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Poor Poverty: The Impoverishment of Analysis, Measurement and Policies

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How Cash Transfers Promote Work and Economic Security

by **Guy Standing**

For decades, policymakers in developing countries and donor agencies, including the international financial agencies, dismissed the idea that poverty could be redressed through cash transfers. They relied largely on social insurance and means-tested social assistance for those affected by particular contingency risks, such as accidents, loss of job, disability or old age, and many showed a remarkable faith in public works. But they gave a very limited role to cash transfers *per se*. Recently that has changed.

One reason is that the aggravation of poverty and inequality under globalization defied the prediction that economic growth would “trickle down” to the poor and economically insecure. Another is that other forms of aid have had limited effect, especially in the context of systemic shocks, involving mass entitlement failures in which whole communities are blighted by an economic setback, ecological disaster or epidemic.

This chapter first presents principles for assessing the effectiveness of various types of income-support scheme in combating economic insecurity. Using those principles, it goes on to review experiences with food aid and vouchers, seen as the main alternatives to cash transfers, before discussing the growing use of conditional cash transfers. Separate sections deal with cash transfers in emergency and development aid, incomes for school attendance, social pensions and disability grants. It concludes that experience with cash transfers supports moving to universal unconditional cash transfers.

Economic Insecurity and Social Justice Principles

Briefly, economic insecurity reflects *exposure* to several forms of risk and uncertainty, limited capacity to *cope* with adverse outcomes, and limited ability to *recover* from them. To a greater or lesser extent, everybody is exposed to idiosyncratic risks, reflecting life-cycle contingencies, such as a spell of unemployment, illness or a disabling accident. This is the sphere of classic social security. But there is also co-variant risk, where one adverse event has a high probability of triggering others, and systemic risk, where whole communities are exposed.

This leads to the distinction between *shocks* and *hazards*. Shocks have become more numerous as a result of globalization and global warming. Included are sharp economic downturns, and what one can characterize as socio-economic disasters, whether they be quick-onset shocks, as in the case of earthquakes, floods, tsunamis or a sudden economic collapse, or slow-onset shocks, as in the case of droughts, famines or an epidemic such as HIV/AIDS.

Hazards are also important sources of economic insecurity in developing countries, and may be defined as predictable life events that have a high probability of an adverse economic effect for an individual or family. They include a death of a relative, weddings, births, a migration event and retirement. The resultant costs can erode a household's capacity to sustain its normal livelihood base, perhaps by pushing it into debt or into mortgaging land, or by preventing it from buying seeds or fertilizers. Hazards have always existed, but with commercialization and rising financial costs of basic services, their threat for low-income families has intensified.

Economic insecurity also arises from uncertainty (“unknown unknowns”). With uncertainty, one is unsure about one's actual interests and how to realize them. The outcome of decisions cannot be predicted with confidence, and often this is combined with lack of knowledge about what to do if an adverse outcome materializes. Chronic uncertainty pushes people into more risk-averse behaviour, especially if the consequences of an adverse outcome could be catastrophic. This is particularly likely in agrarian economies or where production is dependent

on climate. Anything that lessens the uncertainty can be expected to have a beneficial effect on higher-yielding investment, innovation and purposive decision making.

So, security arises from being able to deal with risks, shocks, hazards and uncertainty. It is a premise of this chapter that basic economic security is essential for freedom and development. Basic economic security is defined as a threefold set of circumstances—limited *exposure* to idiosyncratic, co-variant and systemic risks, uncertainty, hazards and shocks, an ability to *cope* if they materialize, and an ability to *recover* from adverse outcomes if they arise.

Types of Income Support Scheme

Schemes that might promote economic security, and poverty alleviation, can be defined by their intended *coverage*. We may say that a scheme is *universalistic* if the benefit is intended as a right for all the population, perhaps based on citizenship or long-term residence. A scheme is *targeted* if it is intended for "the poor", defined by some test of eligibility, such as a means test. A scheme is *selective* if it identifies a particular group, such as women with children, as the intended recipients. A scheme is *conditional* if it requires specified behaviour, usually work related, on the part of the recipient or in, some cases, the recipient's family members.

In practice, there are instances of universalistic selective schemes for which all those belonging to some group are eligible regardless of means. An example is the social pension introduced in countries such as Namibia and Mauritius. More common are targeted selective schemes, which define intended beneficiaries by their status (e.g., women with children) and by their poverty (having income or assets below some threshold value).

Means testing has been criticized as inequitable and a deterrent to work, especially for low-skilled workers, through "poverty traps" and "unemployment traps". The problems are compounded by the difficulty of applying meaningful tests to incomes that fluctuate erratically and substantially. Starting in Chile in 1980, this has prompted many countries to resort to proxy means testing, where visible indicators of income are used to determine eligibility for benefits (Clert 2001; Raczynski 1991). This obviously requires selection of relevant indicators of deprivation, such as location of residence, quality of dwelling or type of economic activity the household is engaged in. None of these is a very reliable indicator of poverty. Accordingly, some authorities have been drawn to rely on sophisticated statistical models, using a few variables to estimate the profile of somebody who should be regarded as in need. However, the technique is prone to four types of failure that should be used to assess any social protection scheme.

