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**How Cash Transfers Promote the Case for
Basic Income***

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Abstract – There has long been a minority view that providing people with cash is an effective way of combating poverty and economic insecurity while promoting livelihoods and work. The mainstream view has nevertheless been that giving people money, without conditions or obligations, promotes idleness and dependency, while being unnecessarily costly. This paper reviews recent evidence on various types of schemes implemented in developing countries, including several pilot cash transfer schemes, assessing them by reference to principles of social justice. It concludes that experience with cash transfers is strengthening the case for a universal basic income.

Keywords – basic income, cash transfers, disability grants, economic security, food aid, social pensions, vouchers

Politicians and policymakers in developing countries, and most donor agencies, including the international financial agencies, have long dismissed the idea that poverty and unemployment can be redressed through cash transfers. They have relied on some nucleus of social insurance and means-tested social assistance for those affected by particular contingency risks, such as accidents, loss of job, disability or old age. Many have shown a remarkable enthusiasm for public

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works. But they have given a very limited role to cash transfers per se. Recently, that has begun to change.

One reason is that the persistence and aggravation of poverty and inequality under globalization defy the oft-made prediction that economic growth will “trickle down” to the poor and economically insecure. Another reason is that other forms of aid have been shown to have limited effectiveness, especially in contexts of systemic shocks, where there are mass entitlement failures in which whole communities are blighted by an economic setback, an ecological disaster or an epidemic.

This article first presents some principles for assessing the effectiveness of various forms of income-support scheme in combating economic insecurity. In the light of those principles it goes on to review experience with food aid and vouchers, seen as the main alternatives to cash transfers, before discussing the growing use in developing countries of both conditional and unconditional cash transfers. Separate sections deal with cash transfers in emergency and development aid, incomes for school attendance, social pensions and disability grants. In concluding remarks, it is argued that experience with cash transfer schemes to date gives empirical support to arguments in favour of a universal unconditional basic income.

1. Economic Insecurity and Social Justice Principles

In assessing the potential of cash transfers, it may be useful to identify the nature of economic insecurity, clarify types of income-support scheme, and set out some principles or criteria by which to judge alternative ways of assisting the economically insecure and disadvantaged.

1.1 Economic Insecurity

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

This leads to the distinction between shocks and hazards. Shocks have become more numerous as a result of globalization and global warming.

Included are sharp economic downturns that sweep entire communities, economies or regions. More generally, there are circumstances that one can characterise as socio-economic disasters, whether they be quick-onset disasters, as in the case of earthquakes, floods, tsunamis or a sudden economic collapse, or slow-onset disasters, as in the case of droughts, famines, or an epidemic such as HIV/AIDS.

These situations of shock should be distinguished from the notion of hazards, which are important sources of economic insecurity in many developing countries. Hazards may be defined as predictable (and often desired) life events that have a high probability of an adverse effect, or a sequence of adverse effects, for an individual or family. They include a death of a relative, weddings, births, a migration event, and retirement.

Whether shock or hazard, the resultant costs can erode a household's capacity to sustain its normal livelihood base, perhaps by pushing it into debt or into mortgaging land, or by preventing it from buying seeds or fertilisers.

Economic insecurity also arises from uncertainty. With uncertainty, one is unsure about one's actual interests or unsure how to realise them. The outcome of decisions cannot be predicted with any confidence, and often this is combined with a perceived inability to know what to do if an adverse outcome materialises. A high degree of uncertainty pushes people into more risk-averse behaviour, especially if the consequences of an adverse outcome could be catastrophic. Those producing in agrarian economies or where economic activity is dependent on climate conditions are likely to face chronic uncertainty. Anything that lessened that uncertainty could be expected to have a beneficial effect on higher-yielding investment, innovation and purposive decision-making.

So, security arises from being able to deal with shocks, hazards and uncertainty. Although it will not be argued here, it is a premise of this article that basic economic security is essential for freedom and development. Basic economic security is in turn defined as a threefold set of circumstances. First, it requires *limited exposure* to idiosyncratic, co-variant and systemic risks, uncertainty, hazards and shocks. Second, it requires an *ability to cope* if they materialise. And third, it requires an *ability to recover* from adverse outcomes.

1.2 Types of Income Support Scheme

With those points in mind, to assess possible policies a further set of distinctions should be made. We may say that a scheme is universalistic if it is intended as a right for all the population, although perhaps based on citizenship or long-term residence. A scheme is targeted if it is intended for a specific group, defined by

some test of eligibility, be it poverty, age, employment capacity or whatever. A scheme is selective if it uses some specified criteria to determine eligibility, such as a means test. A scheme is conditional if it requires some specified behaviour, usually work-related, on the part of the recipient, or in some cases family members of the recipient.

