SUMMARY This paper dives into a new stream of human development thinking; namely that of cash transfers channeled directly to the households of the poor. The aim of the assignment is to investigate the short- and long-term developmental potential of cash transfers on the basis of the design dimensions of safety-net schemes, as well as relevant literature on the subject and empirical evidence, mainly derived from the “Family of Hope” conditional cash transfer programme of Indonesia.

KEY WORDS Cash transfers, human development, pro-poor growth, Indonesia
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<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
</tr>
<tr>
<td>CT</td>
<td>Cash transfer</td>
</tr>
<tr>
<td>CCT</td>
<td>Conditional cash transfer</td>
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<tr>
<td>U.N.</td>
<td>United Nations</td>
</tr>
<tr>
<td>PKH</td>
<td>Program Keluarga Harapan</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organization</td>
</tr>
<tr>
<td>PPP</td>
<td>Purchasing power parities</td>
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**Introduction**

The United Nations’ “Millennium Development Goals” aim to improve developmental results in the fields of child and maternal health, gender equality, education, HIV/AIDS, environmental sustainability, poverty and hunger, and development cooperation (Waage et al., 2010: 4). One potential solution to some of the abovementioned challenges (U.N., 2010: 5) has gained increasing attention from developmental scholars and practitioners during the last decade. As articulated in Hanlon et al.’s “Just Give Money to the Poor” (Hanlon et al., 2010: ix), this idea is so simple that it seems radical: Channeling cash to poor people – of which an almost inevitable core trait is a basic lack of capital – has the potential to improve the living standards of the poor while continuously generating durable developmental outcomes in the areas of health, human capital, and income growth.

Social cash transfer schemes in developing countries – long a fundamental element of the welfare systems of many industrialized nations (Hanlon et al., 2010: 21; OECD, 2011: 55) – have grown in numbers since the end of the 1990s when a few pioneer countries (most notably, Brazil) introduced so-called “conditional” cash transfer programmes targeted at the poor (Figure 1).

The aim of this paper is to investigate the claimed developmental potential of CT programmes for the alleviation of poverty: *Under which circumstances, and how, are cash transfers to the poor capable of spurring development in low- and middle-income countries?*

Because of the multi-dimensionality of cash-based poverty relief schemes, this research question will be examined on the basis of five design dimensions of cash transfers, and in terms of short-run as well as longer-run outcomes. Examples from several real-world transfer schemes will be employed, particularly the Indonesian “Family of Hope” (PKH) programme.
**Figure 1:** The spread of cash transfers in developing countries

**Figure 1.a:** Presence of CT programmes in developing countries 1997

**Figure 1.b:** Presence of CT programmes in developing countries 2011

**Setting the stage: the history of cash transfer-based poverty reduction**

Though direct CTs to poverty-stuck citizens are a relatively new intervention tool in the welfare arsenal of developing countries, they are not new in a (post)industrialized context. The welfare states of such countries as those in Western Europe have roots stretching
back a century or more, with the highest intensity in public welfare-building occurring from the mid-20th century and onwards (Esping-Andersen, 1990: 15). Even though public spending indicators are notoriously inadequate in measuring the real impacts and composition of social protection systems, they can, however, provide us with a clue as to the ‘size’ of public welfare interventions in a country. The graph in Figure 2 plots per capita income and public social spending as a percentage of GDP. There is a clear tendency for high-income countries to be big spenders on the formal welfare of their citizens, whereas low-income countries are light-weights with regards to welfare programme expenditure.

![Figure 2: Public expenditure on social protection (excl. health) as a % of GDP](image)

Data from ILO. Years vary from 2000-2007 due to unavailability of current data.

There are, of course, limits to the comparative relevance of experiences from the social protection systems of the developed world for low- and middle-income countries establishing social programmes from scratch, and vice versa. Even though there are certainly poor people in high-income countries, too, the scope and depth of poverty is undoubtedly much more severe in especially the least developed countries. Additionally, the capacity for implementing ambitious social safety-nets is often not available to the same extent as in OECD-countries: Taxation capacity might be low due to large informal sectors (Standing, 2007: 1; Banik, 2010: 22), high unemployment rates, or a lack of infrastructure and technology, and institutional constraints on the straight-forward execution of a
transfer policy, such as corruption (Banik, 2010: 58), geographically isolated areas (Hutagalung et al., 2009: 12), a lack of banking sources (Banerjee & Duflo, 2011: 184), insufficient means or lack of personnel, or other factors might distort the efforts of even well-meaning and skilled bureaucrats. The particularities of the individual context should always be given due weight when designing a transfer scheme.

