

# Social transfers and chronic poverty

Objectives, design, reach and impact

Chronic Poverty Research Centre



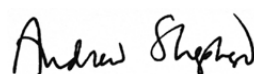
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# Social transfers and poverty: Objectives, design, reach and impact

Since the early years of this century, the Chronic Poverty Research Centre (CPRC) has been at the forefront of researching social transfers and providing evidence that it can work as an approach to tackle chronic and extreme poverty. This report conveniently draws together the threads of CPRC and other work and lays out ways in which, and the degree to which, social transfers address what is now acknowledged to be a significant issue: the fact that hundreds of millions of people are poor over long periods, their whole lives, and pass on their poverty to their children, or die prematurely.

The growing popularity of transfers reflects the now very long-standing recognition that the high-risk environment faced by poor and vulnerable people means that their development is greatly constrained. Savings, business development, educating children, and making use of health services, are all compromised by the risk environment, and the inadequate buffers for people who have to deal with risks. Social transfers are seen here as a developmental intervention, not a safety net, as they contribute to interrupting long-term and inter-generational poverty. They are not a magic bullet – as people do not just need a transfer to escape poverty and stay out of it, but also need an enabling economic environment that provides opportunities for decent work and self-employment, physical infrastructure, and functional, accessible and good quality services. But social transfers are a good start. It can add to the pressure on governments to provide quality public services, and at least, the depth of poverty is reduced by a transfer.

We hope this report will be useful to policy makers in presidents' and prime ministers' offices, ministries of finance and planning, as well as the ministries and agencies charged with developing or refining social transfer programmes. It will also be of interest to donor agencies supporting such policies and programmes.



**Andrew Shepherd**

*Director, CPRC*

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**This report is one of a series of policy analysis outputs from the CPRC. Others focus on gender, growth, and fragile states, and can be downloaded from [www.chronicpoverty.org](http://www.chronicpoverty.org).**

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# Executive summary

In the first decade of the new century, social protection has emerged as a new paradigm for antipoverty policy thinking in the global South. Social protection programmes are currently reaching, and helping change, the lives of more than 860 million people worldwide. This reflects an emerging consensus that eradicating world poverty requires economic growth, basic service provision and social protection. It also reflects improvements in knowledge on the nature and causes of poverty.

In this report, the focus is on social assistance, and follows a new typology that distinguishes between programmes that provide *pure income transfers*; programmes that provide *income transfers plus* policy interventions aimed at enhancing human, financial and physical assets; and *integrated poverty reduction programmes*. The report pays special attention to the extent to which emerging social assistance programmes in the South address chronic poverty, as the latter subject remains a major challenge for antipoverty policy interventions. Addressing this challenge requires that social assistance programmes succeed in reaching out to the poorest and facilitate investment in their productive capacity. The report focuses on three policy questions: first, do programme objectives address chronic poverty? Second, are programme design features – the identification and selection of beneficiaries, delivery mechanisms and complementary interventions – effective in reaching chronically poor households? And third, do social assistance programmes benefit the chronically poor?

## Addressing chronic poverty with social assistance

Section 2 tackles the first policy question and examines programme objectives across a range of countries. It

focuses on two channels through which social transfers address chronic poverty: first, by *promoting* longer-term human capital investment, especially through schooling, healthcare and nutritional complements, and second, by *protecting* household assets and *facilitating* asset building. To the extent that social assistance aims to improve human capital and asset among poor and poorest households, it becomes directly relevant to the reduction of chronic poverty.

## Facilitating human capital investment

In particular, Section 2.1 discusses the extent to which transfer programmes aim at improving households' productive capacity through human capital investment. Human development programmes in Latin America (also referred to in the literature as 'conditional cash transfers' or CCTs) explicitly aim at promoting investments in human capital. This objective is critical to help break the intergenerational persistence of poverty. The human development approach to social assistance has been expanding rapidly in Latin America and beyond, with over 30 countries having large-scale programmes in place, including Bangladesh, Indonesia and Turkey. A focus on human development also appears to be significant in pilot schemes in Kenya, Malawi, Ghana and Zambia; and in pilot projects at an implementation stage in Nigeria, Liberia, Uganda and Tanzania.

The justification for an emphasis on human development is based on empirical evidence showing that poor nutrition, poor health and limited schooling can lead to a 'vicious cycle' of poverty. Social assistance becomes critical, as income transfers can relax households' budget constraints whilst encouraging human capital investment. The complementarities between nutrition, health and education seem to contribute to the expansion of social transfers with a human development focus.

## Protecting and rebuilding physical assets

Section 2.2 focuses on the underlying mechanisms through which social transfers can help households protect and rebuild their financial and physical assets. When poor people are exposed to idiosyncratic and/or covariate risks, they often resort to coping strategies that, although they may be effective in dealing with the short-term effects of these risks, can have devastating long-term impacts on households. Social transfers can thus generate a 'double' dividend if they help poor people to protect and build physical assets.

Some programmes have been explicitly designed to provide income support to chronically food-insecure households in a way that prevents asset depletion at the household level, whilst building community assets through labour-intensive public works components (e.g. Ethiopia's Productive Safety Net Programme). Other programmes provide comprehensive assistance packages that have the specific objective of rebuilding and strengthening the productive capacity of extremely poor households, through the provision of assets and income transfers in combination with health interventions and credit accessibility (e.g. Bangladeshi BRAC's Targeting the Ultra Poor Programme).

## Does social assistance reach out to the chronically poor?

Section 3 looks into the design features and programme implementation issues that are relevant to the second policy question of this report, i.e. to what extent the identification and selection of beneficiaries, delivery mechanisms, and complementary interventions, are effective in addressing persistent deprivation.

## Tackling chronic poverty by addressing the extremely poor

A feature of the recent expansion of social transfers in developing countries is that they focus on the extremely poor and most vulnerable people in society. Section 3.1 discusses the issue of whether, and to what extent, a focus on the extremely poor can contribute to tackling chronic poverty. CPRC work suggests that a high proportion of chronically poor households are in extreme poverty. The focus on extreme poverty is therefore likely to cover a significant proportion of

chronically poor households, although this may depend on structural and distributional factors, such as the growth rate of per capita consumption, and the depth of the poverty gap. There is also an important political economy dimension associated with social assistance focusing on the extremely poor.

## Identification and selection of programme beneficiaries

Section 3.2 analyses the effectiveness of methods of *identification* and *selection* of beneficiaries in reaching out to the chronically poor. The report finds that categorical targeting has advantages at the identification stage, as the focus on groups (children, older people, unemployed, etc.) that are regarded as highly vulnerable and therefore perceived to be entitled to receive support. In some contexts, categories of people may correlate closely with the chronically poor, but this is an exception, rather than the rule. Geographical methods of identification, combined with means-tests, proxy-means tests or community-based procedures, improve the accuracy and efficiency of delivery systems and strengthen effectiveness in tackling chronic poverty, although exclusion and inclusion errors may remain. Some programmes adopt *indirect* measures of self-selection. These are by and large the main selection strategy adopted by workfare programmes and employment guarantee schemes. In most cases though, workfare programmes seem inappropriate for addressing chronic poverty, as their design features are intended to deal with transitory deprivation. Increasingly, social assistance relies on a combination of strategies to select beneficiaries.

## Coverage, scale and transfer size

While programme design features have dominated the discussion of social assistance, coverage, scale and transfer size are of much greater significance in addressing chronic poverty. Section 3.3 focuses on these issues. The rapid introduction of transfer programmes in the last decade has resulted in a steep rise in the global coverage of social assistance in the developing world. All in all, different types of transfers now reach in excess of 190 million poor households, with approximately 860 million people currently benefiting directly or indirectly from social assistance. This figure could potentially increase up to one billion if countries currently running



pilot programmes are able to roll them out to national scale. This means that social transfer programmes have become the most important policy instrument against extreme and persistent deprivation at the present time.

For the most part, the share of the population covered by transfer programmes varies from country to country. This ranges from just a fraction of those in poverty in most sub-Saharan African countries, to nearly 25 percent of the total population in Brazil and Mexico, and 50 percent of households in South Africa. Scale as well as transfer levels are functions of both the extent of poverty incidence and the budgetary and administrative capacity of governments. Most country programmes allocate less than one percent of gross domestic product (GDP) to social assistance.

### **Regularity and duration of support**

Section 3.4 pays attention to the role that the regularity, predictability and reliability of transfers play in providing a minimum level of security, essential for longer-term investment decisions. In terms of transfer duration, the report finds that there is no rule of thumb to guide policy, as the optimal length of assistance maximising the impact on chronic poverty may be contingent on the targeted population and on the socio-economic context. Households facing chronic poverty are more likely to require a longer time window of support to tackle accumulated deficits in productive capacity and basic capability. The timing of interventions is also important. Nutritional and health interventions in early life are significant determinants of improving people's productive capacity in adulthood.

### **Do social transfers reduce chronic poverty?**

Section 4 assesses the available evidence on the impacts of social assistance, with a view to gauging their capacity to reduce chronic poverty, which relates to the third policy question of the report. A growing body of research confirms that social transfers are effective instruments for enhancing human capital. The discussion on that literature is divided into separate dimensions: Section 4.1.1 discusses the main impact evidence on nutrition; Section 4.1.2 focuses on health status; whereas Section 4.1.3 analyses the impact evidence on schooling.

### **Impacts on nutrition**

Nutrition plays a central role in enhancing human development. A well-balanced diet is the foundation for a healthy living and a central input for labour productivity. Evidence on improvements in nutritional status as a result of transfer programmes is strong across countries and throughout different types of programmes. Overall, studies confirm a direct link between income transfers and food consumption, where evidence is particularly strong in terms of improvements in child nutrition. These results point to an important dimension through which social transfers impact human capital, improve children's lifetime opportunities and help to tackle long-term chronic poverty.

### *Impacts on health*

By design, some transfer programmes have the objective of improving access to, and utilisation of, health services. Other programmes, however, may affect household health indirectly, through the supplementation of income and associated improvements in consumption. All in all, the report finds that ensuring that children enjoy good health during early age is critical for educational achievements, future economic and social opportunities and their overall ability to escape from inter-generational poverty traps.

### *Impacts on schooling*

The importance of reviewing the impact evidence of social transfers on schooling comes from the strong correlation between schooling and increased labour productivity and income. Indeed, the design of many social transfers has been shaped by the knowledge that reducing persistent poverty requires effective policy instruments to improve schooling amongst the extremely and chronically poor. Empirical evidence from human development programmes in Latin America shows that children's schooling has improved through specific programme design features that include improvements in service supply and co-responsibilities. But improvements in schooling are not restricted to human development programmes, as pure income transfers in Africa also report important impacts on children's schooling. The extent to which these changes translate into improvements in knowledge and reduction in

intergenerational transmissions of poverty is, however, more difficult to confirm at present.

### **Asset protection and asset accumulation**

Other social transfers seek to protect households' assets against idiosyncratic and covariate shocks and/or support households' efforts to accumulate financial and physical assets. Section 4.2 reviews the literature with regard to these subjects. The report finds that the extent to which transfer programmes support household productive capacity depends on intra-household dynamics of resource allocation, and design features that facilitate asset protection and asset accumulation. And although social transfers seem to be effective in protecting and promoting asset accumulation, the impact literature on this subject is limited to a few programmes and is not systematic across the board. Statistically significant impacts reported from human development programmes and social pension schemes appear to be simply a by-product of their income component, and not an explicit programme objective. The capacity of social transfers in facilitating asset protection and asset accumulation is therefore likely to vary across programmes, target groups and socio-economic environments.