Schemes can have a *high exclusion error*—that is, exclude a large number of those for whom the benefit is supposedly intended. This is particularly likely with area-based targeting. Schemes may also have a *high inclusion error*—that is, include people for whom the benefit is not intended. Third, schemes may have a *high administrative cost* relative to the cost of the overall scheme, often meaning that far fewer people can be beneficiaries, given limited resources. Fourth, schemes may have a *high transaction cost* for the intended recipients, in that they have to do a lot in order to obtain the benefit.

In the case of proxy means tests, collecting and analyzing data to be used in a formula to identify the targeted group will involve hefty costs. There will also be substantial exclusion errors, since even the best econometric equations estimate only about 50 per cent of the variability of income, implying an imperfect means of identifying potential recipients (Coady 2004). Such schemes also involve "immoral" hazards if the proxy indicators are known, since possible recipients may go without in order to qualify. In short, proxy means tests are little better than the means tests they replace.

Policy Evaluation Principles

This chapter is based on a belief that policies should be evaluated by whether or not they satisfy the following five policy principles:[1]

> The Security Difference Principle— A policy or institutional change is socially just only if it improves the security of the least secure groups in society.

The Security Difference Principle stems from Rawls, who from a liberal philosophical perspective argued that social and economic inequalities are only just if they allow for the betterment of the worst-off groups in society (Rawls 1973).

> The Paternalism Test Principle— A policy or institutional change is socially just only if it does not impose controls on some groups that are not imposed on the most free groups in society.

Underlying this is the Millian liberal view that there is a prima facie case against paternalism (except in the case of young children and the medically frail), particularly against those forms that constrain the freedoms of the disadvantaged.

> The Rights-Not-Charity Principle— A policy or institutional change is socially just if it enhances the rights of the recipient of benefits or services and limits the discretionary power of the providers.

A right is possessed by virtue of a person's humanity or citizenship, and surely cannot be made dependent on some behavioural conditionality. Social and economic entitlements should be rights, not matters for the discretionary decisions of bureaucrats or philanthropists or aid donors.

> The Ecological Constraint Principle— A policy or institutional change is socially just only if it does not involve an ecological cost borne by the community or by those directly affected.

This is the quintessential 21st century principle. Benefit schemes should be subject to the constraint that they should not deliberately or carelessly jeopardize the environment.

> The Dignified Work Principle— A policy or institutional change is just only if it does not impede people from pursuing work in a dignified way and if it does not disadvantage the most insecure groups in that respect.

The two-part test here involves two value judgments—that work that is dignifying is worth promoting (whereas deterioration in working conditions or in opportunities would not be), and that the policy should enhance the range and quality of work options of the most insecure groups relative to others, or more than for others. The main point is to determine if a scheme favours the development of more freely chosen work opportunities and work capabilities.

Finally, it is also worth recalling Tony Atkinson's two measures of poverty-reduction efficiency—*vertical*, measuring the extent to which there is leakage of money intended for the poor going to the non-poor, and *horizontal*, measuring the extent to which the poor are actually helped (Atkinson 1995). A difficulty with this dualism is that, for example, a scheme may reach 70 per cent of a target group, but they may be the least severely affected, leaving the worst-off 30 per cent no better off. And, for instance, if another programme reached 70 per cent who were the worst-off and did so at the cost of some leakage to the non-poor, that might be judged less efficient. It is thus advisable to be cautious about evaluating policies using the language of efficiency.

The following considers the main alternatives to direct cash transfers and then turns to a more detailed discussion of conditional and universal forms of transfers. It leaves out of consideration cash-for-work and emergency public works schemes, which have been written about elsewhere, using the same criteria (UN 2007: Chapter VI).

Non-Cash Transfers

Food Aid

The claim in favour of food aid, including subsidized food, is that it is an anti-poverty device that responds to the priority needs of the poor. It is also perceived as horizontally efficient in that it is *self-selecting*. The poor will want the food aid; the wealthier will not. Food aid, it is reasoned, will also be appreciated by recipients, as well as easy to legitimize with donors and the median voter.

The main criticism is that the vulnerable may not lack food *per se*, or may not see their future as made secure by access to more food. Such commodity-based aid is also paternalistic, in that it presumes that what people want is more food, and/or that they would not spend money on food if given the freedom to make choices for themselves.

Food aid is also potentially market distorting, eroding incentives for local farmers, especially if the food is coming from outside the community. It can thus disrupt local livelihoods and employment. Even the prospect of an influx of food aid can be a deterrent to local farmers or market traders. It may thus fail the Dignified Work Principle.

Food aid also engenders a sense of charity rather than economic rights. As with all subsidies, subsidized food will be less appreciated than if the market price were paid. Food aid will therefore tend to result in more waste, due to

undervaluation, and/or excessive consumption just because it is "free" (Tabor 2002). Distributing food aid also has high transaction and administrative costs. For instance, in India, the widely used meals-for-school scheme is notorious—each rupee of food costs a rupee to distribute.

Finally, food aid often leads to perverse targeting, reaching those without much need for food while not reaching those who desperately need it, who may be more inaccessible.[2] Thus it may, perversely, fail to satisfy the Security Difference Principle as well.

Though food aid is rightly the classic form of aid in times of emergency, there is growing recognition that to be effective, it must usually be combined with cash grants if the intervention is to prevent the collapse of livelihood capacity in the affected communities. There is now considerable evidence from food-aid schemes that, without monetary assistance, many recipients have to sell their food aid or cannot retain their land or raw materials because of accumulating debt. This was found to be the case, for instance, with food aid to refugees in Chad (LeJeune 2004) and with emergency food hand-outs in the Great Lakes region of Africa (Levine 2004).