The Indonesian “Family of Hope” programme

Though generally characterized by a healthy recent economic development, the economy of Indonesia was hit hard by the 1997-1998 Asian financial crisis, which is claimed to have caused critical set-backs for the country’s poor (Dercon, 2006: 14). As a response, the Government of Indonesia introduced an unconditional CT scheme in 2005, replacing a fuel subsidy primarily benefitting the better-off. In 2007 this programme was replaced by a conditional social assistance programme – also a CT –, targeted at poor households to provide an economic incentive for poverty-struck families to invest in the health and schooling of their children. The scheme is a family benefit and is planned to run until 2015 by which it should have reached approximately 6.5 million chronically poor families.

The development potential of cash transfers – a short-run perspective

Following Künneemann & Leonhard (2008), a cash transfer is here defined as “state-run cash transfer programmes whose main aim is to guarantee a minimum level of consumption to the recipients” (Künneemann & Leonhard, 2008: 7). Furthermore, while cash-based responses to human emergencies, such as famines, natural disasters, etc., are growing increasingly more common, the present paper will solely focus on CTs designed to tackle poverty and underinvestment in nutrition, health, and education on a longer-term basis.

In the following, five dimensions of transfer scheme design will be presented, simultaneously forming the basis for the discussion of the potential for short-term poverty reduction and the analysis of the Indonesian “Family of Hope” programme. By the expression “short-run” is meant outcomes that are expected to manifest within a few years of implementation of the scheme.

1. Financing principle

Every social arrangement protecting the economic welfare of an individual, a family, or a community must be financed by someone. In principle, funding can come from an almost infinite number of sources, but in Table 1 the most common sources of funding of welfare arrangements are listed. The financing principle behind a scheme will ultimately affect who is benefitting, and
therefore it is important that finance fits the overall goals of the programme. In the case of the PKH or “Family of Hope” programme in Indonesia, the budget is 100 % funded by the Government of Indonesia, mainly by a revenue surplus resulting from oil price increases in 2005 (ILO, 2009: 2).

The “robustness” of a programme – or the probability that it will be closed down – is related to funding, as a transfer scheme cannot survive without a sufficient source of capital. Therefore, as policy-makers of donor countries might be more committed to their home constituencies than the citizens of the recipient country, a more stable source of funding might be a country’s “own pockets” (Hanlon et al., 2010: 157).

Table 1: Financing principles of welfare arrangements

<table>
<thead>
<tr>
<th>Financing principle</th>
<th>Real-life example</th>
<th>Most common in…</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Taxation</strong> (state administration and financing)</td>
<td>General taxation&lt;br&gt;- The Danish People’s Pension Plan&lt;br&gt;- The Danish Social Assistance Scheme</td>
<td>-- Poverty-relief schemes in most countries providing social assistance to the poor&lt;br&gt;-- Scandinavian welfare states</td>
</tr>
<tr>
<td><strong>State subsidization and self-contribution</strong> (mix of state and market solutions)</td>
<td>Specific revenue collection&lt;br&gt;- Oil revenues in Alaska, Bolivia and Indonesia</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Contributory scheme</strong> <em>(public subsidy and/or administration, mandatory or voluntary)</em>&lt;br&gt;- Social security contributions from employees&lt;br&gt;- French social security funds for e.g. sickness / parental leave</td>
<td>-- Employees with formal, permanent job contracts&lt;br&gt;-- The Continental-European welfare states</td>
</tr>
<tr>
<td><strong>Private insurance</strong> (market-based)</td>
<td><strong>Subsidization of private sector</strong>&lt;br&gt;- India’s current “priority sector” programme&lt;br&gt;- Tax deductions to tax-payers</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>‘Third sector’</strong> <em>(Churches, NGOs, humanitarian org.)</em>&lt;br&gt;- Foreign aid projects / programmes&lt;br&gt;- Part of the German health care sector&lt;br&gt;- The ‘LEAP’ pilot transfer in Ghana</td>
<td><strong>-- Foreign aid partner countries</strong></td>
</tr>
<tr>
<td><strong>Family provision</strong></td>
<td><strong>-- No scheme at all (e.g. the Diaspora), OR-- public provision dependent on ‘family failure’ OR-- legislation requiring family members to support one another financially</strong></td>
<td><strong>-- Low- and middle-income countries&lt;br&gt;-- ‘Confucian’ welfare states</strong> (South Korea, Taiwan)</td>
</tr>
</tbody>
</table>

2. Coverage

The choice of who should receive the CT is, as many other aspects of public policies, ultimately a political decision. This decision depends on factors such as the public perception of need, and, not
least, deserving need. At one extreme, a 100 % universal benefit would entail covering everyone by
the programme; an example of this is the so-called ‘citizen wage’ paid equally to all members of
society. At the other end of the scale, targeting the most destitute and vulnerable in society is
another solution, and this is most often the choice of modern-day cash transfer-designers in
developing countries, as well as in social assistance schemes in OECD-countries.

