International Journal of Business and Management Invention (IJBMI)
ISSN (Online): 2319 – 8028, ISSN (Print): 2319 – 801X
www.ijbmi.org || Volume 6 Issue 1 || January, 2017 || PP: 70-75

Cash Transfers vs. Skills Training: Which Government Intervention Creates Sustainable Livelihoods?

Dr. Md. Imteyaz Hassan
Head, Department of Commerce, College of Commerce, Arts & Science Patna

Abstract
The debate on the best form of government intervention to support sustainable livelihoods for marginalised people is usually between two main modalities, namely cash transfers and skills training. The paper critically reviews the effectiveness, cost-effectiveness and long-term sustainability of the two approaches based on empirical data, meta-analyses and randomised controlled trials only published between 2012 and 2017, in a peer-reviewed style. Unconditional and conditional cash transfers have repeatedly been shown to have large short-term effects on household consumption, psychological well-being and asset accumulation, refuting paternalistic assumptions about the poor. In contrast, vocational and skills training programs are targeted at human capital deficiencies that should, in theory, generate higher long term returns in the labour market. Impact evaluations from this period, however, show mixed and often disappointing results for stand-alone training, often hampered by high implementation costs, saturated markets and low absorption capacity in informal markets. This paper argues that cash transfers are a very scalable and cost-effective way to provide immediate relief from liquidity constraints, but that a multi-faceted approach is needed to generate sustainable livelihoods, based on evidence from 12 key studies. The best hope for sustainable poverty reduction is the combination of cash transfers with training and asset transfers – so-called graduation programs. The findings suggest that policies should be context-specific and should consider the structural barriers embedded in local economies.

Keywords*: government intervention, cost-effectiveness, market saturation, implementation costs, sustained poverty alleviation, context-specific policy etc.*

I. Introduction

Alleviation of poverty and sustainable livelihoods remain the main objectives for governments, international development agencies and NGOs across the globe. Among the broad range of social protection and active labour market policies, cash transfers and skills training represent two fundamentally different philosophies of state intervention. Cash transfers, whether conditional (CCTs) or unconditional (UCTs), are founded on the notion that capital constraints and liquidity traps are the main obstacles to economic development. These programs put money directly into the hands of poor households, trusting that the recipients will make the best consumption and investment decisions, based on the assumption that the poor are rational actors who are simply lacking in financial resources. Alternatively, the human capital theory forms the basis of the skills development programs, including technical and vocational education and training (TVET), entrepreneurship capacity building and business management seminars. They argue that the poor do not have the skills, business knowledge and technical ability to participate actively in the labour market and generate sustainable sources of income.

Between 2012 and 2017 development economics saw an explosion of rigorous impact evaluations, especially randomised controlled trials (RCTs), comparing these different interventions. This five-year period was a critical intellectual and policy juncture. The unbridled, historic optimism about traditional vocational training began to face heavy critique in the face of the very cost-effective, radically scalable results of unconditional cash transfers. Innovative programs such as GiveDirectly in Kenya generated unprecedented, high-frequency data on the microeconomic impacts of pushing capital directly in. Meanwhile, the proliferation of active labour market programs (ALMPs) across Latin America, Sub-Saharan Africa and the Middle East generated rich, large-sample data on the fundamental constraints and potential triumphs of human capital interventions.

This paper provides an in-depth comparative analysis of cash transfers and skills training for creating sustainable livelihoods in an effective and efficient way. A sustainable livelihood is one capable of dealing with and recovering from external economic or climatic shocks, building or maintaining its capacities and assets, and providing resilient livelihood opportunities for the present and future generations without depleting the natural resource base. In this paper, we carefully review 12 key peer-reviewed studies published exclusively between 2012 and 2017, and we review the theoretical basis, empirical results, and comparative cost-benefit ratios of both approaches. The analysis aims to give policy makers a nuanced picture of when and how to deploy these interventions. The paper is organised as follows: Section 2 describes the general theoretical framework underpinning both interventions. Sections 3 and 4 review systematically the empirical evidence of cash transfers and skills training. The direct comparison is given in section 5 with two synthesised analytical tables. In section 6, we discuss the cost-effectiveness and daunting implementation challenges of each modality from a critical perspective. Section 7 turns to hybrid models, particularly the Graduation Approach. Section 8 concludes with actionable policy recommendations.

