# A Debate Regarding In-Kind and Cash Transfer in Developing Countries with Reference to Egypt

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## Abstract

This paper reviews the theoretical and empirical literature related to the in-kind and cash transfers that are widely used as instruments of redistribution and social protection in developed and developing countries alike. In brief, this paper will review the literature regarding current discussions about social policy and poverty reduction, and will evaluate the feasibility of conducting cash transfers by undertaking a systematic assessment in order to provide insights into whether cash transfer programs can operate effectively in developing countries, especially in Egypt, and to suggest how developing country governments might structure such programs to make them more effective. The paper concludes that; (1) conditional cash transfer is a good policy for designing new social protection policy in the future for developing countries, especially in Egypt, but depend on setting of the preconditions; (2) the success of conditional transfer programs in Egypt depends on both the political will of governments to initiate them, and a broad political consensus to support them, so as to uphold efforts to fight poverty and underdevelopment,(3) Egyptian policy makers should firstly overcome the main barriers to implementing the conditional cash transfer scheme and set the main preconditions in order to ensure success.


## 1. Introduction

Policy interventions in developing countries are likely to affect all residents of the areas where they are implemented. Economists have long been concerned about the state's role in bringing about a just distribution of income. On the economic side, research has shown that the sensitivity in the response of poverty to growth is much lower in countries with higher inequality. Growth is seen as a necessary but insufficient condition to reducing poverty. Income redistribution also plays an important role[1]. Income inequality is generally seen to affect long-term economic growth, although there is no consensus on the direction of the effect. If income inequality affects growth positively, it is possible that the poverty-reducing impact of this growth offsets the direct adverse effect of inequality on welfare, and, therefore, could be a reason to tolerate relatively high inequality. On the other hand, if inequality affects growth negatively, then dealing with it immediately should be an important priority[2]. The fact that many governments choose to

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(1) Guillermo Perry [et al.], *Poverty Reduction and Growth: Virtuous and Vicious Circles* (Washington, DC: World Bank, 2006).

(2) Duo Qin [et al.], «How Much Does Investment Drive Economic Growth in China,» *Journal of Policy Modeling*, vol. 28 (2006).

conduct significant redistribution through in-kind rather than cash transfers is an enduring puzzle.

In virtually all countries, developed and developing, a significant amount of redistribution occurs in-kind. The fraction of GDP spent on these programs is remarkably similar across OECD countries. Moreover, this share is growing in many developing countries. Hence, it behoves us to try to understand why governments choose to redistribute in-kind, rather than in cash.

According to the *carte blanche* principle in economics, a consumer is (weakly) better off if he or she is given cash than if he or she is paid an in-kind transfer. As long as the consumer is rational, the ability to choose how to optimize his or her budget over all goods will allow him or her to attain a level of utility at least as high as or higher than when part of the budget is restricted to purchase only certain goods.

Economic theory suggests that the recipients of in-kind transfers would generally be at least as well off and often better off given the equivalent amount in cash. In-kind transfers constrain the behaviour of the recipients, while cash transfers do not. The traditional justification for in-kind transfers has been one of «paternalism». Paternalism has different formulations in the literature, but one useful example involves inter-dependent preferences. If members of society care about the situation of the poorest, then the unconstrained consumption choices of the poorest may at times imply negative externalities for those who care for them. Paternalistic arguments assume particular force when the intended recipient of a transfer program is a child but the transfer goes to parents. Parents may not take full account of the utility of their children when making decisions, or they may neglect to factor in externalities. For example, suboptimal spending on children's education may lead not only to poorer individual prospects, but also to slower future economic growth.

Still, many countries continue to provide general or more targeted subsidies for goods or services instead of providing households with cash. Some studies have suggested that administrative and informational demands may prevent a cash transfer program from operating effectively in developing countries. Capacity to administer a program may be especially weak in rural areas, thus excluding this option for a large part of developing country's poor population (refer to Subbarao et al.[3] for a comparative discussion of alternative safety net programs).

(3) Kalanidhi Subbarao [et al.], «Social Assistance and Poverty-Targeted Programs,» A Sourcebook prepared by: The Social Assistance Program Team, World Bank, Poverty and Social Policy Department (1996).

Literature shows that poverty is one of the most important problems in countries all over the world. In Egypt, the alleviation of poverty is one of the most important economic and social challenges for the Egyptian Government. One of the six critical objectives of the fifth Five-Year Plan for Egypt is to reduce poverty and to improve equity in the distribution of income for promoting economic growth.

In Egypt, there is a strong legal and societal foundation for social protection which is recognized in the Constitution, and the social security system is one of the most comprehensive in Africa and in the Arab region. In spite of this, there is a loss of real impact in meeting social protection needs. One explanation is the imperfect targeting which channels most government transfers to the non-poor.

Little research has been done to this day to evaluate the role of cash transfers in developing countries. The literature that is available touches upon many issues with respect to the implementation of safety nets in developing countries but does not give a systematic assessment of the possibilities and hurdles that are inherent to the introduction of a specific transfer scheme. Extensive literature exists regarding what exactly the goal of social protection should be in developing countries. Does it present a preventive, mitigating or coping strategy to deal with risks[4], should it protect the poor as well as the non-poor against shocks, tackle transient or chronic poverty[5], promote a general standard of living or deal with absolute deprivation[6]?

