

# Cash transfers, social protection and poverty reduction

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Int J Soc Welfare 2011; 20: 250–259 © 2011 United Nations Research Institute for Social Development (UNRISD), International Journal of Social Welfare © 2011 Blackwell Publishing Ltd and the International Journal of Social Welfare.

Cash transfers form an important and growing part of social protection programming in many developing countries. This article evaluates the use of different types of cash transfers in different regional contexts as a tool for reducing poverty and inequality in developing countries. Particular attention is paid to knowledge about the appropriateness and cost-effectiveness of targeted versus universal cash transfers and about conditional versus unconditional transfers. The article finds that a fine balance is required. On the one hand, overambitious procedures for targeting or conditionality should be avoided where administrative capacity is low. On the other hand, to rule out any possibility of conditionality or targeting on the grounds of weak administrative capacity leaves only the option of universal transfers.

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Key words: social protection, cash transfers, poverty, poverty reduction, developing countries

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Accepted for publication March 9, 2011

## Introduction

Persistent poverty and limited progress towards the Millennium Development Goals is focusing attention on whether poverty is structural or residual. In countries where a substantial proportion of people live in poverty, it may make little sense to treat the poor as a residual category (Mkwandawire, 2005). A focus on poverty as relational rather than residual (Hickey & du Toit, 2007) requires policy responses to poverty that tackle inequality and aim to break structural poverty traps. The implication is that policies and programmes that simultaneously address poverty and inequality while enabling poor people to participate in a (just/fair) way in markets, especially labour markets, are critical. Social protection policies and programmes are one potential way to do so, and interest in the role that they can play in poverty reduction and development has grown rapidly in recent decades.

Cash transfers form an important and growing part of social protection programming in many parts of the developing world. Cash transfers evolve differently in different parts of the world and there are significant variations in the designs and objectives of programmes across countries and regions. Different forms of cash transfers have become much more common in the past decade and are now being promoted by some developing countries and developed country aid agencies as a

key social protection instrument for tackling poverty, while at the same time building human and physical capital and strengthening vertical and horizontal equality. The often limited resources available for social protection programming in developing countries make coverage and entitlements a critical policy issue. Entitlements to cash transfers can be unconditional, conditional on school or clinic attendance or gained by taking part in public works. Cash transfers can be universal (all people are entitled to them, though this does not always translate into all people receiving them) or targeted on the basis of poverty or vulnerability or specific social categories, for example age or gender.

The aim of this article is to evaluate the use of cash transfers as a tool for reducing poverty and inequality in developing countries with different levels of poverty and different capacities to deliver programmes. It draws on data and studies on existing cash transfer programmes in developing countries to synthesise evidence on the effects of cash transfer programmes on poverty and inequality. The specific focus is the appropriateness and cost-effectiveness of targeted versus universal cash transfers and conditional versus unconditional transfers. The article addresses four key questions:

- What are the implications of different welfare regimes in developing countries (and the ideological positions that underpin them) for approaches to cash transfer programming?

- What are the implementation implications of different approaches to cash transfer programming?
- Under what circumstances is conditionality necessary or appropriate to achieve programme goals and wider development goals?
- How is cash transfer programming driven by political economy issues?

Following a review of different cash transfer programmes with regard to objectives, targeting and conditions, the remainder of the article focuses on each of the aforementioned questions in turn and assesses the implications of different approaches to targeting and conditions in programming.

### Features of cash transfer programmes

For the purposes of this article, social protection encompasses a subset of public actions carried out privately or by the state that address risk, vulnerability and chronic poverty. Operationally, social protection can be subdivided into three key components (see Department for International Development [DFID], 2005; Farrington & Slater, 2006; Harvey, 2005):

- *Social insurance* involves individuals pooling resources by paying contributions to the state or a private provider so that if they suffer a shock or a permanent change in their circumstances, they are able to receive financial support (e.g. unemployment insurance, contributory pensions or health insurance).
- *Social assistance* involves non-contributory transfers to persons deemed eligible by society on the basis of their vulnerability or poverty. Examples include social transfers (non-contributory pensions, child welfare grants, food vouchers) and other initiatives such as school feeding or fee waivers for education or health.
- *Standards/regulation* refers to the setting and enforcing of minimum standards to protect citizens.

