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Social protection
the role of cash transfers

FROM THE EDITOR

Poverty in Focus is a regular publication of the **UNDP International Poverty Centre (IPC)**. Its purpose is to present the results of research on poverty and inequality in the developing world.

The **International Poverty Centre** (IPC) is a joint project between the United Nations Development Programme and Brazil to promote South-South Cooperation on applied poverty research. It specialises in analysing poverty and inequality and offering research-based policy recommendations on how to reduce them. IPC is directly linked to the Poverty Group of the Bureau for Development Policy, UNDP and the Brazilian Government's Institute for Applied Economic Research (Ipea).

Front-page: Photo by Fabio Veras, IPC, of a drawing on the mud wall of the house of a beneficiary of the Kalomo pilot project (see page 12). The woman heading this household in Mukwela village, Zambia, is Deliya Maposa, 63 years old, suffering from chest pain and swollen legs. She keeps 4 grandchildren, all orphans, ranging from 6 to 18 years. The household coped by begging before receiving the project cash transfers.

Editor's note: This first issue of the renamed IPC journal *Poverty in Focus* builds partly on material prepared for an issue of *In Focus* intended for publication towards the end of 2005 in cooperation between the editor Alejandro Grinspun of IPC and Karen Moore of the Chronic Poverty Research Centre in Manchester, UK. Special thanks to them for their contribution to this issue. Reference is also made to IPC One-pager Number 17, October 2005: *Three models of social protection*. That page and this journal, and all other IPC publications, are available for downloading from IPC's redesigned website.

United Nations Development Programme
International Poverty Centre
SBS – Ed. BNDES, 10º andar
70076-900 Brasilia DF Brazil

povertycentre@undp-povertycentre.org
www.undp.org/povertycentre

The UN Millennium Development Goals address many dimensions of extreme poverty – including penury, hunger, disease, analfabetism and inadequate housing – while promoting gender equality and environmental sustainability. Poverty reduction is the result of several interacting factors, including importantly: redistribution of incomes, assets, and opportunities; pro-poor economic growth; and social provision and protection. This issue of IPC's journal *Poverty in Focus* highlights the importance of social protection in the struggle against global poverty. Inequality reduction and pro-poor growth will be the theme of the next issue.

Social protection aims to enhance the capacity of poor and vulnerable persons to manage economic and social risks, such as unemployment, exclusion, sickness, disability and old age. Policy interventions can improve their well-being by, among other things, moderating the impact of shocks causing sharp reductions in their income or consumption. Social protection and provision can also enhance the productive capabilities of poor men and women, reducing poverty and inequality and stimulating pro-poor growth.

Like other policy areas, social policies involve choices and priorities, for example between mere social safety nets and promotion of sustainable livelihoods, short term alleviation and long-term elimination of poverty, universal and targeted programmes, conditional and unconditional schemes, food and cash transfers, etc. Criteria must be set for selecting which households, and who within them, should receive the benefits. If schemes are conditional, then on what: participation in education, health, nutrition and/or work programmes? Is such participation by the poor and needy in fact constrained by demand or supply factors? Can institutional and management capacity cope effectively?

These are some of the issues policy planners need to consider, and this *Poverty in Focus* journal covers many of them. The first article discusses the basic social policy choice of targeting vs. universalism, i.e. whether social benefits are a basic right for all citizens or only for the truly needy and deserving. Policy regimes are usually somewhere between these two extremes, but where they lie on this continuum can be decisive in spelling out individuals' life chances and in characterizing the social order.

Then, a broad view of social protection for the poorest is presented, which envisages social protection as having both short- and long-term roles in poverty reduction; several illustrative project and programme examples are presented and then highlighted in text boxes throughout the journal in their regional context.

In South Africa, a proposal for a universal income grant has engendered an intense debate. The implications of such a scheme are analysed in the following article, including both poverty reduction outcomes and the macro-economic feasibility. This is followed by an article summarising an IPC study of conditional cash transfers in 15 African low-income countries, and a presentation of an unconditional cash transfer pilot scheme in Zambia.

The next region in this journal is Asia, where two new Indian laws guarantee employment for all poor households as well as the right to public information for full transparency; furher, a pilot programme targeting the ultra-poor in Bangladesh shows promising results.

Then, the journal highlights the current trend in Latin America towards targeted and conditional cash transfers. Although homegrown and originated with domestic funding, these programmes have received enthusiastic and substantial support from the international community, and they are being promoted elsewhere. What are the challenges and lessons from this region and are they transferable? Another domestic model is provided by the targeted and comprehensive Chile Solidario programme.

Finally, there is a bilateral donor representative's view of the role of social protection with cash transfers in promoting pro-poor growth and poverty reduction; also how donors are working together with developing country partners for providing more effective support towards this end.

We hope you will find this issue of ***Poverty in Focus*** useful and stimulating.

Dag Ehrenpreis

Targeting and Universalism in Poverty Reduction

by Thandika Mkandawire, United Nations Research Institute for Social Development, UNRISD, Geneva

The balance of social policy has tilted from universal policies towards means-testing and targeting. In developing countries, the choice has been limited by macroeconomic and aid policies.

This trend neglects historical experience of political and administrative feasibility and of poverty impact.

Successful countries use targeting as simply one instrument for making universal policies effective.

Social policy involves choices about whether the core principle behind social provisioning will be "universalism" or selectivity through "targeting". Under universalism, the entire population is entitled to social benefits, while under targeting, eligibility is means-tested. There is hardly ever pure universalism or targeting, however; policy regimes are often hybrid and tend to lie between the two extremes, but where they lie can be decisive in spelling out individuals' life chances and in characterizing the social order.

Since the 1980s, the balance in both developed and developing countries has tilted from universalistic policies towards targeting. In the developed countries, this led to the shift from welfare to workfare states; many social welfare policies have been redesigned to narrow the scope of recipients by targeting benefits e.g. through means tests, income tests, status characteristics and behavioural conditionality. In developing countries, the choice has been limited by the context of macroeconomic and aid policies.

Ideologies play an important role in the choice of instruments used to address problems of poverty, and inequality. Although the choice between targeting and universalism is couched in the language of efficient allocation of resources subject to budget constraints and the exigencies of globalization, what is at stake is the fundamental question about a polity's values and its responsibilities to all citizens. In the 1980s and 1990s, neoliberal ideology set limits on social policy and pushed for user fees, means-testing and market delivery of social services, which eliminated the equity concerns that have been central to all the successful experiences of poverty reduction.

Another driving force behind selectivity has been the perception that budgetary restraint was overriding all other considerations in the choice among possible social policies. "Fiscal crisis" provided an excellent opportunity for the ideologically driven shift toward targeting because it authorized the view that targeting was the most efficient option under the circumstances. Global competition was invoked to change tax policies and reduce "social wages" represented by social transfers. Targeting was used to restrict public spending and cut taxes as "distorting" causes of poor export performance.

A fundamental factor pushing social policy toward targeting in the aid-dependent economies is the changing perception of aid and the centrality of poverty in policy discourse. In these countries, aid plays an important role in shaping social policy. Aid policies are embedded in the overall policies of the donor countries and nowadays focused on helping the poor.

In the context of "aid fatigue" it has become politically necessary to demonstrate either that aid either directly reaches the poor or enhances growth, which is good for the poor. And efficiency has become a primary policy objective, leading to the "New Managerialism" with concepts from the private sector replacing the principles of public administration.

Growing awareness of disparities within developing countries, and the fact that only anaemic "trickle down" had occurred with economic growth, led to "growth–equity" strategies, featuring targeting as both redistributive and cost-effective. However, the experience in high- and middle-income countries is that universal access is important for ensuring political

> *"Benefits meant exclusively for the poor often end up being poor benefits."*
> *Amartya Sen*

support by the middle class of taxes to finance welfare programmes. Indeed, many studies of the "political economy of targeting" indicate that the optimal policy for the very poor is not narrowly targeting benefits to them, once the impact on political support is taken into account.

Hence the *paradox of redistribution*: the more benefits are targeted to the poorest, the less likely is durable poverty and inequality reduction.

The choice between targeting and universalism is quintessentially a political economy problem: it involves the choice of instruments for redistributing resources in society and for determining levels of social expenditure. These issues are particularly poignant in the context of shrinking budgetary resources– that is, the context often used as an argument for targeting.

In poor countries, where the funds to be targeted often come from outside and are supposed to be disbursed by autonomous specialized agencies or NGOs, the tendency has been to conduct the discussion on poverty in a "non-political" or technocratic way. The focus is on the problem of disbursing external resources (aid), and not on that of generating the resources required for the task.

Thus such an approach does not deal with the relationship between targeting and the political economy of domestic resource mobilization, and rarely does it consider the variations in the budget that may actually be determined by the chosen method and pattern of distribution.

The paradigm shift from "development" to "poverty reduction" has narrowed the remit of social policies. The preference for targeting reflects the residual role assigned to social policy as an instrument for correcting some of the negative outcomes of macroeconomic policies.

