Cash Transfers

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September 2025

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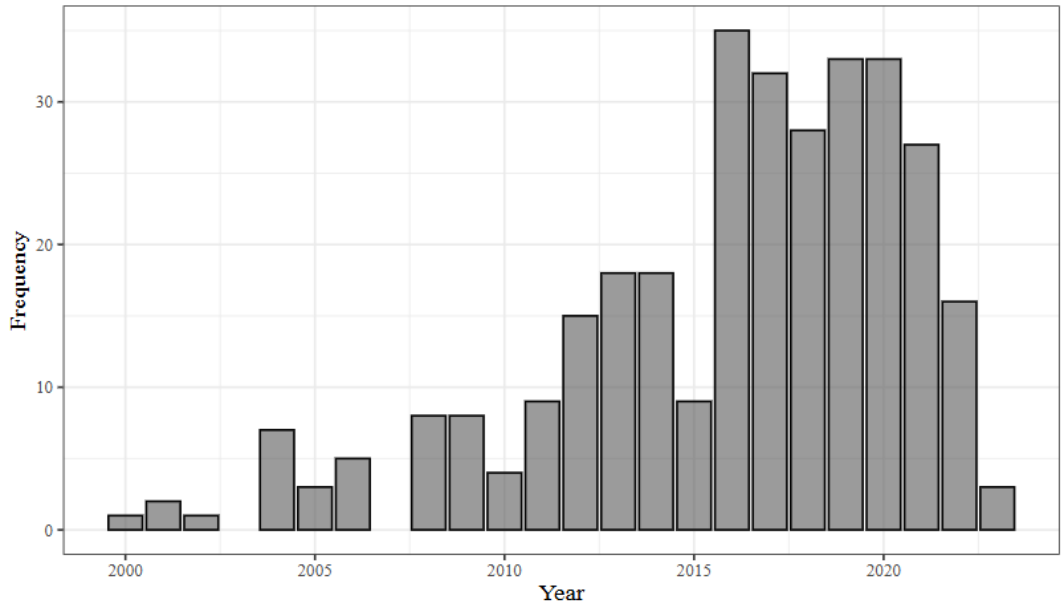


- Cash transfers for social protection have reached very large scale, covering up to 1.4 billion people in LMICs (Gentilini et al., 2022)
  - State capacity, e.g. national identification systems, digital payments infrastructure (Sukhtankar, 2024)
  - Evidence: e.g. spread of conditional cash transfers following evidence of Progressa's impact in Mexico (Leisering, 2018)
- Correspondingly large volume of evidence

Taking Stock: Today's Agenda

1. How should we generalize from the (enormous) body of available evidence about cash transfers' impact?
    - Income, expenditure, mental health, etc.: Crosta et al. (2024)
    - Labor supply: Banerjee et al. (2017)
2. What do we know (and not know) about incidence and how this shapes optimal policy?
    - Incidence of benefits *within* households
    - Incidence of indirect costs and benefits *across* households (i.e., spillovers)
3. What do we know (and not know) about the optimal design of transfers in imperfect financial markets?
4. *Where* do we know this?

Incidence

Incidence

- Imagine allocating a budget between transfers and infrastructure
- Transfers are more attractive the more they benefit the poorest members of society
- This depends on
  1. Which households get them (Alatas et al., 2024) — especially, how well they cushion shocks
  2. How they are allocated *within* those households
  3. What consequences this has for other households

Incidence Within Households

- We are fairly confident this matters
  - Brown et al. (2019): most underweight women and undernourished children in Sub-Saharan Africa are in households that are not among the poorest in per-capita consumption terms
  - Barcellos et al. (2014): some households invest more in male than in female children
- It is less clear what it implies for
  - Which households to target
  - Which members within those households to designate as recipients
- A significant challenge has been measuring the consumption of different household members separately

Designate Female Heads as Recipients?