In occupied Afghanistan, beneficiaries of food aid were found to be selling the food they had received for less than a third of the cost of its delivery (Development Researchers Network 2003). And an evaluation of food aid in Ethiopia concluded that households would have taken much less in cash than the market value of their food aid and been equally satisfied (Barrett 2003; see also Barrett 2002). In sum, food aid does not do well in terms of the five policy principles.

Vouchers and Food Stamps

Vouchers are in fashion. The most common have been for seeds and other agricultural inputs, the intention being to boost output and employment while curbing food poverty. Vouchers have also been used in foreign aid to communities hit by economic or natural disasters, as in the aftermath of the tsunami, in Indonesia, Sri Lanka and elsewhere, in the occupied Palestinian territories, and in the UK government's response to the Montserrat volcanic eruption. Significantly, in the last case, the authorities eventually switched to cash grants after recipients complained that the vouchers were too restrictive.

Among the claims in favour of vouchers is that they are, or could be made, self-selecting of those in need, if the items that can be obtained with vouchers are what the wealthy have in abundance or do not want. Some have even argued that there should be stigma attached to receipt of vouchers precisely to increase the self-selection.[3]

One criticism of vouchers is that they require considerable planning and preparation, including the agreement of local traders to accept the vouchers. There have been reports that shops do not like dealing with vouchers because they involve extra administrative costs and uncertainty about reimbursement. Another criticism is that, contrary to the claim that they promote self-selection, the stigmatization entailed by vouchers leads to lower take-up, not higher. Applying for and using a voucher are visible transactions that signal poverty or dependency, and there is no reason to presume this will result in self-selection by the poorest and most insecure. In the UK, the Government had to abandon a special voucher scheme for asylum seekers precisely because recipients were being identified and harassed.

By definition, vouchers are paternalistic, in that they involve a decision by the state (or donor) on what they think people should be spending money. However well-meaning, that is a restriction of individual liberty. This is perhaps why the best form has been "seed vouchers" combined with "seed fairs", in which the paternalistic element has been moderated by enabling recipients to choose from among a range of seeds. Such fairs have worked well in parts of Africa.

Any subsidy distorts spending patterns. Extensive research has shown that the US food stamps programme has resulted in people buying more food than they would have, had they received the equivalent in cash. Given the high incidence of obesity among the US poor, that in itself would be a reason to convert the voucher into a cash transfer. Giving cash would not ensure it was spent on healthier food, but there would be a lower probability that it would be spent on excessive food. How it would be spent would be a matter of personal freedom.

Cash Transfers

There is a growing movement in favour of cash transfers and even universal income grants in countries where it is commonly claimed that no universal system of social protection is financially feasible. Surveying the literature, a senior World Bank economist put it thus:

> The conventional wisdom … is that income transfers to the poor, and safety net policies more generally, are at best a short term palliative and at worst a waste of money. These views are starting to be questioned at two levels. Firstly, evidence from careful evaluations has pointed to a number of success stories. … Secondly, the presumption of an overall trade-off between redistribution or insurance (on the one hand) and growth (on the other) has come to be questioned (Ravallion 2003).

Cash Transfers in Emergency and Development Aid

The advantages of cash transfers in emergencies include speed, transparency and the ability to allow those in need to make choices about how they spend the aid, thereby enabling them to retain a greater sense of dignity in times of crisis (Creti 2006).

Based on experience in Africa, Asia and Latin America, Oxfam has issued guidelines for such schemes, recognizing that they are particularly appropriate for crises where local purchasing power has been wiped out while food and other basic goods are potentially available. They also have low administrative costs. As a World Bank study on Colombia's experience concluded:

> The cost of SISBEN design and application has been modest in absolute terms (about US$0.21 per person in the registry, US$0.52 per beneficiary), and relative to the total amount of resources that have been targeted with SISBEN. It has been estimated that to target US$100 dollars to a beneficiary costs less than US$70 cents. For some programs, such as the Conditional Cash Transfer (CCT-Familias en Acción), the cost of SISBEN is about 0.5 per cent of the total cost of the program (assuming this is the only program using SISBEN) (Castañeda 2003).

One scheme that has been carefully evaluated is the Cash for Relief Programme (CfR) in Ethiopia. An objective was to enable households hit by crop failure to rebuild their assets. The evaluation found that the grants had been very successful in regenerating livelihoods (Brandsetter 2004). Rather than merely consume (which would have been likely with food aid alone), the recipients had controlled debts and invested in restoring land productivity. The donors found that cash grants “allowed individuals and communities to begin making a series of decisions, giving them the power to prioritize needs for their families and presenting them with a creative way to receive relief assistance with dignity” (USAID 2004).

An evaluation of the Meket Livelihood Development Pilot Project, involving cash transfers provided in two areas of Ethiopia in 2001–2004, found that the cost of implementing the scheme was much less than the equivalent for food aid (Kebede 2005). The latter also had substantial transaction costs for beneficiaries (rarely taken into account in evaluations), including time spent waiting for deliveries and sharing out food as well as the work involved in loading and transporting the aid.

