



## Interhousehold transfers: using research to inform policy

*Interhousehold transfers are an important resource for low-income households, yet have been almost ignored by donors. Though they are no substitute for public programs, these private transfers merit more attention in poverty research, gender analysis, project design, and development strategies.*

Anthropologists and sociologists have long recognized that interhousehold transfers of money, goods, and services through social networks are an important survival mechanism for poor families in developing countries. In addition to helping cover basic needs in times of crisis, social networks mobilize resources for education, housing, community infrastructure, small business development, and international travel in search of employment.

Yet findings on interhousehold transfers have had little influence on development policy. Why? One reason is that most studies have focused on specific communities, using a qualitative approach, with little discussion of how the findings could be generalized. As a result many potentially promising applications to development policy have gone unexplored.

### The importance of interhousehold transfers

Studies in Colombia, El Salvador, Kenya, Peru, and the Philippines have found that more than one in five households receive monetary transfers (table 1). Transfers are particularly important for the poorest households, in some cases representing nearly half of household income.

Recent studies have also documented the importance of interhousehold transfers in Eastern Europe and Central Asia. In Bul-

garia, the Czech Republic, the Kyrgyz Republic, Poland, Russia, and Ukraine between 21 and 76 percent of households give or receive income transfers through private networks. In Russia the transfers received by the poorest 5 percent of households are equal to more than one-third of formal wage earnings—and in Ukraine, nearly three-fifths. In these countries household-level adjustments help people who cannot get good formal sector jobs. Moreover, high interhousehold transfers may help explain why there has been so little social protest in Russia despite a large drop in real wages. These transfers do not, however, eliminate poverty (Barberia, Johnson, and Kaufmann 1998).

At the community level, one of the most comprehensive studies of transfers through social networks was conducted in the Southeast Zone of Cartagena, Colombia, in 1982. Almost half the households reported having received a transfer in cash or in kind in the month prior to the survey. Among the poorest quintile, transfers accounted for 52 percent of household income for female-headed households and 40 percent for male-headed households (Bamberger, Kaufmann, and Velez 1999). The study showed that transfers are important both as a source of support by better-off households for their poorer relatives and friends, and as an informal social

Support from social networks helps poor households survive

**TABLE 1 FINDINGS ON THE MAGNITUDE AND IMPACT OF INTERHOUSEHOLD TRANSFERS**

<i>Country, year</i>	<i>Findings</i>
Brazil (northeast), 1988/89	38% of adult women in sampled communities had helped rear a child who was not their own
Colombia (Cartagena), 1998	23% of households in the lowest income quintile received transfers and 13% made transfer remittances, compared with 50% and 3% in the highest quintile
El Salvador (Santa Ana), 1976	Transfers went to 58% of households in lowest income decile and 48% in next lowest decile, representing 41% of household income of all households in these deciles
India, 1975–83	93% of rural households received remittances representing an average 8% of household income
Indonesia, 1982	31% of rural households received transfers representing an average 10% of household income
Kenya, 1974	The poorest quintile of urban households received an average of 41% of their income in the form of remittances
Malaysia, 1977–78	19–30% of households received transfers representing an average 11% of their household income
Peru, 1985	22% of urban households gave and 23% received transfers representing an average 2.9% of income for receiving households
Philippines (Tondo), 1978	43% of households in poorest third received transfers representing an average 23% of household income
Russia (urban workers), 1996	18% of households received transfers representing an average 1.8% of household income
Ukraine (urban workers) 1996	17% of households received transfers representing an average 1.7% of household income

*Source:* Mukras, Ouchou, and Bamberger 1985; Barberia, Johnson, and Kaufmann 1998; see also the citations in Bamberger, Kaufmann, and Velez 1999 and Cox and Jimenez 1990.

insurance system among low-income households.

During follow-up field work in 1998 the researchers were able to locate most of the Cartagenan households on whom case studies had been prepared more than 15 years before. While transfers were still important, the portion of households in the poorest quintile receiving monetary transfers had dropped from almost 50 percent to just 23 percent. The follow-up study makes an important point: given the poverty and vulnerability of most of the families comprising support networks, transfers are not a reliable long-term source of insurance.

While transfers are often an important source of insurance and support for the poor, no research study in any developing country has ever found that more than half of poor households receive them. In fact, the share is usually much smaller. Transfers are of great importance to the poor, and we need to understand a lot more about how they work. But they must be seen as a complement to—not a substitute for—public transfers.

### **What drives interhousehold transfers?**

Researchers have offered a number of explanations for transfers of money, goods, and services among households.

#### *Anthropological and sociological explanations*

For almost 50 years social networks have been a topic of interest in the ethnographic literature on the urban poor. Oscar Lewis's pioneering studies on the "culture of poverty" in Mexico City, Puerto Rico, and New York in the 1950s and 1960s found that poor households regularly provided one another with informal credit services and shared food, clothes, and furniture. Lacking access to public services and facing low and irregular incomes, poor households relied on their families, neighbors, and friends for some assurance that their basic needs would be met (Lewis 1961). Many later researchers have confirmed the importance of network support systems in both developing and industrial nations.