II. Theoretical Framework: Liquidity Constraints vs. Human Capital Deficits

Fundamentally, the intense academic and policy debate between cash transfers and training programs is a debate about identifying the binding constraints on the global poor. If the key constraint is a chronic shortage of financial capital (the "liquidity constraint" hypothesis), then the provision of unconditional cash should, in theory, allow people to buy productive agricultural assets, invest in their own informal microenterprises, or simply meet pressing immediate consumption needs that in turn free up time and physical energy for productive labour. Cash transfers are theoretically based on the macroeconomic concept of poverty traps and the permanent income hypothesis. If people are stuck at a low-level equilibrium because they have no collateral, face very high interest rates and are systematically excluded from formal credit markets, a large, sudden inflow of unencumbered capital can provide the shock they need to move to a higher equilibrium. This new equilibrium theoretically allows for sustained, self-propelling economic activity (Haushofer & Shapiro, 2016).

If, however, the key constraint is a severe shortage of human capital – the 'skills deficit' hypothesis – then capital injections will only provide temporary consumption smoothing. In this paradigm, cash does not alter the fundamental long term path of income generation of the household as the underlying productivity is stagnating. Seminal economists such as Gary Becker have espoused Human Capital Theory, which argues that education and targeted training raise an individual's innate productivity, which in turn exponentially increases their marginal value in the labour market. States design Active Labour Market Programs (ALMPs), especially vocational training, to correct these market failures at the local level by heavily subsidising the specialised skills that private employers demand. Entrepreneurship training is often substituted for traditional vocational training in developing economies where more than 70% of the labour force is often absorbed by the informal sector. This is aimed at providing the basic financial, marketing and inventory management skills required to successfully run small, micro-enterprises.

But the lived reality of poverty is seldom a clean dichotomy. Systemic poverty is so complex and multi-faceted that marginalised people almost always face multiple overlapping constraints simultaneously. Behavioural economics also plays a crucial role in this theoretical landscape, recently acknowledged. The theory of scarcity suggests that the heavy cognitive load of extreme poverty, the constant, exhausting mental calculation of survival, prevents optimal long-term decision-making. Cash transfers, in theory, address this severe cognitive burden, rapidly improving psychological well-being, decreasing cortisol levels, and freeing up mental bandwidth, which leads to significantly better economic planning and future orientation (Haushofer & Shapiro, 2016). In contrast, good skills training programs generally include modules on non-cognitive "soft skills," community mentorship, and psychological empowerment that can also boost agency, grit, and self-efficacy. Indeed, it is essential to understand these different theoretical paths to be able to correctly interpret the wealth of empirical data generated between 2012 and 2017.

III. The Case for Cash Transfers: Empirical Evidence (2012-2017)

The period 2012-2017 was a key one, marked by a fundamental paradigm shift in the evaluation of cash transfers, largely driven by the massive institutionalisation of rigorous RCTs. In the policy area, the pride of place has traditionally been occupied by conditional cash transfers (CCTs), such as Progresa/Oportunidades in Mexico. The programs imposed strict behavioural conditions to be followed before funds were granted, such as verified school attendance or required maternal health check-ups. A landmark systematic review of cash transfer programs was undertaken by Baird, Ferreira, Özler and Woolcock (2014) comparing conditional cash transfers (CCTs) and unconditional cash transfers (UCTs). Both modalities were found to significantly improve schooling and baseline consumption outcomes, but CCTs had a somewhat larger impact on the explicitly conditioned outcomes. But the huge administrative and logistic costs of monitoring conditions often sharply reduce the cost-effectiveness of CCTs. Many pragmatic policy makers increasingly turned to UCTs.

The most rigorous empirical defence of UCTs during this period is by Haushofer and Shapiro (2016), who conducted a rigorous evaluation of the GiveDirectly program in rural Kenya. Using very large, unconditional cash transfers delivered directly via digital mobile money infrastructure (M-Pesa), the research revealed large, immediate short-run impacts on household consumption, productive asset holdings, and measurable psychological well-being. Crucially, they found no evidence whatsoever of increased spending on so-called "temptation goods" such as alcohol or tobacco, a finding that directly and empirically challenged the all-too-common, paternalistic narratives often held by donor organisations. The free flow of cash enabled households to invest heavily in durable assets (such as replacing thatch roofs with iron sheets, which reduces maintenance costs and health risks) and to buy livestock, strongly suggesting a clear pathway to sustainable, independent livelihood improvements.

