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POLICY, INSTITUTIONAL AND METHODOLOGICAL LESSONS FROM SIX COUNTRY STUDIES

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INTRODUCTION

The six case studies covered in this volume involve a wide range of country settings for social protection policies and for the interfaces of those policies with labour markets and hence labour outcomes. They also feature a wide range of types of social protection policies, of total resources directed towards them, and no doubt also of total impacts on welfare, poverty, employment and other important variables.

It can be argued that the bulk of the reduction of income poverty in the developing world is due either to reasonably pro-poor economic growth or to social protection policies, with growth usually the main single factor at work, especially in lower-income countries. The challenge in designing good social protection policies is thus inherently tied to the nature of the growth process. A successful package of economic and social policies must produce (i) a good rate and pattern of economic growth to reduce poverty directly; (ii) a well-designed system of social protection to defend those still left in poverty despite the growth achieved; and (iii) internal consistency between these two broad categories of policy, such that neither cancels out the positive effects of the other. It is particularly crucial that social protection policy be as consistent as possible with the creation of good jobs, since it is mainly through job creation that growth contributes to poverty reduction.

Policy makers and analysts should view social protection together with economic policy, to take full advantage of the potential synergies between the policies that can generate economic growth (macroeconomic policy, trade policy, industrial policy etc.) and the social protection policies whose main objective is to offer protection against some unacceptable outcome. The first set of policies can alleviate poverty, economic insecurity and attendant problems through growth; the second set responds to situations and people for whom growth does not provide an adequate outcome and/or economic security.

While the above generalizations provide a useful starting point, differences across countries in level of development, structure of the economy, administrative capacity and other features mean that the design of pro-poor growth and effective social protection programmes is always quite country-specific. Although economic growth is almost always a key factor in poverty reduction, this is especially true for low-income, often mainly agricultural countries, which are generally also characterized by a low public spending capacity (due to low taxing capacity) and a low implementation capacity. For them, it is especially important that social protection policies be consistent with the growth process. In countries with high fiscal and implementation capacity, social protection can be a more potent tool against much poverty and vulnerability.

Of particular interest to us here are the social protections that overlap with labour market processes and hence affect labour outcomes. Some of these raise the productive use of labour and hence GDP (as with India's National Rural Employment Guarantee Programme), while others may directly diminish income earned through employment, such that the net benefit due to the social programme is less than the transfer involved. Another relevant distinction is between social protection whose income-creating effect occurs immediately—for example, employment-generating public works programmes—and that whose income-generating effect comes later, as with conditional cash transfers designed to keep the children of low-income families in school longer.

Taking a broad perspective on how family welfare may be improved leaves us with the possibility that some of the best policies to 'protect' people against bad economic outcomes are ones that promote pro-poor growth. In that case, growth objectives and social protection objectives may fully overlap in the sense that the best policies for the first objective are also the best ones for the second. At the other end of the spectrum, the policies that generate fast growth may be exclusive, such that many people's needs are not satisfied by that growth process and may even be damaged by it.

Perhaps the two most important policy areas where growth and social protection are so highly correlated that they are virtually the same thing are small-farm policy, exemplified most clearly in the cases of Malawi and Tajikistan, and microfinance, exemplified in Peru. While small-farm support policy aims to raise productivity and incomes in the activity where most people, especially from lower income deciles, are found in the early stages of a country's development process, microfinance has a parallel intent, namely to raise productivity and incomes of small operators mainly outside agriculture. In both cases success lowers poverty and economic insecurity directly through the increasingly successful activities of the producers themselves.

This important parallel notwithstanding, the two areas differ importantly in other ways. First, the small-farm support policy model has shown its success for literally hundreds of years, and has arguably been the most important mechanism of early economic growth (Johnston and Kilby, 1975) and a virtually indispensable feature in any early growth that was also equitable. In contrast, microfinance on a major scale is a recent innovation, dating back only a few decades, and hence is not time-tested as small-farm support policy is. A second difference is that micro-credit (and credit for SMEs), as one element of support for smaller non-agricultural firms, may leave many of them with only modest potential to raise their productivity and incomes; although some microfinance systems have made serious attempts to deal with other needs of borrowers besides credit, it has not been standard practice to put as much emphasis on these non-credit elements of support. In the small-farm support model, in contrast, the central element is generation and diffusion of new technologies (Mellor and Johnston, 1961), primarily the responsibility of the public sector, with credit needs usually assumed to take care of themselves. A parallel process of technology provision has not evolved in the case of non-agricultural microenterprise. For one thing, microenterprise is a far more heterogeneous collection of activities than is agriculture, so the needed technological advances are also more varied. Further, it is the practice in industrial countries that outside agriculture private firms undertake the bulk of the applied research, and the role of the state is much less. Given the economies of scale[1] that characterize many research processes, and the special advantage that accrues to innovations adopted by firms with market power, this has become the norm. Public-sector technological support for small farms has always made economic sense because there are very few economies of scale in agriculture, unless they are built into the research process itself (Lipton, 2009).

Outside agriculture larger firms are more likely to have an advantage, not only because of the greater frequency of economies of scale but also because size often bestows market power and the resulting ability to charge prices above costs. These potential and often actual advantages of large firms, plus others, lend plausibility to the fear that microcredit may not be as central an instrument of poverty reduction outside agriculture as technological support for family farms is within it. If technological barriers keep the productivity of small firms below those of larger ones, then, in contrast to agriculture, their ability to compete may be present in too narrow a range of activities to allow the MSME sector to be a major motor of equitable growth. MSMEs will crowd into those sectors without important economies of scale (some types of retail commerce and of services, for example) and push down the relative prices of the goods and services involved in such a way that the benefits wind up going mainly to others. This interpretation contrasts the smaller technological range that existed in the earlier stages of development in the now industrial countries with the bigger range of today, and attributes the prevalence of urban informal workers, dualism and income inequality to it.

A third area of clear interface between social protection and growth policy is education, where conditional cash transfer (CCT) programmes aim at keeping the children of lower-income families in secondary school longer (this now being the frontier level in most countries where such programmes are in place). For this social protection to fulfil expectations, the private and social payoffs to increased levels of education for the groups in question are important. It is now highly probable that the earlier very optimistic readings on the payoffs to more education (both private and social) were exaggerated—how much so remains a matter of debate.[2] The medium- and longer-term benefits of these programmes may fall well short of hopes and expectations if either (i) overall returns to education are now on the low side; (ii) returns to secondary education are particularly low and the CCT programmes do not provide a bridge to higher education for many of the benefited students; (iii) the quality or appropriateness of content of the schooling provided to the beneficiaries is low such that the payoff to them is lower than the average for the level of education in question; or (iv) there is discrimination in the labour market against these graduates such that their education cannot pay off as well as it otherwise might. The current dissatisfaction, frustration and protests with respect both to education (cost, quality, access) and to employment options of youth and others (e.g. Kenya) show that there are no easy fixes in this area. It appears probable that for at least several decades into the future a high share of graduates of the educational systems will move into informal activities. This fact is not well recognized by many educational decision-makers, nor by many students and their parents, suggesting the need for a major rethink which, while ongoing, remains incipient in most countries.