One implicit assumption is that social policy is only about poverty alleviation, whereas it often has other objectives, such as equity and national or social cohesion. Another is that social transfers only lead to consumption, which reduces long-term growth. Universalistic policies are seen as part of the advanced welfare state, and poor countries should await their turn before introducing such policies.

Such a view is ahistorical. In a context of development, social policy has typically had a multiplicity of objectives as part of a broad agenda of economic development and social transformation. The experience of late industrializers– and low-income countries that have done relatively well in terms of social development– clearly suggests that universal provisioning of social services is an important ingredient.

Turning to the cost-effectiveness arguments for limiting direct spending by targeting the poor: what about indirect costs, such as administrative and transaction costs? Targeting involves mechanisms that discriminate between the poor and the non-poor. The ability to measure poverty and identify the poor is essential for designing any targeted transfer programme. There are theoretical models for achieving this, but in practice targeting is faced with formidable administrative hurdles, especially in poor countries where the informal sector is a major source of livelihood and poor people's "visibility" to the state is low, and the overall state capacity is weak.

In recognition of these difficulties, there have been attempts to use categorical targeting (geographic, demographic, gender, household and so on). Other selection arrangements have also been resorted to, especially self-selection and community-based targeting mechanisms. Many of these arrangements are very blunt instruments to achieve the much touted efficiency of selectivity, and they simply shift the problem from one level to another. They often result in both types of targeting errors: undercoverage of the poor and leakage to the non-poor.

A sharper form of geographical targeting is community targeting, which presumably allows for better identification of the needy. However, community-based programmes also have their local political demands and prerequisites, their gender bias, their patronage and clientelism, and may run counter to the universalistic cultures of local communities. They can exacerbate local differentiation, be captured by local elites who may traditionally sanction discrimination, and so on. In many cases, deliberate exercise of administrative discretion has led to the exclusion of women. It is in the nature of targeting that it vests a great deal of discretionary power in the hands of bureaucrats, who may use this capacity to manipulate the social and cultural entitlement aspects of targeted programmes.

Self-selection involves programmes such as public works, in which only the poor are likely to participate. They often involve onerous and humiliating procedures, designed to exclude the non-poor. The measures used include rationing of food or health subsidies by queuing or inconvenient location of distribution centres, subsidizing inferior food staples or packaging in ways that are unappealing to the non-poor. There is considerable evidence that stigmatization comes along with such methods, and as a result also many poor people stay away. The use of such methods skirts the issue of how the states relates to all its citizens.

While the literature on welfare policies in OECD countries pays considerable attention to issues of justice and dignity, this does not seem to be the case for developing countries. The possibilities of stigmatization are widely acknowledged but quickly passed over. In the context of extreme deprivation it is tempting to subscribe to a "full belly thesis": people cannot eat dignity or democracy. However, there are serious issues of justice that must be taken into account in a poverty eradication programme that accepts lack of dignity and self-respect as an important dimension of poverty.

A major criticism of the welfare state is that it breeds dependence of individuals on the state. However, targeting does not escape the problem of incentives. Indeed, one widely recognized cost of targeting is that of perverse incentives for changes in people's behaviour in attempts to become or remain beneficiaries of welfare policies, especially for the labour supply of the poor. This high effective marginal tax rate can act as disincentive to getting out of the "poverty trap".

Thus means-testing tends, through its disincentive effects, to be dysfunctional with regard to social policy's broader aims of doing away with poverty and dependency. Universal benefits, on the other hand, do not damage market incentives to take a job or save for one's own pension.

There is a second source of negative incentive of targeting that can be derived from broader notions of poverty, which include vulnerability as a key dimension. One implication of this is that in measuring the efficacy of social provision programmes, the gains must be weighted by the probability of their actually being received. The poor are often risk averse, prefering lower risk to potentially higher values of expected future benefits.

Targeting typically involves uncertainty about whether the ration will in practice be received or not, especially in situations where there is a high risk of being excluded even when one is among the "deserving poor". In addition, high consumption variability comes at a cost, not just in terms of current welfare but also in terms of long-term poverty reduction: the choices made by households *ex ante*, and shocks *ex post*, may result in the poor being locked into poverty traps. Universal policies, on the other hand, reduce their *ex ante* vulnerability with high certainty and predictability.

In conclusion, a remarkable feature of the debate on universalism and targeting is the disjuncture between an unrelenting argumentation for targeting, and a stubborn slew of empirical evidence suggesting that targeting is not effective in addressing poverty (as broadly understood). Most studies clearly show that identifying and reaching only the poor involves high administrative costs and requires capacity that may simply not exist in many developing countries.

Where poverty is rampant and institutions are weak, what may be wrong is not the lack of appropriate data but targeting per se. In many countries, the shredding of the state apparatus has left it singularly incapable of effective targeting in the social sector. Most of the proposed refinements of targeting methods are likely to compound the problems that are often cited as constraints on it.

Assuming that poverty reduction is a straightforward and well-defined social objective, it is easy to argue that scarce resources should be concentrated on those in need. However, neither the objectives nor the constraints are simple; they are both subject to political processes that determine what is to be allocated and to whom and for what reasons.

The current emphasis on targeting draws very little from historical experience both in terms of political and administrative feasibility and of poverty impact. This is partly a reflection of the distance between development studies and the study of welfare policies in the developed countries. Consequently, there is a lot of reinvention of the wheel, and wasteful and socially costly experimentation with ideas that have been clearly demonstrated to be the wrong ones for the countries in which they are being imposed. There is ample evidence of poor countries that have reduced poverty through universal social provision and from whose experiences much can be learnt.

In reality, most governments tend to have a mixture of both universal and targeted social policies. However, in the more successful countries, overall social policy itself has been universalistic, and targeting has been used as simply one instrument for making universalism effective; such "targeting within universalism" directs extra benefits to low-income groups within the context of a universal policy design and involves the fine-tuning of what are fundamentally universalist policies.

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Thandika Mkandawire: *Targeting and Universalism in Poverty Reduction;* Social Policy and Development Programme Paper No. 23, UNRISD, Geneva, 2005.

The paradigm shift from "development" to "poverty reduction" has narrowed the remit of social policies.

*by Armando Barrientos,**
*David Hulme and Karen Moore,***
Chronic Poverty Research Centre (CPRC)

Social Protection for the Poorest: Taking a Broader View

Social protection measures are much more than short-term safety nets. They also include livelihood promotion, asset transfer and initiatives for social mobilisation that can empower the poor to take up opportunities.

Broader social protection addresses the full range of factors – including political, cultural and social factors – that keep people in poverty. It supports the agency of the poor by broadening the range of responses to hazards, risk and stresses – thus avoiding poverty traps.

Policymakers should adopt a broader view of social protection, and see it as helping both the poor and the poorest.

* Institute of Development Studies, Sussex, UK
** University of Manchester, UK

The national and international commitments to global poverty reduction reflected in the Millennium Development Goals have focused attention on the extent and persistence of poverty in developing countries. However, effective poverty eradication implies aiming beyond the MDG 1 target to halve, between 1990 and 2015, the proportion of people with incomes below US$ 1 per day – now about 1 billion people. More attention needs to be paid to the plight of the 300 to 420 million chronically poor people in the world, and to developing comprehensive, coherent, and sustained interventions that support their efforts to improve their situation.

Duration is a key dimension of poverty, and poverty persistence is the result of multiple deprivations. There is an emerging consensus around the view that social protection can be an effective response to persistent poverty and vulnerability. However, it has so far had a very limited role as a response to chronic and extreme poverty. Largely for this reason, researchers and policy makers commonly consider social protection as a tool for addressing transitory poverty and temporary shocks. This represents a narrow view of social protection as a basic safety net and short term response to crises and shocks.

This article challenges such a position and argues for a broader conceptualisation of social protection, involving both protection and livelihood promotion, which can be shown to be effective in assisting the vulnerable, the transitorily poor, and the poorest of the poor.

Broader social protection addresses poverty dynamics, and the full range of factors that keep people in poverty. It moves beyond the limited roles and interventions that derive from the World Bank's Social Risk Management framework, which has dominated thinking. This broader vision envisages social protection as having both short- and long-term roles in poverty reduction: helping people to conserve and accumulate assets, and transforming their socio-economic relationships so that they are not constrained from seizing opportunities by, for example, clientelism. In cases where people are dependent on others, because of age, ill-health or disability, then this broader vision envisages long-term forms of social assistance such as grants and non-contributory pensions.

Social protection has come to define an agenda for social policy in developing countries. It is an evolving perspective with a number of common basic features, without clearly defined boundaries.

Social protection

- focuses on poverty prevention and reduction; on providing support to the vulnerable, poor and poorest; and on addressing the causes of poverty, not simply its symptoms;
- is grounded in the view that the causes of poverty are to be found in the multiple hazards, risks, and stresses faced by the poor, and in their vulnerability to the impact of these on their well-being. These impact the poor directly, through, for example, lower consumption and asset depletion, but also indirectly through behavioural responses with long-term detrimental effects on welfare, productivity and income;
- acknowledges the variety and heterogeneity of hazards, risks, and stresses affecting individuals, households and communities, paying due attention to the multidimensional nature of poverty;
- seeks to support and develop the capacity of the poor to deal with

hazards, risks and stresses, placing a particular focus on household investment as key to poverty prevention and reduction;
- designs and evaluates interventions as investments rather than costs; and
- involves a wide range of local, national and international stakeholders in the development of social protection instruments in developing countries.

