

A decorative background pattern of grey dots of varying sizes, with several red dots scattered throughout. The dots are arranged in a way that suggests a world map or a network of connections.

# Social Cash Transfers: a Useful Instrument in Development Cooperation?

Potential and Pitfalls\*

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- Social Cash Transfers (SCTs) are becoming increasingly prominent in the international debate over development cooperation. Used intelligently, they can be an effective instrument with which to implement the human right to social security and at the same time stimulate economic growth and long-term development.
- The use of SCTs as an *instrument in development cooperation* must be assessed in a critical manner, however, and is associated with three risks: for the recipient countries there is a danger that democratic structures will be weakened. On the donor side, there is a question as to when such a programme can be phased out in a responsible manner. Generally speaking, it is necessary to find an adequate response to the claim that such programmes fight symptoms, while they do not tackle the root causes of problems.
- By focussing on multilateral approaches and budget support in the implementation of SCTs, these risks can be mitigated and development benefits can be enhanced.



Social Cash Transfers (SCTs) are transfer payments which are made on the basis of economic criteria in order to provide the recipients a minimum of social protection and consumption. In particular, they target groups of persons who are excluded from formal employment and hence cannot access official security structures. SCT programmes are gaining prominence in the international development-policy debate. Almost all major bilateral and multilateral donor institutions, the British Department for International Development (DFID) and the German International Cooperation (GIZ), as well as the World Bank and UNICEF have gained experience with SCTs. Various non-governmental organisations (NGOs) have also initiated and supported SCT projects over the past few years.

There are solid reasons for the increasing attention being devoted to SCTs: First of all, after years of structural adjustment programmes and the promotion of economy-centred approaches a certain disenchantment has set in among many actors in the field of development cooperation. Even though there have been significant successes in reducing poverty over the last few decades and the first Millennium Development Goal (MDG) – cutting the amount of absolute poverty in half by 2015 – will probably be achieved, all stakeholders know that this success is above all due to the economic rise of China. Even the World Bank admits, that if China is removed from the equation the first MDG could not be attained.<sup>1</sup>

Parallel to the transformation of China from a developing country to an emerging economy, however, the situation of a number of – especially African – countries has grown worse. They might fall ever further behind while countries in other regions catch up in the development process. Setbacks are moreover threatening in many countries. Thus, for example, HIV/AIDS constitutes a real threat to the level of development reached thus far in many areas of Africa. According to estimates by the International Labour Organisation (ILO), 31 Sub Saharan countries lose 0.7 % in economic growth on average each year due to HIV/AIDS. The middle-aged generation is especially affected by the illness, which is to say those persons who should actually be contributing the most to the economy. Children and the generation of grandparents remain behind.

1. David Dollar: New global poverty estimates confirm China's leading role in meeting MDGs: <http://blogs.worldbank.org/eastasiapacific/node/2687> (26 August 2008)

Aside from the human tragedy, this situation is having profound consequences from a development policy perspective. Most old people do not have any access to social protection structures, which exist in at least rudimentary form in many countries, but are linked to formal employment. They are left without any financial means to care for their grandchildren. In consequence, there are fewer educational opportunities for these children because even if access to schools is free of charge, costs arise for books, pens, etc – not to mention the loss of the potential income which a working child can generate for the family.

SCTs definitely can make a difference in such cases. By creating a minimum of security for these families, they make it possible for children to receive an education, thus improving their individual life opportunities. Over the long term, this contributes to the development of society as a whole. SCTs can in this sense be an instrument with which to stimulate long-term development processes. A host of specific examples already illustrate this.

Brazil's Bolsa Familia is no doubt the best-known SCT programme. A conditional programme, Bolsa Familia links the payment of cash to mothers to school attendance and vaccination of their children. While the programme was restricted to the city of Brasilia at the beginning, where it was initiated by the municipal government, it was expanded step by step following the electoral victory of Lula Da Silva in 2003. At present, around 12.4 million Brazilian households and thus more than 40 million people receive payments from Bolsa Familia. At the same time, the population living below the Brazilian poverty line has declined 8 % each year and the Gini coefficient dropped from 0.58 to 0.54 – a major success considering the highly unequal distribution of wealth in Brazil. It is estimated that around one-sixth of poverty reduction in Brazil can be attributed to Bolsa Familia. At the same time, the costs of the programme have not even amounted to 0.5 % of Brazilian Gross Domestic Product.<sup>2</sup>

From an economic perspective, SCTs can be understood as measures stimulating the economy. They allow groups of the population who consume too little due to poverty to achieve a minimum of consumption and thus, besides the long-term development effects (improved

2. The Economist: Brazil's Bolsa Familia: How to get children out of jobs and into school: <http://www.economist.com/node/16690887> (29 July 2010)



life and educational opportunities), these programmes can have a positive effect on the overall economy. This is why Brazil, contrary to what one might have expected, expanded Bolsa Familia at the beginning of the financial and economic crisis instead of reducing it.