Another important area where growth and social protection are often pursued together is labour-intensive public works (as with India's NREGA). Pensions and other transfers that get into the hands of people in low-incomes area with much underemployment can have positive multiplier effects (also analysed in the India case study). Health interventions are expected to raise current productivity when targeted to members of the labour force and future productivity when targeted to children.

It is particularly important in Tajikistan and in Malawi, the two very low-income countries among the six cases studied here, that social protection policies be consistent with and foster the present and future motors of growth in the country. That the most important way to achieve social protection is with a good growth and employment strategy follows partly from the centrality of growth policy but also partly from the fact that most forms of service provision are difficult in such low-income, rural economies with limited administrative capacity. To do well in the medium and longer term, Tajikistan clearly needs both to turn small-scale agriculture into a bigger source of income than it now is and to find new economic directions to provide future motors of growth and employment creation. An analysis of employment and labour productivity is thus of central importance to understanding the opportunities and constraints faced by Tajikistan. In Malawi, agriculture not only is but will continue to be the key sector for some time.

AN OVERVIEW OF COUNTRY RESULTS

The six countries analysed in this volume represent a wide range of per capita income levels and associated characteristics and differ in other important ways as well.

Malawi is a low-income, highly agricultural country with a continuing very fast rate of population growth (2.8 percent over 1998–2008), life expectancy of about 57 years, adult literacy of 72 percent, a modest level of current educational attainment[3] and a GDP per capita of US$761. Land is very scarce, with a mean farm size of 1.2 hectares (or 0.33 ha. per person).

The public sector and its capabilities are very constrained by the low per capita income, albeit somewhat relieved by a high ratio of foreign assistance to public spending. Although other sectors must gradually take on increasing importance, success in poverty reduction is likely for some time to depend mainly on an increasingly productive agricultural sector, whose benefits are widely distributed due to the relatively equitable access to land. Although other social protection policies should be and are present, they do not compare in importance to raising agricultural productivity. In this case, therefore, a good pro-poor growth policy is also by far the best social protection policy. Malawi's still smallish urban sector comprises nearly all of the country's formal employment, and the majority of this is in the public sector. Issues of urban informality and poverty, while important, do not yet compare in seriousness with rural poverty, nor should they be given the weight in policy that must be directed to the latter.

The Malawi case study (Chapter 2) provides strong evidence of the poverty reduction impact of maize technology transfers, initially effected through the free distribution of small start-up packages and later through subsidies. The maize growth boom over 2005–2010 significantly reduced the need for food aid and safety-net measures to mitigate hunger. The welfare benefit was well distributed across all strata of poor people; the non-poor gained from increased crop sales and increased home production, while poor people increased subsistence production and also gained from higher wages for their casual labour, as the growth of production (in both the targeted crops and indirectly affected traditional crops) fully absorbed the rural labour supply throughout the main cropping season and created labour shortages leading to substantially higher piece work rates. Input transfers and subsidies along with other social protection measures also facilitated the empowerment of women, both directly and indirectly—through the opportunities afforded to expand production of crops in which their entitlement is secure. In fact, the output growth of these crops, which directly benefit the household (food) and themselves (income), exceeded that of maize and tobacco.

The smallholder response to input transfers and, especially, the Agricultural Input Support Programme (AISP) confirmed the relative productivity of small farms (compared to the estate sector/larger smallholders) and their greater social efficiency in utilizing available labour resources. The various programmes have also collectively advanced smallholder knowledge of the value of new technologies; in the case of maize, this has resulted in more widespread adoption of modern seeds and displacement of low-yielding traditional varieties. Over this brief timeframe, poor and ultra-poor people have managed to accumulate productive assets—most notably livestock (goats, pigs and cattle)—and also to set aside savings. The increase in small livestock is especially important because women are culturally entitled to possess goats, pigs and poultry, so the growth trend implies that their livestock asset position has correspondingly improved. All of this suggests the potential for a very positive long-term impact if momentum is not lost.

Among the practical lessons to emerge from this experience is that input transfers and subsidies were most effective when targeted broadly—i.e. to virtually all small farm households—partly because narrow targeting is difficult, partly because nearly all farmers are both relatively small and relatively poor, and partly because to the Malawian small farmers themselves, universal targeting is justifiable as neither farm size nor income vary greatly. The effects of 'leakage' through imperfect targeting are alleviated by non-formal mechanisms of wealth redistribution (or reciprocal gestures) in this strongly traditional society. The benefits to smallholders have been widely distributed, both directly (through sharing assets/inputs) and indirectly (through provision of employment opportunities).

Because of its high fiscal cost, the size and scope of the input subsidy programmes have been reduced to focus on maize alone. Subsidization on a large scale requires sustained donor financial support in order not to excessively shrink the rest of the agricultural budget. But available research indicates that only 20 percent of rural households currently have the ability to procure a seed and fertilizer package at the full market price, while about half could afford a 50 percent subsidized package. Reduction in fertilizer use could reverse the gains recently achieved.

With an initially very high level of poverty and with the optimal paths to growth and to poverty reduction essentially the same, it is clear that Malawi was on the right track in strongly supporting yield-enhancing developments for small farmers. For agriculture to maintain its role as a driver of economic growth and poverty reduction, an appropriate basket of growth-cum-social protection measures should include a universal inputs transfer to poor and ultra-poor people who have land and labour to increase household maize production, an inputs subsidy for the non-poor for investment in either maize or commodity crops, and both food and cash transfers to specific ultra-poor cohorts, especially the landless, households unable to work and those households without a supply of labour. The government endorsed this strategy in its 2009 Social Support Policy. But whether it can stay the course and convince donors to stay on board is a political question, subject to domestic political pressure (from poor people, who do not want to see their gains reversed, and non-poor who want to retain their position as beneficiaries) and donor equivocation over policy direction.

The potential role of other forms of social protection, including public works programmes and direct transfers in the reduction of poverty is unclear; although public works programmes are a logical complement to rising crop production because of complementary seasonality and the need for better infrastructure. Their impact has, however, been geographically limited, and their main beneficiaries have been families who have in any case gained (both directly and indirectly) from the input transfers and subsidies. Given the narrower objectives of some of these alternative social protection measures, their main impact has probably been to smooth consumption, although their role in empowering marginalized smallholders (the ultra-poor) and women must be noted.