### **Conclusions and policy implications**

Finally, Section 5 concludes by noting the policy lessons emerging from the report. Overall, it finds that many social assistance programmes recently introduced in developing countries aim, directly or indirectly, to tackle chronic poverty. The extent to which programmes aim to strengthen the productive capacity of households in poverty and extreme poverty is a key indicator of whether these programmes will address chronic poverty. The report also identified several programme design factors with important implications for the extent to which social assistance addresses chronic poverty. The discussion notes that current knowledge on the outcomes of social assistance encourages strong expectations on its potential role in addressing long-term poverty, but that this can only be confirmed when current programmes reach maturity. This draws attention to the importance of extending the scope, depth and especially length of academic research into these relevant policy questions. The experience of CPRC work shows that policy dialogue between the research community – both national and international – and bilaterals, multilaterals and national governments is paramount to continue advancing knowledge on the area of chronic poverty in order to increase poverty impact and improve policy and practice.

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# 1 Introduction

In the first decade of the new century, social protection has emerged as a new paradigm shifting antipoverty policy thinking in the global South from conventional approaches of food aid, subsidies and other forms of ‘safety nets’ to regular and predictable forms of social assistance. The rapid growth of antipoverty programmes, described elsewhere as a ‘quiet revolution’,<sup>1</sup> has enabled them to reach, and help change, the lives of more than 860 million people worldwide. This reflects an emerging consensus that eradicating world poverty requires economic growth, basic service provision and social protection. It also reflects a shift in the conventional wisdom on the nature and causes of poverty.

In this report, the discussion on social protection is undertaken with an explicit focus on social assistance, comprising tax-financed non-contributory programmes addressing poverty. The most significant changes to social protection systems in developing countries over the last decade have focused on social assistance and, much less so, on social insurance and on ‘passive’ and ‘active’ labour market interventions.

Chronic poverty remains a major challenge in the world. Recent estimates suggest that between 320 and 443 million people are trapped in a state of persistent deprivation.<sup>2</sup> Addressing this challenge requires that social assistance programmes succeed in reaching out to the poorest and facilitate social investment in their capacity to climb out of poverty traps. This report examines the extent to which social assistance programmes in developing countries address chronic poverty. The report focuses on three main policy questions:

1. *Do programme objectives tackle chronic poverty?* In order to answer this question, the report focuses on channels through which transfer programmes address chronic poverty: first, by *promoting* human

capital investment, especially through schooling, healthcare and nutritional complements, and second, by *protecting* household assets and *facilitating* asset building.

2. *Are programme design features, for example, the identification and selection of beneficiaries, delivery mechanisms and complementary interventions, effective in addressing persistent deprivation?* The report examines the extent to which the main design features of social assistance programmes and their implementation enables them to reach those *most likely* to suffer from chronic poverty.
3. *Do social assistance programmes benefit the chronically poor?* The report assesses the available evidence on the impact of these programmes on chronically poor people.

Social assistance programmes in developing countries show considerable diversity in terms of objectives, design and reach. The report follows a new typology, distinguishing between programmes that provide *pure income transfers*; programmes that provide *income transfers plus* policy interventions aimed at enhancing human, financial and physical assets; and *integrated poverty reduction programmes*. This new typology has several advantages. The typology is a more accurate template for identifying key design features that are relevant in the context of addressing poverty and vulnerability. It also provides, as discussed below in Section 2, a good entry point into the conceptual and theoretical underpinnings of social assistance programmes in developing countries. The three programme types reflect distinctive understandings of poverty: poverty as lack of income; poverty as severe deficits in human capital and assets; and poverty as a multidimensional phenomenon (see Table 1).

The report is organised as follows: Section 2 addresses the first question above by studying the extent to which programme objectives include or prioritise chronic poverty. Section 3 looks into the design features and programme implementation which is relevant to addressing chronic poverty, question 2 above. Section 4 assesses the available evidence on the impacts of social assistance programmes, with a view to gauging their capacity to reduce chronic poverty, question 3 above. The final section concludes by noting the policy lessons emerging from the report.

**Table 1: A typology of social assistance programmes in developing countries with selected examples worldwide in terms of outreach**

Pure income transfers	Country and coverage in million households (people)	Income transfers plus	Country and coverage in million households (people)	Integrated poverty reduction programmes	Country and coverage in million households (people)
<i>Transfers to poor households</i>					
Programa de Apoyo Alimentario	Mexico, 0.67 (2.7)	National Rural Employment Guarantee Scheme	India, 48 (240)	Urban Minimum Living Subsidy Scheme DiBao	China, 22.7 (110)
<i>Child and household allowances</i>					
Child Support Grant	South Africa, 3 (15)	Productive Safety Net Program	Ethiopia, 1.6 (8.2)	Challenging the Frontiers of Poverty Reduction	Chile, 0.3 (1.7)
Asignación familiar por hijo	Argentina, (5.8)	Asset protection and accumulation		Asignación Familiar	Chile, 0.3 (1.7)
<i>Social and disability pensions</i>					
Old-Age Pension Scheme	India, 15.7 (30)	Bolsa Familia	Brazil, 12 (60)		
Prêvidencia Social Rural	Brazil, 3.6 (18)	Keluarga Harapan	Indonesia, 6.5 (32.5)		
Benefício de Prestação Continuada	Brazil, 2.4 (10)	Progres-Oportunidades	Mexico, 5 (25)		
Old Age Grant	South Africa, 2 (10)	Primary Education Stipend	Bangladesh, 3 (15)		
		Familias en Acción	Colombia, 1.7 (7)		
<b>Poverty as lack of income</b>	→	<b>Poverty as deficits in human capital and assets</b>	→	<b>Poverty as multidimensional</b>	

1/ Transfer programmes can provide 'pure income transfers' to raise consumption among households in poverty, often focused on vulnerable groups, particularly old age, childhood, disability and ill-health. Examples of this type of programme are presented in the first column of Table 1. 'Income transfers plus', such as Ethiopia's Productive Safety Net Programme and India's National Rural Employment Guarantee Scheme, link income transfers with labour supply, and are designed as risk-management responses to variations in economic conditions threatening consumption and household assets. Other programmes in this group combine income transfers with interventions to strengthen human development. A small number of programmes adopt an 'integrated poverty reduction' approach (see third column of Table 1). Chile Solidario, for example, combines income transfers with a wider range of interventions, including healthcare, education, employment, housing, registration and psychological counselling.

Source: Barrientos, Niño-Zarazúa and Maitrot.<sup>3</sup>

## 2 Addressing chronic poverty with social transfers

**C**hronic poverty is often associated with multiple factors. Insufficient and irregular income prevents poor households from investing in human capital and other productive assets that would enable them to climb out of poverty. Fragmented and adverse credit markets exacerbate this problem.<sup>4</sup> High levels of vulnerability preclude medium- to long-term planning and resource allocation, and forcing dysfunctional responses to shocks.<sup>5</sup> Societal norms can contribute to chronic poverty. Social exclusion and discrimination prevent certain groups from taking full advantage of economic opportunities and from access to basic services.<sup>6</sup> It is important to consider the extent to which the aims and objectives of social transfer programmes address the factors associated with chronic poverty.

When are households considered to be in chronic poverty? The literature on poverty examines the

identification of chronic poverty based on synthetic measures that require longitudinal data on consumption, income, or any other monotonic welfare indicator (see Box 1). Informational constraints associated with the lack of longitudinal data in most developing countries make it difficult to select beneficiaries for antipoverty programmes by attempting to identify chronically poor households directly focusing on chronic poverty.<sup>7</sup>

Single wellbeing indicators known to provide information on longer-term deprivation become important here, as they give clues on long-term deprivation, for example lack of access to, and use of, health and educational services; inability to protect and build productive physical assets; and suboptimal allocation of intra-household resources that limit the ability of poor people to take advantage of emerging and future opportunities. The interconnection and

### Box 1: Synthetic measures of chronic poverty

Chronic poverty is defined as poverty and deprivation which persists over time, and sometimes over the entire life of individuals and households. Chronic poverty also describes the persistence of poverty across generations. The duration dimension of chronic poverty is important because it suggests the presence of poverty traps, and because persistent poverty and deprivation is often associated with asset depletion and greater harm.

Chronic poverty can be measured in several ways. In panel data, the wellbeing of households can be observed at different points over an extended period. It makes sense to say that households who are observed to have levels of wellbeing below the poverty line in all observation points are in chronic poverty. Households who are observed to have insufficient wellbeing in a majority of observation points can also be considered to be in chronic poverty. These measures focus on 'poverty spells'. Bane and Ellwood<sup>8</sup> for example, measure chronic poverty as poverty duration that exceeds an arbitrary duration cut-off. Gaiha and Deolaiker<sup>9</sup> identify that cut-off at a level of 5/9 observed periods. More recently, Foster<sup>10</sup> proposed a method in which the identification of chronic poverty is derived from two key dimensions: income poverty and poverty duration.

An alternative approach separates a 'constant' from a 'variable' component in welfare indicators observed over time, and measures chronic poverty in terms of a comparison of the 'constant' level of wellbeing and the poverty line. For example, Jalan and Ravallion<sup>11</sup>, identify chronically poor households as those whose mean income over time is at or below the poverty line.

Another approach provides ex-ante estimates of future poverty (vulnerability) using cross-section data. Chaudhuri<sup>12</sup>, for example, has proposed an ex-ante, forward-looking approach which infers future wellbeing from variations in wellbeing across households in the cross-section. The method assumes that the cross-sectional variation in welfare status across similar households can be applied across time.





Bangladesh © Miguel Niño-Zarazúa

complementarities between these dimensions help to explain the limited capacity of poor people to generate adequate income. To the extent that social assistance addresses these factors, it becomes relevant to the reduction of chronic poverty. Section 2.1 discusses the extent to which transfer programmes aim at improving households' productive capacity through human capital investment, whereas Section 2.2 focuses on whether social transfers help households to protect and rebuild their financial and physical assets.

## 2.1 Facilitating human capital investment

Human development programmes in Latin America (also referred to in the literature as 'conditional cash transfers' or CCTs) combine income transfers with preferential access to health or education services. Human development programmes explicitly aim at both reducing extreme poverty and promoting investments in human capital. This second objective is critical to help break the intergenerational persistence of poverty. The balance between these two goals, reducing current poverty and future poverty, varies across

programmes. To the extent that reducing future poverty is a programme objective, social assistance programmes implicitly address chronic poverty.

One of the best known, and oldest, human development programmes, Mexico's *Progres-Oportunidades*, places a strong emphasis on the objective of reducing the intergenerational persistence of poverty. *Progres-Oportunidades* aims to reduce chronic poverty through a strong focus on the human development of children. Income transfers are conditional on children's enrolment and minimum attendance at primary and secondary grades. *Progres-Oportunidades* also includes conditions relating to the use of preventive health care services by household members, especially for expectant mothers and children from birth to age five or six, which are deemed to be critical for enhancing children's future productive capacity.<sup>13</sup>

Similarly, Brazil's *Bolsa Familia*, the largest transfer programme in Latin America, builds on two key objectives relevant to combating chronic poverty: first, to reduce hunger and poverty through income transfers; and second, to tackle long-term deprivation through

access to education, health and nutrition services.<sup>14</sup> Among other country programmes adopting a long-term perspective on human development are Colombia's *Familias en Acción* and Ecuador's *Bono de Desarrollo Humano*. These programmes complement the income of extremely poor households with human development interventions with the explicit objective of promoting human capital formation.