By contrast, cash transfers allowed beneficiaries to make strategic choices for themselves. The evaluation found that the transfers allowed households to build up assets, notably through acquisition of livestock, enabled some to reduce distress renting out of land, and enabled recipients to obtain higher crop prices, partly because they were able to sell when prices were favourable, rather than when they were desperate for cash. These are classic advantages of having basic economic security. They also helped some to pay off debts, others to pool savings in an *equb* (group saving scheme), and others to buy seeds, sheep or goats, thereby enabling them to work.

Evaluations of other cash relief projects in Ethiopia implemented by Save the Children in response to food crises concluded that they too functioned efficiently, proved more cost-effective than food aid, and had no inflationary effect (Gebre-Selassie 2003; Save the Children UK 2004; Knox-Peebles 2001). Successful schemes have also been implemented in north-eastern Somalia (the Emergency Cash Relief Program), and in two districts of Zambia (the Kalomo Social Cash Transfer Scheme) initiated by the Government with financial support from the German development agency, GTZ.

In the Zambian scheme, which focused on very poor households with little access to paid work, it seems the money was spent mainly on basic consumption goods and education and healthcare for family members (Schubert 2005). In other words, people spent the cash rationally for their own longer-term welfare. A majority of the beneficiary households were headed by elderly persons or women, about half were AIDS-affected, and nearly half contained orphans.

The Zambian scheme had a more general message. It was estimated that if it were scaled up to reach the poorest 10 per cent of all Zambian households, the cost would amount to merely 5 per cent of all overseas aid to the country, or about 0.5 per cent of its GNP. So, a national scheme was financially feasible. It would be much cheaper than the country's food aid, and have the advantage of going directly to the poor and vulnerable, without the high administrative costs and corruption associated with commodity-based schemes. And whereas food aid damages local markets by deterring local producers, cash transfers would do the opposite by stimulating markets. In Zambia, no less than 70 per cent of all social transfers are spent on locally produced goods and services, thus generating local livelihoods (Department for International Development (DFID) 2005; Samson 2006).

The Zambian, Ethiopian and Somalian experiences offer encouraging evidence that cash transfers are affordable and conducive to livelihood revival in chronically poor areas. Of course, in emergencies, cash grants should not be seen as pure alternatives to forms of commodity-based aid. Such transfers might be inflationary if food supplies were unavailable. In the aftermath of a disaster, food aid may need to complement cash transfers, to restrain inflationary pressures. Commodity aid can then be gradually phased out as local producers respond to the increased demand for staple goods and services. However, cash transfers may need complementary programmes designed to boost local supply, as was the case following the Mozambique floods in 2000.

Among the growing number of schemes launched outside Africa as part of emergency and rehabilitation programmes is the Cash for Herder scheme in Mongolia, implemented by the Swiss Agency for Development and Cooperation (SDC) and the Red Cross in 2002–2003. The evaluation two years later found that while an in-kind project was “appreciated” by recipients, it had not helped regenerate the economy, whereas the cash transfer had led to investment in assets that regenerated livelihoods. It concluded:

> The cash approach made use of the creativity and experience of beneficiary families to develop strategies out of their crisis … [It] showed that poor people and people under severe economic stress are very well capable to handle cash responsibly and develop and take strategic decisions on what to spend the money in order to improve the livelihood and their families in the medium and long term … most important, beneficiaries do become economic and social actors in their own community again (SDC-IFRC 2005).

The evaluation also found that “the response and preparation time” was short and administrative overheads were low. Encouraged, by 2005, the SDC had implemented 13 cash grant projects of this type in eight countries.

The growing legitimacy of cash transfers was also reflected in the Group of Eight Statement of 2004, which, when referring to the international response to famines, made the commitment, “we will unleash the power of markets through cash-for-work and cash-for-relief programs” (Group of Eight (G-8) 2004). The scope for cash transfers in Africa and Asia is thus recognized as part of the armoury of aid and humanitarian responses to poverty and insecurity. Meanwhile, in Latin America, cash transfers have become central to social and development policy.

Conditional Cash Transfers

So-called conditional cash transfers (CCTs) are in vogue, although the distinction between conditional and unconditional is not as sharp as is sometimes depicted. One reason is that some policymakers use conditionality as a device to legitimize the transfer with middle-class voters and financial agencies, as was the case in the early *Bolsa Escola* schemes in Brazil. In practice too, the difficulty and costs of implementing the criteria used for identifying beneficiaries can lead to token or discretionary application of the conditions. This has been the case of the state old-age pension in South Africa, which has been a success in redistributing income and boosting small-scale economic activities.

Nevertheless, what commentators usually have in mind when discussing CCTs is a combination of targeting, selectivity and conditionality. This erects a system of social engineering that multiplies moral judgments and the scope for unfairness, especially as little heed is paid to effects on the excluded or to the longer term.

The most well-known condition is that recipients should send their children to school. This is a form of paternalism, but it is a modest one, given that society usually has a constitutional commitment to ensure children are enrolled in and attend school. Other forms of conditionality are harder to rationalize on ethical or freedom-enhancement grounds.

It is our contention that the growing interest in CCTs as an aid and development tool will lead to a realization that most forms of selectivity and conditionality are costly, inequitable, inefficient and offensive to egalitarian

principles. Nevertheless, the current phase of policy development is promising because experimentation with conditional transfers is proving that they can have a beneficial development role. We consider unconditional, universal income transfers later.

