



## Social transfers for poor households as an innovative way out of the 'triple F' crisis

By Dr Angelika Fleddermann, Paul-Theodor Schütz and Sanna Stockstrom

### Background

The food, fuel and financial crisis ("triple F" crisis), and increasingly frequent price fluctuations brought about by speculation on world markets have serious impacts on extremely poor households, which frequently spend up to 80 per cent of their income on food. As these households cannot reduce other expenditure to compensate for rising food prices, they are exposed to risks that could pose a significant threat to their livelihoods. Choosing cheaper products is also not an option. For example, a 50 percent hike in food prices leaves extremely poor households with no other choice but to reduce the amount of food they consume by about one third, resulting in hunger and malnutrition (cf. von Braun, 2008). In the least developed countries, between 20-30 per cent of these households are affected by this phenomenon<sup>1</sup>.

The impacts of the global economic and financial crisis further exacerbate this trend. At an EU workshop held in Cambodia at the beginning of this year, it was noted that the number of children starting school in rural areas had already dropped as households are once again becoming increasingly dependent on child labour to survive. As unemployed workers migrate from urban centres back to rural areas, pressure on and overexploitation of natural resources is increasing, for example as a result of overfishing, as is the case in many other regions worldwide.

Within the context of fluctuating food prices, this inevitably results in chronic undernutrition and malnutrition in many households, which can jeopardise the lives of small children, pregnant women, and older people and infirm in particular. This results in increased child mortality and an increase in problematic survival strategies such as child labour, early marriages, prostitution and crime. Extremely poor households also run the risk of investing less money in their children's education and in health, given their increased expenditure on food.

Social transfers help safeguard against risks posed in this context and reduce extreme poverty, while also preventing chronic hunger. They can be used as a preventative instrument for dealing with food bottlenecks and as a short-term relief measure. Within the framework of humanitarian aid, transfers are frequently distributed as vouchers or cash, usually through pilot projects or programmes. This was the case in aid provided by the World Food Programme in Sri Lanka in the aftermath of the tsunami, for example. In Kyrgyzstan, additional cash transfers were temporarily incorporated into existing social protection programmes in early 2008, in order to buffer the impact that an extremely harsh winter was having on food prices, and stabilise the consumption levels of poor families in times of crisis. Social protection measures such as social transfers can stop poor households selling vital resources (such as livestock and land) in times of crisis, in order to offset higher prices. As a result, they are safeguarded from slipping deeper into poverty and are less vulnerable to economic shocks.

<sup>1</sup> Between April 2007 and April 2008, FAO's food price index increased by about 54 per cent. Between June 2008 and February 2009, the index recorded a dramatic drop from 214 to 139 points (cf. FAO 2008/FAO 2009).

## Types of social transfers and their target groups

Institutionalised social transfer programmes are routine, guaranteed transfers of cash, vouchers, services or inputs of material, equipment, land, etc. (in-kind transfers) that are provided free of charge to persons or households, in order to secure their survival or subsistence level. The routine and guaranteed nature of inputs is the main characteristic differentiating social transfer programmes from emergency and transitional aid, where transfers have a limited duration. Ideally, social transfers are long-term programmes that are mainstreamed at the national level, and are integrated into a comprehensive social protection strategy or policy.

They can help reduce the effects of increased food prices as they:

- reach a large number of extremely poor households nationwide;
- provide sufficient funds to guarantee food security for target group households on a routine, reliable and long-term basis;
- unlike other forms of aid in such crisis situations, have no or only limited negative impacts on price developments in local markets, on food production and on the productivity of recipients.

At a practical level, social transfers differ as regards:

- targeting: what is the target group?
- the duration of transfers: are the measures short-term interventions, geared towards addressing crisis situations, or are they of a long-term nature?
- the type of transfers: what form do the transfers take (in-kind, cash, services, vouchers)?

Social transfers are primarily geared towards extremely poor households with no or only limited self-help potential, that are particularly hard hit by rising food prices. They are designed to help prevent these households from slipping deeper into poverty, and increase their long-term self-help potential. Conditional social transfers (SCT's) are based on the fulfilment of special conditions such as children attending school regularly, or going to preventive health care checks. The aim of SCT's is the promotion of human capital of poor households, not only reducing short-term poverty but also achieving positive long-term results and increasing these households' productivity.

However, social transfers can also play a key role for extremely poor households that have a certain degree of self-help potential. In the context of fluctuating food prices, which have a negative effect on the willingness of small farmers to invest in agriculture, social transfers can have a particularly stabilising effect on food production. This buffering effect is intensified if the transfer amounts are dynamically adapted to price developments, and this is feasible at any time, given the required political will. Social transfers also buffer against other risks brought about by climate change (flooding and drought) for example, as they compensate for loss of income incurred by the affected households as a result of damage to their means of production.