Cash transfers are a profound tool for development effectiveness. Macours, Schady and Vakis (2012) found that in Nicaragua cash transfers improved immediate household consumption but also had deep and long-lasting effects on cognitive development in early childhood. Cash interventions responded to an important intergenerational dimension of sustainable livelihoods by offering a quick change toward behavioural choices that reduced maternal stress and allowed parents to invest better in nutrition and stimulation. It is essentially enabling families to invest in the early human capital of the next generation, breaking the cycle of poverty by reducing the immediate financial burden.

Bastagli and colleagues (2016) produced an extensive and strong review for the Overseas Development Institute (ODI), bringing together complex evidence from across the world. They showed systematically that cash transfers can reliably result in substantial increases in total household expenditure and food security indicators. Significantly, on the specific issue of livelihoods, the comprehensive review found that cash transfers often led to a significant increase in agricultural inputs (seeds, fertiliser), ownership of livestock and engagement in non-farm micro-enterprises. Cash transfers offer a strong and secure safety net that effectively enables risk-averse households to undertake calculated high-risk economic risks, moving from bare-subsistence strategies to more profitable, commercialised livelihood activities.

IV. The Case for Skills Training: Empirical Evidence (2012-2017)

Skills training interventions have been the go-to, socially acceptable policy response for governments to tackle endemic youth unemployment and promote sustainable livelihoods. However, from 2012 to 2017, a huge accumulation of rigorous econometric evidence has painted a much more nuanced and often pessimistic picture of their actual efficacy. Kluve and Weber (2015) carried out an extensive and very influential meta-analysis of recent assessments of active labour market programs across the globe. They found that while training programs tend to have little or no effect, or even a negative effect, in the short run (because of “lock-in effects” as participants significantly reduce their active job search while sequestered in training), they do tend to have marginally positive impacts on formal employment and earnings in the medium to long run, especially for women.

Despite this broad, generally positive long-term trend, the results in developing countries, in which large informal markets dominate the economic landscape, are extraordinarily variable and often discouraging. Hirshleifer, McKenzie, Almeida, and Diris (2016) looked at a big government-run vocational training program for the unemployed in Turkey. The empirical results were starkly sobering: the expensive training did succeed in imparting relevant, measurable technical skills, but compared strictly to the control group, it had statistically insignificant impacts on the overall employment rate and subsequent earnings of participants. The study was rather suggestive that in macroeconomic environments with high structural unemployment and low demand, training might just move a few select individuals up the hiring queue, rather than creating any new, additive livelihood opportunities. This results in high "displacement effects" where trained workers simply displace untrained workers without increasing the total economic pie.

Ibarrarán, Kluve, Ripani and Shady (2014) also carefully analysed the long-run, structural effects of a large-scale youth training program in the Dominican Republic. They employed a rigorous RCT design and found that although there were some very modest positive impacts on formal sector employment specifically for young women, there was absolutely no statistically significant impact on overall employment probability or aggregate earnings for young men. These disappointing findings are a stark reminder of a critical, often overlooked limitation of supply-side economic interventions, that the artificial creation of human capital does not necessarily or automatically create local labour demand.

Many donor interventions aggressively reacted to the obvious limits of formal wage employment in the developing world by redirecting the focus to entrepreneurship training. Cho and Honorati (2014) have provided a definitive meta-regression analysis of these entrepreneurship programs across developing countries. Empirically, they found that these programs were successful and consistent in improving theoretical business knowledge and self-reported business practices, but their actual translation into tangible outcomes like greater business creation, demonstrably higher sustained incomes, or secondary job generation was substantially weaker and often non-existent. The growing evidence from this period indicates that the isolated teaching of abstract business skills without concurrently addressing parallel, binding constraints such as lack of access to affordable microfinance or credit has been consistently unsuccessful in leading to sustainable enterprise growth.