In a recent report, the World Bank reports that the human development approach to social assistance has been expanding rapidly in Latin America and beyond, with over 30 countries with large-scale programmes in place, including Bangladesh, Indonesia, and Turkey.<sup>15</sup> Barrientos, Niño-Zarazúa and Maitrot<sup>16</sup> also report that a number of human development pilot schemes have been introduced in Asia, Africa and Latin America. A focus on human development appears to be significant in pilot schemes in Kenya, Malawi, Ghana and Zambia; and in pilots at an implementation stage in Nigeria, Liberia, Uganda and Tanzania.

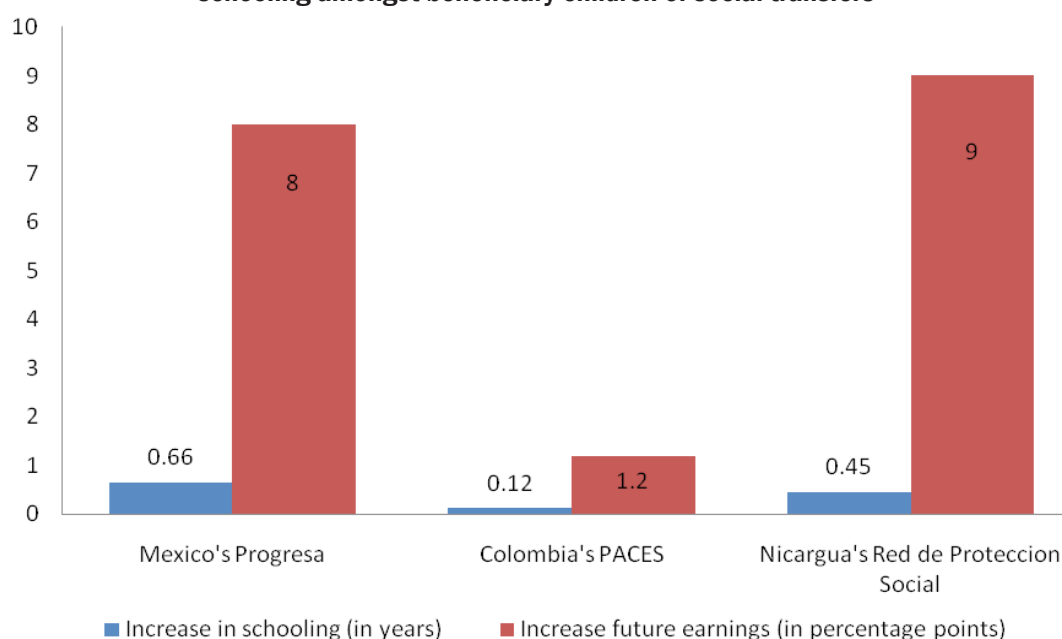
The justification for an emphasis on human development is based on empirical evidence showing the limitations and constraints faced by poor households planning to invest in human capital. This is especially the case where credit markets are fragmented. Poor nutrition, poor health and limited schooling are associated with low labour productivity. In turn, low labour productivity translates into low incomes, which

often lead to a 'vicious cycle' of poverty and deprivation. In low-income countries, it is reported that 43 percent of children aged nought to five are underweight and the prevalence of malnutrition is often two to three times higher among the poorest income quintile.<sup>17</sup> There is also systematic evidence that chronically poor households are less likely to be in a position to support their children's education.<sup>18</sup> Children who do not have the opportunity to complete their basic education are likely to face lifetime of poverty<sup>19</sup>. 'Vicious cycles' are referred to in the literature of poverty as 'poverty traps'. More than 100 years ago, Seeböhm Rowntree documented these in his detailed poverty study of York:

"The position of these [poor] workmen is one of peculiar hopelessness. Their unfitness means low wages, low wages means insufficient food, insufficient food unfitness for labour, so that the vicious circle is complete. The children of such parents have to share their privations, and even if healthy when born, the lack of sufficient food soon tells upon them. Thus they often grow up weak and diseased, and so tend to perpetuate the race of the unfit".<sup>20</sup>

In that context, social assistance becomes critical, as income transfer can relax households' budget constraints whilst encouraging human capital investment. Social transfers allow households to increase the quantity and quality of food they consume. They can also facilitate intra-household time reallocation so that children can go to school (see Section 2.3 below). More schooling and

**Figure 1: Simulated future earnings from increased years of schooling amongst beneficiary children of social transfers**





better health and nutrition for children will translate into greater future productivity and higher incomes in adulthood, which are required to break poverty traps and reduce the incidence of chronic poverty.<sup>21</sup>

Impact evaluations of large-scale social assistance programmes focused on human development indicate that programme objectives will lead to improvements in future labour productivity. Children who received support from the earliest transfer programmes, e.g. Mexico's *Progres-Oportunidades* and Brazil's *Bolsa Familia*, are just beginning to enter the labour market. A handful of studies looking into the observed long-term effects of Mexico's *Progres-Oportunidades* throw some light on this point.<sup>22</sup> In particular, Rodriguez Oreggia and Freije Rodriguez assess the impact on employment, wages and intergenerational mobility.<sup>23</sup> They find a positive effect on income for young male beneficiaries that completed primary and secondary education; although they also point out that, due to informational constraints, it is difficult to draw definite conclusions about the effects of *Progres-Oportunidades* on employment and intergeneration mobility.

Some studies have opted to simulate the impacts on future earnings of increased years of schooling amongst child beneficiaries of social transfers. For example, in their study of the school vouchers programme (PACES) in Colombia, Angrist et al find that returning to an additional 0.12 years of schooling would raise earnings amongst programme beneficiaries by about 1.2 percentage points.<sup>24</sup> In Nicaragua, Morley and Coady estimate the future incomes of workers who received income support from Mexico's *Progres-Oportunidades* and Nicaragua's *Red de Protección Social*.<sup>25</sup> They find that the present value of future earnings would go up as the result of participation in the programmes (see Figure 1). Their findings validate previous simulations of Mexico's *Progres* that suggest that an increase of 0.66 years of schooling would lead to an increase of eight percent in future wages.<sup>26</sup>

The complementarities between nutrition, health and education, and the spillover effects and positive externalities emerging in labour, commodities and credit markets from the strengthening of these dimensions of wellbeing, seem to have contributed to the expansion, in terms of scale and global coverage, of social transfers with a human development focus.<sup>27</sup> The following section turns to the channels through which social transfers

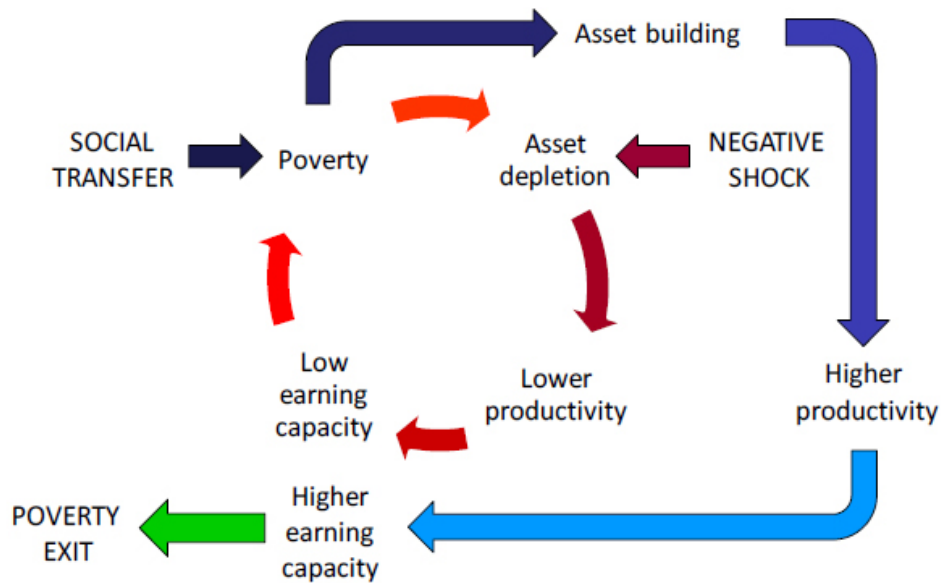
address chronic poverty, paying particular attention to their role in protecting and facilitating physical assets building.

## 2.2 Protecting and rebuilding physical assets

Social transfers can generate a 'double' dividend if they help the poor protect and build physical assets. When the poor are exposed to idiosyncratic and/or covariate risks that threaten their livelihoods, they often resort to coping strategies that, although they may be effective in dealing with the short-term effects of these risks, can have devastating long-term impacts on households. By selling their cattle, land, tools or machinery, households reduce their productive and earning capacity, making their prospects of future recovery rather grim. Zimmerman and Carter,<sup>28</sup> and Carter and Barrett<sup>29</sup> have pointed out that those households which fall below a critical asset (or Micawber<sup>30</sup>) threshold would remain trapped in a low level of productive capacity and suffer from persistent deprivation unless they receive support from external interventions that help them to escape from the hole in which they are trapped.

This is illustrated in Figure 2. In the absence of insurance markets, a household will resort to its assets to cope with the negative effects of idiosyncratic or covariate shock. That coping strategy will result in a depletion of assets and a lower productivity and earning capacity that would ultimately lead to a vicious circle of poverty. This is depicted by the inner circular and increasingly intense red arrows. Social transfers can act in that context as both an ex ante protective mechanism, complementary to indigenous forms of insurance that prevent households from taking actions that diminish their productive capacity, and as an ex post promotive device that supports households building and/or rebuilding their assets to strengthen their productive capacity. This is illustrated by the outer squared and increasingly brightening blue arrows that lead to the poverty exit.

In Ethiopia, the Productive Safety Net Programme has been explicitly designed to provide income support to chronically food-insecure households in a way that prevents asset depletion at the household level while building community assets through its labour-intensive public works component.<sup>31</sup> In India, the National Employment Guarantee Scheme provides a guarantee of

**Figure 2: Asset traps and the circle of chronic poverty**

100 days of wage employment per year to unemployed unskilled workers. The programme is reported to be effective in reducing levels of anxiety amongst participants. This provides a sense of security from which the participating households benefit, irrespective of whether they enrol temporarily or repeatedly in the scheme.<sup>32</sup>

As pointed out earlier, the role of social transfers in promoting households' asset building is equally important. BRAC's Challenging the Frontiers of Poverty Reduction/Targeting the Ultra Poor provides a comprehensive assistance package that has the specific objective of rebuilding and strengthening the productive capacity of extremely poor households, through the provision of assets and income transfers in combination with health interventions and credit accessibility.<sup>33</sup> The rationale of linking assets and income transfers with credit accessibility relies on a growing body of theoretical and empirical work that looks into the connection between credit market imperfections and sub-optimal levels of capital investment.<sup>34</sup> Poor households with low capital endowments are unable to finance profitable ventures with either their own assets or through borrowing at optimal scale. Risk-averse behaviour reported in empirical work is driven by the environments of uncertainty and risk under which poor households subsist;<sup>35</sup> those conditions exacerbate the sub-optimal level of investment that leads to production inefficiencies and, in extreme situations, poverty traps.

Beneficiaries of social transfers appear to invest part of their income transfer in productive activities. A study of Bolivia's social pension *Bonosol* (later renamed as *Bono Dignidad*) estimates that among pension beneficiaries in rural areas, overall consumption rose by twice the amount of the benefit, suggesting that improved household production was facilitated by the transfer.<sup>36</sup> Similar findings are observed amongst beneficiary households of social pensions in Namibia<sup>37</sup> and Brazil,<sup>38</sup> as well as in human development programmes, such as Mexico's *Progres-Oportunidades*.<sup>39</sup> These and other studies provide important insights into the factors and conditions under which social transfers stimulate investment decisions, highlighting the fact that the capacity of social transfers to lift credit constraints is likely to vary across different socio-economic environments, types of programmes and target groups.