This paper primarily aims to evaluate the feasibility of cash transfers by conducting a systematic assessment of this scheme. The paper also documents the changes in this program over time in order to provide insights into whether cash transfer programs can operate effectively in developing countries, especially in Egypt, and to suggest how developing country governments might structure such programs to make them more effective.

The paper is organized as follows: Section 2 presents the various arguments in the literature regarding both cash and in-kind transfers, and why cash transfers may be desirable as part of the social protection system in developing countries (including Egypt). Section 3 discusses the main issues regarding safety net programs in Egypt. Section 4 discusses the feasibility and possible obstacles of having

(4) Robert Holzmann and Steen Jorgensen, *Social Risk Management: A New Conceptual Framework for Social Protection and Beyond* (Washington, DC: World Bank, 2002).

(5) David Hulme and Andrew Shepherd, «Can Social Protection Tackle Chronic Poverty?,» *European Journal of Development Research*, vol. 17, no. 1 (2005).

(6) James W. Smith and Kalanidhi Subbarao, «What Role for Safety Net Transfers in Very Low Income Countries?,» Social Protection Discussion Paper Series, 0301, World Bank (2003).

such cash transfer programs and Section 5 concludes the paper, offering recommendations towards the introduction of cash transfers.

## 2. Literature Review

In-kind and cash transfer schemes are first described theoretically in Gahvari and Mattos[7], although such redistributive programs have been implemented in many developing economies. Under these packages, named 'Conditional Cash Transfers' (CCTs), recipients are allowed to receive a monthly stipend in addition to accessing the publicly provided goods such as school or health centres.

Naturally, there is a long-standing debate about the relative merits of each alternative form of social assistance[8]. Transfers in-kind occur when the goods, subject to transfer, are provided to a selected group of people based on a publicly verifiable characteristic such as income[9]. If we take the example of education, if it is provided for free, then the household benefit is saving the money that would have otherwise been spent on school tuition. Transfers in-kind, however, do constrain the recipient's behaviour, while cash transfers on the other hand, do not. Despite some danger of inflationary pressure, cash transfers are likely to stimulate local food markets, whereas food transfers may damage them[10]. The main argument defending in-kind transfers is that of «paternalism». In the case of education, for example, parents may not always take full account of the best interests of their children when making decisions. Therefore, the choice of sending the child to school should be simplified, which is done so when schooling is provided for free. When cash transfers are made, the transfer is naturally made to the parents/guardians, who may not always use it for the purpose the government intended (e.g. buying durables instead of sending the child to school.) Suboptimal spending on children's education may lead not only to poorer individual prospects, but also to slower future economic growth. Yet, cash transfers are increasingly becoming the preferred mode of redistribution, particularly in developing countries. For example, the majority of the recent social assistance programs in Latin America provide

(7) Firouz Gahvari and Enlinson Mattos, «Conditional Cash Transfer, Public Provision of Private Goods and Income Redistribution,» *American Economic Review*, vol. 97 (2007), pp. 492-501.

(8) Janet Currie and Firouz Gahvari, «Transfers in Cash and In -Kind: Theory Meets the Data,» *Journal of Economic Literature*, vol. 46, no. 2 (2008), pp. 333-383.

(9) Janet Currie and Firouz Gahvari, «Transfers in Cash and In -Kind: Theory Meets the Data,» National Bureau of Economic Research, Working paper series, 13557 (April 2007).

(10) Paul Harvey [et al.], «Cash Transfers - Mere Gadaffi Syndrome or Serious Potential for Rural Rehabilitation and Development?,» *Natural Resource Perspectives*, no. 97 (2005).

conditional income transfers in the form of cash on the grounds that cash transfers are administratively more efficient than in-kind transfers in terms of the cost incurred per unit value of the benefit[11].

Cash transfers, however, may be subject to leakages in the sense that only part of the public assistance (i.e. cash) may be used for the consumption of the commodity subsidized, with the remainder of the benefit being directed towards the consumption of less desirable or less nutritious commodities such as alcohol and tobacco.

Another key factor in this debate is whether the significance of the effect of an in-kind transfer is different from the significance of the effect of a cash transfer. Regarding the impacts on consumption, the literature indicates that small food transfers result in higher food consumption than cash transfers[12]. Moreover, Hoddinott and Islam[13] and Jacoby[14] show that households are more likely to stick (the so-called flypaper effect) to consumption patterns and intra - household distributions that have a positive impact on the nutrition of children if they have access to small transfers of good food.

A key reason to provide cash instead of in-kind transfer is that cash allows households flexibility in deciding spending needs. This can have positive results for children through its impact on nutrition, health and education. Cash transfer can also help generate local market activity and restart livelihoods. Cash is a more empowering and dignified form of support than in-kind transfer, and under appropriate conditions, it can be more cost-effective.