When discussing the principle of ‘targeting’, it is helpful to differentiate between ‘categorical’,
‘geographic’ and ‘means-tested’ targeting. Categorical targeting implies that recipients are iden-
tified by belonging to certain ‘categories’ of age (old-age pensions, educational grants), household
status (family benefits, ‘survivor’ benefits paid to spouses who have lost the bread-winners of their
families), disability, etc.. Categorical targeting is preferable when the poor are significantly
overrepresented in certain societal groups. Furthermore, they are easily ‘justified’ to political
constituencies because targeting criteria are transparent, and because groups such as children, the
old, or the disabled are often looked upon as ‘deserving poor’ who cannot be blamed
for their own deprivation (van Oorschot, 2006; Hanlon et al., 2010: 105).

If partly the aim of the transfer is to encourage self-sufficiency – for example by beneficiaries
investing in productive capital for their farms, establishing small businesses, finding paid labour,
etc. (which can stimulate pro-poor growth) – some targeting categories are better equipped to serve
this objective. The disabled and the old are obviously less likely to become self-supporting. This
need not mean, however, that cash benefits will not be put to productive use in such households: In
South Africa, the near-universal old-age pension enables recipients’ younger relatives to look for
jobs (and find them) (Hanlon et al., 2010: 1). If household structures favor intergenerational
support, even disability or old-age pensions might be spend on income-generating activities.

Geographical targeting entails targeting communities (or individuals / households in communities)
that are distinguished by a higher-than-average poverty incidence. This method runs the likely risk
of excluding poor people living in non-targeted areas (“exclusion error”), but it has proved to be a
practical implementation method for countries lacking the administrative apparatus to carry out
national-scale social policies in one step. Means-tested targeting involves determining eligibility to
a programme on the basis of the material (or other) assets of the applicant. Although clearly the
most direct and accurate way of assessing the need of potential recipients, perfect targeting is costly
and administratively burdensome, and for countries lacking a somewhat functioning public adminis-
tration, strict targeting can prove difficult and exhaust budgets. Also, testing the income level of
people working in the formal sector, or who have no access to banking facilities, can be difficult.
There are, however, other and simpler “proxy means-tests” that are able to provide a great deal of
accuracy while not wasting resources collecting detailed information on a household’s various
income sources. A ‘proxy means-test’ is used in the PKH programme, meaning that government employees judge the severity of families’ deprivation by 14 readily identifiable indicators, such as size and ownership of home, female-headed households, highest level of educational attainment in household, construction material of walls, the presence of a heater, a fan, etc. (AusAID, 2011: 35-35). Additionally, geographical and categorical targeting is also part of the selection process (as recipient households must include dependent children).

Means-testing involves setting an asset/income threshold under which potential beneficiaries must be situated in order for them to become eligible to the benefit. If the CT should motivate recipients to engage in income-generating activities, two points should be noted: Firstly, strictly enforced means-testing and household check-ups/periodical reassessment risk producing a distorted incentive structure in which recipients abstain from taking necessary action to pull themselves out of poverty because they risk losing their one secure income source, the transfer benefit (a form of ‘moral hazard’) (Samson, 2009: 50). Secondly, if thresholds are very low, the risk of losing eligibility might to an even larger extent demotivate efforts to earn an additional income. Also, minimum definitions of ‘poverty’ risk excluding deprived households from getting access to capital to improve their lives. In the PKH programme, the proxy means-test is pinned to the national poverty line, which is low compared to international standards (in 2011 it was 233,740 rupiah or less than 28 USD a month).

**Figure 3:** Targeting and poverty reduction

![Figure 3](image-url)

The main aim of targeting is to allocate as large a proportion of scarce collective resources as possible to those most in need, thus reducing poverty as much as possible. At least in the short run, this connection clearly seems to exist: Figure 3 provides a cross-sectional scatter-plot of the relationship between (successful) targeting and present poverty reduction in 73 CT policies located in 40 countries. At a glance, it is clear that there is a strong and very positive correlation between the targeting of transfers to the poorest 20 % and the associated reduction in the “poverty gap”. In Indonesia, there is undeniably room for improvement: According to the World Bank, in 2010, about half the country’s population was living on less that 2 US$ (PPP-standardized) a day.