The focus of standards could, in theory, extend across the whole economy but in practice, tends to be focused on workplaces and, as such, is difficult to achieve within the informal economy.

### Types of cash transfer programmes

There is a range of different cash transfer programmes in developing countries with various objectives and intended outcomes (see Table 1). The primary objective of cash transfers is, in almost all cases, to enable household consumption of basic needs – particularly, food. Examples include social assistance payments, such as social pensions for the elderly, disabled and widows as well as allowances to human immunodeficiency virus (HIV)/acquired immune deficiency syndrome (AIDS) orphans (Case & Deaton, 1998; Farrington, Slater & Holmes, 2004) and other livelihood support payments to households below the poverty line. Some programmes link these consumption objectives with other longer term objectives. Conditional cash transfers (CCTs) do this by attempting to simultaneously maintain consumption and build human capital – transfers are linked to (the demand side of) service delivery and are paid on condition that the children enrol in and attend school and that young children are seen at clinics (for more about CCTs, see the following section). Cash for work payments are made to poor households that carry out public works [or private/non-governmental organisation (NGO) works subsidised by the government] under supervision. When well planned, the outputs of public works (e.g. school buildings, conserved soil) can create community assets to support household livelihoods. Cash transfers can be part of long-term social protection programming or can be transitional, for example as part of emergency relief or to facilitate post-emergency transitions (see the special theme issue of the journal *Disasters* 30(3), 2006).

Table 1. Types of social transfer programmes.

Types	Examples	Intended outcomes
Targeted but unconditional transfers – focus on consumption	<ul style="list-style-type: none"> <li>• Social old-age pensions (e.g. India and South Africa)</li> <li>• Social cash transfers (e.g. Zambia and Malawi)</li> </ul>	To increase and smooth consumption of basic needs (especially food) and for publicly or privately provided goods and services
Targeted and conditional transfers – focus on consumption and building human capital	<ul style="list-style-type: none"> <li>• Child health and education (e.g. <i>Oportunidades</i> in Mexico and <i>Bolsa Escola</i> in Brazil)</li> </ul>	To increase and smooth consumption of basic needs (especially food) and for publicly or privately provided goods and services – especially health and education services; to invest in human capital
Transfers linked to productive activity – self-targeted	<ul style="list-style-type: none"> <li>• Cash for work (e.g. Rural Employment Guarantee in India)</li> </ul>	To increase and smooth consumption; to create or rehabilitate community physical or natural capital
Matching grants to individuals	<ul style="list-style-type: none"> <li>• Government transfer of matching grants (e.g. Mexico's 3 × 1 Programme for Migrants)</li> </ul>	To insure household consumption by supporting migration and remittance systems

## CCTs

CCTs are programmes that ‘link safety nets directly to human capital development, by making receipt of the transfer conditional on school attendance and health-care checkups’ (Handa & Davis, 2006: 513). CCTs dominate social protection programming in Latin America. Conditionality is one of the most controversial aspects of social protection programming and there are strong views on either side.

In most countries in Latin America, CCTs are designed to address a critical *development bottleneck* (see Handa & Davis, 2006), but questions about their effectiveness are outlined in Box 1. Conditions can be used to ensure that cash transfers are allocated by recipients to intended purposes (Farrington & Slater, 2006). This is viewed by some as positive in that it provides incentives for people to behave in particular ways and reduces the likelihood that cash transfers will be spent on ‘antisocial’ expenditures such as alcohol or cigarettes. Others view conditions as little more than social engineering. Freeland (2007) described CCTs as pernicious, abominable, atrocious and superfluous, while Schubert and Slater (2006) raised four key concerns:

- On the supply side, there are questions about whether service delivery agencies – largely meaning government-administered education and health ser-

vices – will be able to meet any additional demand likely to arise when beneficiary households try to meet the conditions.

- Implementation capacities for managing social cash transfer schemes are weak in low-income countries.
- Administering conditionality implies additional administrative costs, but there is no cost–benefit analysis that justifies these additional costs.
- There may be socio-cultural, ethnic and political differences between Latin American and other countries that make CCTs inappropriate outside Latin America.