For most programmes, the improved credit accessibility observed in transfer programmes is a by-product of their income component, and not a result of an explicit design feature. The length, size and overall package of support may also play a role in allowing households to make investment decisions. This section has discussed different channels through which social transfers address the factors associated with chronic poverty. The following section focuses on how, to reach out to the chronically poor, i.e. what measures social transfers adopt.



# 3 How do social transfers reach out to the chronically poor?

A feature of the recent expansion of social transfers in developing countries is the extent to which they are focused on the extremely poor and most vulnerable people in society. Section 3.1 focuses on the issue of whether, and to what extent, a focus on the extremely poor can contribute to tackling chronic poverty, whereas in the remaining sections, attention shifts to the methods of identification and selection of beneficiaries. Beneficiary selection, alongside coverage, transfer size, regularity and length of programme support, can play a significant role in determining the effectiveness of social transfers in addressing chronic poverty.

## 3.1 Tackling chronic poverty by addressing the extremely poor

One of the most distinctive policy features of social transfers in developing countries is their focus on the extremely poor and vulnerable in society. As discussed earlier, these programmes, unlike food subsidies and other past development interventions, have taken a broader approach. They combine income transfers with other public interventions that protect basic levels of consumption amongst the extremely poor. At the same time, they facilitating investment in human capital and other productive assets that are expected to contribute to social and economic development and provide escape routes from chronic and intergenerational poverty.

To what extent do social assistance programmes focused on extreme poverty reach households in chronic poverty? This is an empirical question that McKay and Perge<sup>40</sup> have looked into by assessing whether it might be possible to identify the chronically poor amongst those who suffer extreme deprivation. Adopting a 'components' approach (see Box 1 above) and using data from a group of countries with three waves of longitudinal data, they find that a large percentage of

those who were in a state of extreme poverty at the beginning of the panel remained poor over time. For countries such as Nicaragua, Peru, South Africa and Vietnam, the correlation was between 80 percent and over 90 percent, which implies that for those countries extreme poverty was a good proxy indicator for chronic poverty. It appears that structural and distributional factors, particularly slow growth rates of per capita consumption, low variance in consumption and a wide poverty gap, make it more likely for extreme poverty observed at one single point in time to be a good predictor of persistent deprivation. In other cases, though, not all households in extreme poverty were observed to be in chronic poverty. At the same time, and across the countries sampled in the study, a high proportion of households in chronic poverty were observed to be in extreme poverty.

There is an important political economy dimension associated with social assistance focusing on the extreme poor. Shared perceptions and values about the causes of extreme deprivation can play a role in persuading political constituencies to support policy interventions that address these groups.<sup>41</sup> This has been the case amongst human development programmes in Latin America, where the focus on the poorest, alongside strong evidence of poverty impacts (see Section 4 below), enabled a rapid expansion of the scale of these programmes. Particularly illustrative is the case of Mexico's *Progresa*, which faced a major challenge in 2000 during a major political transition that marked the end of seven decades of the Institutional Revolutionary Party's political monopoly. A generalised consensus on the urgent need to tackle poverty, and the emerging evidence pointing out the impacts of *Progresa*, encouraged the incoming Fox administration to keep, and subsequently expand, the programme (by then renamed *Oportunidades*) to urban areas.<sup>42</sup>

In Brazil, President Lula signed a law in 2004 that introduced the notion of universal basic income for all; however, due to budgetary constraints, it was decided that the focus would be on the poorest first, as they were most urgently in need of support. The judgement about assisting the poorest with social transfers has a strong foundation in principles of social justice. Welfare economics suggests that policies focusing on the poorest are welfare-enhancing. Diminishing marginal utility implies that a transfer will produce the greatest marginal increase in utility if it is directed to the worst-off (see Box 2). In other words, *'a dollar that helps us avoid poverty is more valuable than a dollar that helps us become very rich'*.<sup>43</sup>

In the following section, the discussion turns to the different approaches used in the identification and selection of beneficiaries, including implementation issues such as coverage, transfer size, regularity and length of intervention.

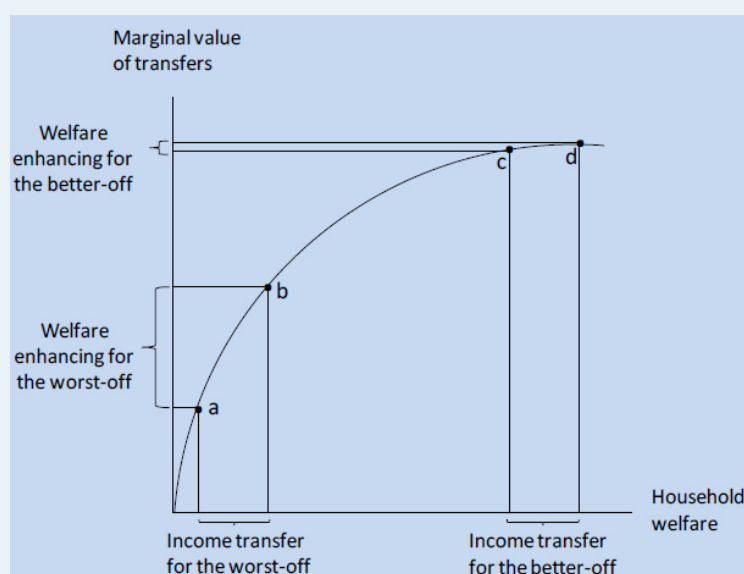
### 3.2 Identification and selection of programme beneficiaries

The effectiveness of transfer programmes in reaching out to the chronically poor is largely contingent on the methods adopted for the *identification* and *selection* of the intended beneficiaries. Categorical and geographical methods of identification, together with the use of self-selection, and of income and/or wealth indicators through means-tests or proxy means tests methods, are all extensively used in the selection of households (or individuals) eligible to receive benefits from social transfers (see Table 2).<sup>46</sup> In practice, most programmes follow a combination of methods, in some instances adopting stepwise procedures starting from the poorest or most vulnerable towards upper limit thresholds that separate the eligible from the non-eligible. The combination of methods is expected to improve the

#### Box 2: Focusing on the poorest from a 'social justice' perspective

The concept of diminishing marginal utility of income suggests that the benefits to the better off from an additional unit of income will be smaller than the benefits of the same additional unit of income to the poor. This can be captured by the increasing concave function of household welfare depicted in Figure 3. The vertical axis measures the impact on marginal utility from additional units of income represented in the vertical axis. An income transfer to the worst-off, represented by the distance between points a and b, would yield a larger welfare-enhancing outcome than an equivalent transfer to the better-off, the distance between points c and d. The implicit greater weight of income transfers to the poorest would also satisfy the Pigou-Dalton Principle, which states that an income transfer from the rich to the poor will result in greater equity, as long as the transfer does not reverse their position.<sup>44</sup> In this sense, there is a strong justification for assisting the poorest, a point often highlighted by proponents of Egalitarianism.<sup>45</sup>

**Figure 3: Marginal value of an income transfer relative to household welfare**





accuracy and efficiency of delivery systems, whilst strengthening the effectiveness of addressing extreme and chronic poverty.<sup>47</sup>

Categorical approaches are convenient in the identification stage, as they focus on groups that are regarded as vulnerable and therefore perceived to be entitled to receive support. Categorical groups can be identified in terms of age (e.g. children, the elderly), health status (e.g. people with HIV/AIDS, and chronic illness, disabilities, etc.), and disadvantaged social conditions (e.g. widows, orphans). In some contexts, categories of people may correlate closely with the chronically poor. However, empirical evidence shows that this is an exception, rather than the rule. In most cases, correlations between vulnerable groups and extreme or chronic poverty are considerably attenuated. In some countries in sub-Saharan Africa, for example, orphanhood is associated with lower welfare outcomes, but in many countries there is no such close correlation.

Despite the fact that more than 340 million people in old age (about 80 percent of elderly people living in developing countries) have no income security and depend on family members and other informal forms of protection for survival, the correlation existing between old age and chronic or extreme poverty is country- and region-specific. Barrientos et al., for instance, report that the incidence of poverty amongst the elderly ranges from 7.5 percent in Taiwan to 64 percent in Ghana, with poverty-rate ratios for older groups relative to the population as a whole also showing significant variability.<sup>48</sup> The degree of over- and underrepresentation is, in most cases, small, suggesting that poverty in later life broadly reflected aggregate national poverty trends. In some contexts, social pensions have contributed to reduce chronic poverty. May, for instance, reports that in South Africa, only 20 percent of people in old age suffer from chronic poverty, although their risk of falling into persistent deprivation increases with age.<sup>49</sup>

Recent estimations from Latin America also suggest that the incidence of poverty amongst the elderly would be much higher in the absence of social pensions. In Argentina, poverty in old age would increase from 13 percent to 55 percent, in Brazil, from six percent to 52 percent; in Chile, from 15 percent to 39 percent and in Mexico, from 28 percent to 43 percent.<sup>50</sup>

Disability and chronic ill health is another category used for the provision of social assistance in developing countries. Disability and chronic poverty can reinforce each other over the course of a lifetime. This is because disabled people incur additional costs of living, resulting from medications, assistive devices and health treatments. And, given their condition, they also face many forms of discrimination, including barriers to entry into labour markets. Yet, the relationship between disability and poverty in developing countries is not well established, with recent studies reporting an insignificant correlation between the two dimensions.<sup>51</sup> Nevertheless, depending on the degree of disability, long-term persistent poverty estimates appear to be higher than those of transitory poverty.<sup>52</sup>

Social assistance programmes have often focused on children and young people. Over one billion children are deprived of nutrition, water, sanitation, shelter, health and education. A child from the poorest quintile of the population in developing countries is, on average, twice as likely to die before the age of five, compared with a child from the richest quintile.<sup>53</sup> Existing evidence, mostly from developed countries, where long panel data exists, suggest children who are born into poverty are likely to go on to spend their future lives in poverty.<sup>54</sup> The exposure to persistent deprivation is also found to be highly correlated with an increased likelihood of involvement in delinquency.<sup>55</sup> Comprehensive public interventions can thus contribute to reducing the risks faced by millions of children of falling into a life-time circle of poverty.

Table 2. Methods of identification and selection of beneficiaries of selected social transfer programmes

Programme type	Methods of identification		Methods of selection		
	Categorical	Geographical or community	Proxy-means tests	Means-tests	Self-selection
<b>PURE INCOME TRANSFERS</b>					
<i>Transfers to poor households</i>					
Mexico's Programa de Apoyo Alimentario	Children under age five, pregnant and lactating women, people in poverty	Localities of up to 2,500 inhabitants	Marginality index based on census and household surveys	N.A.	N.A.
<i>Child and household allowances</i>					
South Africa's Child Support Grant	Children aged 17 and younger	N.A.	N.A.	Family group with earnings below 10 times the benefit level	N.A.
Argentina's Asignación familiar por hijo	Children aged 18 in families with no employment or active in the informal economy	N.A.	N.A.	Income less than the minimum wage	N.A.
<i>Social and disability pensions</i>					
Brazil's Benefício de Prestação Continuada	People aged 65 and older, and people with disabilities	N.A.	N.A.	Families with per capita income less than a quarter of the minimum wage	N.A.
South Africa's Old Age and Disability Pensions	People with mental or physical disabilities		Income and asset tested: earnings per capita of less than R2,426 per month and assets with value of no more than R484,800	N.A.	
India's Old-Age Pension Scheme	People aged 65 and older	N.A.	N.A.	Households below the 1.25-a-day poverty line	N.A.
<b>INCOME TRANSFERS PLUS</b>					
<i>Asset protection and accumulation</i>					
Ethiopia's Productive Safety Net Program	Food-insecure households	Community identification through community-based food security task forces	N.A.	N.A.	N.A.

