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Cash Transfers, Social Protection and Poverty Reduction

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Summary

Interest in social protection and the role that it 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 developing countries. These schemes have evolved differently in different parts of the world and there are significant variations in programmes' designs and objectives across countries and regions.

Some Southern governments and Northern aid agencies promote these programmes as a key social protection instrument to tackle poverty while at the same time building human and physical capital and strengthening vertical and horizontal equality. Given the often limited resources available for social protection programmes in developing countries, coverage and entitlements are a critical policy issue. Entitlements to cash transfers can be unconditional or 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 paper is to evaluate the use of cash transfers as a tool for reducing poverty and inequality in developing countries. Drawing on UNRISD's policy regime approach, the paper 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. Of particular interest are the appropriateness and cost-effectiveness of targeted versus universal cash transfers, and conditional versus unconditional transfers.

The paper concludes that 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. However, targeting based on social categories is likely to involve major errors of inclusion and exclusion.

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 de-motivating 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 which will be necessary for improved efficiency and effectiveness in making transfers.

Hence, the central policy questions concern the ‘how’, ‘how much’ and ‘how quickly’ of introducing targeting and conditionality, and the responses must be located in the specifics of political and economic contexts.

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1. Introduction

In 2006, amidst concern that lessons from countries where substantial poverty reduction has been achieved in the past few decades were not being learned, the UNRISD initiated a project to study the causes, dimensions and dynamics of poverty. The project draws on a policy regime approach to examine the complex ways in which poverty outcomes are shaped by the configuration of institutions and policies in the spheres of economic development, social development and politics.

Despite high growth in some developing countries, the persistence of poverty and limited progress towards the Millennium Development Goals (MDGs) in other developing countries is focusing attention on a long-term debate about 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 (Mkandawire, 2005). A focus on poverty as relational rather than residual (see for example Hickey and 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 and enable 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 will also be able to contribute to achievement of MDGs.

Interest in social protection and the role that it can play in poverty reduction and development have grown rapidly in recent decades. The right to social security is enshrined in Article 22 of the Universal Declaration of Human Rights of 1948[1]. However, Slater *et al* (2007) note that social protection in developing countries is rather different from that of more industrialised nations and goes beyond a rights-based approach. They argue that the emerging social protection policy agenda stems from three main factors. First, high levels of risk and vulnerability are having severe negative effects on well-being, productivity and households' capacity to take advantage of opportunities to increase their income in the short to medium term. Second, addressing risk and vulnerability can also have longer-term impacts: social protection constitutes an investment in people that can contribute towards ending the intergenerational transmission of poverty in the long term. Third, in many countries social protection is emerging as a response to concern about a vicious cycle of emergency appeals to tackle predictable poverty and hunger and the recognition that relief programmes should not just save lives but also support livelihoods. The linkages between social protection, risk and vulnerability are shown in Box 1.

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[1] *"Everyone, as a member of society, has the right to social security and is entitled to realisation, through national effort and international cooperation and in accordance with the organisation and resources of each State, of the economic, social and cultural rights indispensable for his dignity and the free development of his (*her*) personality."* Article 22 of the Universal Declaration of Human Rights of 1948.

Cash transfers form an important and growing part of social protection programming in many parts of the developing world. Cash transfers have evolved differently in different parts of the world and there are significant variations in programmes' designs and objectives 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 Southern governments and Northern aid agencies as a key social protection instrument to tackle poverty while at the same time building human and physical capital and strengthening vertical and horizontal equality. Given the often limited resources available for social protection programming in developing countries, coverage and entitlements are a critical policy issue. Entitlements to cash transfers can be unconditional or 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 paper is to evaluate the use of cash transfers as a tool for reducing poverty and inequality in developing countries. Drawing on UNRISD's policy regime approach, the paper 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. Of particular interest to UNRISD are the appropriateness and cost-effectiveness of targeted versus universal cash transfers, and conditional versus unconditional transfers. In drawing this comparison, four questions are particularly pertinent:

- What are the implications of different welfare regimes in developing countries (and the ideological positions that underpin them) for approaches to cash transfer programming – especially targeting / universal and conditional / unconditional?
- What are the implementation implications of different approaches to cash transfer programming? For example what are the expected costs and benefits of targeted versus universal programmes? What infrastructure is required to reduce inclusion and exclusion errors?
- Under what circumstances is conditionality necessary or appropriate to achieve programme and wider development goals?
- How is cash transfer programming driven by political economy issues? For example how sustainable are cash transfer programmes in terms of political support?

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

Box 1: Understanding risk, vulnerability, and social protection

Social protection can be broadly understood as measures intended to help people cope with insecurity and risk and to minimise vulnerability. Such measures include the redistribution of income or assets, the provision of services (especially health services), mechanisms to insure against risk, and the upholding of standards of health and safety. Social protection is lacking for many people across the world. While this deficit is present in urban areas, it is particularly acute and prevalent in rural areas of developing countries, leaving people there particularly vulnerable to risks.

Risk is the likelihood that a potentially harmful event will occur. Such events vary in their speed of onset and impact, and predictability, and a broad distinction is often drawn between relatively unpredictable, rapid onset, and immediate impact events, termed ‘shocks’ (earthquakes, unexpected illnesses, accidents), and more predictable, slower onset events whose impacts emerge over time, termed ‘stresses’ (declining soil fertility, fragmentation of land, chronic illness, life-cycle changes – costs of education, marriages, and health costs associated with old age). Shocks and stresses can overlap. Floods can be seasonal and relatively predictable, poor health and safety standards can make accidents very likely. In the case of both shocks and stresses, health is a particularly important category – with around one-fifth of descents into poverty resulting from ill-health.

Shocks and stresses can also be analysed in terms of how they are distributed within a given population group at one time. Those which affect only certain individuals or households, for example one household’s loss of assets or cash to thieves, are termed ‘**idiosyncratic**’; those which impact much more widely are known as ‘**co-variant**’, for example the outbreak of war, or a drought. Co-variant shocks and stresses may place greater demands on existing risk mitigation systems of the affected population and have implications for the appropriateness of insurance mechanisms. But all risk is experienced differently by different people in society, depending on their level of vulnerability.

Vulnerability is high when households are unable or have only limited capacity to prevent, mitigate or cope with the impacts of shocks and stresses. For example, poor households in India are vulnerable to indebtedness when their children marry because they are less able to save in advance to pay for marriage costs. Poor households living in the Chars in Bangladesh have very limited capacity to protect themselves and their assets from the annual cycle of floods which can wash away land. Vulnerable households are also often risk averse. In rural areas in Africa, for example, they are often unwilling to take credit in order to purchase of fertiliser because, whilst this could result in increased returns, rainfall variation and