3. Generosity

One thing is eligibility to a grant, another is the ‘size’ of that transfer. Generosity is an important dimension of a CT scheme because it effectively determines the potential increase in purchasing power experienced by the recipient household. Internationally, CT schemes in developing countries are designed to constitute 15-20 % of household consumption (World Bank, 2008: 7), suggesting that households have various other sources of income besides the government benefit. In Indonesia, the size of the PKH transfer differs according to the number of children and their ages (Table 2), with generosity decreasing as the children grow older.

When calculating the generosity of the benefit, it is relevant to take into account any opportunity costs impairing the family. If the CT programme is a de facto compensation for cut-backs in other programmes (e.g. in-kind transfers) or for food or energy price rises, it is misleading to narrowly judge the generosity by the mere size of the benefit. Similarly, cash grants might undermine traditional social safety-nets in communities, leading to a decline in neighbor or kin remittances being paid to poor families (Samson, 2009: 52).

The generosity level of a CT shapes the potential for poverty reduction and economic development in four ways: First, and most straightforward, the higher the benefit, the higher the income, and the smaller the likelihood that the recipient will fall below the poverty line. Figure 4 displays the relation between generosity level of 73 CT schemes in 40 countries and the reduction in the Gini-coefficient associated with the scheme. The correlation, though not strong, is still moderately apparent. High generosity might thus encompass prospects for leveling out inequalities between socio-economic strata in society. A generous benefit also has the potential to start a virtuous upward spiral, as some studies have linked improved nutrition to heightened productivity: when calorie-intake is low, a so-called “nutrition-based poverty trap” might complicate the opportunities of the
hungry to produce independently enough of a surplus to climb out of poverty (Banerjee & Duflo, 2011: 21).

Table 2: Benefit generosity in the Indonesian “Family of Hope” programme (2008)

<table>
<thead>
<tr>
<th>BENEFIT COMPONENT</th>
<th>SIZE OF TRANSFER / HOUSEHOLD / YEAR (Currency: IDR)</th>
<th>SIZE OF TRANSFER / HOUSEHOLD / YEAR (Currency 1: US$*) (Currency 2: US$ PPP)</th>
<th>BENEFIT AS % OF HOUSEHOLD EXPENDITURE**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic amount</td>
<td>200,000</td>
<td>21 / 35</td>
<td></td>
</tr>
<tr>
<td>Benefit for households with:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Children under 6 years and/or pregnant/lactating mother</td>
<td>800,000</td>
<td>84 / 140</td>
<td></td>
</tr>
<tr>
<td>2. Each elementary school child</td>
<td>400,000</td>
<td>42 / 70</td>
<td></td>
</tr>
<tr>
<td>3. Each junior high-school child</td>
<td>80,000</td>
<td>8 / 13</td>
<td></td>
</tr>
<tr>
<td>Average benefit per household</td>
<td>1,390,000</td>
<td>146 / 243</td>
<td></td>
</tr>
<tr>
<td>Minimum benefit per household</td>
<td>600,000</td>
<td>63 / 105</td>
<td></td>
</tr>
<tr>
<td>Maximum benefit per household</td>
<td>2,200,000</td>
<td>231 / 385</td>
<td></td>
</tr>
</tbody>
</table>

FICTIVE FAMILY COMPOSITIONS

| Generosity for family consisting of:                   |                                                    |                                                                        |                                        |
| 1. Pregnant single woman                               | 1,000,000                                          | 105 / 175                                                             | 41.7 %                                 |
| 2. Single mother with one preschool child and one elementary school child | 1,400,000                                          | 147 / 245                                                             | 19.4 %                                 |
| 3. Two parent household with one preschool child, one elementary school child, and one junior high-school child*** | 1,480,000                                          | 155 / 258                                                             | 12.3 %                                 |
| 4. Two parents, one grandparent****, one elementary school child and two junior high-school children | 560,000                                            | 59 / 98                                                               | 3.9 %                                  |
| 5. Two parents, two junior high-school children and one senior high-school child | 360,000                                            | 38 / 63                                                               | 3.0 %                                  |

**Absolute exchange rate (2008): 0.000105; PPP conversion factor (2008): 0.6
**Household expenditure in recipient households (2008) equaled ~200,000 IDR per head / month (World Bank, 2008: 28). This is a simplistic assumption, however, as there might be ‘economies of scale’ related to larger household size.
***The total fertility rate in Indonesia was in 2008 2.2 – however, family size is generally larger in low-income groups (Banerjee & Duflo (2007): 144).
****In Indonesia, multigenerational households are common, and 69 % of the elderly live with either children, grandchildren, or both (1997 data) (Yap, 2007: 3).

