



Social Safety Nets Primer Notes

Assisting the Poor with Cash: Design and Implementation of Social Transfer Programs

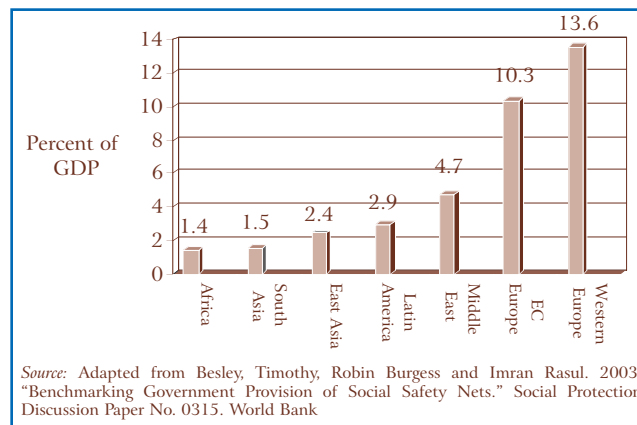
Cash transfers can be defined as the provision of assistance in the form of cash to the poor or those who face a probable risk, in the absence of the transfer, of falling into poverty. Cash transfers, broadly defined, can be given in the form of social assistance, insurance, near-cash tax benefits, and private transfers. This note focuses on government programs, recognizing that private transfers and public programs serve multiple objectives, of which social safety net protection is just one.

The Prevalence of Cash Transfers as Social Programs

Cash transfers are the main type of social safety net protection in the developed world, covering more than 80 per cent of the population of the industrialized nations according to the International Labour Organisation (ILO). There are far fewer cash transfer programs in developing countries, and those that do exist tend to grant only small benefits. They cover less than 10 per cent of the workforce in Africa and Asia, 15 to 60 per cent of the workforce in Latin America, and 20 to 25 per cent of the workforce in the middle-income nations of North Africa. In terms of public expenditures, most developing countries typically allocate less than five per cent of GDP to public cash transfers, while Western European countries have spent an average of more than 10 per cent of GDP on such programs in recent years (see accompanying chart).

There are a number of reasons why so few social-protection programs are based on cash transfers in developing countries. First, government resources are limited and governments typically give priority to measures that relieve structural constraints to growth. Second, the informal sector tends to be large, making it difficult to col-

Average Public Spending on Social Security and Welfare (1972–1997)



lect information on income and wealth or to enforce statutory schemes that rely on mandatory contributions. Moreover, the combination of dispersed populations and limited public-service infrastructure in rural areas increases the costs of administering cash-assistance schemes.

Despite these constraints, there is a growing demand in developing countries for social safety nets that incorporate some form of cash transfer. Decreased job security, heightened macroeconomic risk, rising inequity, and the global transmission of currency volatility have all contributed to a growing middle-class demand for social protection.

What are the Advantages of Cash Transfers?

The main economic advantage to cash transfers is that they do not directly distort prices. A second advantage is that cash transfer payments can help to stabilize the macro economy to the extent that targeted transfers increase during economic downturns and decline with improvement. Moreover, once the administrative infrastructure is in place, the cost of operating cash

transfer programs is often far less than the cost of providing assistance in kind. Also, unlike in-kind subsidy programs, cash transfer programs are not normally affected by changes in product prices or the cost of living, insulating the budgets of cash transfer programs from unexpected surges in inflation or product prices.

From the recipients' point of view, cash subsidies provide them with greater freedom of choice in terms of how to use the benefit to enhance their welfare and give them a higher level of satisfaction at any given level of income than in-kind transfers. Also, program beneficiaries feel that less stigma is attached to the receipt and use of cash than of in-kind benefits.

Designing a Cash Transfer Program in a Developing Country Context

While a well-designed cash transfer program can significantly alleviate poverty, a badly designed program can do more harm than good. International experience suggests several general features of good cash transfer programs:

- **Matching program types to need.** No single set of cash transfer programs is suitable for all poor households in all countries. Programs should be carefully tailored to meet the priority needs of different categories of poor households for income assistance and contingency management. Programs that are simple in design are often the easiest to establish and implement.
- **Beneficiary selection.** Targeting programs to those who cannot work more than they already do (temporarily or permanently) can contain the cost of transfers and maximize impacts. Beneficiary selection is often a bottleneck in circumstances in which formal income and means tests are impractical. Low-information approaches can be effective alternatives, such as categorical, geographic, and community-based screening.
- **Program generosity.** Cash transfer programs in developing countries need not be as generous as those in middle-income or industrialized economies. If low-income households

already derive some of their earnings from informal sector activities or private transfers, than a cash transfer can be used to partly close the poverty gap rather than to provide full replacement income. Further, limiting the value of transfers reduces adverse labor supply effects that high benefits may foster.

- **Promoting gender equality.** Overcoming gender bias in social protection programs can have an important impact on household welfare. Evidence shows that giving transfers to women often has a greater poverty-mitigation effect than when given to men. Three ways in which gender equality can be promoted are to provide family assistance to female household care givers, particularly low-income single-parent households, to make transfers conditional on schooling attendance by girls and offering social pensions to the elderly.
- **Securing and sustaining political support.** Ensuring that the aims of the programs are widely understood and generally felt to be sound and effective is central to maintaining voter confidence and fostering political support. Programs that frequently stop and start will undermine voter confidence. To build a broad-based constituency in favor of a cash transfer program, benefits may need to be provided to some non-poor households as well as to poor households.
- **Building administrative capacity.** The approaches that have been adopted in recent years to improve the administration of cash transfer programs include automation, the use of modern cash dispenser technology, better record keeping, consolidating program management responsibilities, and contracting out functions that can be done better by the private sector. In industrialized nations, governments have built their institutional capacity to implement cash transfer programs by separating policymaking from program administration, introducing program performance charters, improving program monitoring, consulting with stakeholders, taking active measures to combat program fraud, and using research to guide the reform of the program.

The World Bank Social Safety Nets Primer series is intended to provide a practical resource for those engaged in the design and implementation of safety net programs around the world. Readers will find information on good practices for a variety of types of interventions, country contexts, themes and target groups, as well as current thinking on the role of social safety nets in the broader development agenda.



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