In short, the experience of Malawi confirms the great potential of a small-farmer based pro-poor growth-cum-social protection policy; the surge of yield, output and income increases based on subsidized inputs could be the first, albeit interrupted, step in a virtuous circle spiralling upward if the policy can be reinvigorated and a local research and development apparatus built to provide the next steps in pushing yields upward to the point where farmers would be both able and willing to fund their inputs without subsidy. Without those next steps there is the serious possibility that the gains achieved will prove to be one-off in nature or worse still, that yields will fall back and not quickly regain the peaks they did reach, while population growth continuously shrinks the already meagre amount of available land per person. Unfortunately the latest chapter of the Malawi story is not a happy one, as successful policies have not been maintained. This wrong turn probably precludes for the time being the possibility of an acceleration into sustained growth, and may well cancel out all of the benefits of the recent growth spurt, except the knowledge that such an experience can happen under the right circumstances.

Peru, a middle-income developing country, has experienced good growth over the last two decades, following a lengthy period of erratic and generally unsatisfactory performance. Urbanization is well along; life expectancy relatively high and rising. The country suffers from the dualistic economic structure of most Latin American and many other countries. Income inequality and asset concentration have historically been high and ethnic income differences marked. A long history of dependence on mineral exports is one aspect of the dualism and presumably a contributing factor to the high levels of inequality and to the informality of urban employment. Recent analysis and debate around the trends in inequality feature an optimistic view that inequality has been falling, along with some scepticism on this point.

The prominent social protection issues in Peru are characteristic of middle-income, highly urbanized countries, where access to the more 'desired' jobs is difficult for many and where informality is high and poverty prevalent. The response in terms of social protection programmes and policies is also similar to those of other developing countries, especially in Latin America. In several respects, however, the country's economic and/or policy experience has been unusual or extreme. As a mainly mineral exporter, it has suffered severe economic swings related to those of the international markets for its products and to its own major policy swings related to its political instability and the widely differing ideologies of successive governments. At various points from the 1950s to 1990 policy was relatively interventionist in areas such as trade and the role of public enterprise. In the 1980s its labour legislation was more restrictive than the average for Latin America, which in turn was more so than for the developing world as a whole. The economic crisis suffered in the late 1980s was very severe, with GDP per capita shrinking by 28 percent over 1987–1990. Policy then shifted sharply in a market-friendly direction under president Fujimori.

The crisis and the dramatic increase in poverty which it produced focused attention on the need for much more active social protection policies as the 1980s crisis of heavily indebted countries that spawned the so-called 'lost decade'-had in many other countries of Latin America and the developing world. Peru's situation was one of the more extreme, both in terms of the economic shock involved and of the abruptness of the country's shift to a markedly lower level of interventionism, including a major reform of labour regulations in the early 1990s. Another special feature has been the extensive development of microfinance, in part a natural response to a very large informal sector but in part due to policy support.

While the precise impacts of the 1990s labour reform remain uncertain, it is clear that it did not lead to a large and quick reduction in the size of the informal sector through the predicted flexibilization of formal-sector labour contracting. Peru not only maintained one of the highest levels of informality in the region but also experienced a consistent growth in the share of informal employment both during the late 1980s crisis and during much of the subsequent growth recovery of the 1990s. The expectation of a quick and significant increase in formal-sector employment as a consequence of the reform seems in any case to have been unrealistic in light of the relatively small number of firms on the margins of formality and capable of being formalized by such legislative changes.[4] While the labour reform did not produce the substantial benefits hoped for by its proponents, it remains unclear whether it may have been responsible for more modest effects in one or the other direction. Informality rose until about 2000 but has since fallen somewhat and appears more or less in line with that of other Latin American countries, when per capita income is taken into account (ECLAC, 2004). It is thus not impossible that the reforms have given a small and delayed impulse to formality. The observed fall in labour income inequality over the past decade could also owe something to it. A best guess though is that the reforms had no major impact on either of these trends.

As for microfinance, the main positive conclusions of the general literature show up in Peru as well, including an average positive impact on microenterprise profits (controlling for selectivity into the lending programme), on enterprise revenue, enterprise fixed assets, business premise ownership, business licensing and household income, as well as a capacity to reach many of the poor people. Its relative prevalence and the favourable conditions for its success make it plausible to expect that the benefits of microfinance would be large enough to be detected at the aggregate level on poverty, economic security, inequality and growth.[5] Panel data for 2004–2008 (Rodriguez and Minora, 2010: 153) reveal a striking annual average growth in value added per worker of 4.1 percent. Some of this rapid labour productivity growth may reflect basic productivity enhancement. A next step, in understanding both the informal/microenterprise sector itself and the role of microcredit, will be to probe these possible links more deeply.

Several of Peru's social programmes *per se* stand out for the general lessons they suggest. *Juntos*, the transfer programme conditional on children attending school and the family taking advantage of health services, is generally considered successful on the grounds that it increases school attendance, monetary measures of income and consumption associated with a moderate poverty-reducing effect, and the utilization of health services by both children and mothers, and improves the nutritional intake of households. No impacts on final outcome indicators such as malnutrition or anaemia have been identified, which might simply reflect a time lag or, more serious, a need to complement it with a more adequate supply of quality health services.

The Glass of Milk programme has the widest coverage among Peru's food-subsidy programmes directed at women and children pre-identified as vulnerable to food insecurity. It is run through civil society-based organizations and operated by mothers. The local operation has been criticized for inefficiency and corruption, including the persistent opposition of beneficiaries and their leaders to graduate/exit and thereby pave the way for new participants; protests from this group have made the government keep changes in management and supervision to a minimum. The programme's continuous operation has relied on close ties between the mothers in charge and the government authorities, which helps to explain its straying from its original goal of serving only women and children suffering current food insecurity. An important positive side effect has been the high participation of poor women, empowering them in economic as well as political terms as leaders emerge from among them; it is cause for some concern, but perhaps inevitable, that most of the leaders are not from the poorest quintiles, which tend to avoid such responsibilities because of lack of time or interest. Although targeting has not been perfect, it has had good outreach among the poorest populations (quintiles 1 and 2) and those with low nutritional status, a feat attributable to the targeting of poor districts and the fact that poor people received larger in-kind transfers due to intra-district targeting. However, no clear impact on nutritional status has been detected; according to some analysts, this is because the transfers of milk and milk substitutes are infra-marginal for about half of the recipient households. Although this does not imply that the programme has a low or zero payoff, it does show that to achieve a major nutritional impact requires even more precise targeting than simply getting milk to families who fall under a specified monetary poverty line.