Social protection narrowly conceived is of only limited use in addressing chronic and extreme poverty. From a narrow perspective, chronic and extreme poverty is caused by insufficient welfare-generating assets, such as land or human capital, whereas transitory poverty and vulnerability are factors of the variability in the returns from these assets. To the extent that the factors determining chronic and extreme poverty are taken to be different from those determining transitory poverty, policy bifurcation would necessarily follow. Social protection would appear to be more effective in addressing transitory poverty, would focus on those hovering around the poverty line and would seek to strengthen their access to protective instruments such as insurance. By contrast, policies seeking to assist the poorest would need to target them directly and focus on building their assets (e.g. land ownership, education) through livelihood promotion and/or asset redistribution.

Such anti-poverty policy bifurcation is appealing because of its clarity, but is also an oversimplification of the nature of poverty with few practical advantages. Uncertainty over asset liquidity and prices is one of the factors undermining asset accumulation by the poor, the very process of which can actually increase their exposure to market risks. Distinguishing the target groups for distinct policy interventions is hard, because the poorest, transitorily poor and vulnerable non-poor are fluid and fuzzy rather than static and crisp sets. Highly restrictive assumptions are needed to achieve the 'crisp' distinctions that policy bifurcation entails. Conventional means of identifying the poor in a policy context depend on a significant measure of indeterminacy about the categorisation of individuals and households into chronically and transitorily poor, or extremely and moderately poor. This often leads to an over-reliance on income and/or consumption measures of poverty that neglect its multidimensionality and ignore the significance of measurement error.

Only a very restricted conceptualisation of social protection can support an anti-poverty policy bifurcation of the type postulated. In a policy context, it makes sense to see the poor/vulnerable and poorest as overlapping sets. In a broader perspective on social protection, hazards, risk and stresses are key to the poverty generating process, and this includes *both* chronic and transitory poverty. The chronically poor face higher risks, have fewer buffers allowing them to protect their well-being, and are forced to adopt risk minimising strategies that can lead to poverty traps. Broader social protection seeks to strengthen the capacity of the poor to protect their consumption and to support household investment in the assets required to manage and overcome their situation.

Much of the strength of the case for broader social protection rests on the light it throws on the behavioural responses adopted by the poor to the hazards, risks and stresses they face. These include trading off lower risk for adverse incorporation through, for example, living 'under the wings' of a patron, adopting safer but lower return production techniques or reducing investment in physical and human capital, as well as a variety of strategies to avoid or reduce risk and bolster resilience. Broader social protection supports the agency of the poor by broadening the range of behavioural responses to hazards, risk and stresses available to them, thus avoiding poverty traps. This involves considering a range of factors that may constrain the poor, including political, cultural and social factors, and aims to empower the poor to take up opportunities.

Specific examples of social protection policies that have achieved a measure of success in improving the conditions of the poorest are given below as well as in text boxes with other articles in this issue.

The Kalomo District Pilot Cash Transfer programme in Zambia (page 12) represents a new type of social protection initiative in Africa, built around regular cash transfers to critically poor and labour-constrained households aimed at improving their food security. The identification of beneficiaries relies on community decision-making. Preliminary evaluations show that cash transfer programmes can be successful in

Some definitions

Social protection is associated with a number of key concepts that are used in different ways by different people. Some of the terms used in this article are here defined.

Social protection focuses on the threats to well-being arising from hazards, risks and stresses.

- **Hazards** are events which, if they materialize, can adversely affect the consumption and investment plans of households. Unemployment, sickness and drought are typical hazards threatening the well-being of the poor.
- **Risk** is the probability that hazards will materialize. For example, research shows that the poor face a higher risk of sickness.
- **Stresses** are typically continuous and cumulative pressures that adversely affect well-being, such as low wage rates or having to work excessive numbers of hours.

Households and communities deploy a range of **buffers** to protect their well-being against hazards, risks and stresses, including assets, insurance, social networks and public entitlements. The poor are especially vulnerable because they face higher risk of hazards and stresses, and have fewer buffers. Social protection involves interventions from public, private, voluntary organizations, and social networks, to support individuals, households and communities prevent, manage, and overcome the hazards, risks, and stresses threatening their present and future well-being.

low-income countries with limited administrative capacity, and are effectively deployed by households.

The Targeting the Ultra Poor Programme (TUP) in Bangladesh (page 14) grew out of a narrowly conceived food aid project. The country's Vulnerable Group Feeding Programme (VGF) provided for people's immediate needs, but made little difference to their longer term prospects. VGF was extended into the Income Generation for Vulnerable Group Development Programme (IGVGD), incorporating savings, training and microcredit. This performed well but did not reach the poorest, and many of its beneficiaries later fell back into poverty. The experimental TUP (now being expanded) took an even broader approach, and included asset transfers and local institutional development in its mechanisms. There is increasing evidence that this broad-based social protection programme, incorporating a social safety net, livelihood promotion, asset transfer and empowerment, can reach Bangladesh's poorest households and help them break out of long-term poverty traps.

The Chile Solidario programme (page 17) introduced in 2002 constitutes a response by the Chilean government to the persistence of extreme poverty in a country with two decades of high rates of economic growth. This led to the view that both economic growth and strong but generic anti-poverty programmes were insufficient to eradicate extreme poverty, and that an integrated and comprehensive programme focused on the 250,000 extremely poor households was required. Chile Solidario is grounded in the view that poverty is multi-dimensional, and aims to support households with deficits along a range of different dimensions.

A number of lessons are emerging from work looking at the ways in which social protection policies can support the chronically and extreme poor:

- Policymakers should adopt a broader view of social protection and see it as helping both the poor and the poorest.
- Social protection is much more than short-term safety nets. It also includes livelihood promotion, asset transfer and social mobilisation and empowerment initiatives.
- Policymakers in public, non-profit and private organisations need to experiment with innovative programmes, as illustrated in this collection, and scale up effective forms of assistance.
- Social protection can both reduce poverty directly and raise the probability of poor households being able to take advantage of the opportunities created by economic growth.

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Barrientos, A., Hulme, D. and Shepherd, A.: *Can Social Protection Tackle Chronic Poverty?* European Journal of Development Research, 17/1: 8 – 23, 2005.

Environmental shocks and poverty traps

Droughts, hurricanes and other environmental shocks punctuate the lives of poor and vulnerable people in many parts of the world. The direct and immediate impacts can be horrific. Yet the full economic effects go well beyond the shock itself. Affected households suffer a loss of assets and livelihoods that may have long-lasting effects. Poor people often have to rely on coping strategies that may push them into poverty traps from which they cannot recover, for example depleting key assets. Fear of being trapped in chronic destitution leads others to protect assets at the expense of consumption, with long-term ill effects on household health and capacity.

A *poverty trap* is a critical asset threshold below which successful economic recovery becomes unlikely. A sudden shock that destroys assets may push a family below the minimum threshold that allows it to educate its children, build up productive capacity and recover over time. A protracted shock may have little direct impact on family assets, but instead expose people to a sequence of destabilizing events that force them to either sell assets to sustain consumption, or reduce consumption in order to defend assets.

The full economic effects of an environmental disaster evolve through *three stages*: the shock itself, the coping period, and the post-shock recovery phase. A household's prior wealth and the nature of local markets and social institutions will determine its sensitivity to the shock and its resilience during the coping and recovery phases.

An environmental *shock* typically has two immediate impacts: it destroys lives and assets directly and reduces consumption as crops fail and household medical expenses rise. Then comes the *coping* period, where people react to the income and asset losses from the shock. Households without access to financial and labour markets can only protect their consumption by reducing their assets. The severity of this secondary asset decline is shaped by a household's ability to employ alternative coping strategies, and by changes in the relative prices of assets *vis-à-vis* food and other necessities.

Unfavorable price swings normally result from the sudden liquidation of assets in response to a shock, such as the distress sale of cattle in a drought-prone area. Reducing consumption might be a last resort for those lacking assets or options. This strategy may also be pursued by households reluctant to increase future vulnerability by depleting asset stocks now. However, the cost of cutting consumption is very high – immediate hunger, and a likely irreversible reduction in young children's growth and future capacity.

Finally, the *recovery* phase is the period when households try to replace assets lost to the disaster and depleted through coping strategies. The market and social mechanisms that broker access to employment and finance also shape households' post-shock resilience, and so the extent to which they can start accumulating assets again and rebuilding their lives.

Michael R. Carter et al., *"The long-term impacts of short-term shocks: Poverty traps and environmental disasters in Ethiopia and Honduras",* BASIS Brief no. 28, May 2005.

An Income Grant to all South Africans?

by Haroon Bhorat,
Development Policy Research Unit,
University of Cape Town

There has been an important public policy debate in South Africa about a basic income grant (BIG) scheme that would include the many unemployed in the state social security system.