CCTs

Income Conditional on School Attendance

This form of conditional cash transfer has become enormously popular. The main claim is that incomes conditional on school attendance lower the poverty and economic insecurity of women and children, breaking the inter-generational transfer of poverty, through “human capital” formation. It is claimed that they reduce child malnutrition, and promote school enrolment and attendance. Such schemes are less paternalistic than food parcels and food aid, or other commodity-based forms of transfer. They are also a means of redistributing income that is relatively easily legitimized among the middle class and “ median voters”.

Critics argue that, by focusing only on school-age children, these schemes neglect families with children under the age of seven, the group most at risk of ill-health due to malnutrition and impoverishment. There are also claims that they discourage female labour force participation and that they involve high administrative costs, particularly as they are means-tested.

Despite these criticisms, country after country has opted for this policy. Latin America has led the way, starting in Mexico, where the *Progresa* (literally “progressing”) scheme, introduced in 1992, has evolved into the *Oportunidades* scheme.[4] *Progresa* was supposed to support poor school-age children in marginalized rural communities, but in 2002, *Oportunidades* extended that to other rural and urban areas, reaching about 3 million Mexican households at any one time.

Although awkward questions remain about the efficiency and equity of the selectivity process, *Progresa/Oportunidades* has been less expensive to distribute than food aid (Gertler 2005) and has reduced poverty, increased school enrolment and attendance, and improved health (Skoufias 2001). In short, the scheme has become a central part of the country's social protection system.

Another major example is the *Bolsa Familia* (“family stipend”), the flagship of Brazil's cash transfer schemes, which contributed to President Lula's re-election in 2006.[5] A central part of the Government's *Zero Fome* (“Zero Hunger”) campaign, it has helped reduce the country's enormous income inequality. It also unified a variety of paternalistic and selective schemes, such as the gas allowance and school stipends. An intention has been to break the inter-generational transfer of poverty by conditioning access to transfers on human development objectives (schooling, nutrition and health). It is also seen as a means of “empowering” women, giving them more bargaining power and enabling them to make decisions on their children's education and on their own work.

By 2008, the *Bolsa Familia* reached over 12 million households living below the official poverty line, or over 46 million people. The scheme is nominally means-tested, with the amount determined by number of children. Autonomy is granted in that recipients can choose how to spend the money, but the conditionalities (“incentives”) are restraining, and include school attendance by children aged 5–15, antenatal classes for pregnant women, and vaccination for children under the age of 7. The scheme is nevertheless evolving towards being more universal and less conditional.

The *Bolsa Familia* has generated enormous global interest. There have been a series of evaluations and monitoring projects, mostly favourable (Britto 2005; Fonseca 2006, *inter alia*). The consensus is that the transfers have reduced female poverty, increased school attendance and school performance, and increased female labour force participation. Indeed, one study of the earlier scheme concluded, “instead of the expected negative correlation between *Bolsa Escola* and work, we find the opposite: those receiving the stipend are the ones that work more” (Schwartzman 2005).

The effect on child labour is less clear, since cash transfers seem to have resulted in children doing fewer hours of labour, but not necessarily stopping altogether (Cardoso 2003; Rocha 2000). This is partly because prohibiting child labour is not part of the programme. Child labour has continued to play a role in the survival of poor households, accounting for 20 per cent of family income in about a third of all families. The stipend is too modest to displace that.

Other similar CCTs are Colombia's *Familias en Acción*, Honduras' *Programa de Asignación Familiar* (PRAF), Jamaica's Programme of Advancement through Health and Education (PATH) and Nicaragua's *Red de*

Protección Social (RPS), which predated the Brazilian model. There is also growing interest outside Latin America, a beacon being Bangladesh's Cash for Education scheme. By 2008, the Indian Government was considering the *Bolsa Familia* as an alternative to its wasteful food subsidies.

To what extent does this type of scheme satisfy the Principles enunciated earlier? Undoubtedly, the policy is paternalistic. Many observers would accept it as desirable to impose conditions that benefit children, and would be satisfied as long as the scheme did not put families into a poverty trap. However, the Mexican scheme goes much further, raising questions about excessive bureaucratic intervention in family life of an intrusive kind that could lead to stigma and even non-application for the benefit. To the extent that there is a political commitment to weaken the conditionality, Brazil's less intrusive *Bolsa Familia* scores better on the Paternalism Test.

As for the Security Difference Principle, the complexity of Mexico's targeting procedure raises questions about horizontal efficiency and omission of many of the poorest. There could also be a poverty trap if households lose entitlement to the benefit if they move out of poverty, thus discouraging work and social mobility.

As far as targeting is concerned, research suggests *Progresa* was effective in reaching very poor households in very poor areas, but was less effective in reaching the "moderately poor" (Skoufias 2001: 43). To that extent, it could be said to have satisfied the Security Difference Principle in being horizontally efficient. But in all these schemes, excluded from coverage are households with only pre-school age children or without any children, as well as orphans and others living outside households altogether. It cannot be claimed that the targeting reaches the most impoverished.

Moreover, in both Nicaragua and Mexico, about 20 per cent of the cash beneficiaries were non-poor (Coady 2004). In Bangladesh, where targeting has been weaker, about 40 per cent of beneficiaries have been non-poor. As targeting is supposed to exclude the non-poor, this suggests that the schemes have not been very successful on their own criterion.

