2

Giving Money Directly to the Poor

"If a free society cannot help the many who are poor, it cannot save the few who are rich."

—*John F. Kennedy*

Oil-to-Cash rests in part on the idea that distributing oil revenues directly to citizens will advance development more effectively and more equitably than funneling revenues straight into government coffers. But is this assumption true? After all, governments have years of experience managing budgets for health, education, and other services. Does transferring cash directly to citizens really provide any greater benefit?

The evidence in support of cash transfers is ample and growing. Countries in Africa, Latin America, and Asia have been experimenting with cash transfers for years. In many cases the direct transfer of cash to citizens, when properly conceived and executed, has been highly effective in improving the lives of the poor. This chapter gathers evidence from such initiatives around the world and considers what we know and don't know about designing and implementing effective cash transfer programs.

The Poverty Trap

In the war on poverty, battles are being won. In the early 1980s, more than half the population of the developing world, or a staggering 1.9 billion people, lived in poverty.[1] That figure fell sharply in the decade leading

1. Poverty is defined here as living on less than $1.25 a day in 1995 prices. See World Bank (2014).

up to 2005, and by 2010 the proportion was one in five. Extreme poverty is projected to retreat even further by 2015.

Yet even if the current rate of progress is maintained, some 1 billion people will still be living in extreme poverty in 2015.[2] In addition, progress has been uneven. Most of the stunning success has occurred in East Asia, where the poverty rate has plummeted. The picture is not as rosy in India and large parts of sub-Saharan Africa, where poverty rates are still stubbornly high. Chronic poverty, defined as extreme and long-term poverty that often spans several generations, also remains unacceptably high. Between 320 million and 443 million people alive today will spend most or all of their lives destitute, with little hope of an improvement in their situation.[3]

For those fortunate enough to escape extreme poverty, the risk of backsliding is ever present. Illness, accident, and the deaths of family earners or caregivers routinely set back those who have barely climbed out of poverty. Economic downturns and fluctuations in international prices make matters worse. The global financial and economic crises pushed an estimated 50 million more people into poverty in 2009, and a further 64 million people in 2010.[4] Climate change is also making it harder to escape poverty. Millions of people who depend on rain-fed agriculture or who live in flood-prone areas are becoming ever more vulnerable. The number of poor people affected by climate disasters is predicted to rise steeply.[5]

Spurred by recent economic shocks, governments and donors are looking to build more responsive social protection programs. Increasingly, they are turning to a promising new tool: cash transfers. Since 2000, a growing number of developing countries have introduced cash transfer programs. More recently, donors and multilateral development banks have begun championing these programs. Cash transfer programs have spread from a few middle-income countries to all regions of the world. Today, between 750 million and 1 billion people[6] in at least forty-five developing countries[7] receive money directly from their governments.

2. World Bank (2014).
3. Chronic Poverty Research Centre (2008).
4. World Bank (2010).
5. DFID-UK (2011).
6. DFID-UK (2011).
7. Hanlon, Barrientos, and Hulme (2010).

TABLE 2-1. Selected Cash Transfer Programs in Low- and Middle-Income Countries

Country	*Program*	*No. of recipients*
Argentina	Jefes y Jefas de Hogar	1,500,000
Bolivia	Bonosol/Renta Dignidad	800,000
Botswana	Old-age pension	80,000
China	Minimum Livelihood Guarantee (di Bao)	22,000,000
Colombia	Cajas de Compensación Familiar	3,900,000
	Prospera pension	380,961
Kenya	Hunger Safety Net	60,000
Lesotho	Old Age Pension Program	69,046
Malawi	Dowa Emergency Cash Transfer	10,161
Mauritius	Old Age Pension	109,000
Mozambique	INAS Food Subsidy	69,095
Pakistan	Benazir Income Support	2,200,000
South Africa	Child Support Grant	8,893,999
	Older Person's Grant	2,309,679
	Disability Grant	1,377,466
Swaziland	Save the Children Swaziland emergency cash transfer	6,223

Why Cash Transfers?

The design, scale, and objectives of cash transfer programs vary. Some programs provide cash without conditions, while others impose conditions such as school attendance or health clinic visits. Some cash transfer programs target particular demographic groups, such as children, orphans, the elderly, or the disabled, while others focus on people able to work. Latin America, which pioneered cash transfer programs, has typically focused on improving child health and education and on discouraging child labor. In sub-Saharan Africa, programs tend to be geared toward alleviating food insecurity, HIV/AIDS-related problems, and chronic poverty. In almost all cases, cash transfer programs seek to address one or more of the causes of poverty, whether it is a lack of cash, an unpredictable income, limited access to schools, poor health, or inadequate nutrition (see table 2-1).

By now, many cash transfer programs have been examined, dissected, and evaluated. Most of the scrutiny has fallen on programs in the relatively wealthier developing countries, where transfers have been in place for some time and where money and research capacity are available.

But smaller and newer programs in poorer countries have also come under the microscope. In a great variety of locations, the emerging picture is extremely promising: under the right circumstances, giving money directly to people is one of the most effective ways to help them escape poverty. The most prominent reasons for direct cash transfers are detailed below.

Cash Transfers Reduce Chronic Poverty and Inequality

Being poor means trying to survive on an income that is both small and unpredictable. When people do not know how much money they will have tomorrow, next week, or next month, it becomes impossible to plan. Families struggle to keep their children in school, and hesitate to seek treatment when they are ill. They cannot borrow and they cannot invest. And when disaster strikes—whether in the form of a bad harvest, or an illness, or too much or too little rain—families cope by eating less, selling possessions, and withdrawing children from school so they can work.