In times of economic crisis, they also allow recipients to secure an income if they are unemployed, compensate for a loss of other sources of income such as transfers from migrants, or even prevent new waves of migration. In cases where markets are functioning, they reduce the need for humanitarian aid, which often reaches affected households too late, is not geared towards individual needs, and frequently has additional negative impacts.

Whereas regular social transfers play a key role in increasing the self-help potential of extremely poor households, lifting them out of poverty in the long term, short-term humanitarian aid in the form of social transfers has a stabilising effect on all households affected by a crisis. Short-term transfers can help prevent temporary food shortages and have an important stabilising effect on productive households in particular as they avoid having to sell their means of production and can make necessary investments instead.

## Policy options

Social transfers cover both cash and in-kind contributions. For recipients, the advantage of cash transfers is that they are flexible and can be used in line with the needs and priorities of individual households, for example, to invest in fertiliser or small-scale livestock, in order to boost food production. This in turn increases the households' ability to manage risks. Cash transfers also help consolidate local business cycles (economic multiplier effect), as recipients can spend more of the money they receive in the local economy or invest in productive activities.

In-kind transfers are bundled into standard packages, that are not necessarily able to cover a wide variety of needs, particularly for vulnerable groups such as older people. However, in many countries, women in particular prefer in-kind benefits, as they have more control over these resources. Men, on the other hand, tend to prefer cash transfers. In-kind transfers are also more accessible for many people, particularly in cases where they have no access to markets or are unable to pay high prices (cf. Sen 1987). Where local or national markets are not functioning, for example due to a lack of infrastructure, food contributions may prove more useful than cash transfers. If the market is functioning adequately enough to prevent cash transfers from increasing prices on local markets, then cash contributions are preferable to basic food transfers.

For cash and food transfers, three factors must be assessed: cost efficiency, the reaction time, and the state's implementation capacities. The last two factors play a particularly key role in implementing and processing transfers, particularly in crisis situations. The advantage of cash transfers is that the reaction time is very short, and the state can quickly transfer aid electronically to remote areas, areas that may be difficult for in-kind benefits to reach due to damaged infrastructure. However, in rural areas in particular, some regions may lack functioning financial institutions, making it difficult to transfer cash, particularly in crisis situations (cf. Gentilini 2007).

In addition to cash transfers and in-kind contributions such as food or school meal programmes, vouchers for specific inputs such as food can be viewed as social transfers. However, from an administrative point of view, these transfers are more expensive to process than cash transfers, and run the risk of distorting local markets.

Another option for supporting poor households in crisis situations is food-for-work and cash-for-work programmes. These are employment programmes in which the target groups are paid in food or cash. However they usually only reach households with self-help potential, in other words, where family members are able to work. Very poor households without family members old, skilled or healthy enough to work, are particularly highly dependent, and are therefore frequently not reached by this type of measure. In practice, governments are using a number of different short and long-term measures to react to the “triple F” crisis. Within the framework of social transfer programmes, some countries have already decided to change track and react to food shortages and the consequences thereof by temporarily increasing transfers (using unconditional top-ups) or providing special transfers in crisis situations. In Indonesia, for example, the government provided an unconditional top-up in addition to regular social transfers, in order to prevent people from slipping into chronic poverty, which would above all thwart children's development. Initially, these transfers were limited to a period of one year.

The Ecuadorian Government, on the other hand, incorporated the possibility of top-ups into the design of the countrywide social transfer programme. In crisis situations, it provides an additional one-off payment for affected households (disbursed in two instalments of US\$ 45), which is channelled via the structures of the “normal” social transfer programme *Bono de Desarrollo Humano*. Similar administrative structures, handling processes and access provisions are used, and are therefore familiar to recipients<sup>2</sup>.

## Challenges

Social transfers and top-ups in crisis situations are not a universal solution to all problems, and are not the only way to cope with the global financial crisis, food shortages, or fluctuating food prices. They can only achieve the desired results under certain conditions. Innovative strategies must be devised, depending on the specific context and must therefore:

- identify the cause of the crisis;
- take account of and possibly make use of the market and institutional setting;
- meet the needs of the target group;
- aim to mainstream social transfers in the partner country's overall social protection system.

Meeting these challenges is worthwhile, however. Evaluations of different social transfers throughout the world show that recipient households use cash transfers primarily to buy food, and partly to invest in food production (by buying fertilisers and paying for agricultural labour). For example, an external evaluation conducted in Zambia shows that social transfers achieve the following results as regards the food situation in recipient households:

The social transfers dramatically improved the nutrition situation of almost all recipient households. Nearly half of recipient households said that they had eaten three meals in recent days, whereas just 8 percent of households that had not received any transfers had done so. As recipients of social transfers also tend to have more food supplies, they were able to cope better with food crises than non-recipient households (MCDSS 2006).