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

Means testing has been criticised as inequitable and a deterrent to work, especially for low-skilled workers, through what are known as poverty traps or unemployment traps. In developing countries, the problems are compounded by the difficulty of applying meaningful tests to undocumented incomes that may fluctuate erratically and substantially. This has prompted many countries to resort to proxy means testing, where visible indicators of income (such as quality of housing) are used to determine eligibility for a particular benefit, since it was first tried in Chile in 1980 (Clert and Woden, 2001; Raczynski, 1991).

Proxy means testing requires selection of relevant proxy indicators of social deprivation, such as location of residence, quality of dwelling or type of economic activity the household is engaged in. None of these is a very reliable indicator of poverty per se. Accordingly, some authorities have been drawn to rely on relatively sophisticated statistical models using a few variables to estimate the profile of somebody who should be regarded as in need. However, the technique is prone to all three types of failure that should be used to assess any social protection scheme.

Schemes can have a high or low exclusion error – that is, they may exclude a large or small number of those for whom the benefit is supposedly intended. This is particularly likely with area-based targeting. Schemes may also have a high or low inclusion error – that is, they may include people for whom the benefit is not intended. Third, schemes may have a high administrative cost relative to the cost of the overall scheme. Many schemes are vitiated by excessive administrative costs that mean that far fewer people can be beneficiaries, given limited resources.

In the case of proxy means tests, collecting and analyzing data to be used in a formula to identify the targeted group will involve hefty administrative costs.

There will also be substantial exclusion errors, since even the best econometric equations estimate only about 50 percent of the variability of income, implying a very imperfect means of identification of potential recipients (Coady, Grosh and Hoddinott, 2004). Such schemes also involve obvious immoral hazards if the proxy indicator is known to the possible recipients.

1.3 Policy Evaluation Principles

Following earlier work¹, this paper is based on a belief that policies should be judged, or evaluated, by whether or not they satisfy the following five policy principles:

The Security Difference Principle – A policy or institutional change is socially just only if it improves the security of the least secure groups in society. The Security Difference Principle stems from Rawls, who from a liberal philosophical perspective essentially argued that social and economic inequalities are only just if they allow for the betterment of the worst-off groups in society (Rawls, 1973).

The Paternalism Test Principle – A policy or institutional change is socially just only if it does not impose controls on some groups that are not imposed on the most free groups in society. Underlying this principle is the Millian liberal view that there is a prima facie case against paternalism (except in the case of young children and those who are medically frail), particularly against those forms that constrain the freedoms of the disadvantaged.

The Rights-Not-Charity Principle – A policy or institutional change is socially just if it enhances the rights of the recipient of benefits or services and limits the discretionary power of the providers. This third principle is also crucial for assessing alternative benefit schemes. A right is possessed by virtue of a person's humanity or citizenship, and cannot be made dependent on some behavioural conditionality. Social and economic entitlements should be rights, not matters for the discretionary decisions of bureaucrats or philanthropists or aid donors.

The Ecological Constraint Principle – A policy or institutional change is socially just only if it does not involve an ecological cost borne by the community or by those directly affected. Benefit schemes should be subject to the constraint that they should not deliberately or carelessly jeopardise the environment.

¹ See, for example, ILO (2004). The writer was principal author of that report, which drew on extensive empirical work cited in it. See also, Standing (2002).

The Dignified Work Principle – A policy or institutional change is just only if it does not impede people from pursuing work in a dignified way and if it does not disadvantage the most insecure groups in that respect. The two-part test in this principle involves two implicit value judgements – that work that is dignifying is worth promoting (whereas any deterioration in working conditions or in opportunities would not be), and that the policy should enhance the range and quality of work options of the most insecure groups relative to others, or more than for others. The main point is to determine whether or not a scheme favours the development of more freely chosen work opportunities and work capabilities.

Before proceeding, it is also worth recalling Tony Atkinson's two measures of poverty-reduction efficiency – vertical and horizontal, the former measuring the extent to which there is leakage of money intended for the poor going to the non-poor, the latter measuring the extent to which the poor are actually helped (Atkinson, 1995).

The difficulty with this dualism is that, for example, a scheme may reach 70 percent of a target group, but they may be the least severely affected, leaving the worst-off 30 percent no better off or even worse off. Using the horizontal-vertical efficiency approach could produce other difficulties. For instance, if another programme reached 70 percent who were the worst-off and did so at the cost of some leakage to the non-poor, that might be judged less efficient. It is thus advisable to be cautious about evaluating policies using the language of efficiency.