Two-thirds of current transfers benefit two large groups – the aged and children, and indirectly also most unemployed, but not enough to take them out of poverty.

However, a BIG scheme that cut absolute poverty by more than half would be very costly, thus implying tough political trade-off choices

One of the key challenges facing the post-*apartheid* government of South Africa is the need to significantly reduce the high incidence of poverty. Social welfare interventions are prominent features of the policy agenda. The government cannot rely on economic growth alone to reduce poverty given extreme levels of unemployment; the domestic economy is experiencing positive growth rates, but it is not functioning effectively as a creator of jobs. The state has to assume a crucial role as a provider of social security to alleviate the afflictions of poverty and indigence.

It has been argued that social transfers must be a key ingredient in any national poverty alleviation strategy. This article analyses the poverty-reduction opportunities presented by such transfers as well as the macroeconomic constraints involved. After an overview of the existing social security arrangements within the country, a universal income grant scheme is assessed. This article is the summary of a paper contributing to an important public policy debate in the country on such a transfer scheme by presenting empirical evidence on its possible consequences.

Government views fiscal restraint as vital. The Growth, Employment and Redistribution (GEAR) strategy aims *inter alia*, to reduce the fiscal deficit/GDP ratio. This principle has guided public expenditures in recent years and is likely to remain in place over the medium-term. It implies a constraint for further expansion of state expenditure on social services and general provisions for interventions designed to reduce poverty or engender employment.

The share of social services in the government's total expenditure has increased from under 45% to about 51% over five years and it will increase, albeit marginally, to nearly 52% in the 2008/09 financial year within the Medium Term Expenditure Framework (MTEF). Over one third of this high share of social service expenditure is allocated to education. South Africa is one of the highest spenders on education in the world, as a percentage of both GDP and total fiscal expenditure. Thus, education captures about 18% of total fiscal outlays in 2006, followed by social security & welfare with nearly 16%.

There is unlikely to be a dramatic increase in the share of expenditure going to social security and welfare over the medium term. Apart from many departments chasing limited resources from the National Treasury, there is the crucial issue of the debt burden. Unlike other line items in the budget, the debt service is not negotiable. It represents a high proportion – about 11% of total state expenditure this year – making it the third largest budget vote after education and social services & welfare. This ranking is likely to remain the same for the next few years, at least.

The interest burden comes from the poor fiscal management by the *apartheid* regime which led to huge debts to both foreign and domestic lenders. As the majority government tries to reduce this debt overhang, lowering the value of the interest burden is crucial. Not only does it send a positive signal to foreign investors, concerning South Africa's prudent fiscal management; it is also optimal to facilitate fiscal expansion only once debt levels are manageable.

Social welfare payments make up an increasingly important component of the rapidly growing total spending on social service provision. In the last few years they have overtaken health expenditures, while remaining below those for education. Government's priorities over the next 2 years have been carefully laid out in the MTEF, and they are unlikely to be altered in any dramatic manner.

Within the social welfare budget, allocations are made by the Department of Social Development (DSD) to various forms of social assistance. The old age pension is the largest item by far with 38% of the Department's total transfer expenditure reaching about 2 million individuals. The value of each grant is R780, which is equal to the disability grant but differs marginally from that of the war veterans' pension. The second most important transfer scheme is the Child Support Grant (CSG) accounting for 29% of the DSD's transfer expenditure, and reaching about 5.6 million individuals.

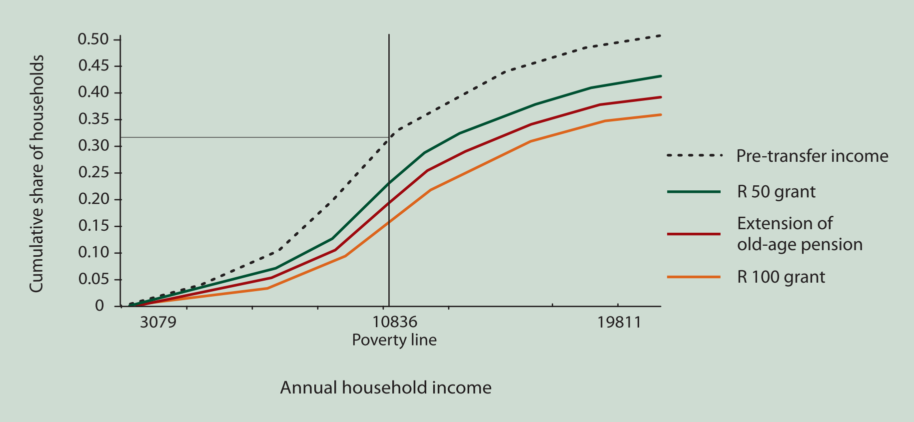
Hence, two-thirds of the transfer expenditure in South Africa is accounted for by a well-developed and extensive scheme for two of the target groups in the society – the aged and children.

However, for a significant number of indigent and needy communities the scheme is not adequate. The CSG is set at an extremely low level of R180 per child, per month. Any attempt to increase (for example) the CSG would inevitably mean that the value of another transfer scheme is reduced. Within a total budget that will in all probability not change significantly, there would seem to be little room for manoeuvrability.

Income grants are important for the social safety of poor *households* rather than *individuals*. This is made clear when one looks for example at the role of these transfers in supporting the unemployed. In 2004, about 56% of all unemployed had access to at least one recipient of an income transfer. In non-metropolitan areas, 64% of the unemployed are in homes with at least one income transfer recipient.

It is clear therefore that old age pensions, disability grants and more recently, the child support grant, perform a welfare function for a significant share of the unemployed. However, for households including unemployed persons, the transfer is not sufficient to raise them above the poverty line. For example, among all African unemployed with access to old age pensions or disability grants, 80% live below the poverty line. Amongst the rural unemployed with access to two or more grants, 84% live below the poverty line.

Income/poverty incidence curves



These data have led to the notion of a national basic income grant (BIG) scheme. This would widen the current social welfare provision of the state to include also the unemployed, who are now uncovered by any direct assistance, despite arguably being the most vulnerable group in society. A BIG scheme would be part of the state's long-term social welfare strategy. But is it economically feasible?

To answer that key question, a statistical analysis was undertaken to estimate the cost to the state of cash transfers to minimize the national incidence of poverty, considering the different population categories. The simulations were closely linked to the specific proposals on a BIG scheme tabled variously by the labour union movement and the Department of Welfare.

The poverty-reduction effects of such a universal grant would be significant: at R 100 per month it would reduce (i) the incidence of households under the poverty line by 51%, and (ii) the mean poverty gap by 67%. The corresponding figures for a R 50 grant would be 27% and 42%; for R 200: 77% and 85%, and for R 300: 86% and 92%.

Extending the old-age pension system by reducing the qualifying age by 20 years would reduce poverty incidence by 38% and the poverty gap by 46%. This is an important policy-relevant result: it would involve lower transaction costs then setting up a new large transfer scheme, while having similar poverty effects to a R 50-100 BIG.

Although these poverty reduction effects are crucial, the argument for such a grant in fact turns on the potential cost of such a scheme. A tentative attempt made at costing the grant under different assumptions, made it evident that the fiscal pressures would be enormous. For example, in 1999 the cost of a R 100 grant scheme would have amounted to 39% of government's total expenditures, and more than double the Department of Social Development's budget. Financing through the VAT system, would mean increasing the VAT rate from 14% to 32%. If the deficit-financing route was taken, the budget deficit for 1999 would balloon from 2% of GDP to about 9% of GDP. These simple calculations are indicative of the huge cost pressures that could arise, should such a universal scheme be instituted.

However, these types of hard costing exercises cannot be seen in isolation from the obvious welfare enhancing effects of a universal income grant. The trade-off is there, and it is up to the politicians to find the right balance. ■

Bhorat, H.: *A universal income grant scheme for South Africa: An empirical assessment.* *In*: G. Standing & M. Samson (eds), *A basic income grant for South Africa*. Cape Town, UCT Press, 2003, p. 77-101.

Cash transfers in Africa – an Ex-ante Evaluation

by Hyun Son,
International Poverty Centre,
UNDP

Would cash transfer programmes in Africa have significant impact on income poverty and school attendance?

An IPC simulation study indicates that affordable programmes would not improve poverty measures much, whereas large costly ones would have important effects on income poverty but not on school attendance.

The success of cash transfer programmes in some countries is no guarantee that they can be reproduced in other countries with the same performance. But their example can yield both good practices and notes of caution and challenges in design and implementation. A useful tool for assessing the order of magnitude of transfers needed for the desired impact on targeted areas and populations is ex-ante evaluation.

Such a study recently assessed the impact of cash transfers on income poverty and school attendance in 15 Sub-Saharan African (SSA) countries* through exploring different budget scenarios and targeting strategies. The data source is household surveys, and the study is limited to estimating short-term income effects on demand for primary education. Not covered aspects are: (i) school availability and quality, (ii) the effect of conditionality, and (iii) long-term poverty impact of school attendance.

