Addressing the Myths:
Do social protection programs lead to misuse and dependency

KEY MESSAGES

- A common misunderstanding is that cash transfers are misused and lead beneficiaries to become dependent on "handouts".
- The vast majority of studies, from a range of contexts, point to the contrary indicating that transfers do not discourage work and that they are typically put to productive use.
- Evidence shows that transfers are not spent on alcohol and tobacco. In some cases the transfers actually reduce the spending on these goods.
- Evidence consistently demonstrates that rather than encourage dependency, transfers improve labour market participation and create opportunities for beneficiaries to become more self-sufficient by increasing productive investments.

THE CLAIM: CASH TRANSFERS ARE MISUSED AND FOSTER DEPENDENCY

Currently, one billion people in developing countries participate in at least one social assistance program that provides support to low income individuals and households.[1] These programmes are proven to have positive impacts on a range of outcomes from reducing food insecurity, poverty and vulnerability to specific child related outcomes such as schooling, health and nutrition among many others.

However, despite the proliferation of these programs across the world, they are often criticized on the grounds that they lead to participants becoming dependent on the programmes without providing incentives to work or finding work. An associated assumption is that if poor people are given social assistance – particularly cash transfers – they will 'waste' it on demeritorious goods.

While in any large programme there may be individual cases leading to anecdotal examples to support these concerns, it's important to view them in light of the overall empirical evidence of the programmes. This policy brief draws on existing evidence to analyse these concerns about social assistance and its propensity to induce dependency and misuse.

THE ARGUMENTS UNDERPINNING DEPENDENCY AND MISUSE

Discussion of dependency can reveal different concerns.[2] One strand relates to changes in behaviour that people might make either to qualify or remain eligible for a programme. Specifically this suggests that people who receive regular free transfers will be discouraged from working, especially if the value of the transfer is close to or above the income that the recipient could expect to earn from paid employment.[3]

Another related point is the idea that transfers create a dependency syndrome or mentality in which people start to expect continued assistance, which in turn undermines their self-reliance and motivation, thereby breeding laziness.[4]

A concern that is often raised alongside dependency, pertains to the general misuse of transfers on goods that don't benefit and indeed can harm households, such as alcohol, tobacco and gambling.

Perceptions such as dependency and waste have broader implications on political will and also on design and delivery of social protection.[5] For instance, governments are often reluctant to use domestic resources to fund programs such as cash transfers as they are perceived as more consumptive nature and not investment, preferring more "productive" programs such as public works or agricultural subsidy programs.[6]

In the discussion of dependency, it is also important to remember that not all social protection programmes should aim to achieve 'graduation'. Programmes for households or individuals that face specific vulnerabilities, such as older people, people living with disabilities, households with children, or labour constrained households are intended to provide long term sustained support.

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THE EVIDENCE

So to what extent are these claims actually true? Do social protection programs induce dependency and do the beneficiaries waste and misuse transfers?

A significant body of research shows no evidence of 'irresponsible' spending of cash transfers[7]

To examine the issue of misuse of cash, research studies typically assess the impact of social protection programs, particularly cash transfers, on the level or proportion of expenditures on alcohol and tobacco.[8] Despite stereotypes that poor households will misuse and waste cash transfers to buy alcohol, tobacco and other "temptation goods," studies consistently show no significant impact or that transfers actually increase such spending.

An assessment of the impact of unconditional cash transfers on per-capita alcohol and tobacco expenditure in seven countries in Africa (Ghana, Kenya, Lesotho, Malawi, Zambia and Zimbabwe) finds no statistically significant impact of transfers on increasing alcohol or tobacco expenditure, and in one country (Lesotho), transfer receipt actually decreased expenditure on alcohol.[9] These results are consistent with a systematic review that investigated evidence from Latin America, Asia and Africa and examined 44 estimates from 19 experimental and quasi-experimental studies linking cash transfers (both conditional and unconditional) on temptation goods. All studies find either no significant impact or that transfers in fact reduce spending on temptation goods.[10]

Evidence on dependency

A common assumption is that cash transfers will discourage work and/or create a mentality of dependency. The evidence that speaks directly to this concern focuses on two broad areas. One is on labour market outcomes, and assesses the impact of cash transfers on hours worked and on the type and quality of employment. The second is productivity, and assesses if cash transfers are used for productive purposes such as accumulation of productive assets or any other productive investment.

Impacts on labour market outcomes

The story that emerges is clear. First, the available evidence does not support concerns over possible negative effects of transfers on labour market outcomes and in fact social protection programs, regardless of the primary objective of the program, can improve people's labour market status, increase their participation in the labour market, their future earning potential and also enable favourable shifts in labour allocation.

Evidence in developing countries show that cash transfers do not discourage work and in fact improve labour market outcomes

An examination of large-scale cash transfers from six countries (Honduras, Indonesia, Morocco, Mexico, Nicaragua and Philippines), show that these programs do not reduce the propensity to work and the overall number of hours worked.[11] This finding is consistent with reviews of other programs in Latin America that generally find modest evidence on adult labour supply responses.[12] More specifically while no evidence was found in Mexico (Opportunidades) and Ecuador (BDH), in Nicaragua the cash transfer programme (RPS) was shown to have a significant positive impact on the hours worked by adult men in the preceding week (by about 6 hours), with no effect among adult women.