The following discussion looks first at the main alternatives to direct cash transfers and then turns to a more detailed discussion of conditional and universal forms of transfer. It leaves out of consideration cash-for-work and emergency public works schemes, which the author has written about elsewhere (United Nations, 2007, ch. VI).

2. Food Aid

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

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

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

Food aid and subsidies also engender a sense of charity rather than economic rights. As with all subsidies, the food will be less appreciated than if the actual monetary value was paid. Food aid will therefore tend to result in waste, due to undervaluation, and/or excessive consumption just because it is “free” (Tabor, 2002). Distributing food aid also has high transaction and administrative costs. For instance, in India, the widely used meals-for-school scheme is notorious – each rupee of food costs a rupee to distribute.

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

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

In Afghanistan, beneficiaries of food aid were found to be selling the food they had received for less than a third of the cost of its delivery (Development Researchers Network, 2003). And an evaluation of food aid in Ethiopia concluded that households would have taken much less in cash than the market

² A series of People’s Security Surveys in Africa and Asia found that it was the near-poor who were more likely to be aware of such schemes and more likely to benefit from them compared with the poor or destitute (ILO, 2004).

value of their food aid and been equally satisfied (Barrett and Clay, 2003; see also Barrett, Holden and Clay, 2002). Cash would have been less expensive, and would have been freedom-enhancing. Yet paternalism has typically prevailed, at the cost of limiting the revival capacities in local communities.

3. Vouchers and Food Stamps

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

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

One criticism of vouchers is that they require considerable planning and preparation, including the agreement of local traders to accept the vouchers. There have been reports that shops do not like dealing with vouchers because they involve extra administrative costs and uncertainty about reimbursement.

Another criticism is that – contrary to the claim that they promote self-selection – the stigmatisation entailed by vouchers leads to lower take-up, not higher. Applying for and using a voucher are visible transactions that signal poverty or dependency, and there is no reason to presume that this will result in self-selection by the poorest and most insecure. In the UK, to take an extreme case, the Government had to abandon a special voucher scheme for asylum seekers because recipients were being identified and harassed.

Almost by definition, vouchers are paternalistic, in that they involve a decision by the state (or donor) on what people should be spending money. However benevolent and well-meaning, that is undeniably a restriction of individual liberty. This is perhaps why the best form seems to have been “seed vouchers” combined with “seed fairs”, in which the paternalistic element has been moderated by enabling recipients to choose from among a large range of

seeds. There have been reports that such seed fairs have worked quite well in various parts of Africa.

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

4. Conditional Cash Transfers

As noted at the outset, until recently there was little interest in the idea of using cash transfers as a means of reducing poverty in developing countries, even as part of international aid in times of emergency. Thus a review of all UN consolidated aid appeals in 2004 found almost no use of cash or vouchers; the appeals were dominated by traditional humanitarian responses, such as food aid, materials for shelter, clothing, seeds and so on.

However, there is a growing movement in favour of introducing cash transfers and even universal income grants in developing countries where it is commonly claimed that no universal system of social protection is financially feasible. As a senior World Bank economist, in surveying the empirical literature, put it:

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

Claims in favour of unconditional cash transfers overlap to a certain extent with claims for so-called conditional cash transfers. Currently, the latter are the type in vogue, though the distinction is not as sharp as is sometimes depicted. One reason is that in some cases policymakers and their advisers use conditionality as a political device to legitimize the transfer with middle-class

voters and financial agencies.³ In practice too, the difficulty and costs of implementing the criteria used for identifying beneficiaries can lead to merely token or discretionary application of the formal conditions. This has been the case of the state old-age pension in South Africa, which has been a celebrated success in redistributing income and boosting local small-scale economic activities.

Nevertheless, when commentators talk about conditional cash transfers they usually, at present, mean a selectivity device that goes beyond conventional means testing. The most well-known is the requirement that recipients should send their children to school. This is a form of paternalism, but it is a modest one given that society usually has a constitutional commitment to ensure that children are enrolled in and attend school. Other forms of conditionality are harder to rationalize on ethical or freedom-enhancement grounds.

It is a contention guiding this article that the growing interest in conditional cash transfers as an aid and development tool will lead to a realization that most forms of selectivity and conditionality are conveniences at best while being costly, inequitable, inefficient and offensive to basic egalitarian principles. Nevertheless, the current phase of policy development is promising because experimentation with conditional cash transfers is proving that they can and do have a beneficial development role. We will return to unconditional, universal income transfers later.

5. Cash Transfers in Emergency and Development Aid

Whatever the claims and counter-claims, support for providing the poor and disadvantaged with straightforward cash grants has taken off. Examples of experimental schemes are multiplying. Their advantages include speed, transparency and the ability to allow those in need to make choices about how they spend the aid, thereby enabling them to retain a greater sense of dignity in times of crisis (Creti and Jaspars, 2006).