An emerging body of evidence demonstrates that cash is the most effective way to deliver social transfers[15]. Cash is usually less expensive to transfer than

(11) Laura B. Rawlings and Gloria M. Rubio, «Evaluating the Impact of Conditional Cash Transfer Programs,» *World Bank Research Observer*, vol. 20, no. 1 (2005), pp. 29-55.

(12) Carlo Del Ninno and Paul A. Dorosh, «Impacts of In-Kind Transfers on Household Food Consumption: Evidence from Targeted Food Programs in Bangladesh,» *Journal of Development Studies*, vol. 40, no. 1 (2003), pp. 48-78, and Thomas M. Fraker, *The Effects of Food Stamps on Food Consumption: A Review of the Literature* (Alexandria, VA: Food and Nutrition Services, 1990).

(13) John Hoddinott and Mahnaz Islam, *Evidence of Intra-Household Flypaper Effects from a Nutrition Intervention in Rural Guatemala* (Washington, DC: International Food Policy Research Institute, 2007).

(14) Hanan G. Jacoby, «Is There an Intra house hold «Flypaper Effect»?: Evidence from a School Feeding Programme,» *Economic Journal*, vol. 112, no. 476 (2002), pp. 196-221.

(15) Michael Samson, Kenneth MacQuene and Ingrid Van Niekerk, *Designing and Implementing: Social Transfer Programs* (Cape Town: EPRI Press, 2006), and Paul Harvey, «Cash-based Responses in Emergencies,» *Humanitarian Policy Group* (HPG) (London) (24 January 2007).

physical commodities, and programme designers can take advantage of electronic transactions that reduce both costs and opportunities for fraud. Often physical control over food is more expensive and more difficult to audit, so fraud and leakage problems may tend to be greater. The multiple levels of physical transfer required for food distribution increase the opportunities for misappropriation. Innovations in cash transfer delivery systems are creating more developmental opportunities for participants in social transfer programs, expanding access to financial services, communications and more productive livelihoods[16].

On the other hand, conditional cash transfer programs have been successfully implemented on a large scale in several middle-income countries such as Brazil, Chile, Colombia, Ecuador, Jamaica, Mexico, South Africa, and Turkey. In these countries, CCTs often began as programs for poor, rural and indigenous families with young children but have expanded to include urban households (Brazil, Mexico) or hard-to-reach groups such as the internally displaced (Colombia) or disabled people (Jamaica), as well as an expanded range of sub-programs such as secondary school completion incentives (Mexico), adult education (Brazil), psychosocial assistance (Chile), micro-credit, and housing (Brazil). Finally, some low income countries such as Bangladesh, Burkina Faso, Cambodia, Kenya, Lesotho, Mongolia, Nicaragua, Honduras and Pakistan are experimenting with the approach, often on a smaller scale, while others, especially in Africa, are considering its adoption[17]. So, CCTs are quickly becoming central instruments in many countries' poverty reduction agendas.

## 3. Social policy in Egypt.

A key issue for many countries, and even for international organizations including The World Bank and The United Nations, is how to fight poverty. In many countries of the world, millions of people are hungry, lacking shelter and clothing, are sick and uncared for, are illiterate and not educated. These all reduce the efficiency and productivity of labor, and hence decrease income. In addition, being in a geographical region in which there are poor countries is, by itself, a factor of poverty. There is, in fact, a poverty trap in such regions. That is, *being poor*

(16) David Porteous, «The Mzansi Bank Account Initiative In South Africa: Final Report,» FinMark Trust (Johanessburg) (2009), <http://www.finmark.org.za/documents/R_Mzansi_BFA.pdf>.

(17) Stephen Devereux [et al.], «Making Cash Count: Lessons from Cash Transfer Schemes in East and Southern Africa for Supporting the Most Vulnerable Children and Households,» Report for the United Nations Children's Fund, London and Brighton: Save the Children, Help Age International, and Institute of Development Studies, 2005.

and *being in a poor region* are factors which lead to longer and deeper poverty.

With most Egyptians living on an income of less than $2 per day, a decrease in growth can have social repercussions. Poverty continues to be a major challenge, with one out of every five Egyptians living in poverty. About 13.6 million people had a consumption expenditure below the poverty line, with an average annual expenditure of LE 1,438 per capita in 2004. While poverty is widespread throughout the country, it affects some groups more than others. About three-quarters of the poor live in rural areas, with 55 percent living in rural Upper Egypt[18]. A majority of the poor work in agriculture and construction. As in other countries, the risk of poverty is reduced with higher levels of educational attainment of the household head. Moreover, the nature of poverty in Egypt is that while many people live below the poverty line, they do not live far below it.

In fact, social protection spending in Egypt is high but poorly targeted and falls short of fulfilling its primary function of alleviating poverty. On a general government level, Egypt spent about 12 percent of its GDP during 2007 on subsidies, grants, and social benefits. More than half of this spending consisted of subsidies for selected energy and food products. These programs are poorly targeted, result in substantial leakage of resources to high-income households, and delivering the assistance incurs high costs[19]. For instance, the World Bank estimated that the lowest quintile of the income distribution receives just 16 percent of the resources allocated to the social safety net in Egypt compared to 28 percent consumed by the highest income quintile[20].