Employment guarantee schemes					
India's National Rural Employment Guarantee Scheme	Unemployed unskilled workers	Rural areas	N.A.	N.A.	Self-targeting, no choice of job is offered
<i>Transfers for human development</i>					
Brazil Bolsa Familia	N/A	Poor municipalities are allocated based on poverty estimates using annual national household income surveys	N.A.	Income below a fraction of the minimum wage	N.A.
Mexico's Progreso-Oportunidades	Families with children attending school up to grade 12 (high school), and elderly people without pensions	Rural and urban localities identified through poverty mapping	Census and survey data used to identify beneficiaries	N.A.	N.A.
Bangladesh's Primary Education Stipend	Children enrolled in primary education belonging to female-headed households or households with uncertain income sources	Operates in all rural areas. The selection process is delegated to school managing committees, oversight by education officials	Households with less than 0.5 acres of land	N.A.	N.A.
INTEGRATED POVERTY REDUCTION PROGRAMMES					
China's Urban DiBao	People with no ability to work, no source of income, and no support from family members	Urban areas – urban registered citizens	N.A.	Poor households need to register with the civil affairs departmental office, where a means test is applied	
Chile Solidario	Households in extreme poverty and vulnerability	N.A.	Selection based on scores from variables in Ficha de Proteccion Social	N.A.	N.A.
Bangladesh's Targeting the Ultra Poor Programme	Households with no productive assets; households whose income-earner is disabled or unable to work	Combination of poverty maps with participatory wealth ranking exercises to identify villages where the poorest live	Wealth ranking based on targeting indicators	N.A.	N.A.

Note: N.A. stands for Non Applicable

Source: Barrientos, Niño-Zarazúa, Miguel and Maitrot (2010). Social Assistance in Developing Countries Database (Version 5.0). Manchester: Chronic Poverty Research Centre.

Within the category of children, girls and orphans are often regarded as particularly vulnerable. Under traditional social norms, girls are more prone to suffer from exclusion and gender discrimination, creating significant gender imbalances in higher education, labour markets and political participation that undermine women's agency and potential contribution to social and economic development. These gender imbalances are found to be associated with intergenerational poverty transmission and chronic poverty.<sup>56</sup> In some contexts, particularly in sub-Saharan Africa, orphans are highly vulnerable and more likely to suffer from long-term poverty. It is estimated that in the region, about 42 million children have lost one or both parents, and about half of them have been orphaned due to HIV/AIDS.<sup>57</sup> Some of these children suffer from ill-health that requires additional budgetary capacity to meet health care related expenses.

The prevalence of HIV/AIDS in sub-Saharan Africa is key to understanding the emergence of social transfers with the specific objective of supporting these vulnerable children. South Africa's Care Dependency Grant programme; Botswana's Orphan Care Programme; Burkina Faso's Orphans and Vulnerable Children; and Kenya's Cash Transfer for Orphans and Vulnerable Children are all examples of transfer programmes that provide support to households caring for orphans and children affected by HIV/AIDS. These programmes have adopted not only categorical approaches for the identification of beneficiaries, but also geographical and/or community-based methods, along with *direct* and *indirect* measures of selection. Section 3.2.1 below discusses country programmes that adopt direct selection measures, whereas Section 3.2.2 analyses programmes that follow *indirect* measures of self-selection.

### 3.2.1 Direct measures for identification and selection of beneficiaries

Brazil's *Benefício de Prestação Continuada*, a social pension scheme, employs categorical measures (age) jointly with means tests and medical tests to identify and select beneficiaries. Studies have shown that the programme reasonably reaches out to elderly poor people who would otherwise be excluded from social security.<sup>58</sup> In Chile, *Pensiones Solidarias* (now known as *Subsidio*

*Alimentario*) provides a pension to those who were unable to generate sufficient income due to disability or ill health. The programme adopts a categorical approach for the identification of eligible groups, whilst using proxy means tests to select beneficiaries with per capita incomes below US\$60 a month.<sup>59</sup>

Human development programmes in Latin America linking income transfers with public service provision have developed complex systems of identification and selection of beneficiaries with the specific objective of improving the efficacy of policy outreach. These systems involve the geographic selection of poor areas, categorical and means-tests or proxy-means-tests procedures for the identification of poor households in these areas, and community-based validation. In Mexico, for example, Progresá was initially introduced in rural areas in selected regions and only in communities with school and health infrastructure. The programme focused on rural areas, as a large percentage of households in poverty lived in rural communities. However, by doing so Progresá was de facto excluding the urban poor, who remained disqualified to receive support simply for not having lived in the geographically selected settings. At the same time the requirement that communities possessed the specified infrastructure excluded remote rural areas with high poverty levels. The human development focus of the programmes militated against the inclusion of households without children of school age. These induced exclusion errors were key in persuading the Mexican government to extend the programme's coverage nationwide in 2003.<sup>60</sup> Transfer programmes may also have high inclusion error – that is, they include those for whom the benefit is not intended. This type of error is often referred to as Type II error (see Table 3). The Primary Education Stipend Project in Bangladesh, which replaced the Food for Education programme in 2002, employs a combination of categorical and geographical measures of identification, along with community-based and proxy-means tests for selecting eligible children. Despite the multiple-selection criteria, it is reported that 47 percent of beneficiaries were identified as non-poor, which in turn reflected the ability of elite groups to capture resources intended for the poorest children.<sup>61</sup> From a chronic poverty perspective, inclusion errors are of paramount importance.





Abuja, Nigeria © Miguel Niño-Zarazúa

**Table 3. Exclusion and inclusion errors of selection**

	Poor households	Non-poor households
Households that receive the transfer	Efficient selection	<b>Type II 'inclusion' error</b>
Households that do not receive the transfer	<b>Type I 'exclusion' error</b>	Efficient selection

### 3.2.2 Indirect measures of self-selection

As pointed out above, some programmes adopt *indirect* measures of self-selection. These are by and large the main selection strategy adopted by workfare programmes and employment guarantee schemes. Self-selection usually takes place through the requirement that beneficiary households provide labour at wage rates below the market-clearing level, so that only unskilled poor labourers, facing a low opportunity cost of participation, will self-select for participation.

In most cases, workfare programmes seem inappropriate to address chronic poverty, as their

design features are intended to deal with transitory deprivation. In other cases, such as Philippines' Cash for Work programme, wages were set at rates as high as the market rate, causing a crowding out effect, given that the non-poor were willing to take up jobs initially intended for the extremely and chronically poor.<sup>62</sup> Many public works programmes have a short time window and address seasonal and emergency unemployment. Employment guarantees and active labour market programmes have a longer time window. They provide skills training and other policy measures to improve the reinsertion of jobless workers to the labour market and/or provide job opportunities to discriminated groups



(e.g. women, minorities). They are expected to be more effective in tackling the causes of chronic poverty than programmes that embrace a temporary approach to assistance.<sup>63</sup> The extent to which these programmes reach out to the chronically poor, however, is unclear, but it may depend on a number of factors, including the transfer size, length of support as well as the coverage and scale of intervention. The remaining sections discuss these issues in more detail.

### 3.3 Coverage, scale and transfer size

In this section, the discussion focuses on coverage, scale and size, whereas Section 3.4 returns to the issues of regularity and duration of support. While design features have dominated the discussion of social assistance, issues of coverage, scale and transfer size are of much greater significance to address chronic poverty. The rapid introduction of transfer programmes in the last decade has resulted in a steep rise in the global coverage of social assistance in the developing world.

The largest social transfer worldwide, India's National Rural Employment Guarantee Scheme (NREGS), currently provides employment opportunities to 48 million workers, which indirectly benefits nearly 240 million people in the country. In China, the Minimum Living Subsidy Scheme (Urban DiBao) currently supports 22 million households in extreme deprivation, and the Chinese government aims to cover 1.3 billion people by 2020. All in all, different types of transfers now reach in excess of 190 million poor households, with approximately 860 million people currently benefiting directly or indirectly from social assistance (see Table 4). This figure could potentially increase up to one billion people if countries currently piloting programmes are able to roll them out to national scale. This means that social transfer programmes have become the most important policy instrument against extreme and persistent deprivation at the present time. Remarkably, these programmes have made a significant contribution to tackling the causes of chronic and intergenerational poverty.

Section 4 below discusses the evidence with regard to these poverty impacts in more detail. Several factors seem to contribute to the poverty effectiveness of transfer programmes, but coverage, scale and transfer size, as well as regularity of transfers and duration of

support, are important determinants of the capacity of social transfers to address chronic poverty.

For most part, the share of the population in poverty covered by transfer programmes varies from country to country. This ranges from just a fraction of those in poverty in most sub-Saharan African countries, to nearly 25 percent of the total population in Brazil and Mexico, and 50 percent of households in South Africa. Scale as well as transfer size are functions of both the magnitude of poverty incidence and the budgetary and administrative capacity of governments. As illustrated in the fifth column of Table 4, budgetary capacity has contributed to making the global coverage of social assistance largely skewed towards middle-income countries, as these have more fiscal space to introduce transfer programmes to scale. Most country programmes allocate less than one percent of gross domestic product (GDP) to social transfers, although the share is conditional on the size of economy, the efficiency of tax collection systems and, naturally, the scope and scale of the intervention.

Transfer size is intimately connected with programmes' objectives and the principles underpinning programme design choices. In Ethiopia, the Productive Safety Net Programme (PSNP) focuses on the food gap during the hungry season to establish an optimal transfer size.<sup>64</sup> In Latin America, the level of transfers amongst human development programmes varies considerably, depending on household composition. But measured as percentage of household income, transfers range from six percent in Brazil to more than 20 percent in Mexico.<sup>65</sup>

The real value of transfers is especially important, as inflationary trends can erode the purchasing power of transfers and hence undermine potential poverty impacts amongst the chronically poor. The experience of Brazil's *Bolsa Familia* is illustrative in this respect. The programme experienced a fall in the average value of transfers associated with increases in the consumer price index. And it was not until 2007 that the government took steps to restore the initial value of transfers.<sup>66</sup> That political decision largely benefited the severely and chronically poor, as nearly 40 percent of the poorest Brazilians receive 80 percent of grants from *Bolsa Familia*.

The level of transfers can be an important determinant of the poverty effectiveness of social transfers. Within limits, larger transfers are likely to have a greater effect on chronic poverty. Filmer and Schady find clear

evidence of diminishing marginal returns to transfer size, in terms of school enrolment from Cambodia's CESSP Scholarship Program.<sup>67</sup> Bourguignon et al. also find, in their simulation study of Brazil's *Bolsa Escola*, that doubling and quadrupling the transfer size leads to a decreasing probability of school attendance.<sup>68</sup> These results suggest that *ceteris paribus* the marginal social

return to transfer size – in terms of increased schooling, improved nutritional and health status, or reduction in poverty, becomes lower at high levels of transfers; although it is hard to generalise from a few studies. This is clearly an area where future research would be highly informative.