The Integrated Health System's (*Sistema Integral de Salud*—SIS) aim of providing fully or partially subsidized health insurance to poor and extremely poor people has been at least partially achieved over its decade of operation. The system relies on the existing public hospitals and the public health centre system to provide health services, in return for which these institutions are paid by the SIS system. Coverage has been continuously broadened to include more complicated health treatments and services. Information campaigns and the simplicity of enrolment have multiplied the number of beneficiaries quickly, but at a rate that neither the budget nor the supply of quality services has been able to match. By 2010, the programme reported over 12 million insured people, or more than a third of the country's population, with two thirds coming from the poorest 40 percent. The great majority of beneficiaries (95 percent) sought health services in health centres and posts.

Many complaints have come from the client population because of limited and slow medical attention, and many more from the public hospital administrators and professionals because of payment delays and underpayments from the SIS programme. The combination of the enormous increase in the number of users, no additional budget for investment in physical infrastructure and only minimum increases in that for medical professionals and medicine, along with serious underpayment of their contributions by beneficiaries, has in effect created a huge excess demand for the system's services and an enormous fiscal problem. The immediate consequences have included a *de facto* lack of coverage for an important proportion of the targeted population—in particular, the poorest families, many of whom are located in small towns and other places not yet included in the programme—and a decline in the quality of health services. These are a natural, probably unavoidable result of a sudden surge in demand, which under the best of conditions would be hard to cope with, but which is aggravated by underlying inefficiencies—inadequate monitoring of this demand-side subsidized programme, deficient information systems and the weak capabilities of managers. Given the inevitability of a gestation period during which such a system 'learns' how to operate effectively, it is important to learn from experiences such as this one. Clearly, overloading the scarce health professionals can be counterproductive in the medium term. There are likely to be trade-offs between targeting the poorest people first, keeping costs down and keeping professionals satisfied. Peru, with its rapid increase in public revenues from mineral-based growth, has a better chance to meet these challenges than many other countries.

Provias Nacional is a large programme of transport infrastructure projects that works with private-sector firms and aims to generate a considerable amount of local employment. The economic logic of building or enhancing rural roads that help to connect low-income farmers to the market has long been recognized, especially when the cost is modest and much of the labour can be provided locally. Beyond its road-related benefits, *Provias* also appears to have had important effects on local employment and possibly on small local economies. One evaluation pointed to significant improvements in school enrolment, visits to health centres, land use for farming, and male agricultural salaries. Rural entrepreneurship was strengthened, and after initial male resistance was overcome, women came to account for a quarter of the staff in the microenterprises. A valuable process of learning through experience has contributed to *Provias*'s success. Institutional improvements, increased local participation and better local governance were all encouraged by the project and proved beneficial. For example, the fact that a measured impact on poverty was delayed by several years after roads were rehabilitated provided part of the incentive for the creation of a Local Development Window managed by NGOs to identify and prioritize local productive initiatives. Involvement of women in the design of projects was critical to meeting their needs, such as construction of footpaths, preferred by women because they are the safest way to take animals to pasture and to collect firewood and water. According to the World Bank (2010: 5), this programme has become a benchmark for best practice in other rural transport operations in Latin America.

Provias is of interest also because of several methodological complexities surrounding the confirmation of its effects. One involves measuring the benefits to women from the non-motorized roads, given that many or most of these did not take a monetary form.[6] Another is that the time trajectory of benefits may be very important. Thus some studies of Peru's investments in rural roads have found no general tendency to resulting income gains in the short term, although favoured beneficiaries near motorized roads did clearly benefit. A final desirable form of analysis around such a project, where the initial micro-level evidence is encouraging, is a look at how big such an intervention could become. Such an assessment entails considering how much more rural infrastructure investment could be undertaken with comparably positive effects.

Tajikistan, a low-income former member of the Soviet bloc in transition towards a more market-based economy, has been disadvantaged by the severe civil war that followed the break-up of the Soviet Union and by unfortunate policy-making, in particular the failure to expeditiously distribute land into small units and to support the new small farmers. On the other hand, its citizens have had access to Russia as a destination of emigration, and the resulting remittances have formed a very large component of the incomes of many Tajikistani families. Since, however, remittances can be an unstable income source and are not available to all families, the short- to medium-term challenge involves developing a system that complements and eases the welfare problems of such a remittance-focused system, while also addressing the needs of the families for whom remittances are not a significant resource. As in Malawi, the other very low-income country in our sample, it is particularly important that social protection be consistent with and foster the present and future motors of broad-based growth in the country.

The evolution away from a Soviet-style system with its large enterprises and centralized control presents several other major challenges. First, the typically low labour intensity of larger units in market systems means that privatization shrinks employment; to make things worse, the former system does not provide a natural base from which more employment-creating small or medium firms can quickly emerge to fill the gap. Second, in the hands of new owners/managers inclined to take advantage of the power that a large enterprise can wield, the system becomes monopoly-ridden, further discouraging the creation of small firms that could otherwise be expected to enter these markets. Instead of state monopolies intended to be managed in the public interest, private ones emerge that serve the narrow interests of those who control them. The transfer of public to private wealth during the transition of former Soviet bloc members has underlain much of the sometimes huge increases in inequality that resulted. In terms of its economic structure and employment, income and economic security challenges, the transition has thus brought Tajikistan closer to the structure of a market-oriented economy whose comparative advantage is in natural resource products and whose institutions of economic and social policy-making are weak and controlled by a narrow elite. Thus far, the failures of Tajikistan's economy itself have been substantially alleviated by the large flow of remittances from emigrants working in Russia. It is unclear how long this will remain the case if the country continues to fail to generate adequate jobs domestically.

The most important component of a strategy to achieve healthy pro-poor growth and continuing poverty reduction is to advance the family-farm sector by further allocating land into small units, reforming the marketing systems for agricultural inputs and outputs and developing a support system that can provide the infrastucture and new varieties and breeds needed to raise productivity. Successful development of small-scale family agriculture is especially critical to improving food security and reducing poverty. Despite its limitations, land reform has played an important role in the limited agricultural recovery achieved so far. The performance of household plots has been markedly superior to that of the other tenurial forms. But the failure to move it along expeditiously has contributed to the vicious cycle hindering the country's efforts to pull its population out of poverty.