Molyneux (2007) and Jones, Vargas and Villar (2008) also questioned the wider social policy objectives of CCTs. While CCTs in Latin America often aim to change the paternalistic relationship between the citizenry and state-funded social programmes and to present access to basic services for children as a joint responsibility of both parents and the state, Jones et al.’s (2008: 271) analysis of Peru’s CCT *Juntos* found that this did not happen:

While some respondents were using the language of rights, this was far from widespread. Many of the women, in particular, knew about the demands of the programme they had to meet, but couched this in terms of tasks to be completed due to instructions

#### Box 1. Can conditional cash transfers (CCTs) address development bottlenecks?

Development bottlenecks occur where inequality of access to health and education results in poor health and education outcomes and hinders progress in poverty reduction and subsequent development. The theory behind many of the CCTs in Latin America is that they can provide an appropriate mechanism to address the bottleneck.

Handa and Davis (2006) questioned the extent to which the education and health components of CCT programmes are an effective response to the fundamental development bottleneck, particularly in poor countries such as Nicaragua, Honduras and Columbia. In all three countries, they argued, administrative capacity and financing are low and poverty, widespread and:

In these three countries primary school net enrolment rates hover around 85 per cent and are lower for poor families and in rural areas. The demand-side subsidy has proved unable to bring all the remaining 10–15 per cent of this age group into school (i.e. increase enrolment), since these are the most marginalised and are unlikely even to have access to a school. A demand-side transfer is more likely to make a difference to attendance (and hence achievement) as well as age of entry. In these and other countries (Brazil, Mexico), delayed entry is a widespread phenomenon among the poor and in rural areas. One exception is Jamaica where basic schooling is universal across the country (although the quality of service does vary by region). However, school attendance (as opposed to enrolment) in rural areas is inconsistent and linked to economic factors. In this case the argument for a CCT would be to address the attendance problem in rural areas and in urban ghettos.

With regard to basic health, the same general pattern of inequalities in child nutritional status, pre-natal care and preventive health check-ups exist as in primary education. The poor and rural families are less likely to use the health services and have poorer birth and child nutritional outcomes.

Source: Handa and Davis (2006: 516).

from authorities rather than about a balance between citizens' rights and responsibilities.

CCTs have also been criticised for reinforcing asymmetrical and unequal gender relations through the re-traditionalising of gendered roles and responsibilities (Molyneux, 2007: 43):

Given that the market capacities of women are already weak and household survival is precarious, both can be further undermined through presumptions of 'natural' dispositions as mothers and caregivers. Women and households need *sustainable* routes out of poverty, ones that are at the same time more realistic and imaginative than the maternalistic options that are currently on offer.

### Targeting of cash transfers

Targeting is widely acknowledged to be crucial for efficient resource use (Slater & Farrington, 2010) and is particularly important in poor countries with limited resources available for social protection. At the same time, evidence from other social protection programmes shows that targeting can be highly problematic, especially in countries where poverty headcounts are high and the differences between the lower deciles in the poverty and income profile are negligible (Ellis, 2008). In Malawi, farmers rejected targeting of input transfers and argued that they were equally poor (Levy, Barahona & Chinsinga, 2004), while in India, data from a survey of 5,000 households in 12 villages showed that beneficiaries of subsidised transfers were predominantly from middle-income quintiles – errors of inclusion and exclusion were occurring as politicians attempted to gain support and as a result of rent-seeking (Farrington & Slater, 2006). There are also concerns that targeting cash may be even more difficult than targeting other forms of social assistance because self-targeting/self-selection (Box 2) is hard to operationalise with cash.

Policy makers face difficult choices about targeting. In many developing countries, information about who is poor is difficult and costly to collect, analyse and apply in a timely fashion (Farrington, Sharp & Sjoblom, 2007). As a result, some inclusion and exclusion errors are common. Among governments, donors and other stakeholders, there are different views on how much inclusion and exclusion is acceptable and what level of expenditure on targeting to minimise these errors is acceptable (Slater & Farrington, 2010). Essentially, the policy choice is between those targeting approaches that are rigorous but require greater capacity and those that are less rigorous but have much smaller capacity requirements and costs.

