

Social transfers: stimulating household-level growth

Key Points

- Evidence shows that large-scale, well-designed social-transfer programmes can support micro-level growth processes.
- Social transfers enable investment in human capital and productive assets, laying the foundations for future growth.
- Social transfers can improve the efficiency of household resource allocation by alleviating vulnerability and by targeting individual household members.
- The growth effect of social transfer programmes is largely determined by programme design: transfers should be regular and reliable, appropriately channelled and complemented by asset-accumulation and asset-protection interventions.

Social transfer programmes provide regular direct transfers (in cash or kind) to individuals or households with the primary objective of reducing poverty and vulnerability. They are financed from international aid or tax revenue, and are usually focused on the poor and/or poorest. A growing number of studies confirm that these programmes are successful in increasing household consumption and in improving households' productive capacity. Though knowledge regarding their potential for stimulating economic growth is much more limited, *studies suggest that large scale, well designed, transfer programmes can support micro-level growth processes among poor households and communities.*

A number of factors constrain household-level growth among the poor

Households in poverty face a different set of prices and opportunities than better-off members of society, leaving them less able to accumulate the assets and make the investments that they would need to participate in growth. Importantly, credit

markets do not work well for the poor, because the poor often cannot meet collateral requirements for loans from financial institutions. This is compounded by the fact that productive assets such as livestock, machinery and land tend to be 'lumpy', making incremental accumulation exceedingly difficult. The poor also tend to be disadvantaged in terms of access to the health and education services that would allow them to enhance their human capital. Finally, the poor are particularly vulnerable to shocks, and are often compelled to sell what few productive assets they have when faced with adverse circumstances.

Social transfers have the potential to stimulate micro-level growth processes

Social transfers, if well-designed, can facilitate household-level growth by alleviating some of these constraints.

Improving access to credit

Where financial institutions are confident that households will receive regular transfers, the perceived riskiness of lending to the poor can decline – along

What is Chronic Poverty?

The distinguishing feature of chronic poverty is extended duration in absolute poverty. Therefore, chronically poor people always, or usually, live below a poverty line, which is normally defined in terms of a money indicator (e.g. consumption, income, etc.), but could also be defined in terms of wider or subjective aspects of deprivation. This is different from the transitorily poor, who move in and out of poverty, or only occasionally fall below the poverty line.

The **Chronic Poverty Research Centre (CPRC)** is an international partnership of universities, research institutes and NGOs, with the central aim of creating knowledge that contributes to both the speed and quality of poverty reduction, and a focus on assisting those who are trapped in poverty, particularly in sub-Saharan Africa and South Asia.

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with collateral requirements. This has been demonstrated in Brazil, where the 'Previdencia Rural' social pension programme allowed beneficiaries to access loans from banks by showing their pension enrolment cards. Furthermore, by enabling household savings and investments, the transfers themselves can serve as an alternative means for productive asset accumulation. As a result, in some cases, beneficiary consumption has been shown to rise by a factor larger than the transfer, suggesting improved household production.

Enhancing productive capacity

Evidence from a range of studies shows that many households use income transfers to invest in education and health, particularly for children. For example, households with a pensioner in South Africa show higher enrolment rates among school-age children and improved health status. Though supply-side constraints can limit the impact of increased social service utilisation in lower-income countries, investment in human capital can generally be expected to improve future productivity and earnings.

Providing greater certainty and security

Vulnerability and insecurity prompt poor households to allocate resources inefficiently, often focusing on low-risk, low-return activities rather than higher-risk, higher-return investments, and holding liquid rather than productive assets. Insecurity also encourages an emphasis on current consumption to the detriment of longer-term investment (eg. in children's education or in productive assets). Social transfers have the potential to address these constraints by supplementing income, thereby mitigating the effects of consumption shocks, and by integrating insurance features that protect consumption, assets and investment.

Facilitating improved household resource allocation

Spending decisions at the household level are critical determinants of household growth outcomes. By targetting specific household members, social transfers can influence household resource allocation, which often results in more productive household spending. This is particularly the case where transfers are channelled through women, who tend

to prioritise the development of children's human capital, and, in some cases, productive investments such as farming inputs.

The growth effect will be largely determined by programme design

Programme design is critical to maximising the growth impact of social transfers. The following issues, though not an exhaustive list, are of particular note.

- If transfers are to improve access to credit and allow for diversification into higher-risk, higher-return activities, they need to be *regular and reliable*. They must also be of *sufficient duration* to influence household consumption-investment decisions.
- The *level of the transfer* should reflect the goals of the programme. Where transfers are very low, the effect on household investment will probably be quite minimal, as households tend only to invest once basic consumption needs have been met.
- Transfers should be *channelled* in such a way so as to facilitate improved household resource allocation. In particular, transfers made directly to women often have the largest growth implications.
- Given that the transfer-growth link depends at least in part on effective investment in human capital, it is crucial that relevant social services be accessible and of sufficient quality. *Supply-side support to education and health services* will therefore be particularly important in low-income countries.
- *Complementary asset accumulation interventions* can also enhance the growth effect. Bangladesh's Challenging the Frontiers of Poverty Reduction programme provides a good example of this approach, providing transfers in conjunction with micro-credit and skills-training.
- *Explicit asset protection measures*, though rarely incorporated into social transfer programmes, could have fairly important effects. Social transfers related to public works tend to have stronger insurance components, and it would be worth investigating the potential to incorporate insurance into other programs, perhaps by linking the level of transfers with the impact of covariate shocks.

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