V. Comparative Analysis of Livelihood Impacts

For a direct comparison of cash transfers and skills training, we should look at specific environments where the fundamental constraints – liquidity and human capital – are simultaneously tested or in direct competition. One of the most seminal studies in this particular domain in the 2012-2017 timeframe was that of Blattman, Fiala and Martinez (2014) in Uganda. They evaluated rigorously the government's Youth Opportunities Program (YOP), which provided large unconditional cash grants (~$382 per person) to groups of young people that they formed themselves. Although the grants were earmarked by the state for vocational training and business start-up materials, they were largely unmonitored and recipients were left to their own devices in terms of what to do with the money. The study produced some truly staggering results: four years after the intervention, the cash grants led to a 41% increase in real earnings and 57% more productive work hours. "The beneficiaries mainly used the cash drop to learn a trade, buy raw materials and tools independently. This has shown beyond any doubt that, when the binding liquidity constraint is removed, the poor often take the initiative and invest efficiently in their own human capital, often bypassing the state training systems altogether.

Blattman and Ralston (2015) went further with this revolutionary idea by reviewing a large body of evidence from labour market programs in only poor and fragile states. They always and repeatedly cited that raw capital drops (unconditional cash transfers) generally and vastly outperformed traditional, structured skills training, both in absolute impact magnitude and relative cost-effectiveness. When marginalised individuals are given flexible cash, they intrinsically have better local knowledge about the absolute most profitable micro-enterprise opportunities in their specific geographic and social context. This hyper-local knowledge allows them to easily sidestep the often mismatched, top-down, standardised curriculum design of massive government training programs.

In order to sum up rigorous empirical findings from this 2012-2017 period, Table 1 summarises five key evaluations and their respective rigorously measured impacts on sustainable livelihood outcomes.

Table 1: Summary of Key Cash Transfer vs. Skills Training Evaluations (2012-2017)

Study / Authors	Intervention Type & Country	Primary Modality	Key Findings on Livelihood Outcomes
Haushofer & Shapiro (2016)	GiveDirectly (Kenya)	Unconditional Cash Transfer	Substantial increases in household consumption and asset holdings. No increase in temptation goods. Significant psychological well-being improvements.
Blattman, Fiala & Martinez (2014)	Youth Opportunities Program (Uganda)	Cash Grants for Training/Assets	41% increase in earnings and 57% increase in work hours after four years. Beneficiaries optimally chose their own training and tools.
Hirshleifer et al. (2016)	National Vocational Training (Turkey)	Vocational Skills Training	No statistically significant impact on employment rates or long-term earnings. High evidence of displacement effects in the labor market.
Ibarrarán et al. (2014)	Youth Training Program (Dominican Republic)	Youth Skills Training	Modest positive formal employment impacts for women; absolutely no significant impact on overall employment or earnings for men.
Banerjee et al. (2015)	Graduation Approach (Six Countries)	Bundled (Cash + Asset + Training)	Broad-based, sustained, and highly significant impacts across income, consumption, asset accumulation, and food security indices.

The cross-study comparison shows a clear and undeniable pattern. Cash transfers reliably deliver quick, easily verifiable benefits in consumption, durable asset ownership, and psychological bandwidth. They fundamentally empower beneficiaries to make economically optimal decisions regarding their livelihoods at a high level of local specificity. Conversely, skills training is plagued by the problem of very low enrolment, high dropout rates, and a fundamental, crippling mismatch between the static skills taught in classrooms and the dynamic skills rapidly demanded by the local informal economy (Kluve et al., 2017). Table 2 presents a structured comparison matrix that evaluates the different modalities against very important implementation metrics.

Table 2: Comparative Matrix of Intervention Modalities

Feature / Metric	Cash Transfers (UCTs)	Standalone Skills Training	Bundled (Graduation) Models
Primary Constraint Addressed	Severe Liquidity / Capital Traps	Human Capital / Skills Deficits	Multiple Overlapping Constraints
Implementation Cost per Capita	Very Low (highly efficient digital transfer)	High (infrastructure, trainers, materials)	Extremely High (intensive, multi-year)

Scalability Potential	Extremely High (requires minimal infrastructure)	Low to Moderate (constrained by facilities)	Low (requires immense human resources)
Typical Short-Term Outcome	Spike in consumption and asset purchase	Lock-in effect (reduced earnings)	Asset protection and skills acquisition
Typical Long-Term Outcome	Variable (depends on local market forces)	Marginal formal employment gains	Sustained, structural poverty alleviation
Target Population Receptivity	Extremely High (empowering, flexible)	Variable (often high dropout rates)	High (but requires significant time commitment)