A predictable income, even a small one, affords the breathing space to ease, or sometimes to escape, poverty. The impact of cash transfer programs on poverty is well documented. South Africa's cash grants, for instance, have reduced the depth of poverty by almost half,[8] while Mexico's poverty gap[9] declined by about a fifth following the introduction of the Progresa cash transfer program, later renamed Oportunidades.[10] Although impacts vary according to how they are measured, there is little doubt that cash transfers directly improve the lives of the poor.

Besides easing poverty, cash transfers help narrow inequalities. Mexico's Oportunidades and Brazil's Bolsa Família, for instance, have helped to significantly reduce the gap between rich and poor. These programs were responsible for more than one-fifth of the inequality reduction observed between the mid-1990s and 2004, as measured by the Gini coefficient.[11] The impact of direct cash transfers on Brazil's income gap

8. Samson and others (2004).

9. The average shortfall between household income and the poverty line.

10. Fiszbein and Schady (2009). Created in 1997, Progresa was the first conditional cash transfer program piloted in Mexico; its careful impact evaluation spurred the popularity of similar programs around the world. In 2001 the program was scaled up, and the following year it was renamed Oportunidades (www.undp.org/content/dam/undp/library/Poverty%20Reduction/Participatory%20Local%20Development/Mexico_Progresa_web.pdf).

11. Soares and others (2009); Veras Soares and others (2006).

was even greater when a broader range of national cash transfers (beyond Bolsa Família) was considered. The programs were found to be responsible for one-third of the decline in inequality between 2001 and 2007[12] and for 28 percent of the reduction in the Gini coefficient between 1995 and 2004.[13] Similarly, South Africa's cash grants reduced inequality by three percentage points and doubled the share of national income captured by the poorest 20 percent of the population.[14]

Cash Transfers Improve Nutrition

Cash transfer recipients tend to eat more and eat better than poor people who do not receive transfers. When poor people receive money, they spend it primarily on food, especially in low-income countries. On average, about half of the value of cash transfers is spent on food.[15] But in Malawi and Ethiopia, recipients spend more than three-fourths of their cash transfers on groceries.[16] In Lesotho, almost half of pensioners report never going hungry, compared to 19 percent before the Old Age Pension Program—a cash transfer program designed to help the elderly—was introduced. Families that receive social grants in South Africa are less hungry than families with a comparable income that do not receive grants.[17]

Besides eating more, those who receive cash transfers also consume greater quantities of protein and produce. Households participating in Malawi's Mchinji program ate meat or fish two days a week, while nonparticipating households ate meat or fish only once every three weeks. In Zambia, cash transfer recipients were found to eat more protein.[18] Families enrolled in Colombia's Familias en Acción began eating more meat, milk, and eggs, while in Mexico and Nicaragua, recipients spend more on meat, fruits, and vegetables than do nonrecipients.[19]

12. Hailu and Soares (2009). Various cash transfers were taken into account, including the lowest level of contributory pension system, partially contributory rural pensions, noncontributory income substitution for those unable to work and who live in poor families, and Bolsa Família.

13. Veras Soares and others (2006). The study measured the impact of both Bolsa Família and Benefício de Prestação Continuada, the means-tested old-age pension and disability grant.

14. Samson, van Niekerk, and Mac Quene (2011).

15. DFID-UK (2011).

16. Yablonski and O'Donnell (2009).

17. Samson and others (2004).

18. Vincent and Cull (2009).

19. Fiszbein and Schady (2009).

BOX 2-1. Food Spending: Consumption or Investment?

Typically, economists consider expenditure on food to be consumption since it is used immediately. Consumption is technically regarded as less productive than investment, which is intended to yield future benefits. This suggests that spending more on food is less desirable than investing. For families at the very low end of the poverty spectrum, however, improved nutrition underpins better health and often improved school performance, which in turn improves labor market participation. In this context, extra consumption might therefore be better thought of as an investment in human capital.

While everyone benefits from eating greater quantities of nutritious food, children benefit the most. In South Africa, children in families receiving the Child Support Grant during their first two years of life are taller than children in families that did not receive this support during those critical first years, thanks to better nutrition.[20] In Brazil's Northeast Region, Bolsa Família has reduced chronic child malnutrition by almost half.[21] Improved nutrition supports better physical and mental development, which in turn can result in better school performance (see box 2-1).

Cash Transfers Increase School Attendance and Health Clinic Visits

Children from families receiving cash transfers also attend more school than their counterparts in families that do not receive transfers. Cash transfers have resulted in higher school enrollment both in middle-income countries such as Chile and Mexico and in low-income countries such as Honduras, Nicaragua, Bangladesh, Cambodia, and Pakistan.[22] In Cambodia, a scholarship program ensured that the 30 percent of girls who otherwise would have dropped out after primary school instead advanced to the next grade.[23]

The impact of cash transfers on school attendance is particularly pronounced for children who were attending school infrequently when the program started. Turkey's program did not affect enrollment in primary school and among boys in high school, as numbers were already high. But it significantly raised teenage girls' attendance, which was initially

20. Agüero, Carter, and Woolard (2007).
21. Cited in Hanlon, Barrientos, and Hulme (2010).
22. Fiszbein and Schady (2009).
23. Filmer and Schady (2006).

very low. Similarly, Nicaragua's intervention produced more bang for its buck than Mexico's or Colombia's, where primary school enrollment was higher before transfers started.[24]