Another study assessing the employment and livelihood effects of the South Africa child support grant finds no evidence that the grant reduces labour market activities, or that it creates perverse work incentives or dependency. The evidence suggests a significant increase in the likelihood of employment in the formal sector with the impacts being greatest for particularly vulnerable groups, including youth and women.[13]

An assessment of the Old Age Pension in South Africa found households receiving the grant have labour force participation rates that are 11–12% higher than households that do not receive the grant, and employment rates that are 8–15% higher.[14] Receipt of the pension was also found to have a significant impact on increasing job-seeking among unemployed household members. Similarly in Brazil, adults in beneficiary households in the Bolsa Família programme had a labour market participation rate 2.6 percentage points higher than adults in households not in the programme. Furthermore, these effects differed by gender wherein women in benefiting households had participation rates 4.3 percentage points higher than women in non-participating households.[15]

Evidence also suggests that transfers improve types of work and employment conditions

In Mexico an assessment of PROGRESA found that men and women used their grants to find salaried work and to shift from informal family enterprise to higher paid formal work. There is also similar evidence from public work programs in India (NREGA) and Ethiopia (PSNP) that cash transfer programmes have given labourers stronger bargaining positions with employers, and improved their ability to negotiate better wages and improve their contractual arrangements.[16]

The shift from agricultural wage labour to on-farm activities is consistently reported in Kenya, Ghana, Lesotho, Malawi and Zimbabwe. In Zambia and Malawi, and to a lesser extent in Kenya, the programmes led to a shift from agricultural wage labour to on farm activities for adults. In Zambia, the Child grant led family members to reduce their participation in, and the intensity of, agricultural wage labour. The impact was particularly strong for women, amounting to a 17-percentage point reduction in participation and 12 fewer days a year. Since paid agricultural labour in these rural settings is often the least desirable form of labour due to characteristics including poor wages, insecure/ unpredictable work and poor working conditions, this shift can be viewed as beneficial for households.[17]

Impacts on productive investments

Contrary to undermining initiative or encouraging laziness, evidence instead shows that beneficiaries use transfers to increase their investment in productive assets and activities in an attempt to improve their earnings and self-sufficiency.

Evidence suggests that social transfers create opportunities for beneficiaries to become more self-sufficient by increasing productive investments.

Transfers allow households to make small productive investments; and in some cases engage in economic activities with greater risks but which can result in higher returns. Research shows that beneficiaries use social transfers to increase investments in productive agricultural assets and livestock, and engage in small business activities.

From Latin America, the evidence shows that the PROGRESA programme in Mexico increased land use and livestock ownership.[18] On average 12% of transfers from the Progresa/ Oportunidades programme were invested in productive activities such as microenterprises and agriculture. In Bolivia, the BONOSOL pension programme increased livestock ownership, while in Paraguay, the Tekopora CCT programme increased the likelihood of procuring livestock by 6 % and beneficiary households invested between 45–50% more in agricultural production.[19]

Recent evidence in sub-Saharan Africa show that cash transfer programmes have big impacts on household livelihoods, particularly in terms of agricultural activities. In almost all programmes in which it was measured, cash transfers increased the ownership of livestock. This ranged from all types of animals, large and small, in Zambia and Malawi, to small animals in Kenya, Lesotho and Tanzania.[20] Unlike Zambia and Malawi, the Kenya CT-OVC programme led to a modest increase in the ownership of sheep and goats while the Ghana LEAP programme had no impact on agricultural assets or livestock.[21]

CONCLUSIONS

Waste and dependency are notions that are often raised and discussed in conjunction with social protection programs and continue to strongly influence national poverty agendas in many countries. These conventional perceptions have implications on strengthening the political will that determines the fiscal allocations and design of social protection programs.

While there are concerns on the potential misuse of social protection programs, the evidence shows strongly that poor people do not spend transfers on alcohol and tobacco and in some cases the transfers actually reduce the spending on temptation goods.

Concerns about dependency associated with social protection programs should be viewed in light of the strong empirical evidence to the contrary. In every study people worked at least as many hours in the labour force as they had before receiving the transfer, if not more. Where there are impacts on labour market outcomes, the evidence points to enabling households more control over job choices enabling shifts into more favourable conditions and therefore more sustainable work and livelihoods options. Moreover the impacts suggest that transfers improved people's earning potential as they increased investments in productive assets and shifted from agricultural wage labour into either own farm or non-agricultural businesses.

In countries with more developed and sophisticated social protection programs, especially in Latin America, the discussion has evolved and rests on a recognition of social protection programs as one important element in a package of interrelated programs that are necessary to help households either achieve sustainable employment or permanently move out of poverty. These take on different forms either as a graduation approach, or as a package of social protection programs often in combination with complementary interventions.

Finally, some households or individuals face specific vulnerabilities that require ongoing or permanent support – such as those providing support to older people, people living with disabilities, households with children, or those with high labour dependency ratios or people living with disabilities. As such while the tremendous potential of social protection programmes to sustainably lift people out of poverty should be recognised, not all social protection programmes should have 'graduation' as their goal.

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