In the 15 countries, children in school age (5-16 years) make up around 35% of the total population; most of these, 19%, are 5-10 years old. The incidence of poverty among all school-age children is higher than/close to the national average, but among children not attending school it is far higher: around two-thirds. This is on average 17% higher than the national average in the 15 countries, while the poverty gap is 22% higher, and the severity of poverty is 24% higher.

The primary school net enrolment rate in SSA is around 60% – much lower than in other regions. Moreover, only 54% in the age-group 5-10 years attend school, i.e. 29 million children do not. These rates vary a lot: in Madagascar, 91% of children in this age group attended school, but in Mozambique only 31% did. The share of children attending school in the 15 countries rises from age 5 to 11 years and then falls steadily, mostly at the secondary school level.

The study attempts to quantify the impact of cash transfers on national poverty. The poverty simulation results indicate that a transfer of 0.5% of GDP to all school-age children has a very small impact: poverty incidence falls by only about 1%, the poverty gap by about 2%, and the severity of poverty by about 4%.

Targeting children in poor and/or rural households results in much greater total poverty reduction as per capita transfers are higher than in universal programs. Yet the benefits of the transfer under the targeted programme will be partly offset by the administrative costs of identifying and reaching the neediest households. Targeting rural children is administratively less costly than targeting all poor children and may be a more cost-effective policy option for reducing poverty than universal programs.

The study also assesses how much difference larger cash transfers would make when increased to 20%, 30%, and 40% of the national poverty line, compared to the scenario of 0.5% of GDP. The larger transfers have far greater effect on income poverty but may not be affordable for most African countries. The cost of cash transfers at 40% of the poverty line varies from a low around 5% of GDP for the Ivory Coast to a high well over 16% of GDP for Burundi.

The school attendance impact is insignificant when the budget for unconditional cash transfers is set at 0.5% of GDP. The impact increases somewhat with larger transfers, but even at 40% of the average national poverty

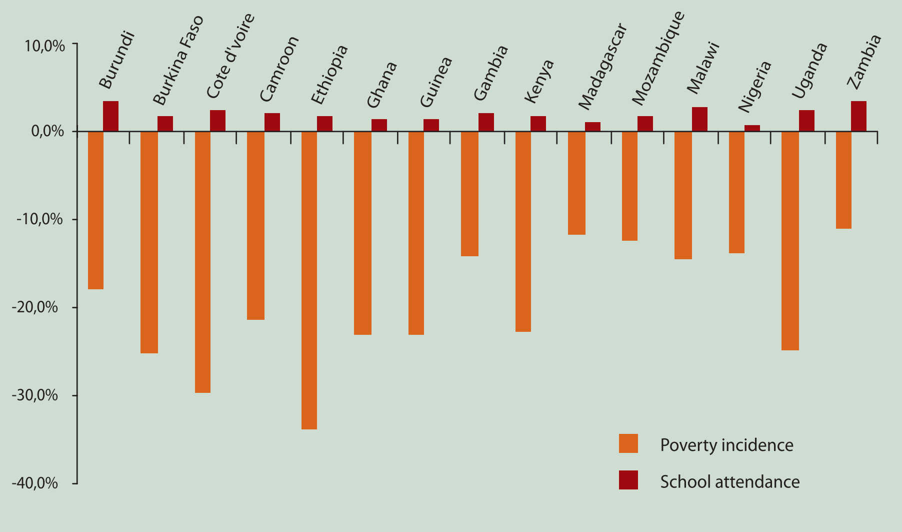
* The 15 countries in the study include: Burundi, Burkina Faso, Côte d'Ivoire, Cameroon, Ethiopia, Ghana, Guinea, Gambia, Kenya, Madagascar, Mozambique, Malawi, Nigeria, Uganda, and Zambia.

line, the estimated impact on school attendance is very modest (see Figure).

Does the fact that even a large unconditional cash transfer programme would not engender a substantial increase in school attendance imply that a conditional program would? This study cannot answer that question, which depends on *i.a.* the quality of schooling and the capacity to administer and monitor a conditional programme. The UNDP International Poverty Center is planning a new research project comparing Africa and Latin America to illuminate these issues.

N. Kakwani, Fabio Veras Soares and H. Son: *Conditional Cash Transfers in African Countries*, UNDP International Poverty Center, Working Paper No. 9, November 2005.

Impact of a 40% poverty line transfer on poverty and school attendance



The Pilot Social Cash Transfer Scheme in Kalomo District, Zambia

Food poverty and vulnerability is widespread in Zambia. Half the population suffers from chronic hunger according to FAO: over five million people in one million households. Some 700,000 households are poor because they lack productive work and access to credit or programmes such as food or cash for work that could take them out of food poverty. The other 300,000 households are structurally poor with few/no able-bodied adult household members.

Of the latter, over one million people in 200,000 households – 10% of the population – suffer critical levels of food poverty and are unable to respond to development opportunities. Many are AIDS-affected; breadwinners have died leaving grandparents and orphans unable to respond to self-help oriented programmes. In these households, 60% are children whose basic needs of nutrition, health services, clothing and education are not met. Some of these destitute households are targeted by the Kalomo Pilot Social Cash Transfer Scheme with support from the Government of Zambia and the German aid agency GTZ.

Approved households without children receive ZMK30,000 (US$6) in cash monthly, while households with children receive ZMK40,000 (US$ 8). The transfer does not lift the beneficiary households out of poverty but it does alleviate life-threatening food poverty. If they choose to spend it on maize, it will buy a second daily meal. It is assumed that beneficiary households know best what they need most in order to survive; that they spend the money wisely; and that household heads (mostly older women) spend most of the cash on children in the household. All these assumptions are closely monitored and have so far proved to be realistic.

Selection of beneficiary households is undertaken by Community Welfare Assistance Committees (CWACs), whose members are elected or approved by the community. After training, CWACs use a multi-stage process to select the 10% of households who are most needy and labor-constrained. Payments to households living near Kalomo Town are channeled through accounts in the local bank. For those living further away "Pay Points" have been established at rural health centers and schools.

At the end of 2004, around 4,000 persons in 1,027 households received monthly cash transfers. Of these, 66% are female-headed, 54% are elderly-headed, and at least 54% are AIDS-affected; 61% of the household members are children, of whom 71% are orphans.

Both targeted beneficiaries and the local community report that the transfers have improved the well-being of the poorest households. Recipients use them to buy food and other basic needs (e.g. blankets, soap, school books). Some beneficiaries have even saved some cash (including through a rotating fund), and invested in seeds and small animals.

If the Social Cash Transfer Scheme were extended to all 200,000 destitute and labor-constrained households in Zambia, annual costs would amount to US$21 million – about 5% of annual foreign aid inflow, or 0.5% of Zambian GDP. This means that national social cash transfers are affordable – especially if government and donors share the costs. However, more and larger pilots are needed to assess the feasibility and costs of full scaling-up of the scheme.

Schubert, B.: *The Pilot Social Cash Transfer Scheme, Kalomo District – Zambia*. Chronic Poverty Research Centre Working Paper 52, 2005. Manchester: IDPM/ CPRC.

Job Law with Right to Information can Cut Poverty in India

by Santosh Mehrotra,
UNDP Regional Centre for Asia,
Bangkok

A new Indian law guarantees employment for one person from every poor household at least 100 days a year; another the right to public information for full transparency.

These can help raise two-thirds of India's population above the poverty line.

The cost would be paid in full just by restoring previous tax revenue levels.

The UN Millennium Development Goals are unlikely to be achieved unless India, with the world's largest number of poor, manages to do its part. Employment-intensive economic growth will be crucial. Employment has been growing in the 1990s but not in manufacturing, only in services. The rural poor have been left behind, dependent for their livelihoods upon India's slow-growing agriculture, which still accounts for 59% of total employment.

The National Rural Employment Guarantee Act (NREGA) was adopted in 2005 to reduce rural poverty. It guarantees employment at least 100 days a year at the minimum wage to one person from every poor household. This is estimated to raise two-thirds of India's population below the poverty line above it.

NREGA schemes will improve rural infrastructure e.g. roads, school buildings and village water supply. Further, watershed development reduces damage to life and property caused by frequent flooding, and saves future costs in government flood relief. Along with land regeneration and prevention of soil erosion it also protects the environment and enhances land productivity, promoting future growth and rural employment.

Positive second-round effects are also expected with higher incomes generating rising demand, employment and rural wages, as well as investment in human capital by making schooling affordable and reducing drop-outs.

The cost of NREGA was an initial criticism. In the first phase, the 200 poorest districts are covered. The total cost is estimated to rise from 0.5% of GDP in the first year to 1% of GDP in the last year of the inception phase (2008). Thereafter, the ratio will decrease along with the number of poor households.

The consolidation of existing employment generation schemes with the programme of employment guarantee will increase efficiency in resource use. The scheme is modelled on a similar scheme implemented successfully for 20 years in Maharashtra State, but the preceding calculations assume much higher unit costs. These could come down with more labour intensity. The costs are considerable, but should be affordable.