Secondly, not only recipient households benefit from the CT – communities do, too. This is because poor people are much more likely than the better-off to consume locally produced goods (non-imports), thus supporting local markets and stimulating regional economies by increasing demand for consumption items (Hanlon et al., 2010: 31, 72), for example by increasing household spending on food (which, in Indonesia, makes up 56-78 % of consumption expenditures in households (Banerjee & Duflo, 2007a: 145)). This can create a regional multiplier effect. In a study of a Malawian pilot CT, Davies & Davey (2007) calculate a regional multiplier of 2.02-2.45 as a consequence of the ‘cash injection’ into the local economy, indicating that every dollar spent on the transfer scheme has been worth at least two.

However, in order for the CT to have the intended effect on consumption and the prosperous ‘spill-over’ effect on the local economy, markets must exhibit a minimum level of efficiency: First of all,
the necessary goods must be available to buy – otherwise an in-kind transfer might be a more reasonable solution –, and, secondly, markets must be responsive to the increase in demand. If markets are irresponsive, or if demand is inelastic, inflation can be an unfortunate side-effect of the CT, off-setting the real impacts of the scheme. Inflation is, though, most often a negligible consequence of the introduction of cash-based social assistance of the current scale (Creti, 2010: 6), and often, people are not food-insecure because of a general lack of food, but more because of a lack of access to it (Banerjee & Duflo, 2011: 26).

**Figure 4:** Gini-reduction and transfer generosity

![Graph showing the relationship between change in Gini-index and generosity to 1st Quintile.](image)


Third, food-insecurity and other risks associated with low incomes are to some extent ‘insured’ via CTs. As poor people are unlikely to be formally insured against risks (Banerjee & Duflo, 2007a: 157), shocks stemming from a flood, drought, the death of a breadwinner, etc. can imply long-term economic set-backs for poor families.

Lastly, more generous CTs can enable poor adults to invest in income-generating assets or activities for two reasons: Firstly, when immediate consumption needs are met, any additional income can be put to productive use: credit-constrained rural households might invest in fertilizer or additional livestock; entrepreneurs previously deprived of the means to invest in productive capital might open a small business or expand an existing one; or cash might be spent on bus-fare to look for work or migrate. The logic behind this reasoning is two-fold: one, risk-taking behavior requires sufficient
safety-nets (Dercon, 2006: 11): taking a leap of faith to improve one’s future, for example by experimenting with a unfamiliar but higher-yielding crop (Devereux, 2002: 665), is risky, and uninsured risks can thus lead to high risk-aversion; and, two, so-called ‘poverty traps’ – existing when “the scope for growing income or wealth at a very fast rate is limited for those who have too little to invest, but expands rapidly for those who can invest a bit more” (Banerjee & Duflo, 2011: 11) – can hold back even the most innovative would-be entrepreneur. Evidence from three empirical studies of African CTs in Mozambique, Namibia, and Zambia indicates that the propensity to save and invest transfer income followed from higher benefits (Devereux, 2002: 668). In Indonesia, one study indicates that the PKH-transfer is, partially, invested in asset-growth when possible (Syukri et al., 2010). Secondly, the psychology of saving and investing might disadvantage those who have very little: As Duflo and Banerjee point out in their “Poor Economics”, the middle-class saves at a much higher rate than the poor. What differentiates the middle-class from the poor is stability – for example stable employment – and thereby the opportunity to plan more effectively for the future: “a sense of stability may be necessary for people to be able to take the long view” (Banerjee & Duflo, 2011: 229).

Obviously, if generosity of a benefit is too high, work incentives can decrease. This is periodically a focal point in the public debate about government ‘welfare’ in many industrialized nations, and this is, too, a frequently expressed critique of CT schemes in several low- and middle-income countries. But, I will argue, many CT schemes in developing countries are fairly modest in economic scope. Furthermore, it might be reasonable to assume that highly generous benefits are mostly prone to productivity disincentives if coupled with an extensive period of duration (The Danish Ministry of Economic Affairs, 2012: 8). A study on Mexico’s PROGRESA programme did not support the idea that benefit recipients ‘buy’ more leisure time (Skoufias & Di Maro, 2008).

4. Duration

The duration of a benefit – how long a period of time one is eligible to receive it – is yet another dimension adding to the design of a CT. Duration can vary dramatically, some benefits being paid for the rest of one’s lifetime (pensions), others for brief periods (unemployment benefits) – or only once (maternity grants). In the case of the PKH transfer, recipients are eligible to receive the benefit as long as there are members of the household below the age of 18 who have not yet completed primary school. The duration ‘roof’ is six years of transfer payments. Longevity of a CT will, like the level of generosity, further add to the stability of one’s future income prospects (Koehler, 2011: 8). A short benefit-period might hinder the psychological mechanism described in the previous section from taking effect, as the recipient is well aware that
the transfer is no longer a term solution to the family’s insecurities. In addition to this, job-searching periods can be long, especially if unemployment is high or the job-seeker’s skills are few, and saving up to restore one’s house or invest in productive capital might also stretch out over a period of several years.