Overall, poverty has continued to rise despite higher spending on the social safety net. Almost 45 percent of the population subsists on less than US$2 per day in purchasing-power-parity (PPP) adjusted terms compared to less than 10 percent of the population in Jordan. Similarly, the prevalence of malnutrition of children is more than double of that in Jordan, Tunisia, and Turkey despite the longstanding provision of in-kind food subsidies in Egypt.

(18) «Arab Republic of Egypt: A Poverty Assessment Update,» World Bank, Report no. 39885 (2007).

(19) The World Bank report found that the cost of delivering one dollar of resources to the poor costs almost US$500 through gasoline subsidies, US$30 for natural gas subsidies, US$46 for high-quality bread subsidies, and about US$5.50 in other in-kind food subsidies.
See: «Egypt: Toward a More Effective Social Policy: Subsidies and Social Safety Net,» World Bank (2005c), < http://www.mof.gov.eg/english > .

(20) Energy Subsidies are the Most Regressive of the in-Kind Subsidies. See: Ibid.

Spending in social protection in Egypt is not efficient for reducing inequality and poverty which may be due to two reasons:

**Firstly**, subsidies do not always fully reach the target populations. In an evaluation of food subsidy programs in India, for instance, it has been estimated that for every rupee's worth of food transferred to the poor, the government spends around Rp 3.65, implying a leakage of about 70 per cent. Other calculations show that even in the most efficient systems, leakage amounts to at least one third of total transfers[21]. In Egypt, the current bread subsidy is able to provide benefits to most of the poor (75 percent of those in the bottom quintile), particularly the urban poor (90 percent coverage), helping them maintain a minimum level of consumption, albeit the subsidy is an expensive way to improve the food security and nutrition of the poor. The cost of transferring LE 1.00 to general consumers of subsidized bread is LE 1.16, but because 61 percent of the benefit from the subsidized bread goes to the non-needy, the cost of reaching a needy household increases to LE 2.98[22]. The current system does not target the poor well. Studies find that even though the poor consume more subsidized bread than the well-off and that flour consumption increases slightly with income[23]; the benefits are about equally distributed across income groups.

There is a pro-rich bias in the case of energy subsidies since higher-income households generally consume larger quantities of petroleum products and electricity. In Mexico and Ecuador, for example, the top 10 per cent of households account for more than 30 per cent of domestic electricity consumption. In Venezuela, around 38 per cent of electricity subsidies accrue to the richest 20 percent, whereas a mere 16 percent is received by the bottom third. And, at more than US $100 million per annum, energy subsidies in Bangladesh exceed the government's expenditure on health care. The benefits of the subsidy go to those 16 percent of households that have electricity[24].

**Secondly**, subsidies have an effect on the performance of the economy. The

(21) Harold Alderman and Kathy Lindert, «The Potential and Limitations of Self-Targeted Food Subsidies,» *World Bank Observer*, vol. 13, no. 2 (August 1998), pp. 213-229.

(22) Margaret Grosh [et al.], «For Protection and Promotion, The Design and Implementation of Effective Safety Nets,» World Bank (2008).

(23) Richard Adams, «The Political Economy of the Food Subsidy System in Bangladesh,» *Journal of Development Studies*, vol. 35, no. 1 (1998), pp. 66-88, and Sonia Ali and Richard Adams, Jr., «The Egyptian Food Subsidy System: Operation and Effects on Income Distribution,» *World Development*, vol. 24 (November 1996), pp. 1777-1791.

(24) Nicholas Owen, «Subsidies Take a Toll on Nepal's Economy,» *International Herald Tribune*, 30/6/2008.

costs arising from a subsidy are the benefits lost as a result of the same resources not being used in other ways. Additional costs occur when the subsidy creates negative incentives to consumers or producers. This is likely to be the case with energy and fuel subsidies where increased consumption has harmful environmental effects.

Based on these facts, the improvement of the social situation in Egypt requires the adoption of new trends in social policies based on principles that considers social policy as a corner stone of economic policy and which thus ensures their success. In recent years, direct cash transfers have emerged as an alternative policy tool for combating poverty. But before analyzing whether the cash transfer is good social policy in Egypt, we must determine what do we need from a social policy.

A social protection policy should encompass factors such as:

- Reduction of poverty, by providing redistributive transfers to the poor and vulnerable, which directly raises their real income and consumption, thus, providing an immediate impact on poverty and inequality;
- Acting as an investment, which is a key instrument for poverty reduction and growth enhancement - the transfers allow for asset creation (public works, school feeding programs), allow households to remedy credit market failures and take up investment opportunities which they would otherwise miss; the transfers have income and employment multiplier effects which can contribute positively to growth in the medium and long term;
- Allowing governments to make choices that support efficiency and growth - in terms of equity, allowing for measures that redress power differentials between groups and people so as to encourage inclusive economic growth; and
- Acting as an insurance element, thus protecting the poor and vulnerable from falling deeper into poverty when facing an economic shock; the transfers assist households in managing risk better, which gives them the chance to invest and thereby improve their livelihoods[25].