Based on experience in Africa, Asia and Latin America, Oxfam has issued guidelines for such schemes, recognizing that they are particularly appropriate for socio-economic crises where local purchasing power has been wiped out while food and other basic goods are potentially available.

They also have low administrative costs. As a World Bank study on Colombia's experience with cash transfers concluded:

³ This was a common theme among early advocates of the Bolsa Escola and Renda Mínima schemes in Brazil.

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

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

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

By contrast, cash transfers allowed the beneficiaries to make strategic choices for themselves. The evaluation observed that not only did the cash transfers allow households to build up assets, notably through the acquisition of livestock, but they also enabled many households to reduce distress renting out of land. Indeed, among the benefits were that they enabled recipients to obtain higher crop prices, partly because they were able to sell when prices were more favourable, rather than when they were desperate for cash. This is a classic advantage of basic economic security. They also helped some recipients to pay off debts, others to pool savings in an *equb* (group saving scheme) and others to buy seeds, sheep or goats, thereby enabling them to work.

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

Those operating the Zambian scheme, which focused on very poor households with little access to paid work, have claimed that the money was spent on basic consumption goods and education and healthcare for family members (Schubert, 2005). In other words, people were able to spend such cash transfers rationally and for their own longer-term welfare. A majority of the beneficiary households were headed by elderly persons or women, about half of the households were AIDS-affected, and nearly half contained orphans. As with other schemes of this sort, it was evident that when women, rather than men, controlled the transfers they were more likely to spend a large part of them on their children and their family.

The Zambian scheme had a more general message. It has been estimated that if it were scaled up to reach the poorest 10 percent of all Zambian households the cost would amount to merely 5 percent of the total overseas aid to the country, or about 0.5 percent of its Gross National Income. In other words, a national scheme is financially feasible. It would be much cheaper than the country's food aid, and would have the advantage of going directly to the poor and vulnerable, without the high administrative costs and various forms of corruption associated with commodity-based schemes. And whereas food aid damages local food markets by deterring local producers, cash transfers would do the opposite by helping to stimulate local markets. In Zambia, no less than 70 percent of all social transfers are spent on locally produced goods and services, thus generating local employment or livelihoods (DFID, 2005; Samson and others, 2006).

The Zambian, Ethiopian and Somalian cash transfer experiences offer encouraging evidence that they are affordable and are conducive to livelihood revival in chronically poor areas. Of course, in times of emergency, cash grants should not be seen as pure alternatives to other forms of commodity-based aid. Such transfers might be inflationary if local food supplies were not available. In the initial aftermath of a disaster, particularly a quick-onset disaster, food aid may need to complement cash transfers, to restrain inflationary pressures. Direct

commodity aid can then be gradually phased out as local producers respond to the increased demand for staple goods and services. However, cash transfers may need complementary programmes designed to boost local supply, as was found to be the case following the Mozambique floods in 2000.

Under this scheme, which was implemented by the private sector, USAID funded cash grants of about US\$92 for 106,280 flood-affected rural families. An impact evaluation found that most of the money was spent on local goods and services, which stimulated the local economy, regenerating livelihoods in a sustainable way (Abt Associates, 2002; Christie and Hanlon, 2001; Hanlon, 2004).

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

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

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

Tellingly, the growing legitimacy of simple cash transfers was reflected in the Group of Eight Statement of 2004, which, when referring to the international response to famines, made the commitment, “we will unleash the power of markets through cash-for-work and cash-for-relief programs” (G8 Statement, 2004). The scope for cash transfers in Africa and Asia is thus recognized as part of the armoury of aid and humanitarian responses to poverty and insecurity. Meanwhile, in Latin America, cash transfers have become a central part of social and development policy.

6. Incomes for School Attendance and Child Benefits

One form of conditional cash transfer that has become enormously popular in the past decade or so is a monthly sum of money paid to poor families, or more usually to mothers, on condition that their children attend school. The main claim is that incomes for school attendance lower the poverty and economic insecurity of women and lower child poverty. It is hard to dispute this. By the same token, it is claimed that they reduce child malnutrition, as well as promote child school enrolment and school attendance. Such schemes are obviously less paternalistic than food parcels and food aid, or other commodity-based forms of transfer to the poor. They are also a means of redistributing income that is relatively easily legitimized among the middle class and “median voters”.

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

These criticisms have been swept aside for the moment. Country after country has opted for this policy. The main examples are in Central and South America, starting in Mexico, where the original *Progresa* (literally “progressing”) scheme, introduced in 1992, has evolved into the *Oportunidades* scheme.⁴ *Progresa* was supposed to support school-age children in poor households in marginalized rural communities, but in 2002 *Oportunidades* extended that aid to other rural and urban areas.