Commentators have commonly differentiated between 'targeted' and 'universal' cash transfers (e.g.

#### Box 2. Self-targeting or self-selection in social protection programmes

There are instances where transfers are available to anyone who chooses to take them up. In these cases, uptake is reduced by decreasing the value of the transfers or transferring less preferred goods so that only the poorest people will be willing to consume them. Self-targeting is common in public works programmes where the wage rates are lower than those prevailing in agricultural/casual wage labour or where the work to be carried out is viewed as socially demeaning. Other examples of self-targeting include the provision of yellow maize during food aid distributions in Africa. Across Africa, white maize is preferred for human consumption while yellow maize is viewed as food for animals. In Asia, self-targeting is achieved in food distribution by the provision of lower-grade or broken rice. There are serious moral and rights-based challenges to this kind of targeting.

In the case of cash, self-targeting is more limited. The main way to self-target in programmes that transfer cash is to make the application procedure so arduous and time-consuming, and the amount of cash to be received so small, that only the very poorest households will take up the programme.

Mkwandawire, 2005). It is important to be clear that in practice, all cash transfers are targeted to some extent. A truly universal transfer would be paid to every citizen in a country. 'Universal pensions' or 'universal child support grants' are age-cohort targeted. In practice, the main policy choice is not between targeted and universal cash transfers; rather, the key choice is between targeting based on social or demographic categories and targeting based on verifiable income-based criteria.

### Costs and benefits of cash transfer schemes

Analysing costs and benefits of cash transfer schemes raises difficult methodological challenges for researchers. Frequently, concerns about 'affordability' have been a major obstacle to the expansion of cash transfer programmes in poorer countries. As a result, much of the analysis to date has focused on affordability rather than on actual cost-benefit. The International Labour Organisation, for example, has calculated the cost and affordability of basic social protection package scenarios in 12 countries. Their analysis suggests that depending on the size of the domestic budget compared with the gross domestic product (GDP), a core social protection package may be affordable, but the burden

on the government budgets is much greater for poor countries (Pal et al., 2005). More importantly, when Pal et al. (2005) distinguished between limited and universal coverage for certain social categories, they identified a trade-off between costs and the impacts on poverty reduction and economic growth.

Kebede (2006) raised concerns that discussions regarding the affordability of cash transfers often fail to incorporate the wider costs and actions that are required if the implementation of cash transfer programmes is to lead to the desired outcomes. In 2005 in Ethiopia, cash transfers contributed to rising market food prices in the absence of actions to improve the supply of grains into markets where the Productive Safety Nets Programme was distributing cash to poor households. Getting cash transfers right requires wider investments in, for example, markets, roads and the availability of services. Without these, the impacts of cash transfers on consumption smoothing and on broader asset protection and asset building are severely constrained. While it has often been suggested that cash transfer programmes are administratively cheaper to implement than, for example, food or input transfers, current cost-benefit analyses of cash transfer programmes rarely take into account the costs of required complementary actions such as ensuring market supply.

There are methods that can be used to assess and compare the relative effectiveness of different types of social assistance. Gelan (2006) drew on an economy-wide modelling approach to compare cash and in-kind (food aid) transfers and found that cash aid provided efficiency gains from savings on logistics, avoided disincentives to local food production and had greater multiplier effects. While these benefits are felt by both beneficiaries and non-beneficiaries, where cash transfers cause food prices to rise, the negative effects are felt more acutely by non-beneficiaries, with implications for targeting decisions.

Kakwani, Soares and Son (2006) identified implications for targeting policies and the use of conditions. Drawing on simulations from data from 15 African countries, they suggested that cash transfers would have to be sizeable (2–8 per cent of GDP) in order to reduce the poverty headcount ratio by increasing the incomes of poor households but that this would not be enough to significantly increase school attendance. They suggested that higher impacts could be achieved at lower cost by targeting and introducing conditions but that the targeting costs would be high and create a significant burden for low-capacity administration systems. Ultimately, Kakwani et al. (2006) suggested that a combination of geographical (rural) and category (children) targeting would provide the same results as income-based targeting and would be administratively feasible.