5. Conditionality

One of the most widely debated dimensions of transfer design in recent years is the issue of conditionality: whether to attach ‘strings’ to poverty-relief schemes. A number of especially Latin-American countries have added so-called ‘conditional cash transfers’ (CCTs) to their social assistance systems – as has Indonesia with its PKH transfer, largely inspired by the conditionality of Mexico’s ‘Opportunidades’ programme. Conditions vary, but are consistently related to the human capital accumulation of children in an attempt to break the cycle of intergenerational poverty-transmission. Often conditions also include health initiatives for pregnant women as well as infants and older children, with immunizations and nutrition-supplements (vitamin A, etc.) featuring repeatedly across programmes.

In the case of the PKH cash transfer, educational (enrollment of children in school, 85% attendance rate), and health (vaccinations, professional birth assistance, nutrition supplements for pregnant women and children, health check-ups for young children, prenatal health checks) conditions are quite extensive, but not as extensive as in some CCT schemes which – in addition to health and schooling conditions – require adult beneficiaries to take part in community projects or health education classes (Attanasio et al., 2008: 2).

Related to the issue of conditionality is the question of recipient gender: to whom should the benefit be paid out? The majority of modern CCTs in developing countries are paid preferably to a woman in the family. This choice of recipient gender, it is argued, is the efficient solution, as several studies have revealed that females prioritize household income in a manner more in tune with the best interest of the children, and of the household unit as a whole (Duflo, 2003; Rawlings & Rubio, 2005: 33). Moreover, directing money into the hands of women is intended to promote empowerment for this group living in societies characterized by patriarchic gender norms and female subordination. Evidence from OECD countries, in line with this argument, shows that women gain bargaining power within households when family benefits are paid directly to them (Esping-Andersen, 2009: 91), which is related to a range of family decisions, such as fertility rate and sharing of domestic work. But, on the other hand, the fact that CCTs are typically benefits aimed at families with children might also point to an explanation of why such transfers are usually paid out to women. As some authors draw attention to, with the privilege of controlling the
transferred income comes the responsibility to ensure that conditions are met – a responsibility that, depending on the ‘strings’ attached, can be more or less far-reaching. Inability or unwillingness to meet conditions might jeopardize an important source of income: in the PKH programme, the generosity of the benefit is lowered for each failure to live up to the terms, and after three ‘strikes’, the benefit is withheld. Some scholars have thus questioned the conventional wisdom that CCTs in women’s names are necessarily liberating (Hutagalung et al., 2009; IRIN, 2011).

At the same time, tensions may arise between short-term and long-term development priorities: time spent meeting conditions is time away from agricultural work, tending to your business, etc. – plus the opportunity cost arising from school enrollment of children that, under other circumstances, would have their “hands free” to tend to household chores or even paid labour. Even though it is clearly desirable that children are educated and spend as little time in child labour as possible, this might be a rational concern for some families (Hanlon et al., 2010: 33; Banerjee & Duflo, 2011: 74; Webster, 2009: 47).

The development potential of cash transfers – a longer-run perspective

In the following section, the potential of cash transfers to alleviate poverty and promote human and economic development on a longer term basis – not expected to manifest before at least five years (and probably more) after implementation – is discussed. The abovementioned dimensions of cash benefits are again utilized, although with two dimensions, deemed irrelevant for the present purposes, left out. The aim of structuring the paper according to transfer design is not to provide an exhaustive list of dimensions relevant to consider in engineering a CT, but rather to relate the design of CTs to their developmental potential in a wider context.

1. Coverage

In the immediate implementation of a social programme, it is logical that the precision in targeting those most in need is positively connected to outcomes such as poverty reduction and drops in the Gini-index. This is so because, and this might especially be true for the least developed countries, scarce public resources create budget restraints that dictate an effective use of every dollar, rupiah, or peso spent if programmes are to have an appropriate effect. But in the longer run, public budgets are less fixed. In their broadly debated 1998-article, Korpi and Palme present OECD-evidence of what they coin a ‘paradox of redistribution’: In the long run, public budgets available for redistribution are, to a large extent, politically determined, and thus flexible. This means that the degree to which a society is ready to redistribute market income depends on political will, which, especially in democratic settings, is formed by the preferences of citizens. If self-interested middle-class
families are sensing that they, too, are benefitting from welfare state programmes, low-income
groups are able to form a political ‘welfare-coalition’ with crucial middle-class voters, making it
politically unpopular to scale back existing social policy, and more likely that budgets available for
redistribution, and thus poverty reduction, will expand. In a longer perspective, the very existence
of CTs available to poor people is, to a certain extent, determined by a high degree of universality in
social security legislation, and thus a low degree of targeting. The phenomenon of ‘leakage’ (the
provision of social assistance to non-poor socio-economic groups) – for many CT scholars a sign
that social programmes are malfunctioning – might therefore be an effective way of sustaining or
even expanding public support for redistribution in the longer run. The degree to which the logic
behind the ‘Paradox of Redistribution’ is relevant for non-OECD countries depends on their simi-
larity with post-industrialized democracies in two crucial aspects: the influence of citizens on political
decision-making (some degree of democracy), and the presence of a sizeable middle-class (Table
3).