## 4. Cash transfer as an alternative policy

Cash transfer programs include the provision of assistance in the form of cash and other instruments like cash that can be used to transfer resources to the

(25) «For Protection and Promotion: The Design and Implementation of Effective Safety Nets,» World Bank (2008), and Emma Hooper, «Social Protection and Human Security,» paper presented at: The Human Resource Development Network Conference, in Islamabad, Pakistan on 25 November 2006.

poor or to those who, in the absence of the transfer, face a probable risk of falling into poverty.

Increasing evidence suggests that social cash transfers promote pro-poor growth. Policymakers do not necessarily face a trade-off by pitting social cash transfers against growth objectives - but rather have the opportunity to engineer a virtuous circle of increased equity and growth promotion and supporting further improvements in equity.

Evaluation studies show that cash transfer programs can be effective in reaching the intended poor households. Evidence from Eastern Europe shows that 50 to 80 percent of the benefits of needs-based transfers go to the poorest 40 percent of households[26]. Preliminary studies of South Africa's child support grant indicate that it appears to be well-targeted at children in poorer households[27]. Family allowance programs are usually slightly better than distribution neutral, because households with children, especially those with large numbers of children, tend to have a higher than average incidence of poverty. In the case of food stamp programs, between 50 and 80 percent of benefits go to the poorest 40 percent of households. For example, in Jamaica, the poorest 20 percent got 31 percent of the benefits; in Sri Lanka, the poorest 20 percent got 40 percent of the benefits[28].

The results of impact evaluations of cash transfer programs have been broadly positive for the families of beneficiaries, and have not confirmed many of the negative externalities often feared. Evidence from research on unconditional cash transfer programs in developing countries shows a positive impact on consumption and on the human capital of children. In Ethiopia, Lesotho, Mozambique, and Zambia, children benefit from transfers even though they are not the programs' primary targets[29].

(26) Emil Tesliuc, «Program Implementation Matters for Targeting Performance: Evidence and Lessons from Eastern and Central Europe,» World Bank (2005).

(27) Armando Barrientos and Jocelyn DeJong, «Child Poverty and Cash Transfers,» Childhood Poverty Research and Policy Centre, Report; 4 (2004); Anne Case, Victoria Hosegood and Frances Lund, «The Reach of the South African Child Support Grant: Evidence from Kwa-Zulu Natal,» *Development Southern Africa*, vol. 22, no. 4 (2005), pp. 467-482, and Michael Samson [et al.], «Thee Social and Economic Impact of South Africa's Social Security System,» Economic Policy Research Institute (Cape Town) (30 September 2004).

(28) Tarcisio Castašeda, *The Design: Implementation and Impact of Food Stamp Programs in Developing Countries* (Washington, DC: World Bank, 1998), and David Coady, Margaret Grosh and John Hoddinott, «Targeting Outcomes, Redux,» International Food Policy Research Institute (Food Consumption and Nutrition Division), Discussion Paper; 144 (2003).

(29) Devereux [et al.], «Making Cash Count: Lessons from Cash Transfer Schemes in East and Southern Africa for Supporting the Most Vulnerable Children and Households».

In Bolivia, Martinez[30] found positive effects of the Bono Solidario program on household consumption and children's human capital. A significant fraction of this increase in household consumption is derived from the consumption of home-produced agricultural products such as meats and vegetables resulting from the transfers being invested in productive activities. Child and family allowances in transition countries have also proved to be effective in ameliorating the impact of structural change on households with children and have been reformed to act as safety nets[31].

According to DFID[32], regular and predictable grants provided to households or individuals, can «help growth reach the very poor and, where growth is weak, have a direct impact on poverty». Cash transfers are likely to increase the household income of beneficiaries; the extent of the increase depends on the size of the direct and indirect costs involved e.g. costs of travelling to the post office/bank to receive the transfer. In a World Bank Impact Evaluation[33] paper, it was believed that the income of non-eligible households could be adversely affected, whereby such households might believe that lower incomes would increase their chances of becoming eligible for the program.

Possible negative effects of cash transfers include the disincentive to work; the misuse of cash resources; the change in the number of desired children; and the consumption of non-nutritious food commodities, for example, alcohol and tobacco.

Cash transfers are demand-side policy interventions - providing the households with the funds to, continuing with the example of education, create the demand to send their children to school. Cash transfers will remain ineffective if they are not simultaneously met with supply-side policies[34], such as capacity-building, increased teacher training and the provision of educational materials.

(30) Sebastian Martinez, *Pensions, Poverty and Household Investments in Bolivia,* Draft. (Berkeley, CA: University of California at Berkeley, 2005).

(31) Barrientos and DeJong, «Child Poverty and Cash Transfers».

(32) «Social Transfers and Chronic Poverty: Emerging Evidence and the Challenge Ahead,» Department for International Development(DFID), DFID Practice Paper (2005).

(33) World Bank, «Country Program Profiles,» Report prepared for the Third International Conference on Conditional Cash Transfers, Istanbul, 26-30 June 2006.