The impact of cash transfers sometimes extends beyond the direct beneficiaries. In Mexico, children of families that were poor but not eligible for Oportunidades became more likely to stay in school because those benefiting from the program were enrolled.[25] By encouraging schooling, several cash transfer programs in Latin America and Cambodia have been associated with reductions in child labor.[26]

Although many programs are conditional on school attendance and would therefore be expected to affect the amount of schooling, cash transfers that come with no strings attached also appear to have a positive impact. South Africa's unconditional Child Support Grant, for instance, improves school attendance, particularly for children who live with their mothers.[27] Pensioners in Lesotho spend some of their pension on school fees, schoolbooks, and school transport, as well as on children's health care, food, and clothes. Children in households that receive pensions attend school more regularly and are better fed.[28]

Many cash transfer programs also require that children receive regular checkups at a health clinic. This mandate typically results in an increase in the use of health services. Programs in Colombia, Honduras, and Nicaragua with such a requirement have led to closer monitoring of the growth and development of young children. In Colombian families receiving grants from Familias en Acción, for example, more than a third more children between two and four years old were seen by a health care provider than in families not receiving such aid.[29] In Chile, Ecuador, and Mexico, by contrast, the impact appears to have been minimal. Similarly, the impact of cash transfer programs on children's immunization rates has been significant in Honduras, Nicaragua, and Turkey but much more muted in Colombia and Mexico, in part because immunizations levels were already high.[30]

24. Filmer and Schady (2006).
25. Filmer and Schady (2006).
26. ILO (2010) and DFID-UK (2011).
27. Williams (2007).
28. Croome, Nyanguru, and Molisana (2007).
29. Attanasio, Pellerano, and Polania (2005).
30. Fiszbein and Schady (2009).

For adults receiving cash transfers intended to improve health, the results are mixed. Some programs have little or no perceptible impact on adult use of preventive health services. But in Lesotho, more than half of old-age pension recipients reported spending more money on health care,[31] and results for families spanning multiple age groups are generally positive. Conditional cash transfer programs in eight countries have been found to improve the uptake of maternal and newborn health services such as prenatal monitoring and skilled attendance at births.[32] In Tanzania, a pilot cash transfer program successfully reduced sexually transmitted infections.[33] Similarly, eighteen months after the introduction of a cash transfer pilot program in a district in Malawi with a high HIV prevalence, the rate of infection among teenage girls enrolled in the program was 60 percent lower than among those who did not receive payments.[34]

Attending school and visiting the clinic are steps on the path out of poverty, though, as discussed later in the chapter, these steps alone do not guarantee learning or better health.

The Multiplier Effect of Cash Transfers

Although cash transfers are primarily designed to help recipients escape poverty, there is limited but compelling evidence that they also help jump-start a virtuous economic cycle. First, transfers help sustain local markets in poor and remote areas by boosting consumption. Recipients who are able to buy more food, household goods, seeds, fertilizer, or cattle often do so locally. Cash transfers in Zambia, Namibia, and Lesotho, for example, have stimulated local businesses,[35] and similar results have been observed in Brazil and in Malawi's Mchinji District.[36]

A guaranteed income covering basic needs also provides a safety net that allows poor families to take more risks. Families can invest in improved farming technology or new businesses instead of stashing money away to use in emergencies. Families in Ethiopia, Zambia,

31. Croome, Nyanguru, and Molisana (2007).
32. Glassman, Duran, and Koblimsky (2013).
33. De Walque and others (2010).
34. Baird (2012).
35. Samson, van Niekerk, and Mac Quene (2011).
36. Hanlon, Barrientos, and Hulme (2010).

Paraguay, and Mexico, for instance, invested part of their cash transfers in farming, livestock, and microbusinesses.[37] Recipients in Ethiopia and India buy more fertilizer and higher-yielding seeds.[38] In northern Uganda, youth who received cash to invest in training and tools earned 41 percent more within four years than those who did not, and were 65 percent more likely to engage in a skilled trade, such as carpentry, metalworking, tailoring, or hairstyling. They were also 40 percent more likely to keep records, register their business, and pay taxes.[39]

For most recipients, investing pays off, amplifying the impact of the cash transfers. Oportunidades recipients in rural Mexico who invested 12 percent of their cash transfer in agriculture or microbusinesses generated average returns of 18 percent. Five and a half years later, those families had boosted their consumption by a third, thanks to the extra income from their investments.[40] Poor rural pensioners in Bolivia, who typically have land but no cash to invest in seeds or livestock, increased their food consumption when they invested their cash transfers in producing more meat and vegetables.[41] In Zambia and Malawi, investments in farming generated jobs when recipients hired labor to plow their fields.[42]

In addition to providing cash to invest, regular transfers can open the door to credit. With few or no possessions to offer as collateral and an often unpredictable income, the poor either face prohibitive borrowing costs or are unable to borrow at all. In Brazil and Bangladesh, cash transfer programs have facilitated access to credit.[43] Reliable cash payments also help bring families into the formal banking system: in South Africa, 42 percent of people receiving Child Support Grants have a bank account, a significantly higher proportion than the 24 percent of nonrecipients at similar income levels.[44]

Although cash transfers have delivered measurable benefits to recipients, it is still hard to gauge their overall influence on a country's economy.

37. DFID-UK (2011).
38. Hanlon, Barrientos, and Hulme (2010).
39. Blattman, Fiala, and Martinez (2013).
40. Gertler, Martinez, and Rubio-Codina (2006).
41. Barrientos and Scott (2008).
42. Wietler (2007).
43. Barrientos and Scott (2008).
44. Hanlon, Barrientos, and Hulme (2010).