Cotton is a large component of agriculture. Independent Tajikistan inherited from the Soviet era the remains of a once thriving sector, organized into large units. Here, as elsewhere in agriculture, the challenges are to move as rapidly as is practically possible towards greater ownership and control of land by small farmers (and their communal associations), the development of a decent support system and the dismantling of the monopolistic control of land and related assets by an in-group which has been blocking these processes. There have been halting steps in this direction. With Tajikistan's agricultural sector under the Soviet system not geared towards food, independence led to a severe supply crisis, so in 1992 the government passed its first of several land reform packages aimed at alleviating that crisis. While pointing in the right direction, these reforms and the related process of land transfer have been far too slow, delayed among other things by the opposition of high-level bureaucrats from the former state-controlled system and by land allocation processes that favour the well-connected. The monopolistic nature of the cotton market and its adverse effects on investment and growth are widely acknowledged, but reform is politically difficult, and the cotton-growing areas, suffering by far the highest level of extreme poverty, remain the source of a majority of migrant labourers. Policy recommendations need to be structured around the principle of achieving an adequate level of local food security, by allowing crop diversification to modify the damaging aspects of cotton monoculture. As a relatively labour-absorbing crop, cotton has the potential to contribute importantly to pro-poor growth.

To achieve that pro-poor growth and adequate employment creation, Tajikistan must be successful on a number of labour-intensive fronts, including cotton, other agricultural products, labour-intensive services and, possibly, some branches of manufacturing. After agriculture, support for non-agricultural micro, small and medium-sized enterprises (MSMEs) is the other main sector-specific policy needed. Growth of smaller-scale MSMEs has been considerable, but this is probably due as much to the lack of alternative sources of employment as to any positive attraction. Despite some growth in the SME sector and the expectation that it will gradually become more formalized, the informal sector is likely to remain pivotal for employment generation for several decades; prohibitive measures against it would thus be counterproductive, possibly seriously so. Tajikistan faces many of the challenges to the success of this sector that emerge in market economies, including a financial system that is not very effective at supporting SMEs and a degree of negative reaction on the part of bureaucrats and others to the informal sector.

Non-agricultural rural activity is severely constrained by inadequate access to energy and electricity. Probably the most important policy step related to this sector is to avoid penalizing small firms, including microenterprise, through either unnecessary regulations and requirements or more punitive measures (IMF, 2010). Unfortunately some measures of this sort have been taken, such as the closing of small markets in cities where small producers come to sell their agricultural products. Attempts to discourage informal activity through high taxes and other impositions are likely to raise unemployment and push more people to emigrate. One necessary step is to provide a simplified regulatory system, including easier procedures for registering small businesses, tax cuts and possibly exemption from taxes during a period after business start-up. As well as making the bureacracy less of an impediment than it has sometimes been, success will also call for developing a positively supportive set of programmes and policies. Measures to promote small businesses can contribute both to legalizing part of the informal sector and improving its accountability in terms of minimum social guarantees. On this proactive side, one useful step is to support the involvement of small and medium-sized businesses in the process of government procurement, which can be facilitated by reducing the batch size of public contracts to ensure that they are not squeezed out.

Development of the country’s hydroelectric potential is a high priority both as an input to industry and as key to the provision of electricity and water to the population. Since they create few jobs, such capital-intensive activities must, however, be balanced by labour-intensive ones (such as family agriculture and MSMEs); otherwise any growth that results will be neither employment-creating nor pro-poor. The health and educational systems and the infrastructure behind them are also significant challenges, given the deterioration they have suffered.

Finally, a new social protection system that complements pro-poor economic policy will need attention for the foreseeable future. Dissolution of the Soviet Union and the severe economic crash that accompanied the civil war affected both Tajikistan's labour market and its social protection system in very negative ways. The previous arrangement, with the state responsible for employment, job security, pensions etc., provided a good defence against extreme poverty and economic insecurity. The defence mechanisms against poverty and economic insecurity that grow up in a market system (see Chapter 1) are not initially present during a transition from central planning to markets, and their evolution tends to be slow, since their effective functioning calls for expertise and institutions specific to the different needs of the new system.

The drastic deterioration of the previous social protection system has seen the consolidated budget for social assistance (excluding social pensions) fall to a miniscule 0.2 percent of official GDP in 2009 (World Bank, 2010: 1). Because this assistance is not well targeted, it exerts almost no downward influence on poverty rates or on income inequality. The other main form of social assistance, managed by the state agency for social insurance and pensions, takes the form of pensions for poor elderly people who have not contributed to a pension fund (ibid.: 8). This amounts to 0.3 percent of official GDP. In broad terms what is needed is a major increase in spending plus a good targeting system to replace the rather accidental processes currently in place. The new system will need to be carefully designed to avoid onerous regulations that would impede the successful evolution, including eventual formalization, of smaller private firms. Among the priorities are food security (beyond that implicit in a strong family farm system), improvements in primary health care, and programmes to assist the poorest and most vulnerable people.

Mexico has the highest per capita GDP of the six countries studied, but the second slowest growth over the last 30 years (exceeding only Tajikistan, which suffered a civil war) at just 2.2 percent per year. It also has the most open economy, measured by export/GDP and import/GDP ratios, related in part to its proximity and special trading access to the US economy. The growth in the labour force reflects both the very fast vegetative population growth of the mid-20th century, gradually slowing to about 1.5 percent now, and the massive net emigration to the USA over recent decades. The emigration, mainly of manual workers, has lessened the supply-side pressure on that component of the Mexican labour market, while having also a variety of other effects.

As befits the country with the highest income in the sample, Mexico has the widest assortment of social protection policies. Together with countries that broadly share its level of development and labour market features, especially its high level of informality, it provides a laboratory within which several important challenges are being played out. These include (i) the impact on formal-sector employment growth of labour market reforms aimed at making that market more flexible; (ii) the impact on formality and on total employment of broadening coverage of social programmes that provide some of the same elements of social protection as do formal-sector social security arrangements; (iii) the direct social benefits of widening the coverage of the social protection programmes mentioned; and (iv) the success of programmes designed to raise the productivity of the many enterprises that have remained and will remain in the informal sector.

The Mexican experience is especially relevant to the last three of these challenges. A major debate has developed around the possible inefficiency of the combination of traditional formal-firm-based social security provision and the population-wide coverage of some recent types of support, and around the extent to which these latter impinge negatively on labour market performance. Levy (2008) has argued that the widening coverage of social protection programmes encourages informality; studies such as Knaul et al. (2012) contest that view. It does appear that the level of urban informality in Mexico is somewhat above that of other countries of similar per capita income.[7] Data presented in Chapter 5 on worker movement among firms indicate that the flows between units of smaller and larger size are limited, which may suggest a modest impact of social protection arrangements on the distribution of labour between formal and informal activities. In any case, this important issue clearly requires more research to sort out the effects of existing programmes, and more effort directed to improving design as well as experimentation to find better versions of the existing social programmes.