(34) Paul Gertler, «The Impact of Conditional Cash Transfers on Human Development Outcomes,» Southern African Regional Poverty Network (2005); «Child Benefits and Poverty Reduction: Evidence from Mongolia's Child Money Programme,» UNICEF (2007); Barrientos and DeJong, «Child Poverty and Cash Transfers,» and «For Protection and Promotion: The Design and Implementation of Effective Safety Nets».

According to the previous discussion, we can conclude that in a world of free-choice and well-functioning markets, unconditional cash transfers are more appropriate, since the poor know best what they need, and in what form[35]. Cash transfers benefit the entire household, and not just the intended beneficiary. The spending of cash transfers generates a range of income, employment and trade multipliers, which stimulate local economies and promote market development. Thus, the fact that cash transfers are the main type of safety net in OECD countries-potentially available, in one form or another, to more than 80 percent of the population of the industrial nations according to the International Labour Office (2000)-is not surprising. Yet far fewer cash transfer programs are in effect in developing countries, and those that do exist tend to grant only small benefits mostly to those who cannot work and are equivalent to less than 2 percent of GDP.

Fewer social protection programs are based on cash transfers in developing countries for a number of reasons. **First**, government cash resources in poor developing nations are limited, as they are more likely to receive resources in the form of food aid. **Second**, mobilizing support for pure cash transfers can be difficult because of the lack of experience with targeting. **Finally**, governments and donors may give priority to programs that can relieve structural constraints to growth rather than programs to augment consumer demand or transfer income.

According to this analysis, it seems that cash transfers in a developing country are better targeted (conditional) rather than being universal (unconditional) because serving everybody is financially not feasible and, furthermore, undesirable due to the creation of labour market disincentives. Hence, it is advantageous to award benefits to a specific group within the population so as to serve the short-term poverty relief and long-run poverty reduction.

*** Conditional cash transfer in developing countries**

In principle, a distinction can be made between unconditional and conditional cash transfers. Unconditional cash transfers are, in essence, a form of basic social security designed to support poor families and the elderly. Conditional cash transfers, on the other hand, contain a reciprocal element: the transfer occurs only if the poor engage in labour activities or, as is the case in cash-for-human-development schemes, the children of poor families are enrolled in schools. In addition, cash-for-human-development programs often require household members to participate in health education courses or similar activities. There is thus an intrinsic

(35) Hooper, «Social Protection and Human Security».

paternalistic element coupled with the underlying premise that an existing poverty trap can be overcome by investment in human capital. In the past few years, around 15 developing countries have implemented such cash-for-human-development programs, mainly on a regional basis[36].

A majority of researchers suggest that conditional cash transfer should have a greater impact than an unconditional program. Even though a transfer alone will raise income and service use to some degree, economic theory predicts that a condition may raise service use further, because it changes the «price» of using the service. Indeed, most of the available evidence shows that conditions do increase service use significantly more than an equivalent unconditional transfer (de Brauw and Hoddinott, for Mexico; Schady and Araujo, for Ecuador)[37], as do the results of simulations[38]. Controlled experiments that directly compare conditional and unconditional transfers of identical size for similar populations are currently being conducted and should yield further evidence on the magnitude of expected effects.

In practice, Mexico's Oportunidades program for instance, relies on a central program to reach the poorest; the Oportunidades program provides cash transfers conditional on school and health clinic attendance. The simulated impact from the Oportunidades intervention showed a 10 percent reduction in the poverty headcount ratio[39]. At the end of 2005, Oportunidades had covered 24 million individuals (5 million households)-roughly a quarter of the total population or 70 percent of the rural population[40].

China relies on an effective local program; the wu bao (five guarantees) programme comprises a minimum provision of food, health care, shelter and clothing

(36) Grosh [et al.], «For Protection and Promotion: The Design and Implementation of Effective Safety Nets».

(37) Alan De Brauw and John Hoddinott, «Must Conditional Cash Transfer Programs Be Conditioned to Be Effective? The Impact of Conditioning Transfers on School Enrollment in Mexico,» International Food Policy Research Institute, Discussion Paper; 00757 (2008), and Norbert R. Schady and Maria Caridad Araujo, «Cash, Conditions, School Enrollment, and Child Work: Evidence from a Randomized Experiment in Ecuador,» World Bank, Policy Research Working Paper 3930 (2006).

(38) François Bourguignon, Francisco Ferreira and Phillippe Leite, «Conditional Cash Transfers, Schooling, and Child Labor: Micro-Simulation Brazil's Bolsa Escola Program,» *World Bank Economic Review*, vol. 17, no. 2 (2003), pp. 229-254.

(39) «Heads of Household Transition Project: Project Appraisal Document,» World Bank, Report 32463-AR (2006).

(40) Santiago Levy, «Progress Against Poverty: Sustaining Mexico's Progresa-Oportunidades Program,» Brookings Institution Press (2006).

and funeral costs for all citizens, and covers around 6 percent of the rural population - supporting the poorest of the poor[41].

Recent ILO micro-simulations on Senegal and Tanzania show that modest old-age pensions and child benefits could reduce extreme poverty by 35 to 40 per cent[42].