There is little evidence so far linking cash transfers and GDP growth one way or the other.[45]

Cash Transfers Ease Disaster Recovery

Most cash transfer programs are meant to be long-term interventions to ameliorate chronic conditions. But as these programs expand from middle-income countries to poorer parts of the globe, they are being used to respond to emergencies, replacing in-kind assistance such as food aid and shelter. Disaster-stricken families who receive cash can then decide for themselves what they need most, and these programs can smooth the transition from relief to recovery.

Ethiopia established its Productive Safety Nets Program in 2005 as a response to chronic food crises. The program provides public works jobs between January and June, when farmwork is scarce; families without a breadwinner to take advantage of these jobs receive cash. The program also offers credit and agriculture extension, and by 2008 it covered more than 7 million people. At a cost of nearly 2 percent of the national economy, it is the largest cash transfer program in the region after South Africa's.[46]

In Pakistan the safety net system was overwhelmed following floods that devastated much of the country in July and August 2010. With more than 20 million people affected, 1.6 million homes destroyed, and 2.4 million hectares of crops damaged, the government had to act fast. In September, federal and provincial authorities launched a cash grant program to assist people affected by the floods. Within three months, 1.4 million families were registered and had received an initial grant of PKR 20,000 ($230), with another 400,000 households expected to be part of the first phase. Families spent their money mainly on food, medical bills, repairs, and debt payoff. The worst-affected and most vulnerable families were expected to receive an additional PKR 40,000 in a second phase to cover basic needs, and to repair houses, recapitalize assets, and recover their destroyed livelihood.[47]

Donors are encouraging this shift to cash transfers in the wake of disasters. International financial institutions, including the World Bank, are supporting Ethiopia's and Pakistan's programs. In response to the earth-

45. DFID-UK (2011).
46. Hanlon, Barrientos, and Hulme (2010).
47. World Bank (2011).

quake in Haiti in January 2010, some relief agencies are relying on cash transfers to assist victims, and the European Union is increasingly delivering humanitarian assistance through cash and voucher programs.[48]

While cash transfers used for disaster response are fundamentally different in both scope and duration from programs seeking long-term effects, they have also demonstrated the feasibility of such programs under the most challenging circumstances.

Cash Transfers Improve the Social Contract

The poor often have little political voice. Disempowerment, poverty, and acute inequality feed tensions that weaken the state in many developing countries. Establishing a direct financial channel between the state and its poorest citizens can strengthen a country's social fabric and help build national identity.

Creating and maintaining a "social contract" is essential to political stability. Through the social contract, the state and its citizens are bound by mutual obligations: authorities are expected to provide law and order, infrastructure, and public services, in exchange for which citizens owe allegiance to the state and are expected to respect institutions and pay taxes. A breakdown of this give-and-take threatens political and social stability.

Social protection can be part of this compact. In some cases, cash transfer programs were introduced to improve national cohesion. Mexico launched its Progresa program in part to address the roots of the 1990s Chiapas uprising, while the rapid expansion of China's Minimum Livelihood Guarantee and Argentina's Jefes y Jefas de Hogar attempted to defuse threats of unrest prompted by rising unemployment.[49] Kenya extended cash transfers and dedicated significant resources to fiscal protection even during the global economic recession to promote stability following the political violence that rocked the country in 2008.[50] Similarly, Sierra Leone's and Nepal's interventions were designed to promote social cohesion and contribute to peace processes.[51]

Social protection may also strengthen community bonds and solidarity. Colombia's Familias en Acción program improved cooperation

48. DFID-UK (2011).
49. Barrientos and Hulme (2008).
50. McCord (2009).
51. Holmes (2009).

among participants in Cartagena by requiring that they participate in social activities and thereby interact.[52] Mexico's Progresa program reinforced social relationships among women covered by the program, some of whom banded together to oppose violence and abuse.[53] Participants in Chile's program became more aware of social services in their community and began to proactively seek help from local institutions, an outcome suggesting better social inclusion.[54] Pensioners in Lesotho and Namibia reported enjoying more respect and an enhanced social status thanks to their improved financial position.[55]

Little is known about the influence of cash transfers on politics, but recipients appear more likely to vote, and to vote for the politicians and parties that introduced the cash transfer program. There is some evidence that conditional cash transfers in Mexico translated into higher electoral turnout and support for the incumbent in the 2000 presidential election, even though every candidate committed to expanding the program. But this did not appear to reflect clientelism or vote buying: the distribution of federal money straight to voters actually weakened the hold of local political barons and their selective generosity.[56] In Uruguay, beneficiaries of the PANES program, or Plan de Atención Nacional a la Emergencia Social, were significantly more likely to favor the incumbent government, which had introduced the cash transfers; the effect of the transfers on political support was particularly pronounced among the poorest recipients and swing voters.[57] In Brazil, mayors who had successfully and transparently implemented cash transfers were more likely to be reelected, but the impact of cash transfers was greater in municipalities governed by first-term mayors than in municipalities with incumbents who were ineligible for reelection, suggesting strong electoral incentives to perform.[58] Bolsa Família may also have helped shift President Lula da Silva's voting base away from the more developed regions and toward the poorest areas of the country.[59]

52. Attanasio, Pellerano, and Polania (2008).
53. ILO (2010).
54. ILO (2010).
55. ILO (2010).
56. De La O (2011).
57. Manacorda, Miguel, and Vigorito (2009).
58. De Janvry, Finan, and Sadoulet (2009).
59. Zucco (2008).

What Makes Cash Transfers Work?