The Mexican case study provides a clear picture of the relationships between firm size, sector, type of work (permanent vs. transitory), on the one hand, and worker benefits and the reach of many government programmes on the other. It shows that not all services commonly thought of as being provided by formal-sector firms are in fact provided by all of them. More generally, it is evident that only a minority of Mexican workers could be described as having adequate working conditions, including a modicum of security, and that a large share of new jobs over recent years have been created in microenterprise. Recent trends lead Martinez (2012) to speculate that the informal sector is likely to remain large in Mexico for at least the next 50 years. Thus the matter of how social protection should be widened is of great importance, since it is clear that gradual growth of the formal sector with its associated social protection services will be too slow.

If the informal (along with small and medium-sized) enterprises are likely to remain important employers into the medium and long term, how well are Mexican support policies supporting their productivity and growth? The case study clarifies at least one aspect of the picture: which services are reaching whom. The Small and Medium-Sized Enterprises Fund (*Fondo PyME*) is directed at five business segments: entrepreneurs, microenterprises, SMEs, 'gazelle' companies (those with potential for sustained high growth) and driver or magnet companies (whose presence can attract other firms to start up nearby). These segments receive support for finance, trading, training and consulting services (Fund Evaluation, 2007–2008). ENAMIN 2008 data show that just 4.7 percent of units aware of the service used it. The National Programme for Microenterprise Financing (PRONAFIN) places special emphasis on those with higher poverty levels and promotes productive initiatives of individuals and social groups in poverty conditions in every region of the country by encouraging and promoting a microfinancing system. Evaluations show that this programme helps to increase income in those units that received credit, although job creation was small or negligible, and coverage (at about 0.3 percent of small enterprises) was very small (PRONAFIN, 2012). Such findings suggest that the existing support system is not of sufficient scope to provide a strong impulse to productivity and income growth in the small enterprise sector of Mexico's economy.

Mexico's social protection policies range from some that appear to be successful in achieving their goals to others that do not or about which judgement must be reserved at this time. Like nearly all countries of Latin America, Mexico has historically suffered a high level of income inequality, a level that rose significantly over the economic adjustment period but has, by some estimates, begun to fall during the last decade (Gasparini et al., 2009). The long-term pattern of (income) poverty incidence saw a marked fall during the fast growth period up to 1980, followed by fluctuations since then. According to Lustig et al. (2011), income redistribution through the budget (i.e. through the structure of taxation and of public spending) lowered Mexico's Gini coefficient significantly in 2009, from 0.502 to 0.433—considerably less than in Argentina (13 points) but much more than in Peru (2.5 points); they conclude that Mexico and Peru get the most redistribution per dollar spent that way. Though rough, this estimate leaves open the possibility that some programmes are significantly redistributive.

India's National Rural Employment Guarantee Programme (NREGA), launched in 2006, is the world's largest social policy programme. Its enormous scope and strong economic logic make it an important test case. Its implementation has coincided with a period of very rapid growth from the 1980s, a sharp increase in inequality beginning at some point in the 1990s, a very small and slowly growing formal sector (Mazumdar and Sharkar, 2008), slower growth in agricultural wages since the early 1990s than before, and major implementation challenges presented by inefficiency and corruption. Given the continuing high incidence and depth of poverty in rural India, the success of this programme will matter to millions of people.

Measuring the impacts of a programme such as the NREGA involves at least four major methodological challenges. One is to measure the coverage and direct benefits to the target families in a context known for high levels of corruption and misdirection of funds. A second is to evaluate the indirect impacts and hence the overall (general equilibrium) effects after allowing for any substitution phenomena—for example, less labour supplied to other possible uses due to the presence of the programme or positive multiplier effects, say from local spending of the income earned. The third is to put a reasonably accurate value on the structures built, reinforced or maintained by the workers in the programme. The economic value of these outputs, including elements of rural infrastructure, is of particular interest given the general recognition that lack of such infrastructure has been a serious barrier to growth of rural incomes in India over recent decades. Finally, it is important to be able to detect changes over time in how the programme works, either improvements as personal and institutional learning takes place or deterioration and corruption as people learn how to better exploit the programme for their own ends rather than those of the programme or inefficiency grows with time. The recently broached possibility of greatly reducing corruption within the programme by transferring funds directly from the sources to the recipient families by making sure that all have a bank account (*The Economist*, 2012) will be a major test of an approach which may also be applicable to various other social protection programmes.[8]

Earlier analyses of the NREGA report that, despite the many impediments to full success, positive direct effects on poor people in many regions of the country are clearly visible. Accepting this starting point, the present study uses a general equilibrium model to estimate NREGA's indirect effects. The conclusions are generally quite positive. Most importantly, the programme generates a 'virtuous' redistributive effect, since the benefits accruing to the beneficiaries are not limited to the wages directly paid by the jobs created.[9] Positive spillover effects lead to additional jobs likely to be taken by poor people in both rural and urban areas, thus reinforcing the benefits to poor people in rural areas and extending them to those in urban areas. Although the estimated increase in labour income from these additional jobs is small, this is due in good part to the programme's still comparatively modest size. Second, the cost of the programme is manageable. Government expenditures are funded by an increase in income taxes paid by wealthy people in urban areas, which end up imposing at most small reductions in consumption and welfare on them. As a result, the programme's immediate poverty reduction effect is achieved at no net cost to the economy more broadly or to GDP in particular; rather the increase in resource utilization, directly and through local multiplier effects, means that it can contribute positively to GDP. The study does identify one potential source of concern to poor people: as the economy expands and their lot improves, the price of the commodities they consume is likely to increase. Although it is small enough not to be a matter of much concern in the aggregate, since the programme's benefits much more than compensate for it, for poor rural residents who do not benefit from the programme's jobs, even this small rise in the cost of living could be important, suggesting the need to complement the programme with others aiming to provide complementary support to poor non-beneficiary households.

The programme's positive growth and distributive effects are not threatened if it fails to reach all poor people in rural areas; rather, they are likely to be roughly proportional to its budget, at least within the range of changes analysed in the case study. This suggests that, although it represents a significant administrative challenge, the programme's rapid expansion does not create a risk of negative growth or distributive effects. Needless to say, the benefits would be greater if operational efficiency were increased.

If an increase in land productivity or in efficiency of local commerce is assumed to result from the programme, the short-term employment creation and output benefits are accompanied by longer-term growth benefits and any indirect redistribution that results. Since the direct benefits of higher land productivity do not generally accrue to poor people, given the concentration of land ownership, the direct distributional benefits from this higher productivity may be negative, although poverty effects may be positive and the distributional effects through holding down food prices will be positive. Such negative effects as may arise do not constitute an argument against the programme, but they do suggest the need to reinforce its provisions aiming to improve productivity on the lands of poor people. Some of the programme's employment creation and land productivity effects complement each other well, as in the case of offsetting effects on the price of food, rendering it a potentially powerful tool to decrease poverty in the immediate and long term.