The Mexican scheme has evolved into a complex mechanism of social engineering. The cash transfer consists of three components – a household nutrition allowance, a schooling subsidy for each school-age child that rises in amount by grade and that is higher for girls of secondary-school age, and an annual payment to cover the cost of books and uniforms. To complete the social engineering function, the amount of cash transfer that any household can receive is capped, one intention being to avoid giving families an incentive to have more children, another being to reduce what the policymakers think might be benefit dependence. To receive the transfers, children must maintain a school attendance record of 85 percent, while mothers and children must have regular medical checks and parents must attend parenting classes.

⁴ The original scheme was called the programme for education, health and nutrition, symbolizing its multiple objectives.

The targeting takes place via a two-stage process. First, poor geographical areas are identified and then poorer households in those areas are identified on the basis of a proxy index of poverty (using indicators of housing, health, and schooling). As a result of this procedure, about three million Mexican households are reached at any one time.

Although awkward questions remain about the efficiency and equity of the selectivity process, *Progresa* has been legitimized. It has been shown to be less expensive to distribute than food aid (Gertler, 2005). Above all, it has been shown to have reduced poverty in recipient households and to have resulted in increased school enrolment and attendance, as well as improved health in beneficiary households (Skoufias, 2001). *Oportunidades* can be expected to do much the same. In short, the Mexican scheme has become a central part of the country's social protection system.

The other major example is Brazil's *Bolsa Familia* ("family stipend"), the flagship of the country's cash transfer schemes, which undoubtedly contributed to President Lula's re-election in October 2006. It evolved from a series of localized schemes introduced in urban areas during the 1990s. Among the precursors were the *PETI* (Programme for the Eradication of Child Labour), introduced in 1996 in coalmining areas, then sugar cane and sisal production areas, and subsequently extended to all areas in 1999. Various forms of *Bolsa Escola* ("school stipend") and *Renda Mínima* ("minimum income") schemes spread in the late 1990s; these became a federal programme in 2001, which reached over eight million children in five million households by 2003. In 2004, four income transfer schemes, including the *Bolsa Escola*, were consolidated into the *Bolsa Familia*.

This became a central part of the Lula Government's *Zero Fome* ("Zero Hunger") campaign, and has been seen as a way of reducing the country's enormous income inequality. It has also unified a variety of more paternalistic and selective schemes, such as the gas allowance and school stipends. An intention has been to break the inter-generational transfer of poverty by conditioning access to the transfers on key human development objectives (schooling, nutrition and health). It is also seen as a means of "empowering" women, giving them more bargaining power in their households and enabling them to make decisions on their children's education and on their own work.

By 2006, the *Bolsa Familia* was reaching over 11 million households living below the official poverty line, or over 44 million people. The scheme is nominally means-tested, with the transfer amount being determined by number of children in the household. Autonomy is granted in the sense that recipients

can choose how to spend the money, but the conditionalities (“incentives”) are restraining, and include school attendance by children aged 5–15, anti-natal classes for pregnant women, and vaccination for children under the age of 7.

The Bolsa Familia has generated enormous global interest. Although a comprehensive evaluation by the Ministry of Social Development had yet to be completed at the time of writing, the scheme has been particularly beneficial for those lacking access to income-earning employment. Already there have been a series of evaluations and monitoring research projects. Some have been critical, but most have been favourable (see Britto, 2005; Fonseca, 2006, *inter alia*). The consensus is that the cash transfers have reduced female poverty, increased school attendance and learning performance in school, and apparently led to increased rather than decreased female labour force participation. Indeed, one study of the earlier scheme concluded, “instead of the expected negative correlation between Bolsa Escola and work, we find the opposite: those receiving the stipend are the ones that work more” (Schwartzman, 2005).

The effect on child labour is more nuanced, since cash transfers seem to have resulted in children doing fewer hours of labour but not necessarily stopping altogether (Cardoso and Souza, 2003; Rocha, 2000). This is partly because prohibiting child labour is not a formal part of the programme. Child labour has continued to play a significant role in the subsistence survival of poor households in rural areas and urban slums, accounting for over 20 percent of family income in about a third of all families. The stipend is too modest to displace that contribution.

The Brazilian scheme is well-established, in spite of criticisms of its design. In Latin America, at least, it seems the way to move cash transfers up the policy ladder. Other schemes similar in type to Progresá and Bolsa Familia are Colombia’s Familias en Acción, Honduras’ Programa de Asignación Familiar (PRAF), Jamaica’s Programme of Advancement through Health and Education (PATH) and Nicaragua’s Red de Protección Social (RPS), which predated the Brazilian model by becoming operational in 2000. There is also growing interest outside Latin America and the Caribbean, the beacon being Bangladesh’s Cash for Education scheme. In early 2008, the Indian Government was considering the Bolsa Familia as an alternative to its wasteful food subsidies.