In order to realistically assess the potential of social transfers for buffering the impact of price hikes, the different contexts in different regions must be taken into account. In most countries in Latin America, social transfers were initiated and designed by the governments. They are now a permanent feature and reach a large number of needy households. In Africa on the other hand, activities conducted by the World Bank, the International Labour Organization (ILO), the United Nations Children's Fund (UNICEF) and the Department for International Development (DfID), have so far only resulted in declarations (for example, the Livingstone Call for Action, which was issued almost three years ago), numerous conferences and one-off pilot projects. Social transfers that are mainstreamed at the national level have so far only been used in countries pursuing long-standing economic and social policies that have been shaped by a minority European population (South Africa, Namibia and Botswana). Lesotho, which is the only African country to have introduced a universal pension scheme in recent years, took action against the advice of the International Monetary Fund (IMF) and the World Bank, and finances the transfers from its own funds.

If social transfers are to be introduced swiftly and play a significant role in buffering the fallout from the global financial crisis, the following prerequisites must be in place: sufficient political will on the part of national decision-makers, donor harmonisation at the national level and effective financial and technical cooperation that extends beyond seconding short-term expert missions and financing research, conferences and training courses.

---

<sup>2</sup> In 2008, about 90,000 Ecuadorian households affected by flooding at the start of the year received the *Bono de Emergencia*.



## Outlook

Social transfers in the form of cash contributions are preferable to in-kind contributions if conditions indicate that markets are functioning. The amounts provided should be geared towards food prices in particular.

Cash transfers as a form of social protection have a particular role to play in crisis situations as they can comprehensively reach extremely poor households that cannot or can only indirectly benefit from other food security interventions such as food-for-work or cash-for-work programmes due to their structure (members of the household are unable to work).

Social transfers in the form of cash contributions are a highly flexible instrument and can be supported by in-kind contributions or by other programmes to promote social protection, employment and productivity. Rural development projects and programmes, for example, should provide specific complementary inputs above all to households with self-help potential, in order to relieve the burden of fluctuating food prices, and help households to self-reliantly deal with the negative effects of the financial crisis, for example, by providing free or subsidised means of production such as fertiliser. When used together with humanitarian aid programmes, social transfers also have the potential to help bridge the transition from short-term emergency aid to long-term development programmes.

The current global financial crisis, combined with increasing food prices in many countries, has dramatically increased the need for social protection, and particularly for social transfers in partner countries. However, this need will continue when the financial crisis has passed and food shortages triggered by price hikes have been redressed, as temporary food shortages at the local level will become more common given the increased risk of natural disasters. The growing prevalence of extreme weather conditions brought about by climate change is a considerable risk factor for poor population groups, as food crises may be one of the consequences. In order to overcome these risks effective social protection systems must be put in place and social cash transfers are an important element to that.

Published by:

Deutsche Gesellschaft für  
Technische Zusammenarbeit (GTZ) GmbH  
German Technical Cooperation

Dag-Hammarskjöld-Weg 1-5  
65760 Eschborn/ Germany  
T +49 61 96 79-1446  
F +49 61 96 79-11 801446  
E [social-protection@gtz.de](mailto:social-protection@gtz.de)  
I [www.gtz.de/social-protection-systems](http://www.gtz.de/social-protection-systems)

February 2010, Issue No. 1

## Literature

FAO (2008): Food Outlook. Global Market Analysis. June 2008. [Download](#)

FAO (2009): Food Outlook. Global Market Analysis. June 2009. [Download](#)

Gentilini, Ugo (2008): Cash transfers, vouchers and food transfers: an overview of key issues. In: Rural 21, Vol 42, Nr. 5/2008. pp. 19-21. [Download](#)

Gentilini, Ugo (2007): Cash and Food Transfers: A Primer. Occasional Papers No. 18, World Food Programme, Rome.

Ministry of Community Development and Social Services (MCDSS) and GTZ (2006): Evaluation Report. Kalomo Social Cash Transfer Scheme.

Sen, Armatya (1987): Poverty and Famines: An Essay on Entitlement and Deprivation. Oxford University Press, London.

Von Braun, Joachim (2008): Rising Food Prices. What should be done? IFPRI Policy Brief, April 2008, Washington D.C. [Download](#)

Von Grebmer, Klaus et. al. (2008): Global Hunger Index. The Challenge of Hunger 2008. Bonn, Washington D.C., Dublin. [Download](#)

World Bank HDN; World Bank PREM Network (2008): Rising Food and Fuel Prices: Addressing the risks to future generations. [Download](#)

World Food Programme: Weathering the Storm. Cash Transfers and Food Vouchers. Info Sheet.

Editor: Sanna Stockstrom, Planning Officer Social Protection  
Editor-in-chief GTZ Discussion Papers on Social Protection:  
Dr Matthias Rompel, Head of Section Social Protection

The paper is intended to contribute to the debate and offers an overview of the current international discourse and more profound insights into current practice.

The analysis, results and recommendations in this paper represent the opinion of the author(s) and are not necessarily representative of the position of German Technical Cooperation (GTZ GmbH).