There is little debate that when properly designed and implemented, cash transfers work for many objectives. Those who receive money are less vulnerable and can carve a foothold out of poverty. But cash transfers are no magic bullet. They do not work in isolation, and no single formula fits all circumstances. Their design must reflect each country's objectives, poverty profile, and fiscal and skills constraints, as well as its political and social environment. In other words, successful cash transfer schemes are tailor-made, not mass-produced. Nonetheless, some lessons have emerged from the growing body of evidence around the world. The characteristics that must be considered on a country-by-country basis to make cash transfers work are described below.

Clear Objectives

The objectives of a cash transfer program should be clear from the outset, as they influence scope and design. Are transfers meant to ease immediate poverty or instead to focus on the next generation? Is the goal to achieve immediate improvements in welfare or longer-term development? Will the program support the most vulnerable—such as children, the elderly, or the disabled—or target those who can work, as a way to create a virtuous economic cycle?

Of course, a program can have more than one objective. But fiscal constraints, politics, and the nature and extent of poverty in each country demand choices, as does a country's capacity to design and implement programs. Even wealthier countries, which may have fewer fiscal and capacity restraints than their poorer counterparts, need to clearly define their objectives in light of economic and political realities.

Conditional versus Unconditional Funding

Do recipients send their kids to school and undergo health checkups because they have to, or do they do it anyway and to the same extent when cash is transferred with no strings attached? Programs that focus on reducing poverty by improving human capital tend to be conditional; many of Latin America's cash transfer programs fall into this category. Mexico's Oportunidades program, for instance, requires that mothers bring their children to health clinics for regular checkups and vaccines, and attend meetings on health and nutrition. Mothers who fail to uphold their end of the bargain lose their grants. Cash may also be conditional on school attendance. In Brazil, skipping school or failing to go to the clinic earns grant recipients a visit from social services. Supporters of conditioning grant funding on a certain set of behaviors argue that parents do not always make choices that are in their children's best interest, either because they are misinformed or because they prioritize their own interests above their children's. To prevent inherited poverty, conditional cash transfer programs aim to give children a fair start in life, beginning with access to health services and education.

In contrast, programs with a rights-based approach to social assistance often come with no strings attached. Cash transfers in sub-Saharan Africa's wealthier countries, such as South Africa's child support benefit, are all unconditional,[60] as are old-age or disability pensions in most countries.

Whether to impose conditions on cash transfers is not always an ideological choice but is often a pragmatic one. Imposing conditions for receiving grants is not only burdensome for recipients, it is also costly for governments. Verifying compliance costs money and requires a well-functioning civil service. Imposing conditions also means that adequate schools and health services must be available: requiring children to go to school if there are no schools nearby is unfair and impractical. These real-world constraints are particularly problematic in poor countries, and so it is not surprising that the overwhelming majority of cash transfer programs in low-income or fragile states in sub-Saharan Africa are unconditional.[61]

But even if conditions can feasibly be met, are they necessary? Supporters of unconditional cash transfers argue that the main reason parents do not send their children to school or take them to the clinic is either that they cannot afford to or that these services are not available. If parents actually invest in their children when given the means to do so, and if taxpayers are willing to finance unconditional cash transfers, then attaching strings to cash transfers makes little sense. Although grants that require parents to send their children to school can clearly boost attendance, what about schemes that do not? In many cases they deliver

60. Garcia and Moore (2012).
61. Garcia and Moore (2012).

the same results: in South Africa, Namibia, and Lesotho, unconditional benefits also translate into more schooling, particularly for girls.[62] In other words, it is unclear whether higher school and clinic attendance should be credited to the conditions or to the availability of cash.

A pilot scheme in Malawi's Zomba District attempted to settle this debate by comparing school attendance among families receiving conditional and unconditional cash transfers. The pilot program confirmed that cash transfers significantly improved school attendance overall. But it also concluded that the enrollment, attendance, and school results of girls who had received conditional cash transfers were higher than those of girls who benefited from unconditional grants. However, grants conditional on girls' school attendance were less effective in delaying marriage and pregnancy than unconditional grants, possibly because the attendance requirement was too onerous or failed to make education more attractive than marriage.[63] The Zomba experience illustrates that rigid conditions can potentially backfire, withdrawing social protection from poor families that may need additional help.[64]

Apart from the question of social impact, establishing conditions is sometimes politically expedient. Securing broad political support to spend public monies on the poor may be easier when grants are not perceived as free handouts but as rewards for "good" behavior. The Brazilian media's reporting on Bolsa Família illustrates this point.[65] More surprisingly, beneficiaries themselves may prefer conditional transfers, as seen in Kenya and Zambia.[66] In Zambia, conditions allowed beneficiaries to better negotiate household expenses with their spouses.

To address logistical complications and political considerations, a number of countries have adopted "soft" conditions. In these schemes, beneficiaries formally agree to a list of conditions but are not penalized if they fail to comply. This approach has been popular in sub-Saharan Africa, where conditional programs are on the rise but the capacity to

62. Garcia and Moore (2012).

63. Baird, McIntosh, and Özler (2010). These perplexing findings are even more confusing when considered in conjunction with a preliminary version of the study (Baird, McIntosh, and Özler 2009). The preliminary study reported an opposite finding: the impact, on average, was similar for both conditional and unconditional cash recipients.

64. Samson, van Niekerk, and Mac Quene (2011).

65. Fiszbein and Schady (2009).

66. Garcia and Moore (2012).

monitor compliance or to provide the extra schools and clinics needed to meet the demand created by the conditional transfers is often limited.[67]

The Supply Side: Providing the Services to Support Cash Transfers

Cash transfers cannot work in isolation. To ease poverty in the short and long term, recipients need access to markets to spend the cash they receive, and to adequate schools and clinics. This means that authorities must respond to the demand these programs create by providing not only more services but also better ones.