These schemes also depend on a sophisticated up-to-date registration system. Unregistered households cannot obtain benefits, which is why many poor and insecure families do not obtain them. And the economically insecure tend to have incomes that fluctuate above and below any poverty line, making it a bit of a lottery whether or not they manage to qualify.

To succeed in its broader aims, this type of scheme also depends on there being adequate local schooling and health and transport infrastructure. In urban areas of Latin America, these may exist. But in rural areas of those countries, and in much of Africa and Asia, the imposition of school-attendance and clinic-attendance conditions may impose onerous burdens on poor households, and hit the very poor more than anybody else.

Even in Latin America, the desirability of the conditionality has been questioned, prompting a growing number of policymakers to conclude that less conditionality would be more efficient and equitable. The complexity of requiring people to prove they are poor and vulnerable, and to demonstrate regular attendance at schools and clinics (or to prove they had a valid reason for not doing so) is surely off-putting for people cowed by poverty and chronic insecurity. It is also expensive in administrative time and paperwork (Ayala Consulting 2003).

The biggest question is one at the heart of all debates on social protection in the 21st century. Are the conditions necessary if they simply require people to do what is in their best interest? Obliging a mother to send a child to school might seem obviously beneficial, but pressure to do so—and fear of income loss if she does not—may lead to the perverse outcome of a mother sending a sick child to school, to the longer-term detriment of the child and family. One can think of many other circumstances that should cause disquiet.

The imposition of conditions presumes that a poor person is irrational or incapable of learning, does not know his or her long-term interests, lacks information or cannot act in the child's longer-term interest because of some impediment. Dealing with those issues directly would be more effective than imposing conditions that eat up resources in administering them, while perhaps ignoring structural factors that impede seemingly rational behaviour. Even in the case of children, one cannot accept state paternalism uncritically.

This concern is one that may preoccupy the second-generation reformers as assessments of income-for-school-attendance schemes unfold. What is clear is that they are compatible with more independent economic activity. The Dignified Work Principle is supported by the fact that women's labour force participation has been boosted by such schemes, contrary to claims that cash transfers foster dependency.

Targeted, Selective Cash Transfers: Disability Grants

Here, we will deal with a variant of disability grants, as introduced in southern Africa, in Mauritius, Mozambique, Namibia and South Africa. They are both means-tested and work-tested, and are proving disastrous.

Under the South African scheme, a *permanent* grant is supposed to be available to anyone with a disability expected to last for more than a year; a *temporary* grant is supposed to be given to anyone with a recognized disability expected to last between six and twelve months. If a person deemed disabled is below the age of 18, they can obtain a care dependency grant instead. Access to the grant is based on a complex procedure, based on an assets value test, an earned income test and a joint assets test, since for married couples the joint assets must be less than a designated amount. But the conditionality does not stop there, because the scheme also requires applicants to demonstrate a medical condition and incapacity to work. It is this cocktail of tests that is a recipe for social disaster.

In Namibia, a disability grant modelled on the South African scheme has been growing in significance in the context of the HIV/AIDS pandemic. The grant has become Namibia's second most prevalent income support mechanism, part of an evolving system of selective, targeted transfers that includes three family benefits—the foster parent grant, the child maintenance grant and the orphan's grant. Only a few households have received any of these means-tested benefits, which involve poverty traps and the moral hazards that come with all means-tested schemes.

It is thus not surprising that the disability grant reaches no more than about 20 per cent of all those who should be reached, according to Namibian census figures for the number of people suffering from chronic impairments (Standing 2008). It is moot whether it reaches many AIDS victims who become disabled as the sickness intensifies. If it does not reach them, the danger is that anti-retroviral (ARV) treatment will fail since unless a person can eat reasonably well, the medication will not work. However, if it were to reach a large proportion of AIDS victims, the fiscal cost would be large.

The primary problem, however, is the conditionality. To be entitled, a person must obtain a doctor's certificate stating that he/she is not only disabled, but also unable to do income-earning activity. The rule has been that those with a CD4 count—a measurement of the body's immunity—below 200 are entitled to a temporary disability grant, if they pass those means tests. They are supposed to de-register if their CD4 count improves to above 200 due to anti-retrovirals. Because of this, coupled with the nature of the ARV rollout, a bizarre sickness poverty trap has been created.

In areas where the ARV rollout is operating, if an AIDS victim is sufficiently sick, he/she qualifies for treatment. Most recipients are wretchedly poor. So, two tendencies have emerged. Some of those receiving ARVs have been sharing their pills with relatives and friends who are not quite sick enough to qualify. Taking half the dose does not slow down the rate of recovery from the disease; it makes the treatment ineffectual and may build up drug resistance. Other ARV recipients have gone one stage further—they have been selling the pills. In Namibia, some have been selling them over the border in Angola. The short-term need for food to survive overrides the need for health to survive in the longer term. Thus, the ARV rollout will fail because it is not linked to income security.

Second, the work capacity test for eligibility for the grant creates a unique moral hazard. If the ARV treatment improves the patient's condition, so the capacity to work improves. And if it does, the patient loses entitlement to the benefit. In Namibia and South Africa, there are credible reports that people have stopped ARV treatment in order to push themselves back below the capacity-for-work level, for fear of losing the grant.[6] According to the South African Treatment Action Campaign, which has been advocating a universal basic income instead, there have been many instances in which patients have simply refused treatment for fear of losing their disability grant.