- This is so common that (ironically) there is relatively little evidence on how much this matters
- Some of what we have is not easy to interpret
  - Not sufficiently powered to detect meaningful differences (e.g., Haushofer and Shapiro (2016) in Kenya)
  - With "labels" attached which may have influenced use (e.g. Benhassine et al. (2015) in Morocco)
- Some is simply variable, e.g. for nutrition
  - Somville et al. (2020): reject large gender differences in expenditure shares on food in India
  - Armand et al. (2020): transfers to women (v.s. men) significantly increased food shares in Macedonia
  - Akresh et al. (2016): transfers to men (v.s. women) had significantly larger effects on children's nutrition in Burkina Faso
- Recipients themselves—especially women and people with disabilities—describe receipt as empowering (Wingfield et al., 2023)

Put the Money into (Digital) Accounts They Control?

- Seems likely to matter given it has in adjacent problems
  - Loan disbursement in Uganda (Riley, 2023)
  - Wage payment in India (Field et al., 2021)
- Transfers like this significantly increased the amount and *share* of nutrients going to mothers and children in India (Weaver et al., 2025)
- Could also decouple transfer receipt from household membership entirely, as in transfers studied by (Banerjee et al., 2023a)

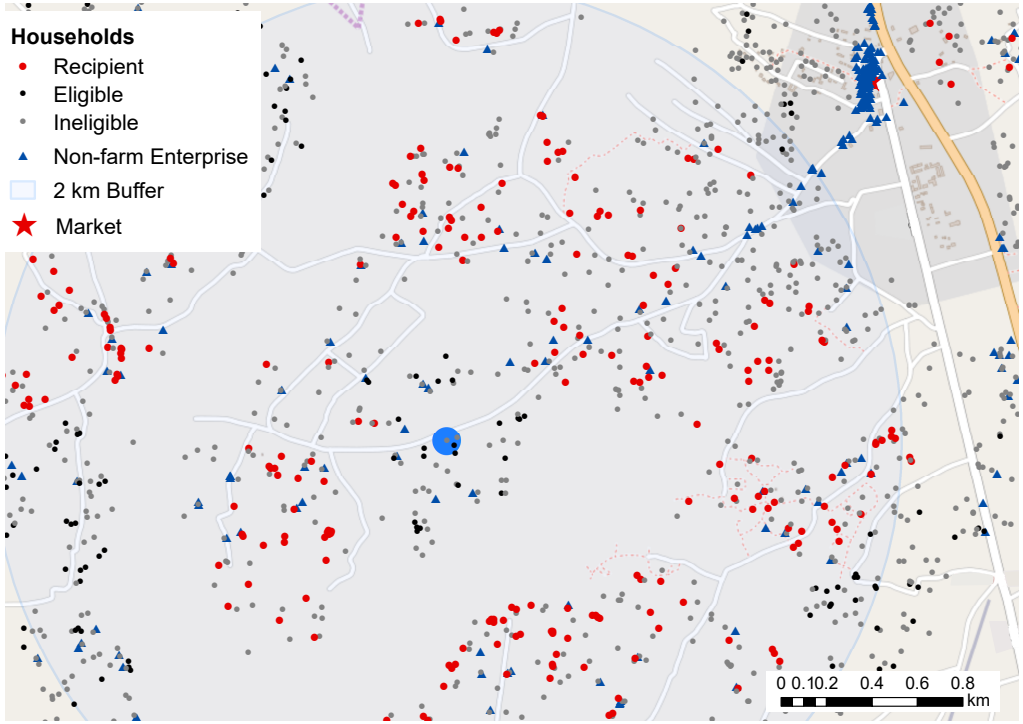
Incidence in General Equilibrium

- Recipients use transfers to transact, which must affect the counterparties in some way
- Recipients typically change their behaviors in ways which must affect prices to some degree
    - E.g., increase labor supply (Banerjee et al., 2017)
- Spillover effects on any *one* neighbor may be small, but in aggregate can be enormously important because there are many neighbors