Given its potentially enormous size, a programme such as the NREGA calls for the sort of general equilibrium evaluation undertaken here, and the exercise confirms the usefulness of the methodology—allowing quantitative estimation of indirect effects whose presence may be deduced by other means but whose economic importance cannot be assessed in any other way.

Large social protection programmes in other countries would benefit from this sort of evaluation. Only when indirect effects are taken into account can a country accurately assess the effectiveness of its social protection strategy.

Designing and implementing a successful strategy for employment, wages, job stability and working conditions (the labour outcome variables) is a huge challenge in many developing countries. A dramatic example of how difficult it can be to satisfy the needs of a rapidly growing and youthful labour force is provided by the experience of **Kenya**. Chapter 7 describes in detail the structure of two key labour variables—open unemployment and wages—in the rural and urban areas of the country.

There is no doubt that open unemployment is a major problem in Kenya, particularly among young people. As of 2005/06 it averaged 10.5 percent in this still mainly rural country, and youth unemployment exceeded 30 percent for those around 20 years of age. It is significantly higher among young females than their male counterparts—by more than 10 percentage points for those aged 15 to 25 years; at its peak for women a little under 35, unemployment approaches 50 percent. Females evidently have fewer job opportunities. At the other end of the spectrum of job outcomes, formal-sector employment is limited, at about 14 percent of the total in 2005/06. Though few, these jobs are the preferred object of search for many young people and others. Meanwhile, wage earnings vary widely by level of education. Tertiary education has increasingly become the norm for workers in the formal sector.

The Kenyan labour market shares many features with the majority of developing countries, where youth unemployment is substantially higher than adult unemployment, urban unemployment higher than rural, and female unemployment higher than male; earnings differentials by level of education are relatively large, especially between those with tertiary education and others; and average earnings are substantially higher in the formal than in the informal sector and in urban areas than rural ones. It has long been hypothesized (Harris and Todaro, 1970) that large earnings differentials in favour of formal employment explain a substantial part of urban unemployment, as young people find it more sensible to search for such jobs than to look for informal activities or to remain in rural areas. It has also been argued as far back as the early 1970s and in the context of Kenya (ILO, 1972) that informal activities can make a major contribution to any economy and may be the only option for the majority of young people for at least some decades into the future. It has further been argued that the expansion of education in the absence of a growing formal sector will lead to a major mismatch between the jobs young people desire and those available to them, with a high cost in frustration and possibly also in economic efficiency. This view may even suggest that the expansion of educational attainment should be slowed if the growth of remunerative jobs cannot be expanded faster. Certainly it implies a need for better linking between education/training and the sort of jobs that are available.

Although it shares many features with other countries, Kenya is an extreme case, partly because of the exceedingly fast population growth over recent decades creating an unusually large youth cohort relative to overall population, with corresponding pressure on the economy to create many jobs quickly, despite the modest rate of economic growth. Job prospects remain reasonably good for those with tertiary education, with their significantly higher earnings presumably reflecting that employers value their skills. But the swelling ranks of young people with secondary-level education are faring much less well, and their immediate future will probably be the test of how well the country is able to deal with the employment challenge.

Kenya has experimented with a broad set of employment policies, going back to the 1970–74 Development Plan (Republic of Kenya, 1969), which featured employment and unemployment as important policy issues, through to the Sector Plan for Labour, Youth and Human Resource Development Sector (2008–2012), which looks into unemployment as a structural issue, explicitly focusing on young people. The last 10 years have seen the implementation of a number of youth employment policies with an emphasis on public works, entrepreneurial development and skills enhancement, including KaziKwaVijana (KKV), which aims to create 200,000 to 300,000 jobs by implementing manual-based small projects. One component of the KKV aims at increasing the employability of young people by providing skills through internships and training in the private sector.

Several major practical issues arise in the context of Kenya's employment policies. One relates to the payoff to youth employment projects, typified by KKV. Such programmes are no doubt part of a good policy package, especially to the extent that they are effectively managed and also generate useful products such as public works and develop useful skills for later employment. While valuable, they cannot be expected by themselves to make a big dent in the employment challenge, partly because it is very hard for them to cover a large proportion of the young people looking for work and partly because they are by nature temporary. After a young person leaves such a programme, he/she still needs to find paid employment; otherwise, the programme has simply delayed the day of reckoning. To increase post-programme success, such efforts need to create useful skills, as these ones do.

What are the useful skills in the near future of Kenya's economic development? It is clear that a large share of net new jobs will be in the informal sector (including small-scale farming and non-agricultural activities). This suggests that the employment challenge will not be adequately met unless this sector raises its productivity while its employment is (necessarily) expanding. The largest single component of this sector is agricultural self-employment on small farms, so the success of productivity-raising efforts in this sector may be the main single determinant of overall employment success. Non-agricultural informal activities will also play a key role.

How should education evolve in Kenya? In the worst of cases, the number of graduates with a strong preference for formal jobs and with an education/training background suiting them only for such jobs will rise quickly, while the number of such jobs expands only slowly. The mismatch between the supply of and demand for such people will then continue to grow, with corresponding frustration on the part of the young people concerned. Alternatively, the educational system may orient itself more directly to developing the skills that will be needed, many of them in the informal sector, as well as attempting to create a more realistic set of job expectations for graduating students. This approach will entail a greater degree of contact between the educational system and the economic world than now exists in most countries.

Arguably the main implication of Kenya's situation is the urgent need for a coherent and sophisticated policy on labour demand (job creation, including self-employment), involving both the formal and the informal sectors and with necessary emphasis on how to raise demand in the sectors that currently employ the bulk of the labour force. Although the allocative function of the labour market might be improved, leading to some increase in jobs, and the supply side (skills development etc.) can no doubt be improved, it is likely that the evolution of labour demand will mainly determine the labour market outcomes (employment, wages, work conditions etc.) over the foreseeable future in Kenya.

Of the six countries analysed here, Kenya is arguably the most challenging both to analysts and to policy makers. The answers are not clear-cut, and more in-depth analysis and more effective use of such analysis in policy are needed.

CONCLUSION

A number of the conclusions of this study are specific to the country analysed; their generality can only be the subject of hypothesis until comparable questions are asked in a wider range of countries. Such tentative conclusions/hypotheses are, however, an important building block in this area of analysis. A number of lessons have emerged from the case studies; they are divided here according to whether they relate to a policy area itself, to institutions or to methodologies that help us to better understand the issues.