To what extent does this type of scheme satisfy the Policy Decision Principles enunciated earlier? As operated in Mexico and Brazil, one cannot pretend that the policy is not paternalistic. Probably most observers would accept that it is desirable to impose conditions that benefit children, and would be satisfied with that as long as the scheme did not put families into some kind of

poverty trap. However, the Mexican scheme does seem to go much further, and raises questions about the possibility of excessive bureaucratic intervention in family life of an intrusive kind that could lead to stigma and even non-application for the cash transfer. To the extent that there is a political commitment to weaken the conditionality rather than to increase it, Brazil's less intrusive Bolsa Familia scores rather better on the Paternalism Test.

As far as the Security Difference Principle is concerned, the very complexity of Mexico's targeting procedure must raise questions about horizontal efficiency and the omission of many of the poorest households. There could also be a poverty trap if households lose entitlement to the benefit if they move out of poverty, thus discouraging work and modest social mobility. More evidence is needed on this.

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

Moreover, in both Nicaragua and Mexico, about 20 percent of the cash transfer beneficiaries were non-poor (Coady, Grosh and Hoddinott, 2004). In Bangladesh, where targeting has been much weaker, about 40 percent of beneficiaries have been found to be non-poor. Given that targeting is supposed to exclude the non-poor, this suggests that none of the schemes has been very successful on its own criterion. Whether or not they should be concerned to achieve such "efficiency" is another matter.

Cash transfer schemes of this type also depend on a sophisticated and up-to-date registration system. Unregistered households cannot obtain benefits, which is likely to result in the denial of benefits to a great many families that are poor and economically insecure. In addition, the economically insecure tend to have incomes that fluctuate above and below any imaginable poverty line, making it a bit of a lottery whether or not they manage to qualify.

To succeed in its broader social aims, this type of conditional income scheme depends on there being adequate local schooling and health and transport infrastructure. In urban areas of Latin America and the Caribbean, these may exist to a sufficient degree. In rural areas of those countries, and in large parts of

Africa and Asia, the imposition of school-attendance and clinic-attendance conditions may impose onerous burdens on poor households, and actually hit the very poor more than anybody else.

Even in Latin America, the desirability of the extensive conditionality imposed by these schemes has been called into question, which may prompt policymakers to conclude that a move towards less conditionality would be a more efficient and equitable way to go. The complexity of requiring potential beneficiaries to prove they are poor and vulnerable, and to demonstrate regular attendance at schools and clinics (or to prove that they had a valid reason for not doing so) is surely off-putting for people cowed by poverty and chronic insecurity. It is also expensive in administrative time and paperwork (Ayala Consulting, 2003).

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

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

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

7. Social Pensions

If Latin America has been the continent leading the way with cash transfers for the young, Africa has been the region where non-contributory cash transfers at the other end of the age spectrum have been gaining most ground.

With global ageing and the social dislocation of families that is pushing more elderly people out of family-based support networks, support for social pensions has grown. Many developing countries have some sort of means-tested state pension, but more interesting is the non-means-tested variety, that is, a basic universal state pension provided to all citizens above a certain age without prior conditions, such as a record of contributions, being required to gain entitlement.⁵ It is sometimes depicted as a primary pillar of a multi-pillar pension system. The interest arises not just because it offers the prospect of cutting old-age poverty quite dramatically but because it may be a productive investment as well, directly and indirectly boosting dignified work and livelihoods.

It seems ironic that social pensions have been pioneered in a few developing countries where poverty and inequality are rife and where many economists would say there are not the resources available to pay for such schemes. Variants exist in South Africa, Namibia, Nepal and Mauritius, where the amount paid rises with the age of the pensioner, and Botswana, Bolivia, Samoa, rural areas of Brazil and Lesotho, which introduced it in 2004 for those over the age of 70. The NOAPS in India (National Old Age Pension Scheme) is tending towards being a social pension as well, albeit giving a very small amount and with notorious inefficiency. Chile has also recently introduced such a scheme. In addition, by 2007, over 30 developing countries and transition countries were operating means-tested, non-contributory pensions (Johnson and Williamson, 2006).