**Table 4. Global coverage of social assistance in developing countries**

Programme title	Country	Type	No. of households (in millions)	No. of beneficiaries (in millions)	Country classification 1/	Poverty focus 2/
National Rural Employment Guarantee Scheme	India	Income transfer plus	48.0	240.0	Lower middle income	High
Urban DiBao	China	Integrated antipoverty	22.0	110.0	Lower middle income	High
Program Bantuan Tunai, Bantuan Tunai Langsung	Indonesia	Pure income	19.1	95.5	Lower middle income	High
Bolsa Familia	Brazil	Income transfer plus	12.5	52.3	Upper middle income	High
Rural Dibao	China	Pure income	10.5	42.0	Lower middle income	High
Prêvidencia Social Rural	Brazil	Pure income	7.5	37.5	Upper middle income	Categorical
Indira Gandhi National Old Age Pension Scheme	India	Pure income	15.7	31.4	Lower middle income	High
Progres-Oportunidades	Mexico	Income transfer plus	5.5	27.5	Upper middle income	High
'100 Days Employment Generation Scheme' (EGP)	Bangladesh	Income transfer plus	3.0	15.0	Low income	High
Tekun (transfer in less developed regions for destitute households)	China	Pure income	6.6	10.7	Lower middle income	High
Beneficio de Prestação Continuada	Brazil	Pure income	2.4	10.0	Upper middle income	High
Expanded Senior Citizens Act of 2010	Philippines	Pure Income	2.0	10.0	Lower middle income	Categorical
National Family Benefit Scheme	India	Pure income	2.0	10.0	Lower middle income	High
Old Age Pension	South Africa	Pure income	2.4	10.0	Upper middle income	High
Child Support Grant	South Africa	Pure income	1.9	9.5	Upper middle income	High
Subtotal for 15 largest programmes			161.0	711.4		
Other 79 programmes			30.4	151.9		
TOTAL Developing world 3/			191.4	863.3		

1/ This column classifies countries by income groups according to 2009 gross national income (GNI) per capita, calculated using the World Bank Atlas method. The groups are: 1) low income, \$995 or less; lower middle income, \$996–3,945; upper middle income, \$3,946–12,195; and high income, \$12,196 or more.

2/ Poverty focus has three categories: high if targeted on extreme poverty or poverty; (ii) moderate if it covers some of the non-poor; (iii) categorical covering poor and non-poor.

3/ This total does not include workfare programmes, fee waivers and school stipends. If these programmes were included, the total number of beneficiaries from social assistance would be nearly one billion people in the developing world alone.

Source: Barrientos, Niño-Zarazúa and Maitrot (2010). Social Assistance in Developing Countries Database (Version 5.0). Manchester: Chronic Poverty Research Centre; and World Bank's country classifications, available at: <http://data.worldbank.org/about/country-classifications>

### 3.4 Regularity and duration of support

There is considerable evidence suggesting that in the absence of well functioning insurance markets, insecurity leads to inefficient use of household resources that can result in persistent deprivation. Poor rural households may opt for low-risk, low-return crop production, or reducing food intake in response to crises. Regular, predictable and reliable income transfers can provide a minimum level of security that is essential for consumption smoothing and medium- and longer-term investment decisions, which, as discussed above in Section 2, are pivotal in breaking poverty traps and intergenerational cycles of poverty. The regularity of transfers thus becomes a critical element for protection, whilst triggering changes in household resource allocation that are imperative for addressing the causes of chronic poverty.

Empirical evidence also suggests that regular transfers can relax credit constraints. In Brazil, the regularity of a social pension, *Prêvidencia Social Rural*, which was introduced to cover informal workers, has enabled pensioners to access bank loans, as membership of the programme seems to have reduced screening and other informational costs to lenders.<sup>69</sup> The increased demand for credit appears to support Delgado and Cardoso's findings, pointing out that part of the pension provided by *Prêvidencia Rural* is invested in seeds, tools and other productive assets that strengthen small-scale economic activities and employment amongst beneficiary households.<sup>70</sup> Similar results are reported from Bolivia<sup>71</sup> and Namibia,<sup>72</sup> where a large percentage of social pensions beneficiaries have invested part of their transfer in small-scale enterprises, livestock and productive assets to support their households.

In terms of transfer duration, there is no rule of thumb to guide policy, as the optimal length of assistance to

maximise impact on extreme and chronic poverty may be contingent on the targeted population and on the socio-economic context. Households facing chronic poverty are more likely to require a longer time window of support to tackle accumulated deficits in productive capacity and basic capability. Some programmes, old age and disability pensions or schooling related transfers for example, provide demographic time windows for support. Other programmes have specified time windows for intervention. In Bangladesh, BRAC's Targeting the Ultra Poor Programme provides income and asset transfers over a period of 18-24 months to households in extreme and chronic poverty, prior to their insertion to more standard microcredit schemes. The extent to which the chronically poor are able to find a sustained poverty exit after two years of support is unclear. Research is currently being undertaken to address this particular issue.

Human development programmes in Latin America provide support to the poorest families for a period long enough to build human capital amongst beneficiary children. The timing of policy is also important here. As discussed below in Section 4, nutritional and health interventions in early life, sustained throughout childhood, are significant determinants for improving the productive capacity of people in adulthood. This connects to the question of tackling the intergenerational transmission mechanisms of chronic poverty. In that perspective, the effectiveness of social transfers in addressing chronic poverty can be linked to the combinations of methods for identification and selection of beneficiaries discussed earlier. Programmes that, by design, aim to address chronic poverty are naturally more likely to be effective in reducing its incidence. The following section will consider the range of impacts of social assistance programmes on chronic poverty.

## 4 Do social transfers reduce chronic poverty?

The discussion in the previous sections identified several channels through which social assistance programmes could have an impact on chronic poverty. First, some types of transfer programmes explicitly aim to improve the long-term productive capacity of households by facilitating human capital investment. The impact of transfers on raising household consumption actually reinforces these long-term aims. For example, improvements in nutrition will strengthen outcomes in schooling and health status. However, for simplicity, the discussion on programme impacts is divided into three separate dimensions: nutrition (Section 4.1.1); health status (Section 4.1.2); and education (Section 4.1.3). Second, another group of programmes seeks to protect households' assets against idiosyncratic and covariate shocks and/or to support households' efforts to accumulate financial and physical assets. Section 4.2 reviews the existing literature with regard to the impact of social transfers on facilitating asset protection and asset accumulation.

The sections below cannot review the available evidence in full but, instead, aim to outline the general findings associated with persistent deprivation. By and large, the focus is on quantitative studies, as their methodology facilitates a comparative discussion across countries and programmes. A large number of studies presented in this section come from large-scale programmes in middle-income countries, where programme agencies have paid close attention to rigorous evaluation. This results in a bias towards middle-income countries and towards well established programmes. The section concludes with a summary of key findings and their implications for policy.

### 4.1 Enhancing human capital

The design features of many social transfer programmes have been shaped by the knowledge that strengthening the long-term productive capacity of households helps to reduce and prevent extreme and persistent deprivation. A growing body of research confirms that social transfers are effective instruments for enhancing human capital, as they improve nutritional status, health and schooling amongst the poorest. In the following sections, the focus is on the main findings regarding the impacts of social transfers on nutrition, health status and schooling.

#### 4.1.1 Impacts on nutrition

Nutrition plays a central role in enhancing human development. A well balanced diet is the foundation for health and a central input for labour productivity. Better nutrition means stronger immune systems and less frequent illness. The timing of support is relevant here. Good nutrition is especially important for young children, as critical cognitive developments take place at an early age.<sup>73</sup> Well fed and healthy children learn better and grow physically (and mentally) stronger. This provides a justification for the key objective of social transfers, which is to protect food consumption, the largest expenditure item for poor people. Economists argue that elasticity of demand for calories increases as income falls, implying that many forms of nutritional deficiency are highly correlated with extreme and chronic poverty.

Child (mal)nutrition is normally measured using anthropometric data. Weight for age provides insights into the short-term impact of improved nutrition, whereas height for age provides information on the





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long-term effects of improved nutrition. Height for age is particularly informative as regards the longer-term impact of transfers, including labour productivity and persistent deprivation. Studies have consistently found that height deficits are established early in life and often persist into adulthood,<sup>74</sup> causing negative impacts on cognitive development<sup>75</sup> and future earning capacity.<sup>76</sup>

A study of the Child Support Grant in South Africa finds that beneficiary children are predicted to be 3.5 cm taller as adults.<sup>77</sup> The present value of increased future earnings is estimated to be 60-130 percent greater than the cost of the grant. Evaluation studies of Mexico's *Progres-a-Oportunidades* find that children exposed to the programme gained one centimetre in height for age compared a control group, two years after the start of the programmes. The gain was 0.65cm six years after the start of the programme.<sup>78</sup> Households receiving support from *Bono de Desarrollo Humano* in Ecuador increased their food expenditure by 25 percent, which was linked to improvements in nutritional status.<sup>79</sup> In Colombia, a substantial increase in intake of protein-rich foods and vegetables was reported as a result of participation in

*Familias en Acción*.<sup>80</sup> Changes in consumption especially benefited small children: 12-month-old boys grew 0.44 centimetres more than similar children who did not benefit from the transfer. Significant impacts on nutritional status are not exclusive of human development programmes. Similar improvements in long-term nutrition have been found among girls living in households receiving South Africa's Old Age Pension.<sup>81</sup>

With regard to food security, earlier studies of Ethiopia's Productive Safety Net Programme<sup>82</sup> and the National Rural Employment Guarantee Scheme in India<sup>83</sup> found that the programmes played important roles in dealing with seasonal malnutrition and income variability among poor households.<sup>84</sup> Significant impacts on nutrition are also reported from integrated poverty reduction programmes, such as Bangladesh's Targeting the Ultra Poor programme, where malnourishment was reduced from 97 percent to 27 percent after just two years of programme participation.<sup>85</sup>

Evidence of improvements in nutritional status as a result of transfer programmes is strong across countries



and throughout different types of programmes. Overall, studies confirm a direct link between income transfers and food consumption, with particularly strong evidence of improvements in child nutrition. These results point to an important dimension through which social transfers impact human capital, improve children's lifetime opportunities and help to tackle long-term chronic poverty. Another dimension highly correlated with nutrition, and central for enhancing household productive capacity, is health. The following section discusses the impact evidence of transfer programmes on health status, with a special focus on child and maternal health.

#### 4.1.2 Impacts on health

By design, some transfer programmes have the objective of improving access to, and utilisation of, health services as direct means of improving the health status of programme beneficiaries. Other programmes, however, may affect household health indirectly, through the supplementation of income and associated improvements in consumption. Examples of the former can be found in Latin America, where human development programmes require beneficiary households to utilise preventative health care facilities on a regular basis. Overall, programmes appear to have met their objectives. An evaluation of Colombia's *Familias en Acción* reports a rise in the percentage of children aged under 24 months attending health care check-ups, from 17.2 percent to 40 percent, and a corresponding rise, from 33.6 percent to 66.8 percent, for children aged between 24 and 48 months.<sup>86</sup> Improved utilisation of health care facilities directly affects morbidity rates. The proportion of children affected by diarrhoea declined from 32 percent to 22 percent among children under 24 months old, and from 21.3 percent to 10.4 percent among older children.

Similar improvements in health care utilisation have been reported from Mexico, Peru, Chile and Nicaragua. In Mexico, *Progres-Oportunidades* is reported to have doubled per capita health care visits in rural communities.<sup>87</sup> In Peru, *Juntos* led to a 30 percent increase in immunisations among children under age one, and a 61 percent increase for children aged one to five years. A study of Chile's *Solidario* reports that preventative health care amongst children living in rural areas improved in the order of a four to six percentage points.<sup>88</sup> In Nicaragua, *Red de Protección Social* is associated with an 18 percent

increase in immunisation amongst children aged 12-23 months.<sup>89</sup> In-time immunisations can play a significant role in reducing illness and premature deaths amongst toddlers. In Mexico, a study reports a 12 percent lower incidence of illness amongst children receiving support from *Progres-Oportunidades* vis-à-vis a corresponding control group.<sup>90</sup>

It is undeniable that securing good health amongst children is essential for the development of future generations. However, recent studies have confirmed that investments in women's health are more important for future children's development than previously thought.<sup>91</sup> Preventative health interventions which ensure regular antenatal visits can be potentially life-saving for many women in the developing world.<sup>92</sup> It is therefore important to discuss briefly some evidence documenting the effects of social transfers on maternal health.

