural logarithm of household per capita expenditure in 2006 prices		10.70 [0.016]	10.50 [0.045]	10.61 [0.038]
Independent variables					
head_age	Age of the household's head	0.0162*** (0.0029)	42.84 [0.282]	46.93 [0.568]	48.94 [0.565]
head_age2	Age of the household's head squared	-0.0001*** (0.0000)	2,088.6 [27.24]	2,405.4 [59.07]	2,593.3 [60.71]
head_sex	= 1 if head is male	0.0427** (0.0179)	0.689 [0.008]	0.684 [0.018]	0.676 [0.018]
head_nas	=1 if head never attended school	-0.4654*** (0.0324)	0.205 [0.007]	0.165 [0.013]	0.153 [0.013]
head_ass	=1 if head attended only some school (incomplete primary school)	-0.3359*** (0.0292)	0.437 [0.009]	0.419 [0.021]	0.429 [0.021]
head_cps	=1 if head completed primary school	-0.2610*** (0.0310)	0.196 [0.006]	0.252 [0.016]	0.250 [0.016]
head_cls	=1 if head completed lower secondary school	-0.1888*** (0.0385)	0.058 [0.004]	0.050 [0.009]	0.054 [0.008]
hh_siz	Household size	-0.0709*** (0.0167)	4.839 [0.047]	5.056 [0.100]	5.107 [0.103]
hh_chl	Number of children in household	-0.0636*** (0.0173)	2.475 [0.033]	2.492 [0.077]	2.403 [0.072]
hh_wka	Number of working age adults in household	0.0477*** (0.0155)	2.338 [0.023]	2.526 [0.054]	2.645 [0.063]
hh_flr1	=1 if household floor is earth or rammed earth	-0.2339*** (0.0238)	0.719 [0.011]	0.700 [0.024]	0.658 [0.025]
hh_wll2	=1 if household wall is made of unburnt bricks with mud	-0.0627** (0.0257)	0.201 [0.009]	0.158 [0.018]	0.203 [0.019]
hh_wll3	=1 if household wall is made of mud and poles	-0.1479*** (0.0264)	0.397 [0.015]	0.345 [0.025]	0.336 [0.024]
hh_fck1	=1 if household cooking fuel is firewood	-0.4455*** (0.0500)	0.759 [0.012]	0.762 [0.023]	0.772 [0.025]
hh_fck2	=1 if household cooking fuel is charcoal	-0.2249*** (0.0458)	0.200 [0.011]	0.179 [0.021]	0.193 [0.023]
hh_toi2	=1 if household toilet is VIP Latrine	-0.2885*** (0.0802)	0.056 [0.006]	0.031 [0.007]	0.044 [0.008]
hh_toi3	=1 if household toilet is a covered pit latrine	-0.4217*** (0.0746)	0.627 [0.010]	0.714 [0.021]	0.712 [0.020]
hh_toi4	=1 if household toilet is an uncovered pit latrine	-0.4554*** (0.0758)	0.203 [0.008]	0.175 [0.016]	0.146 [0.014]
hh_toi5	=1 if household has no toilet facility (bush/bucket)	-0.6140*** (0.0821)	0.100 [0.006]	0.065 [0.011]	0.083 [0.015]
hh_reg1	=1 if household is located in the Central Region	0.4446*** (0.0324)	0.293 [0.007]	0.331 [0.021]	0.332 [0.022]
hh_reg2	=1 if household is located in the Eastern Region	0.1366*** (0.0315)	0.271 [0.011]	0.233 [0.017]	0.233 [0.017]
hh_reg4	=1 if household is located in the Western Region	0.4396*** (0.0328)	0.235 [0.006]	0.253 [0.019]	0.252 [0.019]
urban	=1 if household is urban	0.0744*** (0.0266)	0.260 [0.017]	0.167 [0.025]	0.232 [0.026]
_cons	Constant	11.71*** (0.1074)			
	Number of observations	6,552	6,552	1,418	1,418
	R-squared	0.55			

Note: Standard errors are in parentheses and standard deviations in brackets. Sample weights were considered. *** *p<0.01, ** p<0.05, * p<0.1*

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The second phase of the Expanding Social Protection Programme (ESP II) is implemented by the Ministry of Gender, Labour and Social Development, funded by the UK Department for International Development and Irish Aid, and managed by Maxwell Stamp in association with Development Pathways.

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