Besides enhancing old-age income security, social pensions are potentially significant instruments for influencing the patterns of work and labour in society. The primary claim in favour of the non-means-tested variant is that it is universal and rights-based – all citizens above a certain age are entitled to receive a monthly cash transfer. Advocates point out that social pensions reduce old-age poverty better than any alternative, are redistributive, affordable and transparent, while having very low administrative costs. They typically account for a very small percentage of GDP; in Costa Rica, for example, they took only 0.3 percent in 1999, and in Zimbabwe only 0.1 percent (Coady, Grosh and Hoddinott, 2004; Munro, 2003). Another strong empirical finding is that the

⁵ For one review of these, see Palacios and Sluchynsky (2006).

South African pension has been the only successful redistributive social policy in the post-apartheid era (Case and Deaton, 1998).

It is still often claimed that social pensions are costly precisely because they are universal. The main response to that is that by being universal they reach nearly all the elderly, and do so remarkably cheaply. It falls to Namibia to have the simplest and most efficient social pension, operated via an electronic card and biometric identification of claimants. Each month, vans go to the numerous villages and urban payment spots, each van containing cash-dispensing machines and computers. The pensioners (or designated surrogates if the pensioner is too ill or frail to go) present their cards at the van and are paid the equivalent of US\$30 (as of 2006). The take-up rate is close to 90 percent, which is remarkably high by comparison with all other pension schemes in developing countries, and is higher than any means-tested scheme operating anywhere.

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

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

Too many economists have failed to appreciate that social pensions are productive. They have forgotten a lesson from European history, which is that old-age security acted as a powerful force in modernizing agriculture, precisely because it led to more risk-taking innovation. It has also been shown to do so in rural areas of Brazil. As one study concluded, "the regularity, certainty and liquidity of pension benefits meant that they played a key role in shifting households from subsistence to surplus agriculture" (Barrientos and Lloyd-Sherlock, 2002, p. 17).⁶

⁶ See also Barrientos and others (2003).

Besides its consistency with the Dignified Work Principle, the social pension is likely to satisfy the Security Difference Principle if it takes the non-means-tested form. Being universalistic, it should reach all the poor in the relevant age group. It is also paid to individuals rather than households, thus satisfying a universalistic concern. It is non-paternalistic, in that it allows the beneficiary to spend on what he or she chooses; and it is granted as a right rather than a discretionary matter of charity. In brief, it is a feasible first step in the direction of a universal right to income security.

The debate on whether a basic state pension should be universalistic or means-tested is rumbling on, but the signs are that the universalistic variant is gaining ground. In 2007, South Africa was just one country in which the pressure was growing to end the residual use of means testing in its social pension. There and elsewhere in Africa, the IMF and other financial agencies have been trying to move governments in the other direction – including Namibia. But the evidence that this would be sensible from an equity or efficiency point of view is simply not there.

8. Disability Grants

Disability grants are another form of targeted, selective income transfer. Here we will deal with a particular variant, as introduced in southern Africa, in Mauritius, Mozambique, Namibia and South Africa. This is an income transfer that is both means-tested and work-tested. As operated in the region, it is proving disastrous.

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

In Namibia, although the social pension (a basic income for the elderly) has been the pillar propping up many small communities, a disability grant modelled on the South African scheme has been growing in significance in the

context of the HIV/AIDS pandemic. The disability grant has already become Namibia's second most prevalent income support mechanism, part of an evolving system of selective, targeted cash transfers that also includes three family benefits – the foster parent grant, the child maintenance grant and the orphan's grant. So far, only a few households are receiving any of these family benefits, which are means-tested, and thus involve poverty traps and the conventional moral hazards that come with all means-tested schemes.

It is thus not surprising that the means-tested disability grant reaches no more than about 20 percent of all those who should be reached, according to Namibian census figures for the number of people suffering from a chronic physical or mental impairment.⁷ It is moot whether it reaches many AIDS victims who become disabled as the sickness intensifies. If it does not reach them, the danger is that anti-retroviral (ARV) treatment will fail since unless a person can eat reasonably well the medication will not work. However, if the grant were to reach a large proportion of AIDS victims the fiscal cost would be large.

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

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

⁷ For a review of the evidence, see Standing (2006).

Second, the work capacity test for eligibility for the disability grant is creating a unique moral hazard. If the ARV treatment begins to improve the physical and social condition of the patient, so the capacity to work improves. And if it does, the patient will lose entitlement to the benefit. Already, in Namibia and in South Africa, there are credible anecdotal reports that people are stopping ARV treatment in order to push themselves back below the physical capacity-for-work level, for fear of losing the grant.⁸ According to the Treatment Action Campaign in South Africa, which has been advocating a universal basic income instead, there have been many instances in which patients have simply refused treatment for fear of losing their disability grant.

