Effects of Cash Transfers on Low-Income Households in Developing Countries: A Review of the Evidence*

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August 22, 2010

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1 Introduction

This note summarizes research on the impacts of cash transfers on low-income households in developing countries. It is organized into sections based on the category of outcome: for example, effects on children. We have not systematically distinguished between Conditional Cash Transfers (CCTs) and Unconditional Cash Transfers (UCTs) as our focus is primarily on outcomes that are not conditioned on (e.g. labor supply, savings & consumption patterns). Differences in the way conditional and unconditional transfers are saved or consumed are likely to be subtle and such nuances are beyond the scope of this survey. See Das et al. (2005) for a review of experiences with conditional transfers, and Baird et al. (2010) for an experimental comparison of conditional and unconditional transfers.

Though every effort was made to present an exhaustive survey, some studies have undoubtedly been (unintentionally) omitted. See Harvey (2005) for a further review in the context of emergency relief. See also Currie and Gahvari (2008), who review research on in-kind transfers and find little evidence that they can be rationalized on non-paternalistic grounds.

2 Effects on Children

A common finding is that cash transfers to women enhance the anthropometric status of young children living in the household. Duflo (2003) finds that pension payments to elderly South African women increase the weight-for-height and height-for-age of young girls in the household by 1.19 and 1.16 standard deviations, respectively. Similarly Agüero et al. (2007) find that South Africa's Child Support Grant, a cash transfer given to mothers, significantly boosts the height of young children with an estimated rate of financial return between 160% and 230%. Paxson and Schady (2007) find that Ecuador's "Bono de Desarollo Humano" transfer to poor mothers has positive effects on the physical, cognitive, and socio-emotional development of their children, with the strongest effects concentrated in the poorest households. Attanasio and Mesnard (2006) find that the "Familias en Accion" conditional cash transfer program in Colombia increased the share of household expenditure on children. Maluccio and Flores (2005) find that the "Red de Protecion Social" conditional cash transfer program in Nicaragua reduce child labor, reduced stunting, and increased height-for-age.

Some evidence on the specific mechanisms through which child health improves are provided by Cunha (2010), who finds that children in Mexican households that received cash transfers increased their intake of essential micro-nutrients including iron, zinc, and vitamin C, and that these increases are similar to the effects of distributing a basket of food items in-kind. He also finds that transfers lowered illness rates by 9%.

3 Effects on Saving & Investment

Estimated rates of saving and investment out of cash transfers are typically quite high, especially compared to private savings rates in the U.S., currently at around 5%. Duflo (2003) studies cash pensions paid to elderly men and women in South Africa. She estimates that 53% of transfers to men and 82% of transfers to women were saved, compared to 50% of non-pension income. Attanasio and Mesnard (2006) estimate that recipients of the "Familias en Accion" conditional cash transfer program in Colombia saved 50% of transfer. Rubalcava et al. (2004) estimate that recipients of the Progressa conditional cash transfer in Mexico save 50% of the transfers. Gertler et al. (2006) estimate that 12% of the Progressa transfers are invested in assets such as land and assets.

There is also some evidence on the rates of return that households obtain on these investments. Sadoulet et al. (2001) study transfers to Mexican farmers affected by NAFTA. They find that mean household incomes increase by a factor of between 1.5 and 2.6 times the transfer received, indicating that the recipients were able to invest the money in high-return projects. Gertler et al. (2006) estimate an average rate of return of 17%, with the net result that total household consumption after 5 years of receiving transfers is 34% higher. de Mel et al. (2008) estimate that 100% of cash grants distributed to micro-entrepreneurs in Sri Lanka were invested in their businesses. (Interestingly, in-kind transfers of the same size were estimated to increase investment by only 48%-65%). The estimated annual rate of return on these investments was roughly 60%.