A different form of reciprocity, reported from the Philippines, is *utang na loob*, or debt of gratitude. When a household receives assistance from another linked to it by kinship or a close social relationship, it is compelled to return the assistance with interest, to avoid remaining in the donor's permanent debt. The obligation to repay can carry over from one generation to the next.

#### *Intergenerational support*

Cox and Jimenez (1990), following in the tradition of an earlier generation of economists, have shown that intergenerational

transfers act as an informal social security system by which children take care of their parents in old age or parents provide for their children in emergencies.

### *Coping strategies for women and female-headed households*

Women, and particularly female-headed households, increasingly bear the brunt of economic crises, and it often falls to them to avoid the breakup of the household in the face of these pressures. In many countries gender relations are changing as a result of women's increasing labor force participation and men's inability to fulfill their traditional role as principal breadwinner.

Because most women have less access than men to formal labor and financial markets and to political networks, they must rely more on informal networks to maintain household living standards. Networks of poor women and female-headed households often exchange goods and services that higher-income households can afford to buy outright. In addition, female entrepreneurs rely on informal networks for child care, protection from the police, and assistance in acquiring credit, customers, and raw materials.

### *Exchange theory models*

Sahlins (1965) treats transfers between households or larger social groups as patterns of exchange, or reciprocity, occurring along a continuum. At one extreme the transfer takes the form of a gift with no expectation of reciprocity. Moving away from altruism, resources are transferred with the understanding that they will be repaid if and when it becomes possible to do so, but without any specific schedule or form of repayment—as with the resources parents give children. Further along the continuum are market-oriented exchanges in which each party aims to maximize its utility from the transaction. At the other extreme is “negative reciprocity,” where parties try to extract goods or services from each other by force.

Sahlins influenced a generation of social scientists. Larissa Lomnitz studied patterns of long-term reciprocal exchange among

kin and neighbors in a shantytown outside Mexico City. Like Oscar Lewis, she found that unstable economic conditions led many households to develop exchange networks in which they pooled their resources to keep the affected households afloat and to maximize “an important commodity, namely security” (Lomnitz 1977, p. 190). The mutual trust between network households is an important element of these relationships.

Inspired by John Rawl's redistributive theory of social justice and building on the work cited above, Daniel Kaufmann (1982) argues that poor households, recognizing that their fluctuating incomes cannot consistently cover all their needs, engage in a “contractarian” interhousehold exchange framework driven by an implicit contract for reciprocal exchanges over time to help each other in times of need. In other words, an informal insurance mechanism with a network based on kin, community relations, or both, whose purpose is to reduce the risk that any participating household will fail to have its basic needs met over time. The “givers” consider the transfers an investment, expecting future reciprocation if their fortunes were to change.

## **Policy implications**

Development policy strives to find cost-effective and equitable ways to provide social safety nets for vulnerable groups. Although private transfers benefit only a fraction of poor and vulnerable households, they are of sufficient magnitude to merit careful analysis of whether they could complement limited public resources. This raises a number of questions for policy:

- What net redistributive effect do public transfers have on health, old age security, and the like after their effects on net private flows have been taken into account?
- Can some services—health, education, nutritional supplements—be provided more efficiently through private rather than public transfers?
- Can some groups—ethnic minorities, female-household heads—be reached more effectively through private transfers?
- Can informal private networks make public sector targeting more effective?

Women often bear the brunt of economic crises

We need a better understanding of the determinants and uses of interhousehold transfers

Different issues arise when designing projects such as housing, transport, water supply, and urban development to leverage private transfers. Studies of the World Bank's low-cost housing programs have found that people are often willing to provide money, materials, and labor to help parents, children, or siblings capitalize on the investment opportunities afforded by access to serviced plots. The same incentives develop when transport projects create opportunities for small entrepreneurs to enter the passenger or goods transport business. Question to be considered include:

- How can the volume and distribution of the private transfers generated by different kinds of projects be estimated?
- Can transfers be measured with enough accuracy and reliability to help estimate the capacity and willingness of different groups to pay for goods (housing, roads) and services (water, transport, health, education)?
- How can private transfers be leveraged for social or physical infrastructure projects such as housing, construction, and minor irrigation projects?

Finally, interhousehold networks represent a crucial but largely unexplored aspect of social capital. Willingness to engage in exchange networks is based on trust and a number of dimensions of social solidarity that we do not fully understand. A better understanding of the determinants and uses of interhousehold transfers, and the ways in which public policy could stimulate these transfers, could help the Bank strengthen social capital as a building block in the Comprehensive Development Framework.

### Further reading

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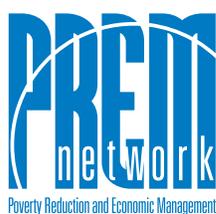
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