Table 3: The Paradox of Redistribution

<table>
<thead>
<tr>
<th>CONDITIONS FOR A ‘PARADOX OF REDISTRIBUTION’: Democracy and sizable middle class</th>
<th>Predominance of middle class***</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democratic form of government?*</td>
<td><strong>Yes</strong>&lt;br&gt; &gt; 30 % of population</td>
</tr>
<tr>
<td>Yes – <em>full or ‘flawed’ democracy</em></td>
<td>Indonesia (44 %), South&lt;br&gt;Africa (48 %), Mexico&lt;br&gt;(54 %)</td>
</tr>
<tr>
<td>No – <em>hybrid form or authoritarian regime</em></td>
<td>Guatemala (40 %)</td>
</tr>
</tbody>
</table>

*The EIU Democracy Index (2011 data)
**There are various ways to classify the “global middle-class”, but for the present purposes I employ the absolute definition used in Banerjee & Duflo (2007b) of a daily consumption per capita between 2 and 10 US$.

Another factor that might undermine the effect of targeting in the longer run is the social reaction of
recipient peers to singling out beneficiaries as ‘deserving needy’. Especially for non-categorical
targeting methods, stigmatizing recipients can be a negative side-effect (Samson, 2009: 50). This is
especially true if it is unclear to other community members why their neighbor, and not they, were
selected to participate in the programme, if it is looked upon as ‘shameful’ to rely on government
‘alms’, or if the specific selection process is of such a nature that recipients feel suspected of
immoral behavior (in some CT schemes, it is common to publish the names of recipients on long
lists displayed in the local communities for everyone to see and check the list for ‘flaws’). The
stigma or resentment that targeting can potentially result in might neither fuel an environment in
which it is possible for recipients to become self-sustaining, nor make possible informal solidarity networks in local communities. In any instance, stigma will influence negatively one’s quality of life.

2. Generosity

When poor households gain an additional income, as the one from CT schemes, how they spend it is imperative for both long- and short-term health impacts. Much evidence points to changes in food-intake patterns (Hanlon et al., 2010: 53) as a consequence of CTs directed at the poor. There are, though, no guarantees: In India, for instance, food spending has been declining over a number of years, suggesting that people may value other goods, such as owning a TV, more (Banerjee & Duflo, 2011: 37). In Indonesia, extremely poor households spend an estimated six percent on their budgets on tobacco and alcohol products (Banerjee & Duflo, 2007a: 145). Most CT programmes do not specify how money should be spent. Still, when benefits add significantly to an increase in households’ purchasing power, money can be spent on a more nutritious and varied diet for children. Childhood malnutrition can have serious consequences for the development of cognitive capabilities and productivity potential in adulthood (Banerjee & Duflo, 2011: 31). An inter-generational ‘nutrition-based poverty trap’ might well impose restraints on ‘social mobility’, as children insufficiently nourished in early childhood can suffer from mental and physical incapacities throughout their lives. In South Africa, old-age pensioners often share houses with grandchildren, and – once paid to female recipients – the benefit has a significant and positive effect on ‘stunting’ in children (meaning a low height for age – a condition linked to impairments on cognitive abilities later in life (Duflo, 2003; UNICEF, 2009: 3)). Here, generosity is key (Hanlon et al., 2010: 54): research on the Mexican ‘Opportunidades’ CCT found that a doubling of the benefit was associated with children’s improved Body Mass Index, less stunting, better motor and cognitive development, and receptive language (Fernald et al., 2008).

Additionally, a reasonable generosity level will make it worthwhile for parents to live up to possible conditions, as well as make it ‘affordable’ for parents to invest in their children’s education (e.g. by enrolling them in school, paying (official or unofficial) tuition fees, school uniforms, books, etc.).