In the same manner, conditional cash transfer is good policy for designing new social protection policy in the future because administrative costs are often lower than subsidy payments and, if targeted correctly, transfers can bridge the trade-off between equity and efficiency since they redistribute income to the poor without distorting market prices. In addition, the money paid to the poor has a multiplier effect on the rest of the economy. Moreover, related conditionality enhances investment in human capital.

According to these results, conditional cash transfer is motivated by three policy environment features: the objective of reducing poverty or simply, increasing social welfare; the constraints of a fixed program budget; and the trade-off between the number of beneficiaries and the level of transfers[43]. Targeting or «tagging» can be a controversial topic, as designing a program destined for a certain eligible group within a wider group of poor people will inevitably exclude other households which consider themselves equally needy.

To achieve results as successful as those of the well-known first-generation programs, new programs will have to achieve the similar levels of target efficiency, adopt reliable/payment systems, require the right type of conditions, and establish effective program monitoring and management systems. The detailed implementation design will, however, have to be specific to each country, and a number of pilots are under way in low-income countries that may soon yield some helpful lessons on how best to adapt programs. In order for Conditional Cash Transfer programs to be successful, there also need to be a number of preconditions set in place:

(41) E. Ahmad, Paper presented at: Conference in Beijing in October 2007, on «Reaching the Poorest» Organized by the Chinese Leading Group on Poverty Reduction of the State Council and the International Food Policy Research Institute (2007).

(42) Franziska Gassman and Christina Behrendt, «Cash Benefits in Low-income Countries: Simulating the Effects on Poverty Reduction for Senegal and Tanzania,» Social Security Department International Labour Office (2006).

(43) «Selections from the Study: The Distribution of Child Poverty in the Developing World,» UNICEF (2003).

- Administrative and management capacity;
- Adequate financing;
- Political commitment;
- Transparent targeting criteria;
- Effect monitoring and evaluation system.

CCT programs, to be successful, will require the existence of a basic infrastructure of health and education facilities. If the program seeks to improve outcomes in health and education, demand must be met by adequate supply. CCT programs will not be effective in breaking the intergenerational transmission of poverty if the quality of health clinics and schools is inadequate, if no jobs or adequate livelihoods are available.

In addition, there needs to be a guarantee of sustained financing. In OECD countries, cash-based social assistance programs are often the principal component of social safety nets, and make up on average 8 percent of GDP, where more than 80 percent of the population is covered by one or more forms of a cash transfer program. Very few developing country governments on the other hand, allocate more than 1 percent of GDP to cash based social assistance programs, covering less than 10 percent of the workforce in Africa and Asia. Naturally, a country may not always be able to afford the safety net it wishes for its poverty stricken and vulnerable population, but this idea must be contrasted with evidence of redistributions of income to the non-poor. An example of such redistribution is with energy subsidies such as in Egypt, where 8 percent of its GDP was spent on several energy subsidies in 2004[44], and in Indonesia which spent up to 4 percent of its GDP between 2001 and 2005 on fuel subsidies[45].

With regard to political commitment, politicians have to be committed to provide the funds as well as administrative and executive capacity not only in the short run but over a longer period of time, for example, longer than one political term. Logically, if this commitment is not existent, the introduction of the transfer scheme will be unsuccessful. Most political leaders in democracies are on an election cycle and are more inclined to support programs that give a short term return. Oportunidades of Mexico, The Programme of Advancement through Health and

(44) Tesliuc, «Program Implementation Matters for Targeting Performance: Evidence and Lessons from Eastern and Central Europe».

(45) «Arab Republic of Egypt: A Poverty Assessment Update».

Education (PATH) of Jamaica and Familias en Accion of Colombia have all continued across changes in government, which is quite a rare development. In Mozambique, for example, strong political support for the GAPVU urban cash transfer scheme was present at its inception, due to a rationing system that had failed and a strong awareness that the issue of urban poverty needed to be tackled. Hence, if a government expresses its commitment to the goal of conditional cash transfers and recognizes the positive effects, a perfect democracy is not a necessary condition. Nevertheless, political support in the long run is a pre-condition for the introduction of conditional cash transfer programs.

The selection of conditions and the objectives to be achieved need to take into account the specific human capital development shortcomings to be addressed, whether primary or secondary school enrolment, primary health care utilization, or some other aspect. Conditionality can be a controversial topic, as designing a program destined for a certain eligible group within a wider group of poor people will inevitably exclude other households which are equally needy. Most conditional cash transfer programs use a combination of targeting methods to select their beneficiaries: areas of concentrated poverty are selected using geographic targeting; poor households are then selected using mainly proxy means tests (Brazil Bolsa Familia uses income test), and sometimes community targeting. If targeting is not performed well, subsequent programs will suffer from either errors of inclusion, i.e. payments will be made to people outside the target population, or errors of exclusion, i.e. some members of the target population will not receive the benefits. Also, the delivery mechanism should be designed in such a way that it is affordable, safe, reliable and accessible to all beneficiaries[46].

Finally, in order to correctly identify beneficiaries, a country needs the institutional facilities to monitor and enforce the conditions associated with the program. This requires a strong regulatory, institutional framework so as to ensure good governance in these schemes and that there are clear and severe penalties against persons engaging in illicit activities (such as corruption). The program must also ensure that former beneficiaries do not fall back into poverty once they become ineligible to participate.