### A question of faith: conditional or unconditional or even universal?

“Panacea or money down the drain” – that is how John Farrington and Rachel Slater described the two extremes in the debate over SCTs in 2006.<sup>3</sup> In the meantime experts agree that SCTs may definitely make sense in development policy terms and are certainly *not* money down the drain. They are clearly superior to handouts of foodstuffs or other in-kind transfers to poor people, as they are associated with much lower administrative and logistical costs. Foodstuffs, for example, have to be purchased and stored, perhaps even refrigerated and then distributed. The costs of food programmes in India, according to estimates by the World Bank, are at least twice as high as the actual value of the food.<sup>4</sup>

SCTs programmes are just as little a panacea, however, and it has become apparent that great care must be taken in initiating an SCT programme. There are also examples of SCT programmes which have had unintended, negative effects. Thus the launch of such a programme in Ethiopia in 2005 led to skyrocketing prices, as increased demand far exceeded supply.

Most programmes which are initiated by international donor organisations are oriented towards the successful Bolsa Familia model and link the disbursement of money to the fulfilment of certain conditions (conditional program). The success of these programmes also depends, however, on a number of additional factors. If the payment of cash transfers is linked to children attending school, for example, schools obviously should not be out of reach, but easily accessible. Qualitative aspects also have to be taken into account if an SCT is to be successful: if the quality of the school is so poor that children do not benefit from it in educational terms and thus attending school does not improve their income pros-

pects over the long term, even the best SCT programme will only have a limited development impact.

These examples show that SCTs cannot be regarded in an isolated manner without regard to the economic and societal context. SCTs are successful when they are part of a broad-based policy which also takes other factors into account and shows good judgement. Some observers have also criticised that these programmes – similar to micro-credits – shift a considerable part of responsibility for household income onto women, as many of the conditional programmes place the focus on mothers, targeting children through them. The fact that traditional roles and stereotypes are often strengthened in this manner is a side effect which also gives rise to criticism.

However, the potential benefits of SCT programmes are scarcely contested any longer within the international development community. Debates arise, rather, over the question as to how the programmes should be designed in order to be able to develop the greatest development impact.

There are indications worthy of consideration that attaching conditions does not make sense per se. A study conducted by the World Bank in Malawi shows that attendance of school by a group of young girls was not significantly increased through conditions within the framework of an SCT programme in comparison to another group of girls for whom attendance at school was not a condition. Ultimately the school-attendance rate settled at 80% and the drop-out rate fell to 40%. It did not matter whether the girls only received money if they regularly attended school or whether the money was paid out to them without any conditions attached.<sup>5</sup>

If this surprising result is taken seriously, this raises the question as to what extent it makes sense to attach conditions to SCT programmes, the reason being that conditions are also always associated with costs – after all, adherence to the conditions must be monitored.

Following this reasoning, good arguments can also be found for making SCT programmes universal. This not

3. John Farrington and Rachel Slater: Introduction: Cash Transfers: Panacea for Poverty Reduction or Money Down the Drain? Development Policy Review, 2006, 24 (5), pp. 499-511.

4. Farrington/Slater, p. 503.

5. Iirinews: Analysis: Unconditional money: <http://www.iirinews.org/report.aspx?ReportID=90045> (2 August 2010) and in more detail: Sarah Baird, Craig McIntosh, Berk Özler: Designing Cost-Effective Cash Transfer Programs to Boost Schooling among Young Women in Sub-Saharan Africa, World Bank, Policy Research Working Paper 5090.



only eliminates the costs of monitoring, but also the costs of *targeting*, i.e. determining target groups according to certain social or economic criteria, which also always runs the risk of including the wrong people and excluding the right ones.

Universal SCT programmes even go one step further. They relate to the human right to social security as set out in Article 22 of the Universal Declaration of Human Rights and supplemented by Article 9 of the International Convention on Economic, Social and Cultural Rights and various ILO conventions, in particular Convention No. 102 on Minimum Standards.

The *Basic Income Grant* (BIG) in Namibia is one of the few examples of a universal SCT. This pilot project, which pays each inhabitant under 60 years of age<sup>6</sup> in the district of Otjivero-Omitara 100 Namibian dollars (approximately €11) per month, was conceived in 2008 upon the initiative of a coalition of several civil society actors, the churches and the national trade union centre. The financial resources required for the project were predominantly obtained through donations. This was preceded back in 2002 by the recommendation issued by a tax commission appointed by the Namibian government, which proposed the introduction of a universal basic income scheme funded by tax revenue to stimulate the Namibian economy. Because the government did not take any concrete steps to implement this recommendation, the so-called BIG Coalition formed in 2004 in order to undertake a pilot project. It was hoped that if the pilot project was successful, the government would then implement the programme at the national level. In regard to finances, this would be possible for Namibia.