4 Effects on Consumption of "Temptation" Goods

Studies that measured consumption of temptation goods have either found no increase or an increase proportional to increases in other kinds of spending. Evaluating a pilot cash transfer project run by Concern Kenya in the Kerio Valley using M-PESA, Brewin (2008) reports that "no incidents of misuse of the transfer were discovered or reported during the fieldwork" (23). Slater and Mphale (2008) evaluate a cash transfer pilot in Lesotho and found that cash transfers did not significantly increase expenditure on alcohol or cigarettes. Humphries (2008) found no reports of Oxfam's pilot cash transfers in Viet Nam being spent on alcohol or gambling; one respondent told her "men only drink one glass of rice wine instead of two now" (26). Her interpretation is that poor households use alcohol as a means of coping with stress and depression, which are reduced by cash transfers. Attanasio and Mesnard (2006) evaluate “Familias en Accion”, a conditional cash transfer program in Colombia, and find no effect on consumption of tobacco, alchohol, or entertainment. Maluccio and Flores (2005) find no effects of Nicaragua’s “Red de Protecion Social” conditional cash transfers on alchohol or tobacco consumption. Rubalcava et al. (2004) estimate that Progressa conditional cash transfers in Mexico have marginally significant negative effect on the share of the household budget allocated to alchohol and tobacco, over a baseline expenditure share of 0.5%. Reviewing cash transfer projects run by Concern Worldwide and Oxfam following flooding in Western Zambia, Concern Worldwide (2007) found that less than 0.5% of the transfers were spent on “unproductive” uses (including alcohol and tobacco). Finally, Cunha (2010) finds that 1.8% of a cash transfer to Mexican households was spent on alcohol while tobacco consumption *decreased* by 0.8% of the transfer.

5 Effects on Labor Supply

Most studies have found no effect of cash transfers on the labor supply of adult household members. Skoufias and Maro (2008) find no effect for Mexico’s Progressa program; Maluccio and Flores (2005) find no effect for Nicaragua’s “Red de Protecion Social” conditional cash transfer scheme.

Several papers have debated the labor supply effects of an important pension scheme in South Africa Bertrand et al. (2003) use cross-sectional data and estimate that pension receipt substantially lowers the labor market participation of working-age adults in the household. Using the same data, Posel et al. (2006) show that while participation by resident adults is lower, adult women are significantly more likely to migrate out of the household in search of work. Ardington et al. (2009) use a new dataset that tracks households over time and keeps track of migrants and find a net positive effect of pensions on labor supply: “large cash transfers to the elderly lead to increased employment among prime-aged adults, which occurs primarily through labor migration. The pension’s impact is attributable to the increase in household resources it represents, which can be used to stake migrants until they become self-sufficient, and to the presence of pensioners who can care for small children, which allows prime-aged adults to look for work elsewhere.”

6 Effects on Inter- and Intra-Household Conflict

The main finding on inter-household conflict is that the method in which eligibility is decided is what determines whether tensions are provoked. Humphries (2008) found that Oxfam’s cash transfer pilot in Viet Nam did provoke tension because the process used to determine eligibility was a village-wide vote, which led to vote-trading and to anger towards people who voted against particular households. On the other hand, while evaluating Concern Kenya's cash transfer pilot, Brewin (2008) received anecdotal reports that tension between different tribes was reduced as families from different tribes met at common M-PESA distribution points to receive cash (30).

Turning to intra-household conflict, the most common finding is that conflict is driven by economic hardships and consequently that cash transfers tend to reduce conflict. Slater and Mphale (2008) evaluate a cash transfer pilot in Lesotho and found that transfers reduced gender conflicts and tension within households. As one respondent put it, "there is no peace in the family when there is no food to eat." Similarly Humphries (2008) evaluation of an Oxfam cash transfer pilot in Viet Nam reports that "some of the women interviewed during the WU focus group discussion mentioned how, as a result of the cash transfer and the increased financial security, that there had been less tension in the household. In general households said that financial insecurity brings great stress to the household and is therefore a major focus for disagreements within the household" (26). Concern Worldwide (2007) found no reported incidents of violence linked to cash transfers provided by Concern Worldwide and Oxfam in Western Zambia and a few incidences of divorce, including one case in which a woman who had received transfers became secure enough to divorce her husband. Paxson and Schady (2007) find no significant effects of Ecuador's "Bono de Desarollo Humano" transfer to poor mothers on their self-reported levels of stress or depression.

7 Differences by Gender of Recipient

Many cash transfer programs make transfers only to women and so do not yield evidence on how men and women spend money differently. Studies that do report effects separated by gender generally do find differences. Duflo (2003) finds that while transfers to grandmothers have a significant impact on the health status of granddaughters, transfers to grandfathers do not. She also finds that female recipients save a larger fraction of the transfer, though this difference is not statistically significant. Schady and Rosero (2007) find that cash payments to women significantly increase the proportion of household expenditures that go to food. Rubalcava et al. (2004) study the impact of Progressa in Mexico (which makes transfers to women) on household spending; they find that while transfers to single-parent households are spent like other income, transfers to two-parent households are spent disproportionately on children and on small livestock that are traditionally managed by women.

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