Classes of External Effect

1. Fiscal externalities
   - E.g., purchases lead to increased VAT revenue
   - First-order welfare effects (Finkelstein and Hendren, 2020) and practically important for budgeting—e.g. TAX PAPER
2. Pecuniary externalities
   - E.g., wages increase
   - Affect distribution of benefits: helps workers, hurts employers
3. Non-pecuniary externalities
   - E.g., more schooling → more innovation and job creation
   - Affect level and distribution of benefits

The Bad News: Measuring External Effects is Hard



- RCTs presume a control group unaffected by treatment ("SUTVA")
- Here the whole point is to measure effects on the control group!
- What we know so far comes from a handful of large-scale (natural) experiments (Muralidharan and Niehaus, 2017)
  - Treatment allocated in large clusters (e.g., by village or by district)
  - Econometrics of these are still being studied (Faridani and Niehaus, 2024)

Fiscal Externalities

- In Brazil, expansions of Bolsa Familia increased municipal tax revenue by 2.7% Gerard et al. (2021)
- In rural Kenya, inflows amounting to 15% of GDP had little detectable effect on local government finances (Walker, 2018)
- Not aware of results on crowd in/out of participation in other social programs

Pecuniary Externalities

- In rural Kenya, inflows amounting to 15% of GDP raised consumer goods prices increased by 0.1–0.2% (Egger et al., 2022)
- In Mexico, Progressa transfers increased quantity discounts, did not significantly change prices on average (Attanasio and Pastorino, 2020)
- In Mexico, unconditional transfers had no significant effects on average, but raised food prices by 1.5% in more remote villages where they amounted to 10% of aggregate income (Cunha et al., 2019)

Non-Pecuniary Externalities

- In Mexico, ineligible households' food consumption increased by 50% as much as that of eligibles (Angelucci and De Giorgi, 2009)
- In Kenya, output increased by $2.5 for every $1 of transfers Egger et al. (2022)
- In Brazil, Bolsa Familia expansion increased municipal output by 1.7% Gerard et al. (2021)
- *Many* other potential channels that remain hard to price, e.g. education

Incidence: Our Bottom-Line Views

1. Transfers to otherwise disadvantaged household members appear (to us) justifiable on a priori grounds, even though evidence of differential impacts is limited
    - Next step: test how much the modality of such transfers matters
2. Transfers can stimulate the local economy, benefiting other nearby households and recouping part of their cost, but we have very few data points here
    - Next step: evaluate more large-scale rollouts, especially in combination with admin data on revenue and other expenses

Financial Constraints

Financial Constraints

- A $1 transfer could have disproportionate value in a second-best world of imperfect financial markets if it enables the recipient to achieve a resource allocation closer to the first-best
    - Eg: when a bread-winner gets sick, cannot work, and needs treatment, could be hard to ensure that everyone gets enough to eat
- Could well-designed transfer programs help prevent such tragedies?
- How well-correlated are transfers with shocks?

Financial Constraints: Aggregate Shocks

"Shock-responsive social protection": govts often introduce new transfers and/or expand eligibility in response to aggregate shocks

Open questions:

- Still do not know the bottom-line performance of these efforts eg the high-frequency covariance between transfers and household income
- Study the performance of the reinsurance market for the relevant aggregate risks
- Develop and test transfers whose size is linked to the prices of essential commodities (recipients may face non-trivial risk in terms of consumption, see (Gadenne et al., 2021))

Financial Constraints: Idiosyncratic Shocks

Perhaps better addressed using explicit insurance (eg for health) rather than transfers, but such insurance is rare for the poor

- Usual targeting uses a proxy means test - very slow moving - cannot achieve this; incomes too volatile ((Baulch and Hoddinott, 2000; Krishna, 2010))
- Can we target households' vulnerability to future shocks, as opposed to their current situation per se, eg (Carter and Janzen, 2018)?
- Households could be given the option to receive insurance in lieu of (part of) their non-contingent cash transfers (use transfers to address barriers to insurance takeup (Casaburi and Willis, 2018))

