

Authors

Kelsey Jack

University of California, Santa Barbara

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**Private Information and the Allocation
of Land Use Subsidies in Malawi**

By B. KELSEY JACK

Efficient targeting of public programs is difficult when the cost or benefit to potential recipients is private information. This study illustrates the potential of self-selection to improve allocational outcomes in the context of a program that subsidizes tree planting in Malawi. Landholders who received a tree planting contract as a result of bidding in an auction kept significantly more trees alive over a three year period than did landholders who received the contract through a lottery. The gains from targeting on private information through the auction represent a 30 percent cost savings per surviving tree for the implementing organization. (JEL D04, D44, D82, O13, Q24, Q28)

Health, environment, and poverty alleviation programs are often designed to target transfers toward recipients who maximize the net benefits of the program. If costs or benefits are private information, or if there are incentives for strategic behavior, then targeting can be improved through the use of mechanisms that induce self-selection into the program (Nichols and Zeckhauser 1982; Coady, Grosh, and Hoddinott 2004). Self-selection has most frequently been implemented through market segmentation for subsidized food or health products or through below-market wages in public employment settings (Besley and Coate 1992; Alderman and Lindert 1998); however, questions around the design of targeting tools for environmental land use programs have gained policy prominence with increasing attention to climate change mitigation and biodiversity conservation (Babcock et al. 1997; Ferraro 2008; Mason and Plantinga 2011).

For self-selection to improve efficiency, recipients must possess private information about their costs or benefits under the program, and must respond to an

*Department of Economics, Tufts University, 304 Beaker Hall, Medford, MA 02155 and National Bureau of Economic Research (e-mail: kelseyjack@tufts.edu). Helpful comments were received from Stuart Altonji, Jeremy Akar, Nava Ashraf, Christopher Avery, Abhijeet Basu, Rajeev Dheeraj, Esther Duflo, Rama Hanna, Dushy Jack, Servino Lopez-Bandres, Pauline Oliva, Steve Poldoski, Robert Stanton, Jeff Zabel, Tristen Zenger, Richard Zolotarev, and audience members at Harvard University, Massachusetts Institute of Technology, Tufts University, University of California at Santa Barbara, University of Maryland, University of Minnesota, University of Colorado, the 2011 SITE workshop, NBER DC 2010, and the 2010-2011 meetings. Field work was facilitated by Brent Swafflow, Gile Ajayi, Francis Mwaambwa, Stanley Mwaheki, and Christopher Katusimwe. Financial support was provided by the Sustainability Science Program, the Weatherhead Center for International Affairs, the Group Fellowship, USAID, Linkage, ICRAF, and EcoBank Malawi.

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