Furthermore, there are fears that the yo-yo effect—in which sick individuals take treatment for a while, see their health improve slightly, stop treatment until it worsens, start again, stop again, and so on—is fostering the development of treatment-resistant strains of the disease.

Thus, the disability grant must rank as one of the worst designed cash transfer schemes in the world. It does not satisfy any of the Policy Principles. It is a classic case of how a combination of means testing and work-capacity testing can achieve the opposite of what policymakers intend. Surely, enough is known to scrap the work test and the means test in disability grants.

By contrast, in the early 1990s, following Mozambique's civil war, the Government introduced a simple unconditional cash transfer scheme for those disabled or displaced known as GAPVU, or “cash payments to war-displaced urban destitute households programme”. This reached about 16 per cent of urban households and raised average incomes by as much as 40 per cent, significantly reducing poverty (Devereux 2005; Department for International Development (DFID) 2005; Samson 2006). It also boosted small-scale employment and the livelihoods of the urban poor, notably raising food production and trading activity. The scheme had a means test, but the authorities largely ignored it, contributing to the programme's success. It is a lesson for those wedded to selective, targeted alternatives.

Universalistic Unconditional Cash Transfers: Social Pensions

With global ageing and with the dislocation of families pushing more elderly out of family-based support networks, support for social pensions has grown. Many countries have some means-tested state pension, but more interesting is the non-means-tested variety, that is, a basic universal state pension provided to all above a certain age without conditions, such as a record of contributions, being required for entitlement (Palacios 2006). It is sometimes depicted as a primary pillar of a multi-pillar pension system. The interest arises, not just because it offers the prospect of cutting old-age poverty dramatically, but because it may also be a productive investment, directly and indirectly boosting dignified livelihoods.

It is ironic that social pensions have been pioneered in a few developing countries where poverty and inequality are rife and where many economists would say there are no resources available to pay for them. Variants exist in South Africa, Namibia, Nepal and Mauritius, where the amount paid rises with age, and Botswana, Bolivia, Samoa, rural areas of Brazil and Lesotho, which introduced it in 2004 for those over the age of 70. The Indian NOAPS (National Old Age Pension Scheme) is tending towards being a social pension as well, albeit giving a tiny amount and with notorious inefficiency. Chile has also introduced such a scheme. In addition, by 2007, over 30 developing and transition countries were operating means-tested, non-contributory pensions (Johnson 2006).

Besides enhancing old-age income security, social pensions have influenced patterns of work and labour. The primary claim in favour of the non-means-tested variant is that it is universal and rights-based—all elderly citizens are entitled to receive a monthly amount. Social pensions reduce old-age poverty better than any alternative, are redistributive, affordable and transparent, and have very low administrative costs. They typically account for a tiny percentage of GDP; in Costa Rica, for example, they took only 0.3 per cent in 1999, and in Zimbabwe, only 0.1 per cent (Coady 2004; Munro 2003). Another strong finding is that the South African pension was the only successful redistributive policy in the post-apartheid era (Case 1998).

It is still often claimed that social pensions are costly because they are universal. But it is because they are universal that they reach nearly all the elderly, and do so remarkably cheaply. Perhaps Namibia has the most efficient social pension, operated via an electronic card and biometric identification. Each month, vans go to the villages and urban payment spots, each van containing cash-dispensing machines and computers. The pensioners (or designated surrogates if they are too ill or frail) present their cards at the van and are paid the equivalent of US$30. The take-up rate is about 90 per cent, which is high by comparison with all other pension schemes in developing countries, and is higher than any means-tested scheme operating anywhere.

The Namibian scheme is administered by a company on contract to the Government. The monthly costs are equivalent to about 30 US cents per person, also remarkably low by comparison with other systems. To prevent fraudulent claims on behalf of dead people, the authorities ingeniously introduced burial insurance; the pensioner, on registering for the pension, takes out a mandatory life insurance, whereby funeral costs are covered when he or she dies; application for burial funds enables the authorities to cancel the card. Given the cultural significance of decent burials and their cost, the insurance scheme has been found to be successful in all respects.

Also remarkable is the effect on livelihoods. Social pensions have helped preserve family structures, enabled grandparents to pay for the schooling of grandchildren, paid for the care of family members suffering from HIV/AIDS, made the elderly creditworthy and promoted sustainable livelihoods, particularly in rural areas.

Social pensions are productive. A neglected lesson from European history is that increased old-age security acted as a powerful force in modernizing agriculture, because it led to more risk-taking innovation. It has done so in rural Brazil. As one study concluded, “the regularity, certainty and liquidity of pension benefits meant that they played a key role in shifting households from subsistence to surplus agriculture” (Barrientos 2002: 17; Barrientos 2003).

Besides its consistency with the Dignified Work Principle, the social pension satisfies the Security Difference Principle if it is not means-tested. Being universalistic, it should reach all the elderly poor. It is also paid to individuals, rather than households, thus satisfying a universalistic concern. It is non-paternalistic, allowing the beneficiary to spend on what he or she chooses; and it is granted as a right rather than a discretionary matter of charity. In brief, it is a feasible first step in the direction of a universal right to income security.