3. Conditionality

The conditions imposed on recipients of CCTs in developing countries generally aim for results only visible in the long run: Investments in human capital – the schooling of children – will generally not take effect before children reach adulthood where it is expected that families will benefit from the return to the children’s years of schooling in the form of higher salaries, job stability, etc.
Similarly, investments in maternal and child health – besides more immediate effects on child and maternal mortality and morbidity – are expected to yield high returns later in life, as both health and human capital add to the quality of a country’s labour force and provide individuals with the means to live a longer and more productive life, tailored to a larger extent to the tastes of these same people. In Amartya Sen’s well-known work “Development as Freedom”, the author argues that poverty should be viewed as “the deprivation of basic capabilities”, meaning that a poor person is someone deprived of the capacity to lead a life that he has reason to value (Sen, 1999: 87). Equipping a child with formal education and a sound health has the potential to improve her capabilities considerably.

**Figure 5:** ‘Responsibility to provide’ perceptions across income deciles in developing countries

One question remains, though, unanswered: Is conditionality a prerequisite for the investment in child health and education? The short answer is: it depends! The choice of attaching ‘strings’ to CTs can serve two ends: First, it can raise demand for schooling and health care if the reasons for the previous shortage in demand is a general lack of will or knowledge on the part of parents. But there might be other reasons for the apparent underinvestment of parents in their children: When geographic access to schools or health facilities is low (as is the case in some remote areas of Indonesia (Hutagalung, 2009: 11)), or if quality of these public services is problematic, ‘exit’ on the part of the poor might be a completely rational reaction, and supply-side initiatives are then a more
appropriate response to the needs of the poor. A World Bank study of a CT pilot in Malawi provocatively revealed that, here, conditionality didn’t seem to matter at all: parents receiving an unconditional transfer, when given the opportunity, were just as likely to enroll their children in school as parents receiving the conditional transfer (Banerjee & Duflo, 2011: 80). Secondly, conditions may serve other ends, such as building public support for poverty-relief policies that can otherwise be difficult for better-off voters to accept (Handa & Davis, 2006: 9). Figure 5 shows that, across 15 low- and middle-income World Values Survey-countries, the poor are consistently more likely to support government provision of welfare to citizens.

In the end, conditionality is a question of context, and the grounds for the actions of poor families must be examined before designing a transfer scheme.
Concluding remarks: No ‘magic bullet’, but an adjustable instrument

The present paper has sought to investigate the long- and short-run developmental potential of cash transfers directed at the poor by posing the question: Under which circumstances, and how, are cash transfers to the poor capable of spurring development in low- and middle-income countries?

The rapid spread of (conditional) cash transfer schemes to at least 45 countries in the Global South (Hanlon et al., 2010: 167) has spurred an almost explosive interest in cash-based solutions to continuing poverty in the developing world from scholars and policy-makers alike – and for good reasons: CTs help resolve one very basic feature of poverty, namely a persistent lack of access to capital. By offering an income ‘floor’, CT programmes promise to break the cycle of inter-generational transmission of poverty, as well as spurring growth “from the bottom”. In the short run, CTs that are somewhat durable and display a minimum level of generosity offer to cushion the worst of food-insecurities, insure families against risks and shocks, reduce the scope of child labour, empower women, provide capital for investments and savings, and equip families with a sense of hope for the future, enabling them to plan ahead and invest in their farms, businesses, jobs, health, and children. In the long run, positive investments in education and child health are expected to generate long-lasting human development and drive local (and national) economies forward.

These are certainly ambitious promises. And a word of caution is therefore in order: CTs are, like all other approaches to development, no ‘magic bullet’; they are only able to improve the lives of the poor if implemented in a way tailored to local circumstances. Liquidity constraints may well not be the only wall that poor people face (Sen, 1999: 88): Societal marginalization may lead to children attending school without actually learning much; a lack of banking options may make saving up overwhelmingly difficult (Banerjee & Duflo, 2011: 194); an irresponsible local market may drive up price levels and hollow out the value of transfer payments; and inadequate public services, such as a shortage of quality school teachers, buildings, and health personnel, make the effects of demand-side instruments fade. Furthermore, CT schemes differ from each other tremendously. Policy-makers designing transfer programmes are faced with multiple decisions across the multi-dimensional space making up social safety-nets. CTs are thus no single instrument, but can be adjusted to local needs and circumstances accordingly. They thus contain the potential to benefit the poor and their local economies to a much wider extent than they do today: three fifths of citizens of developing countries still lack formal safety-nets (World Bank, 2012).

Amartya Sen defines poverty in terms of ‘capacity deprivation’ – the inability of a person to shape her own life-course and choose a life that she values. Direct CTs offer an element of choice to poor
households, in that they, by and large, choose for themselves how to spend the additional income. Cash transfers therefore place poverty-struck individuals in a position in which their freedom to choose is recognized as central to human development.
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