Financial Constraints: Target Vulnerability

- Even if transfers are not indexed to shocks, they may reduce the likelihood that households forego necessities when shocks hit
- How much do transfers target shock-prone households?
- How much do transfers affect consumption's variance over time or covariance with shocks?
- About how transfers affect consumption's *second* moments, not whether they affect consumption on average (a popular question)
    - Eg Asfaw et al. (2017) show that transfers significantly reduce the effect of weather shocks on food expenditure and calories

Financial Constraints: Endogenous Risk-Taking

- Transfers may affect the profile of risks that households face by inducing them to change how they earn, where they live, etc
  - Households may choose to taken on *more* risk after receiving a transfer in pursuit of higher returns, eg Banerjee et al. (2020)
- Transfers can affect which investments get made in the first place
  - Makes redistribution more attractive overall
  - People who have less perhaps more likely to have untapped high-yield investment opportunities, as well higher marginal value to consumption
  - Many study investment impacts eg Gertler et al. (2012)

Financial Constraints: Endogenous Risk-Taking

But:

- Distinction between "investment" and "saving" blurry in practice and the literature has not yet grappled with how to separate them
- Even if households do have under-exploited high-return investment opportunities, this may be captured by consumption today
- Treatment effects on investment, earnings, (future) consumption may vary independently from initial deprivation, see Haushofer et al. (2022)

Financial Constraints: Lumpiness

Some related evidence:

- Find that lumpy payments induce lumpy investments, larger overall/aggregate impacts (Haushofer and Shapiro, 2016; Aguila et al., 2017; Banerjee et al., 2023b)
- When given a choice recipients overwhelmingly chose lumpy payment schedules (Kansikas et al., 2023)
  - Consistent with the popularity of institutions like ROSCAs
- How big should lumps be? Small transfers to many vs large to few
  - Depends on distribution of lumpy investment opportunities
  - Experimentally varying transfer size often low powered
  - Measurement issues: different lumpy investments yield different time paths of benefits, eg motorcycles vs coffee