Beyond the findings of simulations, there is only very limited evidence to demonstrate that positive education and health-related outcomes of CCTs can be attributed to the conditions themselves. Schubert and Slater (2006) argued that the impact of conditionality itself is unknown as there have been no rigorous analyses of the respective costs and benefits of conditional versus unconditional transfers. Experience from other parts of the world where cash transfers are implemented without health or education conditions suggests that *predictability of income* may be as or more important than conditions.

In the case of targeting of cash transfers, rather more is understood about cost-benefit analysis. Of the five types of targeting costs identified by Farrington et al. (2007), the first three contribute directly to cost-benefit analysis, but the latter two represent costs that are difficult to measure:

- *Administrative costs*: such as the costs of means testing households or of conducting a survey on which to base a poverty map. The costs of gathering information, analysing it and applying it in time to be operationally useful are likely to increase with the degree of precision required.
- *Private costs*: households also incur private costs involved in taking up transfers. For instance, public works programmes incur an opportunity cost in terms of forgone income opportunities and energy expenditure. The latter is a major concern in any context where beneficiaries are already malnourished. Travelling and/or queuing to collect benefits can involve both opportunity costs and cash outlays as can also the need to obtain certification such as identity cards or proof of residency or of disability. Keeping children in school also involves private costs.
- *Incentive costs*: also known as *indirect costs*, result where eligibility criteria may induce households to change their behaviour in an attempt to qualify. For example, a programme open only to those below a minimum income may cause some households to reduce the amount of work they do and thus, their earned incomes. Transfers that guarantee a minimum income may change incentives in these ways. An example of this is the Ethiopia Productive Safety Net Programme (PSNP), where inclusion in the programme raises programme beneficiaries to levels of income and consumption that are significantly higher than that of their neighbours who were previously richer than the beneficiary households. Another example is India, where there are concerns that the National Rural Employment Guarantee Act may discourage risk-averse households from migrating to take up more remunerative but risky labour opportunities in urban growth

### Box 3. Assessing appropriateness of different targeting proxies in Bangladesh

About 6.61 million households in Bangladesh, or 23 per cent of all households in the country, live below the lower Cost of Basic Needs (CBN) poverty line. Slater and Farrington (2010) drew on various Government of Bangladesh data to explore the numbers of non-poor households that would be included in programmes, and the number of poor households that would be excluded from programmes, under four different targeting proxies: household contains someone over 60 years, household is female-headed, household contains a disabled person, household contains child(ren) under five years.

Of the four proxies, disability and female-headed categories performed the worst as targeting proxies for poverty, with more than 90 per cent of poor or poorest households being left out of the programme if disability or female-headed household are used as criteria for selection. Old age (60 years and above) fared slightly better but more than three quarters of poor households are still left out of programmes if old age is used as a criterion for selection. The best criterion for reducing exclusion errors is households containing child(ren) under five years where less than 40 per cent of poor households will not be eligible. However, as the number of poor household who are left out is minimised, the number of non-poor households included increases.

<sup>a</sup>Number and percentage of poor households not eligible and non-poor households eligible under different targeting criteria in Bangladesh

Selected household characteristic/ targeting proxy indicator	Number of poor households not eligible to receive cash transfers (millions)	Percentage of poor households not eligible to receive cash transfers	Number of non-poor households eligible to receive cash transfers (millions)
Old age 60+	5.03	76%	6.28
Female-headed households	6.01	91%	2.35
Disabled	6.23	94%	0.88
Children under 5	2.45	38%	8.49

Source: Author and Farrington (2010) and based on analysis by Shaheen Akter.

<sup>a</sup> Using household survey data requires a good understanding of potential data problems. For example, the Bangladesh data do not capture those outside of households, such as street children.

poles in order to guarantee themselves 100 days of labour in the scheme.

- *Social costs*: may arise when the targeting of poor households involves publicly identifying households as poor, which may carry a social stigma.
- *Political costs*: targeting may shift the balance of political support for or opposition to transfer programmes: those excluded may increase their opposition, but this may be outweighed by increased support from the poorer segment of the population, as seems to have happened during the 2006 presidential elections in Brazil where social transfers were a major electoral issue.