The debate on whether a basic state pension should be universalistic or means-tested rumbles on, but the signs are that the universalistic variant is gaining ground. South Africa is just one country in which pressure has been growing to end the residual use of means testing in its social pension. There and elsewhere in Africa, the IMF and other financial agencies have been trying to move governments in the other direction. But the evidence that this would be sensible in terms of equity or efficiency is simply not there.

Concluding Remarks

As the global market society takes shape in the aftermath of globalization, the policies and institutions that emerge will tend to reflect common challenges—a prevalence of unstable jobs, fragmented family structures, a changed nature of risk exposure and so on. Thus far, industrialized countries have responded to globalization's challenge to the traditional social insurance model with increased reliance on means testing and behaviour testing, coupled with social therapy and coercion. Yet, there is a counter-movement led by what is happening in developing countries, where the baggage of 20th century social security is light. The industrial labour model does not apply; most people are outside "formal" wage labour, and the main risks to which most people are exposed do not correspond to the contingency risks that underpinned welfare states.

In particular, communities and individuals are more exposed to systemic or co-variant risk. Distinctions between the deserving and the undeserving are arbitrary in contexts where ill-luck and chronic uncertainty are undeniable realities. Emergencies, shocks, crises—all force those involved in shaping policy and reacting to events to abandon old prejudices.

Ultimately, this means not just having food or other commodity hand-outs, but being able to develop sustainable livelihoods in viable communities based on functioning systems of social solidarity. That lesson is being re-learned, posing awkward questions to those wedded to selectivity, targeting and conditionality.

A claim in favour of unconditional cash transfers is that, being universal, they are socially just. They are non-labourist, in that they do not presume that some forms of work are deserving of support and others not. By making all forms of work equally deserving, they promote work by allowing people to make choices between types of work more easily. For that reason, among others, universal cash transfers favour women relative to other forms of social security because each individual receives an individual transfer and because those doing non-wage work, such as childcare or eldercare, are not penalized.

Because a universal, unconditional cash transfer is granted as a right, it would enhance full freedom. It would also strengthen the bargaining position of disadvantaged groups, who usually have to accept degrading conditions and low wages because they are desperate. From an economic viewpoint, it would shift money into the hands of those most likely to spend on locally produced goods and services, thus boosting local demand and employment.

Compared with means-tested social assistance and social insurance, a universal cash transfer would remove the infamous poverty trap, whereby someone who raises their income just above the threshold used to determine eligibility for the cash transfer loses all benefit, and the related unemployment trap. As such, it would immeasurably reduce the incidence of both moral and immoral hazards.

There is another reason for thinking that universal basic income security will ultimately emerge as the sensible and equitable objective from experience with targeted, conditional cash transfers. Surveys in many countries have found that strong majorities of people believe that everybody should have basic income security as a right (International Labour Organization 2004: Chapter 13).

Apart from the moral and political arguments, there are good economic and social reasons for moving towards basic economic security. Universal schemes of security are market neutral, i.e., they do not introduce market distortions and so have little effect on competitiveness. Unlike means-tested social assistance, universalistic schemes do not introduce negative incentives to dis-save (which would merely store up economic vulnerability), and there is no tendency to reward "labour" relative to other forms of work. And experience of cash transfer

schemes has shown that far from breeding dependency and passivity, they foster independence and activity. Thus, one study, drawing on surveys conducted by Statistics South Africa (the official agency for statistics), showed that the country's old-age pension, the Child Support Grant and the Disability Grant all raised labour force participation and employment (Samson 2004).

Moreover, universal schemes are administratively simpler and less costly. There is relatively little scope for bureaucratic abuse, discretion or corruption. The benefits are non-stigmatizing and, being universal, they help strengthen social solidarity, reinforcing community and social cohesion.

In reality, the cost of cash transfers is not the primary issue, since even poor countries could afford modest schemes, and most could do so relatively easily if more aid were diverted to that end. In a simulation study, the UNDP found that cash transfers targeting all rural children rather than only poor children would have a greater poverty reduction effect for an allocation of just 0.5 per cent of GDP (Kakwani 2005). The study reckoned that cash transfers to achieve an income of 40 per cent of the poverty line would cost 5 per cent of GDP for the Ivory Coast and more for some other African countries. But even small cash transfers would have a big effect in reducing poverty in all the 15 countries studied.[7]

In sum, the current surge to CCTs may be a step on the road to universal basic income security through universal cash transfers, as a means of restoring an emancipatory egalitarianism as the central goal of development.

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1. For detailed rationale for these principles, see Standing 2002; International Labour Organization 2004).

2. A series of People's Security Surveys in Africa and Asia found that it was the near-poor who were more likely to be aware of such schemes and more likely to benefit from them (International Labour Organization 2004).

3. Self-selection has been advocated by some prominent economists. This is morally bad. As if the poverty were not enough, this implicitly favours a public display of humiliation.

4. The original scheme was called the programme for education, health and nutrition, symbolizing its multiple objectives. For details on targeting and means-testing, see Standing (2008).

5. See Standing 2008 for details.

6. On the South African situation, see Nattrass (2006a, 2006b).

7. Other simulation studies have found that in countries such as Namibia and South Africa, a modest basic income as a monthly grant would be affordable, and at least one government committee in South Africa has recommended its introduction. See, for example, the papers in Standing 2004 and Taylor Committee 2002.

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