Expanding services requires different approaches in different contexts. Where services are already available but hard to access, expanding may only require improving access. In Chile, for instance, an adequate network of schools and health services was already available and could accommodate the relatively small number of people targeted by Chile Solidario. No expansion was necessary, but social workers coordinated with municipalities to make sure that existing services were available to beneficiaries.[68]

In most countries, however, meeting the extra demand for services requires adjusting supply and facilitating transport. Where they are not already available, governments may need to build new classrooms and clinics. Mexico, for instance, refurbished rural primary schools and built secondary schools, while mobile health teams expanded into underserved areas. Bangladesh's share of education in social spending almost doubled to expand the schooling system, and an increase in private schools also helped fill the gap. El Salvador deployed mobile brigades and nongovernmental organizations to provide basic health and nutrition services.[69] Nicaragua provided financial incentives and training to mobile health teams contracted from the private sector to visit beneficiaries, and to teachers to cover the extra workload.[70]

Yet in many developing countries, it is the quality of public services that is inadequate, and quality is harder to fix than quantity. This might explain why cash transfer programs, while resulting in a higher demand for education and health services, have so far had a less convincing impact on education and health outcomes. Although cash transfers can

67. Garcia and Moore (2012).
68. Fiszbein and Schady (2009).
69. Fiszbein and Schady (2009).
70. Moore (2009).

be credited with lower rates of illness and mortality among recipients in Malawi, Colombia, and Mexico,[71] a study of several conditional cash transfer programs in other countries found mixed impacts on illness, child mortality, height, and anemia.[72]

Targeting

Should cash transfer programs target those who need them most, or aim more broadly? Much depends on the program objectives and on a country's administrative capacity and poverty profile. Most transfers incorporate some targeting. Many programs attempt to focus on the poorest, often choosing recipients based on where they live, what they own, or how much they earn. Old-age pensions, child support grants, and disability benefits target specific demographics. Emergency programs often focus on regions worst affected by natural disasters. Most schemes combine several targeting criteria.

Mexico's Oportunidades relies primarily on a census that assigns points to families based on age, gender, and education level, as well as on access to amenities such as water and electricity and ownership of a TV or radio. In Brazil, eligibility is based on local authorities' identifying those considered low income. South Africa's Child Support Grant is distributed based on the age of the children and, in theory, income, although the means test is no longer strictly enforced as it tended to exclude too many eligible families. Lesotho's and Nepal's pensions are based on age only. Public works programs often target areas where rates of poverty, unemployment, or malnutrition are highest.

Targeting offers a significant advantage: it reduces the cost of benefits by focusing on a smaller number of recipients. Targeted schemes in Latin America typically cost less than 1 percent of GDP.[73] When properly implemented, targeting ensures that resources are spent on people who need them most. When resources are scarce, targeting also makes available larger transfers for each family rather than spreading cash thinly among a larger group of recipients, as discussed in the next section.

Yet targeting, particularly if conducted using sophisticated methods that rely on proxy means or means tests, is not always effective. It requires resources and a bureaucracy that is sophisticated enough not

71. DFID-UK (2011).
72. Fiszbein and Schady (2009).
73. DFID-UK (2011).

only to determine who should benefit from the program but to weed out abuses, too. This may not be realistic in low-income countries. Poor administration results in granting benefits to people who should not receive transfers and excluding others who should. On a large scale, these errors undermine a program's credibility and can potentially fuel social tensions.

Targeting can also create a heavy burden on potential beneficiaries, who must prove they meet the eligibility requirements. Proving one's age when official identification documents are rare, for instance, can be challenging. This is why Nepal's social pension program accepts horoscopes as proof of age when applicants cannot provide birth certificates.

Perfect targeting is difficult to achieve, and it commonly misses more than half of eligible beneficiaries. In Bangladesh, for example, only 6 percent of the eligible poor are reported to receive the government's social pension, and South Africa's Child Support Grant reached only one in ten eligible families the first few years after it was introduced.[74]

When poverty is widespread and people move in and out of its grasp repeatedly over time, the savings generated by limiting the number of beneficiaries may not outweigh the effort and cost of targeting. A study of fifteen African countries where poverty rates were extremely high found little difference between universal provision and perfect targeting.[75] Focusing exclusively on the poorest may also undermine vital political support from the rest of the population for transfers.

While income targeting is widespread in Latin America, poorer countries tend to rely on simpler forms of targeting. Several methods can be combined. Almost eight in ten cash transfer schemes in sub-Saharan Africa target demographic categories such as children and the elderly. Schemes targeting specific regions or relying on local communities to choose beneficiaries are particularly popular among low-income countries in the region.[76] Kenya's program supporting orphans and vulnerable children, for instance, identifies recipients by combining methods. Districts are first selected based on HIV prevalence, and community members then propose recipients based on defined criteria. The community's preliminary selection is sent to Nairobi, and a final decision is made after further household visits and according to community-

74. Samson, van Niekerk, and Mac Quene (2011).
75. Kakwani, Veras Soares, and Son (2005).
76. Garcia and Moore (2012).

validated rankings. Local communities also play a central role in identifying recipients in Malawi's Social Cash Transfer Program.[77]

Size

Cash transfers are often not enough to lift families out of poverty. But transfers can significantly improve a family's lot, provided they are appropriately sized and predictable. Although small amounts of cash can make a difference, transfers that are too small are unlikely to have much impact; when conditions impose extra costs, the impact is even slighter. Transfer schemes in Honduras and Mozambique were found to have little influence on nutrition, for instance, owing in part to the low transfer value.[78] In both cases the value of the grants was less than 10 percent of the poverty line.[79]