However, the Government of India may have to raise its revenues; it collects only 8-9% of GDP, compared to nearly 22% in China in 2003 and 14% of GDP for all low-income countries 1990-2001. Tax revenue ratios normally rise with higher income; they are about 19 per cent for lower-middle income countries, and 23 per cent for upper-middle income countries. But in India they have actually fallen from almost 11% in the late 1980s to 9.3%, despite rising incomes. Just raising the central government's tax/GDP ratio to its late eighties level – already underway – would more than pay for the full implementation of NREGA.

Critics have also argued that the Act would expand opportunity for bureaucratic corruption. However, it has been demonstrated around India that effective monitoring by the community of government spending is not only possible, it is effective. Ensuring such effective monitoring requires the right to information and social audits.

The Indian Right to Information Act (RTI) became fully operational in October 2005. It empowers every citizen with the right to obtain information from the Government; civil society organizations have demonstrated in Delhi and Rajasthan how social audits can bring bureaucratic corruption to heal.

A key provision of the new RTI Act requires proactive disclosure of a range of information. It is the obligation of the government, including all levels of state and local government, to publish key information without being requested to do so by citizens. Such information includes the budget allocated to each Panchayati Raj Institution (PRI), indicating particulars of all plans, proposed expenditures and reports of disbursements; and detailed plan of the implementation of subsidy programmes, including the amounts allocated and the details and beneficiaries of such programmes.

These details are to be posted on the walls of the panchayats as well as on boards at the worksites. In addition, PRI legislation in all states also requires proactive disclosure of information through village council meetings or on notice boards. Furthermore, the RTI Act obliges government officials to provide particular information upon request; citizens have to apply for documents from the responsible officer, who is then duty bound to provide the information within 30 days at a nominal charge. Families living below the poverty line are exempt from paying fees.

Thus, it is clear that:

- Citizens can now obtain all NREGA documents under the RTI Act;
- All NREGA related documents will be available for public scrutiny;
- Copies of documents will be made available at nominal costs;
- Muster rolls will be pro-actively displayed at the Panchayat centre;
- All relevant documents will be provided to the village council by the implementing agencies;
- Village councils may conduct social audits of all public works programmes.

Five days after the Right to Information Act came into force; a public hearing in Lakshmangarh village (Surguja District, Chhattisgarh) showed how the Act can empower ordinary people and enable them to fight corruption. The public hearing focused on the recent construction of a pond under the National Food-for-Work Programme. According to the muster rolls, all the labourers were paid the statutory minimum wage of Rs 55 per day. This was corroborated by labourers at the public hearing. But in fact only one fifth of the enrolled labourers were actually there. The wages of the other four fifths were appropriated by corrupt officials.

It was found that all the thumbprints in the muster roll were false, even in the case of genuine labourers. The workers had put their thumbprint or had signed on a different muster roll – an informal register maintained at the worksite which is used for the purpose of recording attendance and making wage payments. But the official muster roll is a separate document, comprehensively fudged.

This practice of maintaining two muster rolls, one for wage payments and one for securing the release of funds, is widespread. For decades, it has been a convenient means of siphoning off money from public works programmes. As long as the muster rolls were inaccessible to the public, this method was relatively safe. It is not so any longer, thanks to the RTI Act and active civic watch groups and civil society organisations.

Prime Minister Manmohan Singh launched the NREGA in February 2006. He sought the cooperation of the State Governments and other agencies to put in place a sound monitoring system and a grievance redress mechanism to ensure that the Act had its intended effect. At the launch ceremony, he stated: "Three watch words should be followed: outlays must be matched by outcomes, productive assets must be created and the guarantee must be implemented in true spirit." ■

BRAC's experiences of targeting the poorest in Bangladesh

Mainstream development approaches, such as microfinance, do not respond to the risks faced by the poorest. Most programmes targeting the poorest are oriented towards managing crisis rather than creating opportunity ladders. BRAC, the largest development NGO in Bangladesh, has experimented with a 'linkage model' for the poorest over the past two decades, using transfers as a strategic entry point. These experiences led to the establishment in 2002 of a new programme *Targeting the Ultra-poor* (TUP) with the idea to enable them to develop new and better options for sustainable livelihoods using a combination of approaches – both *promotional* (e.g. asset grants, skills training) and *protective* (e.g. stipends, health services) – as well as addressing socio-political constraints at various levels.

TUP employs two broad strategies: *pushing down* through specific targeting of the ultra-poor and *pushing out* by addressing social-political relations that disempower poor women and men, constraining their livelihoods. TUP engages village elites in order to maintain or strengthen customary systems of social support for the poorest, while also providing more systematic community-level protection against the risks faced by the ultra-poor. Ultra-poor women are able to work with a greater sense of security, knowing that their assets are at least nominally protected by powerful village elites.

Early assessments of change suggest that average food intake levels of TUP participants have increased and become more diversified. Perceived levels of food security and health status have also registered significant positive changes, and are reflected in health-seeking behaviour and anthropometric improvements. The first TUP participants have completed the two-year special investment phase and are organised into separate village organisations. They are being offered a full range of BRAC's development services, including microfinance. Based on previous experience, BRAC is taking a flexible, experimental and member-driven approach to credit provision. About 70% have taken a first loan and are repaying regularly. TUP is seen as a local success, rather than that of an external organisation. There is pride in the achievements of TUP participants, whose initial living conditions and prospects were so poor that they were routinely written off as beyond help.

Matin, I.: *Addressing vulnerabilities of the poorest: A micro perspective from BRAC.*
Paper presented to the Annual Bank Conference in Development Economics, Amsterdam, May 2005.
<http://www.BRACresearch.org/publications/addressing_vulnerability_of_the_poorest.pdf>

Conditional Cash Transfers in Latin America

by Tatiana Britto, Federal Senate, Brazil

Conditional cash transfers (CCTs) are grants provided to targeted poor households on the condition they engage in human capital investment. They address demand-side constraints for poverty reduction, combining short-term objectives of safety nets with long-term goals of breaking intergenerational poverty traps. With substantial support from the international community, CCTs have become popular in many countries.

Mexico was the first country to introduce a nation-wide CCT programme, *Progresa*, in 1997. In 2002 it was expanded in coverage and scope and renamed *Oportunidades*. Brazil in 2001 started the *Bolsa Escola* programme, which in 2003 was unified with other federal CCTs into *Bolsa Família*.

Progresa was introduced as an innovative and apolitical program consisting of cash and in-kind transfers conditional on school attendance by the children of beneficiary households and regular health check-ups by all its members.

Its apolitical claims related to its transfer and targeting mechanisms. Transfers were sent directly from the programme administration to recipients, without intermediation through subnational budgets. Targeting was carried out in three steps. First, demographic data were used to identify the most deprived communities. Then, beneficiary households within these communities were selected on the basis of household surveys. Finally, the list of selected households was reviewed in a community meeting.

The innovative claims related to (i) an integrated approach to poverty, (ii) a positive gender bias, directing the transfers to the mothers and granting higher subsidies for female students, and (iii) an emphasis on participation, both in the targeting review process and by including a beneficiary liaison. An experimental evaluation was introduced at the design stage, conducted by independent and renowned researchers. It provided evidence of positive impacts, boosting international recognition.

In Brazil, relatively successful local CCTs preceded the federal *Bolsa Escola* programme, which was introduced in the run-up to the general elections in 2002. This might help explain why, in less than one year, the programme managed to reach more than five million households around the country.

Bolsa Escola granted monthly transfers to poor households with children aged 6-15, conditioned on school attendance. Transfers amounted to a maximum of US$ 15 per family (while in Mexico, *Progresa* transfers could add up to US$ 60). Decentralized fiscal arrangements, however, allowed richer states and municipalities to top up transfers or expand coverage. For the selection of beneficiaries, the government established a poverty line and calculated estimates of the target population based on demographic data. This created a sort of quota for each municipality, which was then in charge of implementing targeting to households.

Why were CCTs chosen as the preferred policy option? Governments could have expanded and enhanced existing education or health interventions with the funding that was used to start up CCTs. While this might seem easier than designing whole new programmes, it was likely to attract less attention to focus only on the supply of regular social sector services.

What about results? Initial evaluations have shown positive effects of CCTs on schooling and nutrition. The evidence

CCTs are trendy. They are both short-term social safety nets and long-term tools for breaking intergenerational poverty traps.

Initial evaluations have shown positive effects on schooling and nutrition, but their impact on poverty is still not clear.

CCTs can only work where the poor have access to social services with acceptable quality.

regarding the impact on child labor is not conclusive, since school attendance can be frequently combined with work and requires broader interventions.

The impact on poverty is still not so clear. In the short run, the magnitude of effects on poverty rates varies by programme. In the long run, the translation of higher educational attainment into higher earnings cannot be taken for granted. It depends on the quality of education, rates of employment, absorption of skilled labor in the economy and general rates of return to education.

To understand why CCTs were replicated across the region, we should bear in mind not only their results, but also their fit into the mainstream development discourse. Elements such as gender, human capital, participation, empowerment and targeting are all included, to varying degrees, in CCT programmes.

Politically, CCTs seem quite feasible. Linking cash transfers to certain desirable behaviours among the poor highlights the co-responsibility of beneficiaries for their own well-being and a move away from paternalistic social assistance.