The main question that now arises is: is it reasonable for Egypt to directly apply the conditional cash transfer as a social policy for reducing poverty and promoting economic growth?

(46) Grosh [et al.], «For Protection and Promotion: The Design and Implementation of Effective Safety Nets».

As can be seen from the discussion above, there are some preconditions that should be set-up before switching to conditional cash transfer. Four crucial concerns need to be properly addressed if these schemes are to be consistently fruitful and beneficial to the poor.

**First**, these schemes need to be carefully structured with clear unambiguous criteria and rules for establishing the eligibility of beneficiaries, the attainment of exit requirements for those no longer eligible, and the fulfillment of the conditional undertakings attached to the schemes. This places a strong premium on professional and competent staff, best-practice socio-economic databases, and capability in social engineering.

**Second**, the schemes have to be independently monitored, reviewed and verified (MRV). This requires a strong regulatory/*oversight* institutional framework so as to ensure good governance in these schemes and that there are clear and severe penalties against persons engaged in illicit activities.

**Third**, the single biggest threat to these schemes is corruption. This can come from two sources. One is from those individuals or households who try to «outsmart» the arrangements. Usually this is attempted through falsifying the required socio-economic information and concealment of sources of income and access to assets. The other type of corruption is usually politically-inspired. This can take many forms, but the most typical are nepotism, political cronyism and «pork-barreling»[47].

**Finally**, a major difficulty facing these schemes is the sustainability of their financing. In developing countries the two main sources of funding are the international community and national governments.

In Egypt and most developing countries, the international community has not committed to long-term, indefinite funding. When the resources they offer to these schemes come to an end, the schemes are usually terminated. When national governments finance them, they too often see the schemes as bringing them political benefits so that their duration is limited to the political/election cycle. These two considerations have led to some worthwhile schemes being terminated. Because of this paper argues very strongly that the success of conditional transfer programs depends on both the political will of governments to initiate them, and a broad political consensus to support them, so as to uphold efforts to fight poverty and underdevelopment.

(47) Ibid.

According to this analysis, in recent years the negative impacts of food and energy subsidies on government budgets have become very noticeable, especially at times of high oil and food prices. Moreover, as these subsidies distort market prices, are often poorly targeted and frequently have a pro-rich bias, they are an inappropriate policy instrument for assisting the poor. A more efficient way to reduce poverty is the conditional cash transfer program. If implemented correctly, it helps to break the vicious cycle of poverty, but before applying a CCT program, Egyptian policy makers should firstly overcome the main barriers to implementing the scheme and set the main preconditions in order to ensure success.

## 5. Concluding Remarks

Over the last decade there has been a growing recognition of the important role that social safety nets can play in any comprehensive poverty alleviation strategy. However, these are often perceived not to be very cost effective, reflecting both inequitable targeting to poor households and also the fact that they have often involved substantial economic inefficiency. The main purpose of this paper has been to highlight, review and analyze the relative merits of in-kind and cash transfer schemes form of social assistance. More specifically, the purpose has been to evaluate the feasibility of cash transfers by conducting a systematic assessment to provide insights into whether cash transfer programs can operate effectively in developing countries, especially in Egypt, and to suggest how developing-country governments might structure such programs to make them more effective.

Based on the theoretical and empirical literature review conducted in this study, we can draw three robust conclusions:

*The First*: Conditional cash transfer is good policy for designing new social protection policy in the future because administrative costs are often lower than subsidy payments and, if targeted correctly, transfers can bridge the trade-off between equity and efficiency since they redistribute income to the poor without distorting market prices. In addition, the money paid to the poor has a multiplier effect on the rest of the economy. Moreover, related conditionality enhances investment in human capital.

*The Second:* There are some preconditions that should be set-up before switching to conditional cash transfer.

**First**, these schemes need to be carefully structured with clear unambiguous criteria and rules for establishing the eligibility of beneficiaries, the attainment of exit requirements for those no longer eligible, and the fulfillment of the conditional undertakings attached to the schemes.

**Second**, the schemes have to be independently monitored, reviewed and verified (MRV).

**Third**, politicians have to be committed to provide the funds as well as administrative and executive capacity not only in the short run but over a longer period of time.

**Finally**, this scheme requires a strong regulatory, institutional framework so as to ensure good governance in these schemes and that there are clear and severe penalties against persons engaging in illicit activities (such as corruption).

*The Third*: When looking specifically at the Egypt case, in recent years the negative impacts of food and energy subsidies on government budgets have become very noticeable, especially at times of high oil and food prices. Moreover, as these subsidies distort market prices, are often poorly targeted and frequently have a pro-rich bias, they are an inappropriate policy instrument for assisting the poor. A more efficient way to reduce poverty is the conditional cash transfer program. If implemented correctly, it helps to break the vicious cycle of poverty, but before applying a CCT program, Egyptian policy makers should firstly overcome the chief barriers to implementing the scheme and set the main preconditions in order to ensure success.