A study of *Juntos* in Peru reports an increase of 65 percent in pre-and postnatal visits to health clinics, as well as a reduction in home births. This is a significant achievement, given the high levels of maternal mortality in the areas targeted by the programme. Similar findings are found in Mexico, where *Progres-Oportunidades* increased prenatal health centre visits during the first three months of pregnancy by eight percent.<sup>93</sup> Similarly, Chile's *Solidario* led to an increase of seven percent in cervical smears among rural women, a result that reflects improvements in women's attitudes towards sexual health-related practices.<sup>94</sup> Improvement in health care leads to reduced morbidity rates among adults too. An evaluation of Mexico's *Progres-Oportunidades* found a 22 percent reduction in days confined to bed due to illness after two years of programme intervention.<sup>95</sup> Most evidence reported above points to significant programme effects on health outcomes. In general, impact studies implicitly reflect the supply capacity of middle-income countries to meet an increased demand for health services. In low-income countries, however, supply constraints can be a significant challenge.

The positive change reported above, in terms of parental behaviour towards preventative health practices, has important implications for children's long-term development. Ensuring that children enjoy good health during early years becomes critical for their educational achievements, future economic and social opportunities and, overall, their ability to escape from inter-generational poverty traps. In the next section,

attention is turned to the impact evidence on education as another route through which social transfers tackle chronic poverty.

#### 4.1.3 Impacts on schooling

Reviewing the impact evidence of social transfers on schooling is important because of the strong correlation between schooling and increased labour productivity and income. It is therefore not surprising that persistent poverty is often associated with insufficient investment in schooling. As pointed out above, the design of social transfers has been shaped by the knowledge that reducing persistent poverty requires effective policy instruments to improve schooling amongst extremely and chronically poor people. Indeed, many social transfers directly seek to improve children's schooling through specific programme design features that include improvements in supply and co-responsibilities.

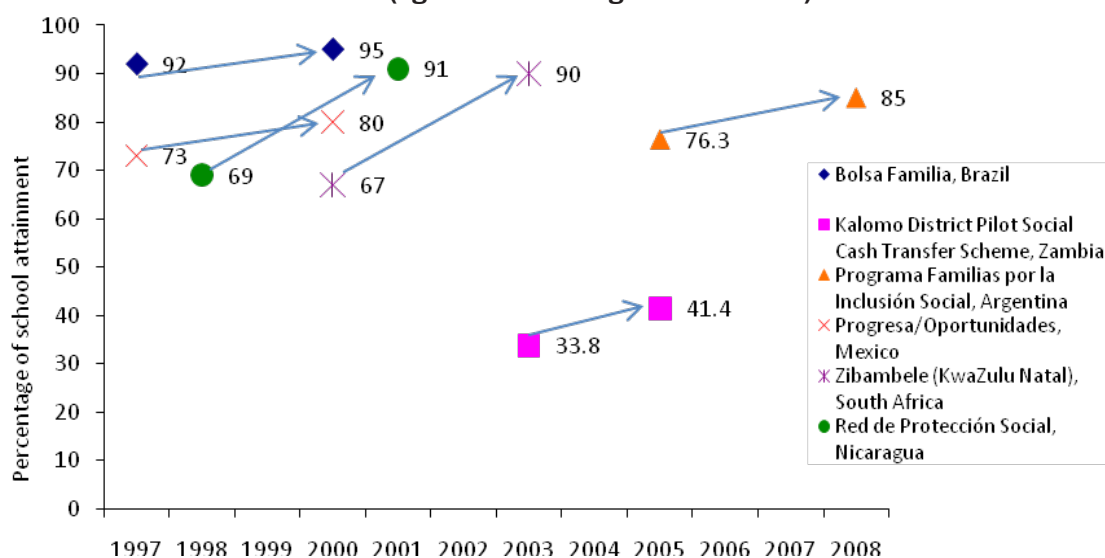
Studies of *Chile Solidario* participants report that their school enrolment in primary education improved in the order of seven to nine percent, relative to non-participants in the programme.<sup>96</sup> And because public schools in Chile are free of tuition fees, the impact reflects a reduction in indirect costs of schooling. In other middle-income countries, where enrolment in primary education is nearly universal, the impact has been more significant on secondary education. In Colombia, for example, *Familias en Acción* did not affect school attendance rates amongst children aged eight to 11; however, the programme reported a ten percent improvement in

schooling amongst children aged 12 to 17 living in rural areas, and a 5.2 percent improvement amongst children living in urban areas.<sup>97</sup> In Brazil, a study finds that school attendance amongst poor children rose by four percent as a result of participation in *Bolsa Familia*, with an average effect of three percentage points among boys, which is highly significant considering the high school enrolment rates in Brazil.<sup>98</sup> In Ecuador, a randomised study estimates that *Bono de Desarrollo Humano* increased school enrolment for children aged six to 17 by about ten percentage points.<sup>99</sup>

In Mexico, participation in *Progres-Oportunidades* is associated with higher school enrolment, less grade repetition and better grade progression, lower dropout rates, and higher school re-entry rates among dropouts. The impact was especially notable in rural areas, where the number of children entering the first grade of secondary school rose by 85 percent, and second grade by 47 percent.<sup>100</sup> Drop-out rates decreased by 24 percent, with a corresponding rise in completion rates of 23 percent for rural secondary schools.<sup>101</sup> These results predict an increase in children's future permanent earnings by about eight percent when they reach adulthood.<sup>102</sup>

Schooling improvements are not restricted to human development programmes in Latin America, as pure income transfers also report important impacts on children's schooling. In Namibia and South Africa, for example, social pensions paid to grandparents are regularly used to pay grandchildren's school fees and

**Figure 4: Impact of social transfers on school enrolment**  
(figures show change from baseline)



other associated expenses.<sup>103</sup> Figure 4 illustrates the impact of selected social transfer programmes on school enrolment across a range of countries.

The findings suggest that although school enrolment and attendance improve significantly where these are explicit programme objectives, transfer programmes without an explicit focus on schooling can indirectly contribute to these dimensions. The extent to which these changes translate into improvements in knowledge and reduction in intergenerational transmissions of poverty is, however, more difficult to confirm at present. School enrolment and attendance are necessary, but not sufficient, conditions to ensure that beneficiary children reach the labour markets with improved educational attainment levels, and escape from chronic poverty. Education quality and transition from school to work are also important. These research questions are currently being pursued.

In sum, it is apparent from the discussion presented in Section 4.1 that social transfers contribute to the enhancement of key dimensions of human capital, namely nutrition, health and schooling, especially where this is an explicit programme objective. A distinguishing feature of many social transfer programmes is that they aim to facilitate human capital investment as a means of reducing extreme and chronic poverty. Yet significant effects are also found amongst programmes with no explicit human capital objective. It is evident that these positive but unintended effects are observed in both middle- and low-income countries. Nonetheless, programme effectiveness will be greater in contexts where social assistance is complemented with supply-side policies that support infrastructure and service quality. In low-income countries, these types of complementarities represent one of the main challenges for anti-poverty policy. The following section reviews the literature on the impact of social transfers on asset protection and asset accumulation.

## 4.2 Asset protection and asset accumulation

The extent to which transfer programmes support household productive capacity depends on intra-household dynamics of resource allocation, and design features that facilitate asset protection and asset accumulation. Investment decisions, and hence

household resource allocation, can be less than optimal in contexts where credit markets are highly fragmented. The literature on microcredit has documented the difficulties in reaching the poorest households.<sup>104</sup> For credit-constrained households, investment decisions mean increasing savings and therefore reducing current consumption. At the bottom-end of the income distribution, where chronically poor people are clustered, such investment decisions represent a paradox, as they require foregoing food intake and other unfeasible sacrifices. In that context, social transfers can play an important role in lifting credit constraints for chronically poor people. There are two ways in which social transfers could help lift credit constraints for poor and poorest households.

First, by providing regular and reliable transfers, social transfers can encourage small-scale savings and thus investment decisions; however, as stressed above in Section 3.3, the provision of an optimal size of transfer, adjusted to inflationary trends, is important too. Ethiopia's Productive Safety Net Programme has been reported to have lost its purchasing power due to rises in food prices and therefore to have been insufficient to address the needs of the extremely and chronically poor.<sup>105</sup> In Zambia, studies of the Kalomo District Pilot Social Cash Transfer Scheme report complaints about the small amount of the transfer.<sup>106</sup>

Secondly, social transfers can prove effective, in combination with other interventions, in enabling access to credit. There are indications across a variety of social transfer programmes, in middle- and low-income countries, that beneficiaries are able to save and invest a fraction of their income following receipt of transfers, and also that access to credit can be facilitated by the transfer.

In Bangladesh, BRAC's Targeting the Ultra Poor Programme has been specifically designed to facilitate access to credit after a process of productive asset accumulation. A recent study noted a shift in motivation for credit among extremely and chronically poor households; initially credit was used primarily for consumption smoothing. Three years later the study found a reallocation of financial resources towards investment in productive assets.<sup>107</sup> This effect is relevant for the discussion on persistent deprivation and appears to have an important gender dimension. This suggests that programme design should consider channelling the

transfer through particular household members, notably women, to maximise impact.

Similarly, studies of Mexico's *Progres-a-Oportunidades* have reported a rise in investment by beneficiary households, vis-à-vis non-beneficiaries. One study estimates that, on average, 12 percent of income transfers were invested in productive assets.<sup>108</sup> In Namibia, the old age pension is reported to have lifted credit constraints in southern areas of the country. Pensioners seem to be in a better position to access informal credit arrangements from shopkeepers, with regular transfers acting as a guarantee for loan repayment.<sup>109</sup> Similarly, Brazil's non-contributory pension scheme, *Prêvidencia Social Rural*, has enabled beneficiaries to access formal credit by showing the magnetic card used to collect their pensions.<sup>110</sup>

Whilst providing important insights, the evidence reviewed is not systematic across all social transfers. In some transfer programmes, especially income transfers such as social pensions or human development transfer programmes, access to credit is simply a by-product of the income transfer, and not an explicit objective. The capacity of social transfers to help lift credit constraints is likely to vary across programmes, target groups and environments. These effects are stronger among rural households with deficits in complementary 'productive' assets (e.g. inputs, labour), and where credit constraints are directly targeted, as just discussed for the case of Bangladesh. Such integrated approaches to poverty alleviation are expected to maximise the benefits of social transfers through asset protection and enhancing

households' capacity to generate self-employment.

All in all, social transfer programmes seem to be effective in protecting and promoting asset accumulation among poor and chronically poor people. However, the impact assessment literature on this is limited to a few programmes and is not systematic across the board. Amongst human development programmes and social pension schemes, lifting credit market constraints is simply a by-product of the income component, and not an explicit programme objective. Some integrated poverty reduction programmes aim as a central mission to facilitate asset accumulation through direct income and asset transfers and credit accessibility. The capacity of social transfers in lifting credit constraints is therefore likely to vary across programmes, target groups and socio-economic environments. Evidence suggest that these effects are stronger among the rural poor who are severely deprived in terms of productive assets (e.g. inputs, labour), and where credit accessibility is directly targeted. Programmes that target asset accumulation tend to be focused on moderately poor households, and only a handful of programmes, notably Bangladesh's Targeting the Ultra Poor programme, have managed to reach out to the chronically poor. The issue of how to strengthen asset protection and asset promotion amongst the chronically poor requires an integrated approach to policy that includes social transfers in combination with saving and credit accessibility. This is an area currently being researched, especially as many social transfer programmes are maturing.