Among the policy conclusions that emerge strongly from the case studies are:

i) Small-scale agriculture has a key role to play, best exemplified by Malawi, Tajikistan and Kenya, and to some extent India, as a motor of growth, a generator of employment and incomes for many poor people and the major source of food security for many families. In Tajikistan the thus far very partial and hence relatively ineffective transition from large farms to smaller ones is one reason for the continuing poverty and the employment crisis in that country. Malawi's story includes the impressive effects of the fertilizer subsidy. In various cases there is the issue of how successful research and development has been/could be in fostering dynamism in this sector. In some, most obviously Tajikistan, property rights are a problem.

ii) Food insecurity is a major problem for many poor people which needs to be taken into account in the planning and implementation of social protection programmes, especially in low-income countries that depend heavily on the agricultural sector, such as Malawi and Tajikistan. Good policy in that area begins with a strong small-farm system and should then be complemented by a range of instruments from India's rural employment programme to Peru's Glass of Milk.

iii) There has been a dramatic failure of labour demand to match the supply in some countries, with resulting high levels of unemployment and underemployment, especially among young people as in Kenya but possibly appearing in Malawi in the near future, given its rapid population growth. In middle-level developing countries such as Peru and Mexico this inadequacy is reflected more in high levels of urban informality than in open unemployment. The need for and absence of holistic employment strategies is apparent in all six countries. It is due in part to the necessary complexity of such strategies, in part to the mismatch between current institutional structure and somewhat more suited to the pursuit of this goal, and in part to a lack of due recognition of how important a strong demand for labour is to achieve pro-poor growth.

iv) The possibly complex interactions between labour policy, the structure of social protection systems and informality are not currently well understood but need to be. Mexico has been a main centre for the debate as to whether certain forms of universal social protection contribute to informality by lowering incentives to formality, with attendant costs to the economy and the society. The evidence on this remains ambiguous.

v) There is an immense challenge to get things right in the area of education and training. While no one doubts that investment in knowledge and skills contributes to economic growth and that interventions such as traditional cash transfers can not only raise the level of human capital but also contribute to greater equality of both opportunities and outcomes, some recent economic analysis has also suggested that the average economic payoff to raising educational levels may be considerably less than has traditionally been believed (Rosenzweig, 1999; Pritchett, 2001), that the total cost of investment in education is now high in many countries, and that in some cases (Kenya stands out) there is an actual or looming mismatch between the expectations of young people graduating from school and the capacity of the economy to create the desired jobs. Tajikistan presents a different case; there is a concern there that since families and their children do not see a clear payoff to more education, they drop out of school. This results from the combination of the relatively low educational levels required of emigrants to Russia to get jobs there and the lack of clarity as to what sorts of jobs will be available within the country over the coming decades. Both education/training policy in general and the CCTs that contribute to it need continual rethinking to address these challenges. The Peru case study reports promising results, although there remains the underlying question of how large will be the payoff to the increases in education that result from the programmes. Mexico has been a pioneer in such programmes, and India is experimenting in the area.

vi) The requirements of health policy stand in striking contrast in many ways to those of education. Here there is no question that needs are high and greatly exceed the capacity of most health systems to supply them. Peru's experience with its SIS exemplifies the challenges, which boil down to channelling a relatively large flow of resources towards a large social need as effectively as possible. What is needed in this area is more analysis of how to make systems such as this one more effective, partly though better internal organization and partly through better understanding of which services and interventions bring the biggest social payoff. Some interventions have a notoriously high cost for a low payoff; others, presumably, are at the other end of the spectrum.

vii) Emigration is an important safety valve for low-income families, as in Tajikistan now, Malawi earlier and Mexico albeit at a different level of earnings and development from the other two. Optimal social protection may be substantially different in such cases from what it is elsewhere—involving, for example, the special educational challenges of the children of emigrants and the special needs of low-income families without migrants.

In the institutional area, points of interest include:

i) the importance and effectiveness of community participation, as in Peru's *Provias* road programme, including especially the participation of women, whose needs and priorities are otherwise less likely to be taken duly into account in project design and implementation;
ii) the relationship between targeting goals and programme efficiency, as exemplified from Malawi by the advantages of not attempting precise targeting of start-up packages to the poorest families and the difficulty of forcing graduation from the Peruvian Glass of Milk programme and its continuity and possibly its efficiency at the delivery stage; and
iii) the possibly enormous cost of lack of policy continuity where an approach has generated high positive momentum, as with the maize subsidy program in Malawi

On the methodological front, useful lessons include the following:

i) Especially in the case of large programmes such as India's NREGA it is important to both undertake a general equilibrium analysis with the capacity to identify and quantify likely indirect effects and eventually test programme success against the evolution of aggregate variables. The latter can only be done where a policy has major scope, as with the NREGA in India and fertilizer policy in Malawi, where the case studies have undertaken such analysis; it might also be possible for microfinance in Peru.

ii) Longer- as well as shorter-term effects need to be measured to make distinctions between good shorter- and longer-term social protection policy packages. The challenge here is to be able to analyse and evaluate well after a programme's initiation. It is especially important in programmes which are by nature long-lasting, such as Peru's SIS, and whose evolution is very hard to predict at the start.

NOTES

1 **Economies of scale** exist when an increase by a given percentage of all inputs into a production process leads to an output increase of a greater percentage. **Diseconomies of scale** exist when the output increase is smaller percentagewise than the input increase.

2 See, for example, Rosenzweig (1999).

3 Primary school enrolment is high, that of secondary school about 30 percent of the age cohort and that of tertiary education about 1 percent.

4 This view is broadly consistent with the conclusions of the most in-depth study thus far of informality in Latin America, that of Perry et al. (2007).

5 Such analysis is effectively precluded in countries where microfinance is not large enough to make it reasonable to expect its overall or aggregate effects to be identifiable in the context of the various other determinants of these variables.

6 This is often the case. As highlighted by Shaffer (1999), ways to save time and effort expended in domestic tasks may be the most important benefits from such projects.

7 As of 2002 the share of urban employment that was informal in the ILO sense (self-employed and workers in establishments of up to five workers, except professionals and technical workers plus domestic servants) was 41.5 percent of total employment, compared to 30–33 percent in Chile and Costa Rica, over 50 percent in Venezuela and Ecuador and 63 percent in Bolivia.

8 Use of cash transfers is presently being discussed as an at least partial substitute for the current system of food and subsidized fuel, which costs nearly 1 percent of GDP but is poorly managed and extremely inefficient (*New York Times*, 2013: 8). A small-scale project to deposit government pensions and scholarship funds directly into bank accounts with a view to eliminating middlemen has also been launched.

9 This outcome parallels that reported for Malawi in Chapter 2. The maize boom during the middle of the last decade brought significant indirect benefits to poor families along with the direct ones.

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