Also, CCTs relate to poor children's present living conditions and future opportunities. They are seen as a way of helping the 'deserving poor' escape poverty, while also boosting long-term economic growth.

Growing urban violence in Latin America and a widespread notion that it is associated with poverty might contribute to the political feasibility of CCTs. Fear might motivate elites favoring public policies directed to address poverty and keep poor children and teenagers in school (and out of the streets). It is notable that the successors of *Progresa* and *Bolsa Escola*, which were initially more concentrated in the poorest rural areas, were expanded for considerable coverage of urban and metropolitan areas.

In the particular case of Brazil, two other elements should be noted. The successes of local CCT programmes had been widely disseminated by the media, which contributed to an increasing degree of support to this kind of intervention. And the decentralized operation of *Bolsa Escola* allowed municipalities to share the credit for it and manage a crucial political instrument: targeting beneficiaries at the local level.

Cash transfer programme challenges

1. **Designing effective exit strategies** – Strategic exit factors are (i) the adequate utilisation of existing data for systematic identification of beneficiaries, and (ii) the performance of the economy in creating employment and expanding the labour market.
2. **Supporting households upon exiting the programme** – Programme graduates need other forms of support to ensure that they do not fall back into poverty when no longer eligible for cash transfers.
3. **Making programmes work both as safety nets and springboards** – Cash transfers and conditionalities do not affect structural poverty; it is necessary also to promote access, supply and quality of services like education, health, vocational training and micro-credits.
4. **Expanding programme eligibility** – Some poor people live outside narrowly defined family households and age groups. Poverty impact would be greater if households without children and elderly were included, as well as single persons.
5. **Avoiding the dichotomy "targeting vs. universalism"** – Targeting social protection is a strategy for preparing the integration of poor and excluded people into full citizenship; in highly unequal societies it is necessary to combine targeted and universal programmes.
6. **Evaluations** – It is necessary to evaluate programme outcomes and processes to learn more about what works, what does not, and why. Evaluations are also useful for enhancing cooperation, disseminating ideas, training agents, improving implementation efficiency, prevent distortions, and for measuring impact. Moreover, evaluations are persuasive tools for finance and planning and for informing the public political debate on social inequality.

Ana Fonseca: *Programas de Transferencia de Ingresos en una perspectiva internacional: características e desafíos,* UNDP 2006.

In principle, CCTs strived for the most accurate targeting possible. From the start, however, both programmes incurred in undercoverage of poor households, as Progresa did not serve communities unattended by health and education services and *Bolsa Escola* excluded families without children in school and people outside conventional households.

In practice, targeting was flawed. Although Progresa's methodology outperformed other targeting methods, community reviews did not take place as originally envisioned, functioning more as legitimizing instances for the previous 'scientific' steps of targeting. In *Bolsa Escola*, there was significant room for political patronage and leakage of benefits, especially considering its pace of implementation.

As *Bolsa Escola's* targeting practices were maintained by its successor, there have been numerous accusations of deliberate targeting errors. The initial view adopted by the government was close to a basic income approach. Targeting was not considered a desirable element of the programme, just a necessary mechanism related to budget constraints. But public opinion has repeatedly demanded tighter procedures to screen potential beneficiaries, indicating an implicit and unresolved tension between two distinct notions of the programme: as a basic universal right or as a targeted response to a need.

CCTs entail considerable capability requirements, especially in their initial set-up. They involve relatively complex targeting mechanisms and delivery logistics besides the need of good coordination with health and education providers. As they expand, however, there can be economies of scale, contributing to keep overall administrative costs low.

Both *Progresa* and *Bolsa Escola* were integrated into existing line ministries, as regular government programmes. While this might increase prospects of sustainability and institutionalization, important administrative challenges remain.

For instance, cost-effective mechanisms for monitoring the compliance of conditionalities, which are at the same time timely and accurate, need to be designed. Also, no clear formula seems to be in place to determine the optimal amount of transfers. In the same way, consistent rules and procedures are needed for the inclusion of new beneficiaries or for 'graduation' from the programmes.

Although these issues point to administrative obstacles, they are also connected to political economy considerations. Recertification of beneficiaries might create tensions with current recipients, highlighting potential conflicts between the counter-cyclical nature of safety nets and a natural trend of transfers to be perceived as permanent entitlements. It can also lead to budgetary redistributions across states, a sensitive issue for federal governments.

CCTs have the advantage of tackling several problems in a single policy. Cash transfers entail less transaction costs than in-kind transfers. And direct transfer to the mothers might generate efficiency gains and female empowerment. However, CCTs can only be effective where no supply biases and geographic barriers exist; they can only be complements to broader social provisioning, never substitutes. They can only work where social services exist and are delivered with an acceptable level of quality.

A crucial question is the need for conditionalities in the first place. The assumption that poor households would not automatically choose to invest in human capital cannot be taken for granted. Would the same impact not be obtained through unconditional transfers combined with significant improvements in the delivery of social services? While this question may well be adequate, political and administrative feasibility might help explain the inclusion of conditionalities in their design; introducing a new programme, even if complex, might still be easier than reforming existing ones.

International leverage appears to have had a smaller role in the original creation of CCTs than previous social safety nets in Latin America. The design of *Progresa* and *Bolsa Escola* was home-grown and international funding was only introduced later. However, international leverage seems to be the key factor explaining the replication of these initiatives in other countries in a relatively short time span.

Chile Solidario: A new paradigm for social protection in Latin America

The Chile Solidario programme aims to eradicate extreme poverty that is persisting in 250,000 households, despite 20 years of fast and sustained economic growth and a strong focus on poverty reduction by the democratic governments since 1990. Previous programmes were segmented along sectoral divides resulting in large efficiency losses, and policy design was ineffective due to insufficient understanding of (i) the multiple causes of poverty, and (ii) the role of households in social protection. They focused on individuals, assuming a stable, male breadwinner. Chile Solidario since 2002 provides comprehensive support for households trying to overcome extreme and persistent poverty, and includes means for strengthening the agency of the poor.

Chile Solidario is novel in several ways:

- Local councils select and approach extremely poor households based on information from a questionnaire about housing, education, employment and assets.
- It has authority to break with sectoral segmentation and enforce integrated implementation among the public entities involved, supported by a modified budget management system.
- There are supporting subsystems providing social information and and advanced impact evaluation of this and related social programmes.
- Cash transfers for water supply, children's schooling, and basic pensions are permanent, while others are limited to two or five years, depending on social workers' assessment.

Chile Solidario is not yet an established form of social action, only a first attempt to construct a comprehensive social protection system, which should include all those facing social risk, not just those living in chronic poverty. Also, a geographical approach should be included; social risks are directly related to local environments.

Santibáñez, C.: ***The Informational Basis of Poverty Measurement: Using the Capability Approach to Improve the CAS Proxy Tool.*** European Journal of Development Research, 2005, 17/1: 89-110.

If the innovative characteristics of CCTs matched many of the concerns of the international agenda on poverty, their visibility to donors was enhanced by scientifically 'proven' results made possible by the experimental evaluation of *Progresa*. This visibility, in turn, accounts for the popularity of CCTs, as additional loans and funds are made available for governments willing to implement them. Moreover, it is translated in considerable efforts of dissemination, as donor agencies increasingly act as intermediaries for the diffusion of 'best practices' among developing countries.

This illustrates how international organizations shape the discourse and practice of social policy around the developing world, but it does not lead to a clear-cut conclusion that governments have no room for maneuver. The home-grown experiences of *Progresa* and *Bolsa Escola* show how this can also work the other way around: they were national ideas 'bought' by donors and 'sold' as innovative solutions elsewhere.

As much as CCTs might have an important role in poverty reduction, there are limits to what they can achieve. Low levels of human capital are a central reason for the low incomes of the poor in Latin America, but this is only one part of the story. Complementary macroeconomic policies, which balance social protection and macroeconomic stabilization, are essential as well as interventions to alter deeply rooted and reproduced inequalities, fostering the accumulation of other assets by the poor.

The increasing prominence of CCTs should be regarded with caution. They can be a step forward from conventional safety nets in the direction of 'enabling springboards' or win-win alternatives for donors and recipients. But they cannot do it all. ■

Tatiana Britto: *Recent trends in the development agenda of Latin America: an analysis of conditional cash transfers.* <http://www.eldis.org/cf/search/disp/docdisplay.cfm?doc=DOC17797&resource=f1>

INSIGHT

Social Protection for Pro-Poor Growth

by Timo Voipio, Ministry for Foreign Affairs of Finland, and Chair, DAC/POVNET Task Team on Social Protection and Social Policy

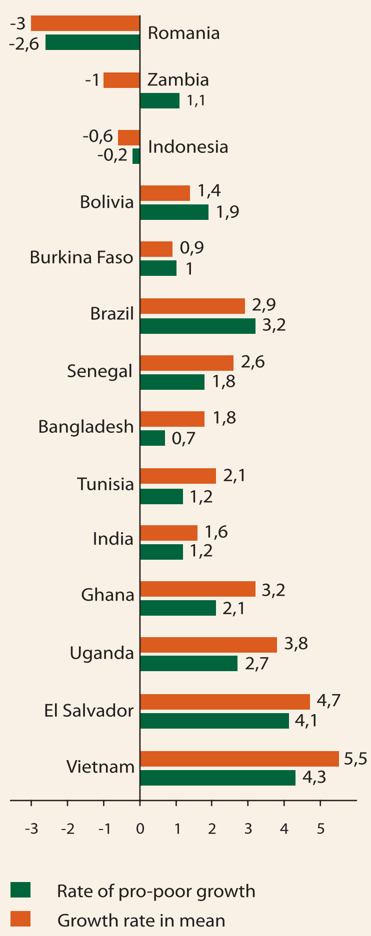
Reducing the economic vulnerability of poor women and men has a triple pay-off:

Enhanced human security, faster economic growth and a pro-poor pattern of growth.