# 5 Conclusions and policy implications

This report has discussed the extent to which social assistance programmes emerging in developing countries address chronic poverty. Three key policy questions have been addressed: first, do programme objectives tackle chronic poverty? Second, are programme design features—for example, the selection of beneficiaries, delivery mechanisms and complementary interventions – effective in addressing persistent deprivation? Third, do social transfer programmes benefit chronically poor people?

Section 2 explored the extent to which programme objectives provide clues about their potential to tackle chronic poverty. Programmes that aim to improve the productive capacity of households in poverty are more likely to tackle chronic poverty. Section 2.1 examined transfer programmes that aim to improve the productive capacity of households through human capital investment, whereas Section 2.2 discussed the role of transfer programmes in facilitating asset protection and asset accumulation. These two approaches throw light upon different ways social transfers can support poor households' efforts to overcome chronic poverty. With regard to human capital investment, the overall findings lead to the following conclusions:

- The balance between programme goals, notably reducing current poverty and addressing the causes of persistent deprivation, varies across programmes, with human development programmes in Latin America especially having a direct mission to tackle the intergenerational transmission mechanisms of chronic poverty.
- In other contexts, social transfers seem to facilitate human capital investment as a by-product of their income component, as they relax budget constraints, which allow households to increase the quantity and quality of their food intake.

- The complementarities between nutrition, health and education, and the spillover effects and positive externalities emerging in labour, commodities and credit markets from the strengthening of these dimensions of well being, are paramount for understanding the expansion, in terms of scale and global coverage, of social transfers with a human development focus.

With regard to the role of social transfers in facilitating asset protection and asset accumulation, the report finds that:

- In the absence of insurance markets, and under situations of uncertainty, poor households will resort to coping strategies that can lower their productive and earning capacity and, in extreme situations, lead to a vicious circle of poverty. Social transfers can act in that context as *ex ante* protective mechanisms which prevent households from taking actions that diminish their productive capacity.
- Fewer programmes have taken a 'promotive' approach to support households building and/or rebuilding their physical assets. This is done by linking income transfers with asset transfers and credit accessibility. The principles underpinning these policies rely on the connection between credit market imperfections and sub-optimal levels of capital investment. However, the cost-effectiveness of this type of policy in terms of tackling chronic poverty remains unclear.
- Most programmes seem to relax credit constraints as a by-product of their income component, and not as a result of an explicit design feature. The length, size and overall package of support appear to play a role in allowing households to make investment decisions. Nonetheless, the existing evidence is



not comprehensive between different types of programmes and across countries.

Thus, the overall conclusion with respect to the first policy question is that programmes that aim at improving the productive capacity of households by, for example, facilitating human capital investment, or protecting and/or building physical assets, and especially those with a longer-term focus, are more likely to be effective in addressing the causes of chronic poverty. Section 2 has provided examples that can guide policy under various socio-economic contexts.

With reference to the second question addressed by this report, i.e. what programme design features are more likely to ensure a chronic poverty focus, the analysis undertaken in Section 3 pinpoints several factors that are likely to determine the efficacy of transfer programmes in reaching out to chronically poor people. In particular, the section finds that:

- One of the most distinctive policy features of social transfers in developing countries is their strong focus on extreme poverty and vulnerability. Social transfers are more likely to tackle chronic poverty if they reach chronically poor people. Because most programmes focus on the extremely poor, the empirical correspondence between extreme and chronic poverty is important here. CPRC work suggests that not all extremely poor households are in chronic poverty, but that a high proportion of chronically poor households are in extreme poverty. The focus on extreme poverty is therefore likely to cover a significant proportion of the chronically poor, although this may depend on structural and distributional factors, such as the growth rate of per capita consumption, and the depth of the poverty gap.
- There is an important political economy dimension associated with social transfers focusing on the extremely poor. Shared perceptions and values regarding the causes of extreme deprivation can play an important role in persuading political constituencies to support policy interventions that address extreme and chronic poverty.
- There is a diversity of approaches to the identification and selection of programme beneficiaries. In practice, most programmes employ a combination of targeting strategies.
  - Categorical approaches are convenient at the identification stage, as they focus on groups that are regarded as highly vulnerable. In some contexts, categorical groups may correlate with the chronically poor, as they have limited productive capacity; however, empirical evidence shows that such correlation varies significantly between categories, and across countries.
  - The use of geographic targeting strategies can be useful in contexts where the distribution of targeted groups is concentrated spatially. However, geographic methods of identification may exacerbate exclusion errors.
  - Workfare programmes and employment guarantee schemes adopt *indirect* measures of self-selection. In most cases, workfare programmes seem inappropriate to address chronic poverty, as their design features mean they address mainly transitory deprivation. Programmes that provide skills training or adopt measures to improve the *reinsertion* of jobless workers into the labour market are expected to be more effective in tackling the causes of chronic poverty.
- In addition to the methods of identification and selection of beneficiaries, issues of *coverage*, *scale* and *transfer size*, as well as *regularity* of transfers and the *duration* and *timing* of support are of much greater significance for tackling chronic poverty. For most part, the share of the population in poverty covered by transfer programmes varies from country to country, with a scale ranging from just a fraction of those in poverty in most sub-Saharan African countries to nearly 25 percent of the total population in some Latin American countries, and 50 percent of households in South Africa. The discussion in Section 3 also shows that:
  - Scale as well as transfer size are functions of poverty incidence and the budgetary and administrative capacity of governments. Most country programmes allocate to transfer programmes less than one percent of gross domestic product (GDP). Transfer size is intimately connected with programmes



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objectives and the principles underpinning programme design choices.

- Regular, predictable and reliable income transfers can provide a minimum level of security, essential for consumption smoothing in the short term. Evidence also suggests that regular income transfers can relax credit market constraints, which is critical for medium- and longer-term investment decisions.
- In terms of transfer duration, there is no rule of thumb to guide policy, as the optimal length of assistance that maximises impact is contingent on the nature of chronic poverty and specific socio-economic contexts. Households facing chronic poverty are more likely to require a longer time window of support to tackle accumulated deficits in productive capacity and basic capabilities.
- The timing of policy interventions can be

critical when focusing on achieving long-term effects. Nutritional and health interventions in early life, sustained throughout childhood, and coupled with education, are found to be significant determinants in improving the productive capacity of people in adulthood. This connects to the issue of tackling the intergenerational transmission mechanisms of chronic poverty.

The main conclusion as regards the second question is that social assistance programmes targeting extreme poverty are likely to reach a majority of households in chronic poverty, although this depends on programme- and country-specific conditions. The efficacy of methods of identification and selection of beneficiaries can also vary significantly across programme typologies and countries. Increasingly, social assistance programmes find that a combination of identification strategies is more effective in selecting beneficiaries. Besides the methods



of identification and selection of beneficiaries, issues of *coverage*, *scale* and *transfer size*, as well as *regularity* of transfers, and the *duration* and *timing* of support are of much greater significance in terms of policy efficacy for tackling chronic poverty.

With respect to the third policy question of this report, i.e. to what extent social assistance programmes benefit chronically poor people, Section 4 reviewed the available evidence on the impact of social transfer programmes on three dimensions of human capital (nutrition, health and education) as well as household assets. Overall, the report finds that:

- Social transfers contribute to the enhancement of key dimensions of human capital, namely nutrition, health and schooling. A distinguishing feature of a large number of social transfer programmes is that they aim to facilitate human capital investment as a means of tackling chronic poverty. However, significant effects are also reported from programmes with no explicit human development objective.
- Programme effectiveness seems to be greater in contexts where social assistance is complemented with supply-side policies that support infrastructure and service quality. In low-income countries, this type of complementarity represents one of the main challenges for anti-poverty policy.
- Social transfer programmes also seem to be effective in protecting and promoting asset building; although the evidence reviewed is not systematic. Many programmes seem to lift credit market constraints simply as a by-product of the income component, and not as an explicit programme objective. On the contrary, some integrated poverty reduction programmes aim as a central mission to facilitate asset accumulation through direct income and asset transfers and credit accessibility. The capacity of social transfers to lift credit constraints therefore varies across programmes, target groups and socio-economic environments.
- Programmes that target asset accumulation tend to be focused on moderately poor households, and

only a handful of these programmes have managed to reach out to chronically poor people. The issue of how to strengthen asset protection and asset promotion amongst the chronically poor requires an integrated approach to policy that may include consumption stabilisation, health and schooling interventions, income transfers and asset transfers. There is also a gender dimension here, which suggests that programme design should consider channelling the transfer through particular household members, notably women, to maximise impact.

In sum, the evidence presented in Section 4 suggests that social transfers do contribute towards enhancing key dimensions of human capital as well as protecting and promoting physical assets building. The impact assessment literature on these subjects is nonetheless limited to a few programmes and is not systematic across the board. It does, however, provide important insights into the potential contribution of social assistance in tackling the causes of persistent deprivation. The extent to which the welfare-enhancing effects of transfer programmes translate into reductions in intergenerational transmissions of poverty is, however, more difficult to confirm at present, and can only be confirmed when current programmes reach maturity. This highlights the importance of extending the scope, depth and especially length of academic research into these relevant policy questions.

Previous CPRC work has pointed out the connection between social assistance and chronic poverty.<sup>111</sup> This report has explored in more detail a number of underlying mechanisms through which social assistance can tackle persistent deprivation, and identified several programme design factors with important policy implications. The main conclusion is that social assistance programmes on the whole address chronic poverty. The experience of CPRC work shows that policy dialogue between the research community – both national and international, and bilaterals, multilaterals and national governments – is paramount if we are to continue advancing knowledge on the area of chronic poverty to increase impact and improve policy and practice.

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# The Chronic Poverty Research Centre

**The Chronic Poverty Research Centre (CPRC)** is an international partnership of universities, research institutes and NGOs, established in 2000 with initial funding from the UK's Department for International Development (DFID).

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# Social transfers and chronic poverty

## Objectives, design, reach and impact

In the first decade of the new century, social protection has emerged as a new paradigm for antipoverty policy thinking in the global South. Social protection programmes are currently reaching, and helping change, the lives of more than 860 million people worldwide. This reflects an emerging consensus that eradicating world poverty requires economic growth, basic service provision and social protection. It also reflects improvements in knowledge on the nature and causes of poverty.

In this report, the focus is on social assistance, and follows a new typology that distinguishes between programmes that provide *pure income transfers*; programmes that provide *income transfers plus* policy interventions aimed at enhancing human, financial and physical assets; and *integrated poverty reduction programmes*. The report pays special attention to the extent to which emerging social assistance programmes in the South address chronic poverty, as the latter subject remains a major challenge for antipoverty policy interventions. Addressing this challenge requires that social assistance programmes succeed in reaching out to the poorest and facilitate investment in their productive capacity. The report focuses on three policy questions: first, do programme objectives address chronic poverty? Second, are programme design features – the identification and selection of beneficiaries, delivery mechanisms and complementary interventions – effective in reaching chronically poor households? And third, do social assistance programmes benefit the chronically poor?

### Chronic Poverty Research Centre

The CPRC is an international partnership of universities, research institutes and NGOs. The CPRC aims to provide research, analysis and policy guidance to stimulate national and inter-national debate so that people in chronic poverty will have a greater say in the formulation of policy and a greater share in the benefits of progress.

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