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

Thus the disability grant as it has operated in South Africa and Namibia must rank as one of the worst designed cash transfer schemes in the world. It is unlikely to satisfy any of the policy principles outlined earlier. It is a classic case of how a combination of means testing and behaviour testing can achieve precisely the opposite of what policymakers intend. Surely, enough is known to scrap the work test and the means test in disability grants.

By contrast, in the early 1990s following Mozambique's civil war, the Government introduced a simple unconditional cash transfer scheme for those disabled or displaced known as GAPVU, or "cash payments to war-displaced urban destitute households programme". This reached about 16 percent of urban households, and raised average household incomes by as much as 40 percent, significantly reducing poverty (Devereux and others, 2005; DFID, 2005; Samson and others, 2006). It also helped boost small-scale employment and the livelihoods of the urban poor, having a notable effect on food production and trading activity. The scheme had a means test, but the authorities largely ignored it, which contributed to the programme's success.

9. Concluding Remarks

Industrialized affluent countries have responded to the challenge posed by globalization to the traditional social insurance model – fragmentation of family structures, decline of full-time stable jobs, the changing nature of risk exposure and so on – with a mix of means testing and behaviour testing, coupled with a

⁸ On the situation in South Africa, see Natrass (2006a; 2006b).

drift towards social therapy. Yet there is a counter-movement led by what is happening in developing countries, where the baggage of 20th century social security is light. The industrial labour model clearly does not apply; most people, as workers, are outside the “formal” wage labour system; and, most importantly, the range of risks to which most people are exposed does not correspond to the simple contingency risks that underpinned welfare state development.

In particular, communities and individuals are exposed much more to systemic or co-variant risk. It is absurdly arbitrary to make sharp distinctions between the deserving and undeserving in contexts where brute ill-luck and chronic uncertainty are the undeniable realities. Emergencies, shocks, crises – all force those involved in shaping policy and reacting to events to abandon old prejudices and look to what works.

What does that mean? Ultimately, it means not just having food at the end of some dusty road, but being able to develop sustainable livelihoods in viable communities based on functioning systems of social solidarity. That lesson is being re-learned, posing awkward questions to those wedded to selectivity, targeting and conditionality.

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

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

Compared with means-tested social assistance and social insurance schemes, a universal cash transfer would remove the infamous poverty trap, whereby someone who raises their earned income just above the threshold used to determine eligibility for the cash transfer loses all benefit, and the related

unemployment trap. As such, it would immeasurably reduce the incidence of moral hazards and immoral hazards.

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

Apart from the moral and political arguments, there are good economic and social reasons for moving towards a situation of basic economic security. Universal schemes of security are fundamentally market neutral, i.e., they do not introduce market distortions and, therefore, have relatively little effect on competitiveness. Unlike means-tested social assistance, universalistic schemes do not introduce negative incentives to dissave (which would merely store up economic vulnerability), and there is no tendency to reward “labour” relative to other forms of work.

At the same time, experience of cash transfer schemes has shown that far from breeding dependency and passivity, they foster independence and activity. Thus, one study, drawing on data from various surveys conducted by Statistics South Africa (the official agency for national statistics), showed that the country’s old-age pension, the Child Support Grant and the Disability Grant, all helped to raise labour force participation and employment (Samson and others, 2004).

Moreover, universal security schemes are administratively simple and low-cost. There is relatively little scope for bureaucratic abuse, discretion or petty corruption. The benefits are non-stigmatising and, being universal, they help strengthen social solidarity, reinforcing community and social cohesion.

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

Other simulation studies have found that in countries such as Namibia and South Africa a modest basic income as a monthly grant would be affordable, and at least one government committee in South Africa has recommended its

introduction.⁹ Cash grants were also proposed as a response to the Indian Ocean tsunami and for the aftermath of the invasion and occupation of Iraq. In the case of the post-tsunami recovery phase, the Swiss Agency for Development and Cooperation actually implemented such a scheme, with apparent success.

For many years, critics held sway in debates on cash transfers. Now conditional cash transfers are legitimized. But the flaws of all forms of targeting, selectivity and conditionality, as well as their unnecessary costs, are making more people question the need for them. What we can say is that only universalistic transfers would satisfy all the Policy Decision Principles enunciated earlier and that where they have been tried, including in some of the world's poorest countries, such transfers have proved an effective means to combat poverty and income insecurity while promoting livelihoods and work.

At the time of writing, a small pilot scheme had just been launched in a rural area of Namibia that will give all residents aged 0 to 60 a guaranteed basic income transfer each month for two years, along the lines of the social pension already received by those over 60.¹⁰ It is being carefully monitored and the outcomes will be carefully evaluated. The evidence should speak.

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⁹ See, for example, the papers in Standing and Samson (2004) and Taylor Committee (2002).

¹⁰ For details, see <http://www.bignam.org/page5.html>

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