By some estimates, grants need to increase family consumption by at least 10 percent to be perceived as useful and by 15–20 percent to make a significant difference.[80] The right level of benefits depends largely on program objectives and fiscal resources. The value of transfers meant primarily to deal with short-term poverty, for example, often reflects poverty thresholds. Lesotho's Old Age Pension was set at the equivalent of $25, or the national poverty line for one person.[81] Programs that focus on changing behavior toward schooling usually consider the cost of education, from the cost of school fees, uniforms, and transportation to the forgone revenue from child labor. Likewise, the price of food influences the value of transfers meant to improve nutrition. The benefits of Zambia's Kalomo pilot project—equivalent to $6 a month, or $8 for families with children—were meant to cover the cost of one meal a day. The Latin American standard is 20 percent of the average household consumption for the target population.

Regardless of size, payments should be indexed to inflation, or benefits will erode over time. Another consideration in determining transfer size is the presence (or absence) of family caps. Some programs have paid per child, since larger families have greater expenses and are generally poorer. However, because of possible concerns about fertility

77. Handa and others (2012).
78. DFID-UK (2011).
79. Yablonski and O'Donnell (2009).
80. Hanlon, Barrientos, and Hulme (2010).
81. Samson, van Niekerk, and Mac Quene (2011).

incentives, most Latin American programs (Honduras is an exception) have started payments only at age six, or else have established ceilings on family totals.[82] In Africa, Kenya provides a flat transfer regardless of family size, while programs in Malawi, Ghana, and South Africa have capped benefits at four children.[83]

Financing

How much to transfer and to how many people depends to a large extent on what the government can afford. Middle-income countries are able to finance relatively generous cash transfer programs. The South African government spends between 11 and 12 percent of its budget, or about 3.5 percent of GDP, on social benefits that are distributed to more than 10 million children and 3.8 million old-age pensioners and disabled people.[84] Brazil's Bolsa Família and Mexico's Oportunidades absorb only 0.4 percent or so of GDP and cover almost a quarter of the population. The Bantuan Langsung Tunai unconditional cash transfer benefited a third of Indonesians for less than 1 percent of GDP.[85]

But what about poor countries? Although small budgets and weak administrative systems impose stark choices, social protection is possible. Benefits are often small, or limited to few beneficiaries. Nepal's universal old-age pension, for instance, costs about 0.1 percent of GDP, but only those older than seventy-five are eligible, and they receive the equivalent of $2 a month—about one-tenth of the per capita income.[86] Lesotho's universal Old Age Pension Program costs 1.4 percent of GDP.

Various simulations have estimated the cost of cash transfers in poor countries. Providing $1 a day to people older than sixty-five years in forty African countries would range from 0.1 percent of GDP in the Seychelles to a whopping 10.6 percent in Ethiopia, whereas transferring an amount equivalent to 70 percent of the national poverty line to the same age group in fifteen African countries would cost from 0.7 percent of GDP in Madagascar to 2.4 percent in Ethiopia.[87]

82. Handa and Davis (2006).
83. Handa and Davis (2012).
84. Authors' calculations based on data from the South African Treasury.
85. Grosh and others (2008).
86. Grosh and others (2008).
87. Grosh and others (2008).

According to the United Nations' International Labor Organization, some minimal level of social protection can be affordable even in poor countries. A universal old-age and disability pension set at 30 percent of income per capita and capped at $1 a day would cost between 0.6 and 1.5 percent of GDP in the twelve African and Asian countries the study considered.[88] A universal child benefit of 15 percent of GDP per capita for those less than fourteen years old would range between 1.2 percent of GDP for richer countries (such as India) and 3.6 percent for poorer ones (such as Tanzania), with costs diminishing over time in most countries. And providing some employment scheme for up to 100 days a year to those not receiving any other assistance would amount to 0.3–0.8 percent of GDP in those countries.[89]

One analysis of the fiscal space available for cash transfers concluded that countries should proceed with caution. The Overseas Development Institute (ODI) reviewed five African countries and found all were severely constrained, either by existing fiscal and macroeconomic restrictions or by limited administrative ability. In addition, the review warned that meeting targets for social spending would come at the expense of other sectors that might be contributing to economic development.[90]

Although scant resources are a significant challenge, poor countries that have adopted some form of cash transfer have demonstrated that minimum social protection is not a luxury only richer economies can afford. Some, such as Lesotho, dig into their own fiscal pockets. Bolivia and Mongolia have been taxing gas and mineral exports to help pay for cash transfers. And some countries, such as Ethiopia, have turned to foreign donors to help them foot the bill. That levels of social protection in low-income countries are not systematically related to per capita income suggests that fiscal constraints are only part of the story, and that politics are involved as well.[91] A study looking at the fiscal space for social protection in five countries in West and Central Africa concluded that small oil-rich countries in the Gulf of Guinea could afford both universal child benefits and social pensions, and also found space for more

88. These countries were Burkina Faso, Cameroon, Ethiopia, Guinea, Kenya, Senegal, Tanzania, Bangladesh, India, Nepal, Pakistan, and Vietnam.

89. ILO (2008).

90. DFID-UK (2011).

91. Kabeer (2009).

modest initiatives in the poorer countries.[92] The study concluded that developing political commitment, governance conditions, and administrative capacity was more challenging than finding budgetary resources in those countries.