Financial Constraints: Timing

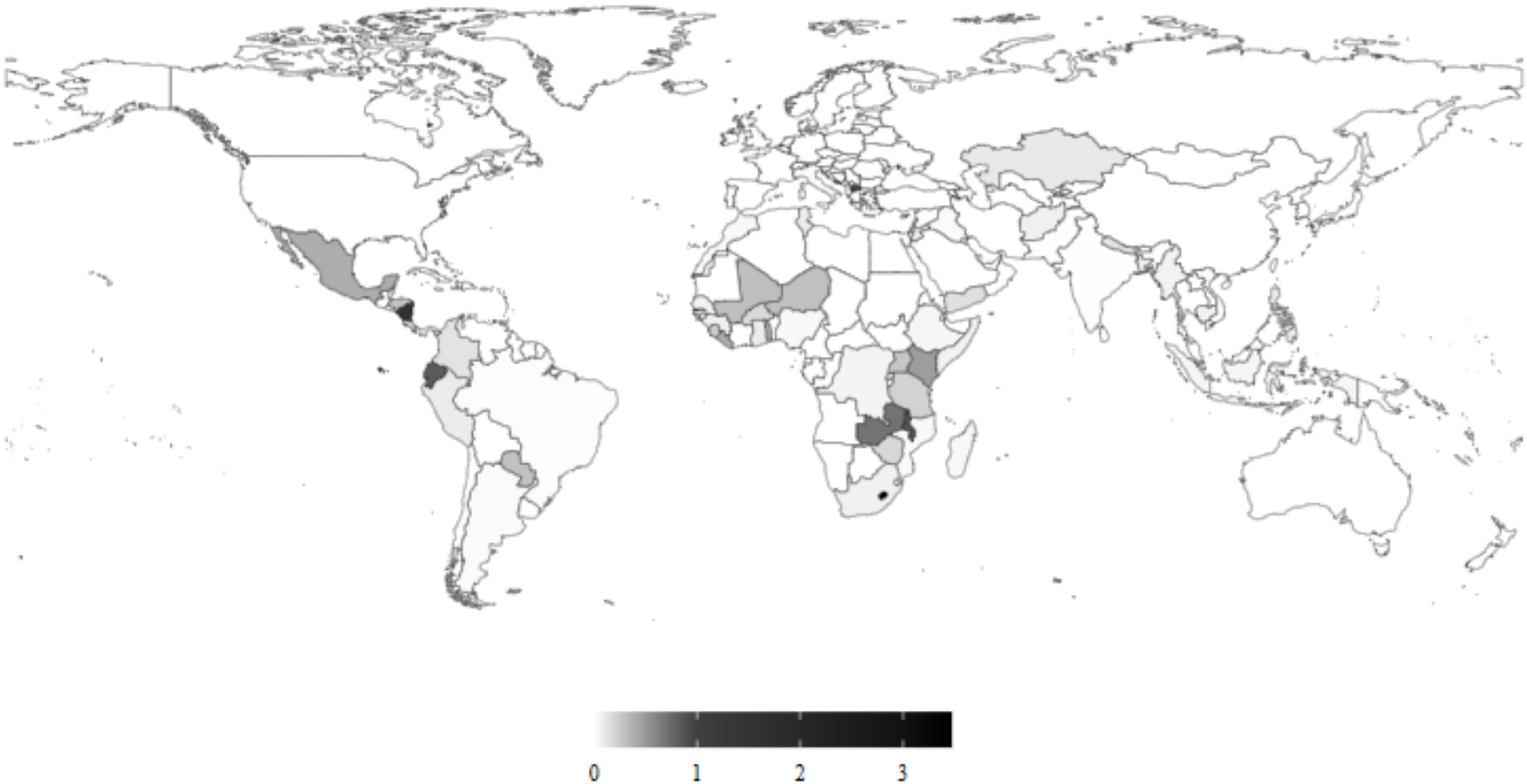
- Social protection programs default to a regular payment schedule
- Doesn't matter if financial markets (& self-control, foresight) perfect
- But, cash flow management a major challenge for poor households
    - Transfers more useful if arrive when school fees are due, when fertilizer need to be bought, or during "lean season"
- When asked, recipients prefer irregular timing (Kansikas et al., 2023)
- Open question: measure systematically the demand for and impacts of contextually appropriate timing or try pairing transfers with budgeting exercises as in Augenblick et al. (2023).

Where

Where

- For all the various mechanisms and effects we have discussed, there is no reason to expect these to be the same everywhere
- Could build economic models to predict how they vary so it matters where future empirical research is done
- Ideally, we would allocate more research effort to places where research is inexpensive; where we have weak priors; and where many people will benefit from better estimates
- Hard to say where this is perfectly given the data, but we can look at the current distribution of research
    - 3ie Development Evidence Portal: 315 studies in total (more new studies since 2000)

Where



Kenya has 10 times as large a share of studies as it has of population. Mexico 8.5 times. India has 21% of LMIC population but 1.6% of studies

Final Words

- Future work will have more value if it is done in more diverse places
- Sizeable opportunities still on the table
  - India: replace in-kind food transfers with cash? Little evidence on this
  - Little evidence on China's Dibao scheme, reaching 53m people as of 2017
- What of the incentives to do this kind of research?
  - Professional returns lower for "replications" than for clever new insights?
  - But, there are both contexts and concepts that are understudied, and hence much room to be innovative
  - We should not expect results to "replicate". Therefore not a box-ticking replication exercise but the essence of the scientific method
- Bottom line: a LOT to be done: many open questions, many places!

Action Steps

- If you have the ability to run experiments in this space, especially around recipient choice and/or in under-studied countries, please reach out
- To dig deeper into what we know about these issues: these slides (with full references) are at https://www.theigc.org/events/bread-igc-virtual-phd-course/social-protection
- To discuss answering some of the open questions: pniehaus@ucsd.edu, tavneet@mit.edu,

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