The results of the pilot project were quite significant. In only one year the poverty rate referenced to consumption of food (food poverty line) fell from 76 to 37 %. Participation by the inhabitants of the district in economic life also rose. After one year of BIG, the percentage of those persons who were able to engage in income-generating activities – whether this be through offering their products or services – jumped 11 %. BIG made it possible for many families to send their children to school for the first time or on a permanent basis.<sup>7</sup>

6. Each Namibian can apply for an old-age pension after turning 60.

7. Making the difference. The BIG in Namibia, Basic Income Grand Pilot Project Assessment Report, April 2009.

In spite of these successes, the Namibian government has declined to take over the program following the pilot phase. The current President is said to be fundamentally opposed to the BIG, claiming that it makes people lazy.<sup>8</sup>

### The crucial role of politics

The Namibian example points to a sensitive aspect of SCT programmes to which too little attention has been devoted in the discussion among most development-policy actors: providing social security for a country's population is primarily the obligation of the state, which it must meet for the sake of its own population. If there is a lack of political will or a different understanding as to what social security is or what it should cover, externally funded SCT programmes motivated by development policy could create more problems than they solve over the long term. In particular, NGOs, which frequently work in a country with considerable autonomy from the government, and as a result also often adopt more innovative strategies than bilateral or multilateral development-policy actors, should take into account the crucial role of politics if SCT programmes are to be successful.

From this perspective, the success of Bolsa Familia can also be explained by the fact that it was a sovereign decision of Brazil to institute the programme. Lula Da Silva explicitly made it part of his electoral platform and was also elected to office thanks to Bolsa Familia. The Brazilian government in this sense successfully implemented development policy in its own country.

With SCT programmes used as instruments of international development policy, there is another constellation, however, which makes it difficult to replicate the Brazilian success. Three risks must be identified here:

- (1) Civil society and democratic structures can be weakened in a country if it is no longer the state, but rather development-policy donor institutions which assume responsibility for social security in a country. Who is to decide then on how social security is to be organised, what benefits are to be included and who is to profit from them – the government, perhaps even democratically elected and hence legitimate or

8. Allgemeine Zeitung: <http://www.az.com.na/lokales/prsident-lehnt-big-zahlung-ab.106116.php> (29 April 2010).



the donor(s) funding the programme? Furthermore, the question of distribution, definitely relevant in many developing countries, is lost sight of in such a constellation.

- (2) Donors have to find a responsible answer to the exit problem under these conditions. Although this is the case in every development policy intervention, social security programmes affect very elementary areas of basic care and security. Can such a programme only be ended in a responsible manner if the government of the respective country promises to continue it? What happens when priorities of donor institutions change or the money is simply cut off?
- (3) Finally, the question must be posed as to whether such programmes in the development-cooperation context also tend to treat symptoms more than tackle the root causes of problems. Would abolishing the injustices in the world trade system not be more effective? And what about wealthy people in poor countries? Would it not be a more sustainable approach to make sure that they pay adequate amounts of taxes and that they take responsibility for social justice in their own countries? From this perspective, one can argue, that every Euro in scarce development-cooperation resources fighting the symptoms of social injustice on the global as well as on the national level is not available for pushing for real structural change.

To avoid any misunderstandings: these risks can be mitigated by intelligent programme designs and the opportunities that SCT programmes offer for long-term development can be maximised. Four points would appear to be essential and need to be taken into account in designing SCT programmes as instruments of development cooperation:

- The government of the respective country must fully support the programmes and have the intention of continuing these itself over the medium to long term. The time-line for development funding must be clear from the outset and a plan on how these programmes are to be financed by the country itself after the initial funding period is mandatory.
- Civil society must be involved in the design of the programmes. What is socially just, where the priorities

should be assigned may vary from country to country, region to region. As a result, negotiating processes for SCT programmes are also an opportunity to strengthen processes of democratisation in a country and to support civil society.

- Multilateral donor channels should be given priority over bilateral approaches. SCT programmes as part of international development cooperation should preferably be funded multilaterally. Bilateral development cooperation always runs the risk of changing priorities with each new government in the donor country. This risk is mitigated in multilateral donor settings.
- SCT programmes are best funded through budget support. Hence a direct contribution is made to strengthening democratic structures in the recipient country. After all, this is the only way in which the government will be fully responsible for the design and implementation of the programme and can in case of doubt be held accountable by civil society.<sup>9</sup>

SCTs will become a more frequent topic in the international debate in 2011 and 2012. The International Labour Organisation (ILO) discusses the introduction of the so-called Social Protection Floor this year and will continue the debate at the ILO conference 2012. The Social Protection Floor expressly takes into account the needs and concerns of workers in the informal economy as well as in the formal economy and aims at giving them access to a minimum of social security and protection.<sup>10</sup> The ILO has already demonstrated that most countries could financially afford this. It leaves the question as to how implementation is to take place up to the individual states, however. SCTs will no doubt continue to gain importance in the discussion over implementation.

9. Regarding budgetary aid as an instrument of modern development policy see Eveline Herfkens: Beyond Old-Style Aid. FES Perspective, September 2010: <http://library.fes.de/pdf-files/iez/07429.pdf>

10. Michael Cichon, Christina Behrendt, Veronika Wodsak: The UN Social Protection Floor Initiative. Turning the Tide at the ILO-Conference 2011. FES Policy Analysis, January 2011: <http://library.fes.de/pdf-files/iez/07814.pdf>



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