The key debate regarding the costs and benefits of targeting is concerned with using social categories as a proxy for identifying poor households. Social category and geographical targeting is easier and therefore cheaper than more complex means-testing techniques. However, the effectiveness of this approach depends on how well social categories correlate with other

indicators of poverty, particularly income and expenditure. Barrientos and DeJong (2006), for example, found that the poverty-reduction efficiency and cost implications of targeting cash transfers at children depend on how well the prevalence of children in households correlates with poverty. Slater and Farrington (2010) found that in Bangladesh, Ghana and Malawi, households with elderly people, children or disabled people or households headed by females were not good proxies for targeting the poor. Box 3 illustrates how in Bangladesh, for example, using eligibility criteria, such as the presence of an elderly or disabled person in the household, results in exclusion errors of more than 90 per cent. This means that for every one poor household deemed eligible to receive cash transfers, nine poor households will be ineligible.

### Cash transfers and welfare regimes

In different countries and/or regions, the origins of cash transfer programmes are markedly different. In

Latin America, cash transfer programmes emerged in response to concerns about increasing inequality and the negative effects of structural adjustment programmes and accompanying economic crises. Handa and Davis (2006) argued that the popularity and success of CCT programmes in Latin America could be attributed in part to an existing welfare regime and overwhelming support from the Inter-American Development Bank and the World Bank, which financed human capital investment loans alongside the physical investment that typically dominated their lending portfolios.

In Africa, where pre-existing welfare regimes are often absent or comparatively very weak, the origins of cash transfer schemes stem from the search for alternatives to food and input transfers to tackle hunger. Recently, there has been a significant shift in emphasis away from in-kind assistance to cash, especially in the poorest countries. Historically, responses to food insecurity have focused on hunger as an acute and transitory problem where droughts or floods result in loss of production and subsequent famine. The response to this has typically been emergency appeals to provide food aid for hungry people and input transfers to support households' livelihood recovery and rehabilitation. However, increasing recognition that hunger is a chronic rather than a transitory and acute problem is leading policy makers to respond to predictable hunger with predictable resources rather than emergency appeals where food often arrives too late and donors are increasingly showing signs of fatigue. In Ethiopia, this recognition has resulted in the establishment of a multi-annual safety net programme, the PSNP, which provides six months of either food or cash transfers to chronically food insecure households (see Devereux et al., 2006; Sharp, Brown & Teshome, 2006; Slater et al., 2006). A number of other countries are also designing or implementing pilot or full-scale cash transfer programmes, including Kenya, Uganda, Malawi, Zambia, Lesotho, South Africa, Namibia and Mozambique. In most of these countries, the underlying rationale is to address increasing poverty and vulnerability resulting from the serious shocks and stresses that households face. In contrast to Latin America, where programming is driven by a need to respond to structural changes in the economy that threaten poor people's consumption and livelihoods, in Africa, concerns about food insecurity, HIV and AIDS are the most commonly cited factors that programming seeks to address.

The conditions generally attached to cash transfers in Africa are starkly different to those in Latin America. Conditions in Africa tend to be linked to the immediate creation of community assets (e.g., through public works requirements) and not linked to school enrolment/attendance or attendance at healthcare clinics. There are two main reasons for this. First, given the more severe fiscal constraints in Africa, implementing governments

are concerned that poor households will become dependent on cash transfers and never graduate from the programme into an independent and sustainable livelihood. Second, there are serious capacity constraints limiting government service delivery in health and education in Africa – there is no point in increasing the demand for services if the supply side is not in place. In South Africa, there is evidence that social grants for children in households have positive effects on education and health, even with no conditions attached (Samson, van Niekerk & MacQuene, 2006).

### Developmental effects of social transfers

It is widely agreed that cash transfers do support household consumption and so directly improve household welfare. However, the broader poverty reduction and development effects of social transfers, especially targeted transfers and/or CCTs, are disputed. At the heart of these debates are disagreements about the balance between social development (e.g., health and education) and economic development objectives and about the timeframes and levels over which we can expect cash transfers to achieve intended outcomes.