DAC donors are working on it.

Rate of pro-poor growth and growth rate in mean

Percent, early 1990s – early 2000s



Source: ***Pro-poor Growth in the 1990s.*** Operationalization Pro-poor Growth Research Program. World Bank, Washington, D.C., 2005.

The Development Assistance Committee, DAC, of the Organisation for Economic Cooperation and Development, OECD, is a forum for enhancing donor policies and programmes in developing countries. Its Poverty Network (POVNET) drafted the DAC Poverty Reduction Guidelines (2001), promoting the multi-dimensionality of poverty, context-specific approaches and coherence across all OECD country policies.

Recent POVNET work has focused on the theme *Pro-Poor Growth* – how to make GDP growth more effective in reducing multi-dimensional poverty. Growth is often seen only in a few sectors and regions while most poor women and men are neither *participating in, contributing to* nor *benefiting from* growth; then something is wrong with the *pattern* of growth.

One of the major challenges emerging from this work concerned *risks and vulnerability.* The contributions of poor women and men to GDP growth are constrained by their inability to manage the risks and vulnerabilities of engaging in markets. Poor households often engage in low-productivity activities, because they are less risky than potentially high-productivity alternatives. Hence, reducing the risks faced by poor people through reliable social protection instruments can help to increase productivity and stimulate growth by encouraging people to engage in higher risk/higher yield activities. Reducing risks also means that poor people do not have to fall back on coping strategies that can lead to long-term poverty traps, such as selling their assets or depriving their children of food, schooling and health services.

At the initiative of Finland, Germany and the UK, the POVNET has organised a Task Team on Risk, Vulnerability and Social Protection. Other members came from France, Ireland, Japan, Netherlands, Norway, Sweden, Switzerland and USA. Of the multilateral agencies, UNDP, ILO, WFP, World Bank and UNICEF have participated actively. The task of this team is to draft DAC Guidelines on social protection and related broader social policy aspects by the year 2008.

In the first phase of work the Task Team concentrated on making contributions to the POVNET's main output of work, the overarching paper ***Promoting Pro-poor Growth: Policy Guidance for Donors***. After a lot of dialogue and negotiation between the advocates of the more economistic way of thinking and those supporting a more social approach, a compromise language was found that satisfied both.

The key message of the POVNET overarching paper was phrased as follows: *"Rapid and sustained poverty reduction requires pro-poor growth, i.e. a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to and benefit from growth."*

Developing countries with similar rates of economic growth have experienced quite different levels of poverty reduction, due to initial conditions and whether growth occurs in areas and sectors where the poor live and are economically active. Policies often need to create the conditions and remove the obstacles to the participation of poor women and men in the growth process, e.g. by increasing access to land, labour and capital markets and by investing in basic social services, social protection and infrastructure.

Inequality of assets and opportunity hinders the ability of poor people to participate in and contribute to growth. High and rising levels of income inequality lower the poverty reduction impact of a given rate of growth and can reduce the political stability and social cohesion needed for sustainable growth. Gender is a particularly important dimension of inequality. Women face particular barriers concerning assets, access and participation in the growth process, with serious implications for the ability of growth to be pro-poor. The growth experience shows that rising inequality is not an inevitable consequence of the growth process, as long as there is a mix of policies that addresses both growth and distributional objectives, strengthens empowerment and deals with gender and other biases (e.g. race, caste, disability, religion).

In addition to the intrinsic value of greater human security, increasing the economic security of the poor pays the double dividend of helping to sustain faster economic growth and bringing about a pro-poor pattern of growth. Taking advantage of opportunities requires taking risk – producing new crops, entrepreneurship, moving to new areas and jobs all involve risk. With their meagre incomes, the poor are especially vulnerable to the potential consequences of risk taking and are hence reluctant to take on additional risk. Prevention, mitigating and coping strategies that reduce vulnerability to risk are thus important for pro-poor growth; they involve actions towards increasing the reliability of agricultural production and incomes, deepening insurance markets through public-private arrangements so that they reach the poor, and ensuring credible social protection. Policies that provide greater incentive to combine pro-poor growth with sustainable use of natural resources often contribute to reducing the vulnerability of the poor.

There has been a stark dichotomy between development approaches concerned with the productive sectors, usually focusing on enhancing the supply of goods and services, and those concerned with social protection, which have been widely regarded as a drain on public resources. A background paper for the POVNET Risk and Vulnerability Task Team argues that the two are complementary: as well as providing safety nets, social protection reduces vulnerability to risk and so facilitates engagement by the poor in more productive enterprises; they also reduce the dangers of an outflow of capital from productive activities to meet domestic shocks and stresses.

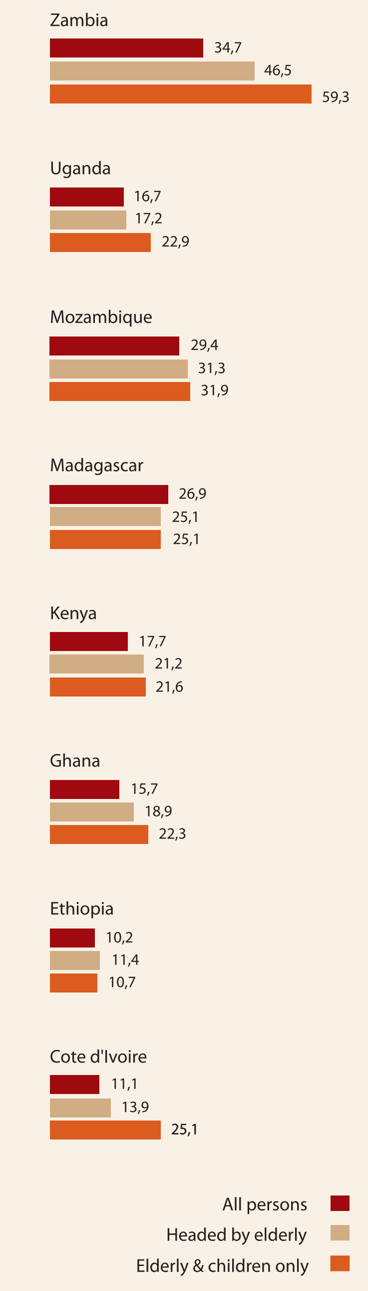
Recent experience suggests an important role for cash transfers in both development and rehabilitation contexts. Different types of cash transfer could be complementary to each other as well as to "in-kind" and other forms of transfer, and to wider public investment. By allowing people to exercise choice, they switch emphasis from the supply to the demand side, at a single stroke increasing local demand for food and other products, and reducing the disruption to local markets that transfers in kind may cause. Preconditions for success in cash schemes include: government commitment to reducing poverty: long-term availability of funds either from taxation or from donor resources; simple, transparent targeting criteria; automatic and robust delivery mechanisms and transparency regarding people's entitlements, so that people become aware of, and may exercise, their rights.

Conditionality might also be appropriate but will depend on the objectives of the cash transfer and will need to be judged on a case by case basis. In this way, cash transfers are likely to be less costly to administer, no more prone to corruption than other types of transfer, and potentially cost-effective reducing certain types of poverty in certain contexts. They are not a panacea, however: they will complement (and have to be complemented by) other instruments, and policy will still have to remove social, market and administrative discrimination against the poor if they are to engage more fully in growth processes.

In the next phase of work the POVNET Task Team on Social Protection and Social Policy will discuss these initial ideas with development partners in the Global South. Interaction will take place in developing countries with donor offices and government departments, partly on a bilateral basis and partly coordinated and harmonised between several donor agencies. ■

Farrington J., Harvey P. and Slater R.: *Cash transfers in the context of pro-poor growth.* Background paper for OECD/DAC POVNET Risk and Vulnerability Task Team, 2005. <http://www.oecd.org/dataoecd/33/58/36570713.pdf>

Poverty gap ratio for different household types



Source: **Kakwani, N. and Subbarao, K.**: ***Ageing and Poverty in Africa and the Role of Social Pensions***, UNDP International Poverty Centre, Working Paper No. 8, August 2005.

International Poverty Centre
SBS – Ed. BNDES, 10º andar
70076-900 Brasilia DF
Brazil

povertycentre@undp-povertycentre.org
www.undp.org/povertycentre
Telephone +55 61 2105 5000

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