Although countries can sometimes rely on external help in financing their social protection programs, it is not an ideal arrangement in the long run. Leaving governments out of cash transfer schemes often leads to small, fragmented programs that fail to capitalize on economies of scale, overlap, or are patchy, and leave beneficiaries subject to donor preferences and funding cycles. Yet only a third of the cash transfer schemes in sub-Saharan African countries are funded exclusively by those countries' governments.[93] In the poorest countries in the region, no program is financed by the public purse alone. Most initiatives are supported by a combination of government and foreign partners or exclusively by nongovernmental sources, such as donors or nonprofit organizations. The trend is shifting toward greater domestic funding and institutionalization, however. Some countries are seeking to reallocate funds. Ghana, for instance, is using resources from the Heavily Indebted Poor Countries initiative, started by the IMF and the World Bank in 1966, for its cash transfer program, and Malawi is relying on AIDS funds. Many countries could increase their tax collection to support cash transfer programs, and phasing out ineffective social programs would free up resources to finance more efficient cash transfer programs.[94]

The Politics of Cash Transfers

Cash transfer programs cannot take root unless political leaders champion them and convince middle-class and wealthy taxpayers that such programs represent money well spent, even though the money is not spent on those most taxed for them.

Attitudes toward poverty, and toward taxpayers' bearing some of the cost of relieving poverty, vary across countries. Taxpayers are more amenable to bearing the cost of social protection schemes if they believe

92. ODI and UNICEF (2009). The five countries were the Republic of Congo, Equatorial Guinea, Ghana, Mali, and Senegal.

93. Garcia and Moore (2012).

94. Garcia and Moore (2012).

that the poor deserve to be helped, that they will use the money wisely, and that giving them a hand does not make them dependent. This often takes some convincing. When Ghana launched the Livelihood Empowerment Against Poverty (LEAP) program to assist vulnerable children and orphans, the elderly, and the disabled, public concern centered not on the expense but on whether the money would be wasted by the poor. Ghanaian authorities launched a publicity campaign to explain the government's social protection strategy and the exact nature of the grants; the campaign was crucial to winning support for the program and ensuring its launch.[95]

Starting small and demonstrating positive results also wins support, paving the way for a wider rollout. Ghana's Ministry of Manpower, which championed the LEAP scheme, first secured relatively modest funds to develop and test its cash transfer program. It established a pilot program covering 1,200 people and designed with the experiences of Brazil, Zambia, and South Africa in mind. The initial pilot program helped convince the broader public of the benefits of cash transfers and nudged the Ministry of Finance to allocate money to expand the program.[96]

Monitoring existing programs helps not only to improve them but also to build support when positive results are widely shared. The popularity of Mexico's Oportunidades is attributed in part to well-documented evidence that the program eased poverty and encouraged recipients to send their children to school. In contrast, Nicaragua's Red de Protección Social illustrates that even successful programs cannot survive without sufficient popular support. Introduced in 2000 as a pilot project targeting the poorest families in six municipalities, the program increased nutrition, vaccination, and schooling while reducing poverty and child labor, all within two years.[97] Despite its success, however, the program was unable to mobilize political support, and its purpose and performance were misunderstood. There was no funding, and no time for a campaign to dispel the widely held view that the program bred dependency, trapped people in poverty, and cost too much. Administration of the program was transferred to the Ministry of the Family, which

95. Sultan and Schrofer (2008).
96. Sultan and Schrofer (2008).
97. Maluccio and others (2005).

meant a loss of autonomy, efficiency, and credibility. The program was discontinued in 2006.[98]

Implementation: The Mechanics of Cash Transfers

The most efficient programs make sure cash reaches the intended beneficiaries at the lowest possible cost while minimizing fraud and corruption. An increasing number of schemes are adopting electronic transfers and other innovative methods to distribute benefits: almost half of forty social transfer programs introduced since 2005 rely on electronic delivery of cash payments.[99] Even in the poorest countries, where the financial infrastructure is embryonic, innovation relying on mobile phones and card systems is taking root.

Electronic transfers tend to be cheaper, safer, and often more convenient. Recipients no longer have to travel to a specific location on a given day to collect their cash, which is instead deposited into a bank account. When Brazil's Bolsa Família switched its payment system to electronic benefits cards, administrative costs were slashed from almost 15 percent of grants to less than 3 percent. South Africa cut the costs of delivering its social security transfers by 62 percent when it started to use private bank accounts.[100] Electronic transfers are advancing financial inclusion in many countries, including South Africa, India, and Brazil, where more convenient and affordable financial products are now reaching even those without bank accounts. Where bank branches are unavailable or impractical, small shops or mobile phone networks can become service points. In addition, mobile phone networks are increasingly offering bankless payment systems, such as M-Pesa in Kenya.

Transferring benefits directly to recipients through debit cards or mobile phones also reduces opportunities for corruption, as officials—some of whom may be tempted to ask for bribes or pilfer straight from the till—are no longer needed to handle cash payments. And biometric data technology and personal identification numbers, which are gaining currency in the developing world, help weed out fraud.

The number and variety of cash transfer experiments currently under way and the growing popularity of these programs suggest that coun-

98. Moore (2009).
99. Pickens, Porteous, and Rotman (2009).
100. Pickens, Porteous, and Rotman (2009).

tries will continue to experiment with them. Because cash transfer programs lend themselves to experimental design and rigorous evaluation, they are also helping to create a new standard for impact. Increasingly, the question asked of development interventions will be, is this approach more effective than simply providing cash? This same question thus faces policymakers pondering how to spend a windfall: how might alternative expenditure options compare to cash transfers?