While it is possible to demonstrate the welfare impacts of cash transfers at household level, it is much more difficult to attribute changes in national-level poverty headcounts to cash transfers. Targeting is recognised as a critical tool for ensuring that cash transfers are progressive and result in some redistribution of income and of opportunities for the poorest households; but once again, while the incomes of the poorest households appear to increase under cash transfers, this is rarely mirrored in improved Gini coefficients at national level where a larger number of factors come into play. At present, the low coverage rates of many current cash transfer programmes make it difficult to attribute changes in inequality to cash transfer programmes. As more and more cash transfer programmes are rolled out across Africa and Asia, there will be more opportunities to assess whether the effects of cash transfers are limited to their palliative impacts on undernutrition and poverty, or whether cash transfers can be a useful tool for tackling structural poverty and inequality. This provides a critical research agenda for future evaluations of programmes.

In terms of timeframes, it is important to differentiate between short- and long-term investments in capital. Handa and Davis (2006: 518) argued that:

... a common criticism of CCT programmes is the almost exclusive focus on human capital accumulation for children, which takes years – sometimes a generation – to develop. These programmes tend to ignore building human capital or productive capacity for adults who are past school age, and the

accumulation of productive capital for the here and now: that is, capital, such as land or non-agricultural assets, which would have both long- and short-term effects on poverty alleviation. Through CCTs children will be better prepared for the labour market when they are older, but productive investment of the transfer would allow the family to sustain the impact of the cash transfers, which cannot continue indefinitely.

The trade-off between long- and short-term effects raises questions about whether CCTs are currently a less predictable substitute for formal child benefits and what would be required for CCT to be scaled up to regular child benefits.

For targeted cash transfers, there appears to be significant scope for linking social and economic developmental objectives, but there are many questions about how this can be achieved. It is important to differentiate between the household effects of social protection (e.g., on consumption and on household asset portfolios) but also at how these translate into wider positive economic effects for both beneficiaries and non-beneficiaries. At a household level, targeted cash transfers result in investments in productive activity (and by extension, in economic growth). They can allow fuller engagement by the poor in their own farming as the requirement to seek casual and unreliable off-farm work is reduced (Harnett & Cromwell, 2000). However, the impacts on the wider economy are not clearly understood.

There are numerous examples of where social protection can link social and economic development objectives: most recently, in Ethiopia's PSNP (Slater et al., 2006); in Malawi's Agricultural Inputs Subsidy Programme (Dorward et al., 2008); and in India's Rural Employment Guarantee (Sjoblom & Farrington, 2008). However, the challenges associated with making these linkages in CCT programmes are not well understood, and there are few examples from CCTs of this being achieved. Given the long-term impact of CCTs or unconditional social pensions (which are spent on the education of grandchildren), a 'give them dollars' approach (Hanlon, 2004) will in itself be inadequate and needs to be complemented by broader measures spanning the economic and social sectors.

### Political economy of social transfers

Conditions in cash transfer programmes in Latin America cannot be solely attributed to the involvement of international lending agencies since some of the programmes were initially designed and implemented without external financing. Internal politics played a significant role in influencing cash transfer program-

ming. Public attitudes regarding the perceived causes of poverty suggest that poverty is seen as having more to do with individual failure than a (structural) lack of opportunity (Graham, 2002). Handa and Davis (2006) showed that where citizens felt that poverty was due to individual lack of effort, programmers responded to this political constraint by requiring the poor to take responsibility for their actions and do something in return for their transfer. This view was echoed by Soares (2007), who noted that it is conditions that make cash transfers in both Brazil and Mexico socially acceptable.

In Africa, Schubert and Slater (2006) suggested that concerns about corruption and dependence may be a 'front' for a deeper reluctance to use cash transfers to respond to chronic poverty and food insecurity: namely, the hesitance of governments, donors and NGOs to hand over control and decision-making power to beneficiaries. At the same time, however, it is clear that for as long as conditions and targeting are important for maintaining political support for cash transfers, these programmes have greater potential to make the transition from short-term humanitarian/relief safety nets to long-term predictable social protection programmes.

The question of what types of transfers are likely to be politically feasible is also linked to financing. Affordability is not only about cost but also about political choices. Evidence from Lesotho, Malawi and Zambia suggests that it is easier to persuade governments to expand cash transfer programmes where they are a partial substitute for existing social protection or humanitarian responses and when they are linked to other objectives than where they require 'new' money. In Lesotho, for example, a one-year cash-for-work programme has been extended for five years on the basis that it partially substitutes for food aid under the existing humanitarian response and that it contributes both to relief and recovery through the rehabilitation of degraded land. At the same time, the government has committed to a non-contributory pension as an alternative way to deal with poverty associated with HIV and AIDS and the growing numbers of orphans. In Malawi and Zambia, where the linkages between cash transfers and wider growth and livelihoods are less clear, scaling up pilots has been much more difficult.

However, policy making is not a linear process from 'problem' to 'enquiry' to 'evidence' to 'solutions' to 'implementation of evidence-based solutions'. It is, rather, a process of contestation among the 'solutions' proffered by different groups, often dominated by elites and often dependent on electoral cycles, of the availability of windows of policy opportunity and of the possibility of engaging the interest of policy 'champions' (see Box 4 and Sutton, 1999; also, Maxwell & Court, 2005).

#### Box 4. Policy challenges to cash transfers programmes in India

The case for cash transfers might appear easier to make where social assistance is already substantial since the arguments would then be over reallocations from one budget line to another. But even such reallocations can encounter substantial political opposition. For instance, Farrington et al. (2003) argued that the US\$100 million/year allocated by the central government in India to social pensions failed to cover more than a fraction of the elderly in need and amounted to only US\$1.60 per month for those who did receive it. This total is miniscule in comparison with the US\$5.5 billion paid out on other poverty-focused rural development and transfer schemes and the further US\$10.5 billion paid on food procurement and subsidised redistribution. Furthermore, there are major inefficiencies in subsidised food distribution: the costs of acquisition, storage and redistribution amount to more than double the value of the food eventually delivered to intended beneficiaries. Larger scale, surplus-producing farmers benefit from the favourable prices offered by the acquisition scheme. This, plus the fact that labour employed by the acquisition/distribution agency (the Food Corporation of India) is highly unionised, makes it politically difficult to move away from high-cost food transfers to lower-cost cash transfers in India.

## Conclusions

This review of cash transfers in relation to poverty and inequality suggests that transfers that are universal and unconditional have a certain appeal in terms of their inherent 'inclusiveness'. However, in practice, transfers are never really universal, and where they involve identifying and targeting specific groups of people, they can be relatively simple to administer to clearly definable segments of the population – the elderly, widows, orphans and vulnerable children and so on. However, targeting based on social categories is likely to involve major errors of inclusion and exclusion, for example by including elderly people who are not poor or excluding prime-age adults who are poor. It therefore becomes less and less appropriate where the policy focus is on poverty reduction among wider sections of the community. Depending on what the key constraints are in developing human capital in a given country (e.g. limited quality and/or supply of basic services, or direct and indirect costs of accessing services), it may also be inappropriate where behavioural change is sought, for example, where parents need encouragement to

vaccinate children, improve their nutritional status or keep them at school. To achieve sharper poverty focus requires targeting; to achieve behavioural change may require conditionality.

Targeting and conditionality, in turn, require effective administrative systems. These may currently be lacking in poorer countries, but a long-term objective of both governments themselves and of development assistance agencies will strengthen these, in wider contexts than merely that of social transfers.

A fine balance has to be struck here: on the one hand, overambitious procedures for targeting or conditionality should be avoided where administrative capacity is low; on the other, to rule out any possibility of conditionality or targeting on the grounds of weak administrative capacity leaves only the option of universal transfers. In policy settings where these involve major errors of inclusion or exclusion or where there is a fear of the demotivating effects of 'handouts', political opinion (and wider public opinion) may shift against social transfers altogether. Not only will this work against the interests (and rights) of the poor, it will also be detrimental to the building of precisely that administrative capacity that will be necessary for improved efficiency and effectiveness in making transfers.

For all of these reasons – of focusing resources on the poor, of fiscal prudence, of achieving behavioural change – there is rarely any alternative to some combination of targeting and conditionality. The central policy questions concern the 'how', 'how much' and 'how quickly' of introducing targeting and conditionality, and the responses to these questions must be located in the specifics of political and economic contexts.

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