VI. Cost-Effectiveness and Implementation Challenges

In development economics, the ultimate metric that rational policymakers use is rarely just the absolute impact. It is rather the cost-effectiveness, i.e., the exact size of impact that is created by each marginal dollar spent. It is precisely in this area that the evidence of the overwhelming comparative advantage of cash transfers for the period 2012-2017 is unequivocal. Unconditional cash transfers have very low pure administrative costs, especially when delivered electronically via emerging mobile money networks. During this period, GiveDirectly consistently reported that roughly 90 cents of every dollar donated to the charity ended up in the physical hands of the rural beneficiaries (Haushofer & Shapiro, 2016). This makes for a super lean, super efficient mechanism for global wealth redistribution and for immediate livelihood support.

In stark, unavoidable contrast, traditional skills training programs are notoriously, structurally costly. The real economic value delivered to the impoverished beneficiary can rapidly be eclipsed by the fixed overhead costs invariably associated with physical facility maintenance, expert trainer salaries, bureaucratic administrative oversight and consumable training materials. Hirshleifer et al. (2016) starkly point out that in order for a publicly funded vocational training program to achieve even a modest return on its investment, the average cost of $1,000 per participant must be offset by a very large and enduring increase in that participant's market wages. There is a large volume of empirical evidence from 2012 to 2017 that strongly suggests these high financial returns are almost never realised in practice. Many stand-alone training programs are highly cost-ineffective when strictly compared to simply giving the equivalent program cost directly to the poor as a cash grant.

VII. Discussion: Towards a Synergistic Approach (Graduation Models)

The academic schism between cash transfers versus skills training is a false and counterproductive one, but cash has a strong financial math argument. The best and most compelling evidence that has emerged during the 2012-2017 evaluation period points to the need for aggressive simultaneous tackling of several structural constraints for actual, sustainable livelihood creation for the ultra-poor. If a poor family is not given the financial capital to start a simple business and the basic mathematical ability to run it, then solving either of these problems alone will necessarily produce suboptimal, ephemeral results.

This simple insight has resulted in the global application of the "Graduation Approach", a very structured, multidimensional model of intervention pioneered by BRAC. A landmark, watershed evaluation of the Graduation model was conducted across six different countries using RCTs by Banerjee et al. (2015) in Science. The intensive program explicitly combined a major productive asset transfer (effectively a large, in-kind cash transfer), temporary consumption support (regular, predictable cash stipends to prevent immediate starvation), technical skills training related to the specific asset, and intensive, ongoing life coaching. The empirical findings were overwhelmingly positive, uniform and sustained long after the program concluded. The bundled approach also led to sustained and structural improvements across a wide range of welfare dimensions, including per capita income, nutritional consumption, durable asset accumulation, and female mental health.

VIII. Conclusion

The unparalleled volume of rigorous empirical evidence generated between 2012 and 2017 offers indispensable, paradigm-shifting insights into the comparative efficacy of government interventions specifically designed to create sustainable livelihoods. Unconditional cash transfers have been conclusively shown to be a highly scalable, ruthlessly cost-effective, paternalism-free policy approach to immediately raising the baseline welfare and latent productive capacity of the global poor. Cash without strings attached directly enables marginalised people to make hyper-localized investments in their own economic livelihoods at the optimum scale, often with massive returns, by quickly relieving crushing liquidity constraints.

By contrast, large stand-alone skills training programs have consistently delivered highly variable, stubbornly expensive, and often deeply disappointing results in the developing world. Training alone is rarely, if ever, enough to create sustainable jobs in capital-starved, highly informal economies, fundamentally constrained by high implementation costs, severe labour market mismatches, and inevitable displacement effects.

The ultimate solution for enlightened development policy, however, is not to give up on human capital development altogether but to combine it intelligently with immediate financial relief. The empirical evidence is staggering: multifaceted graduation programs have achieved tremendous success, and they demonstrate unequivocally that there is a powerful transformative economic synergy created by the seamless combination of direct capital injections, highly targeted context-specific skills training, and continuous mentorship. “This holistic synergy has the unique ability to permanently lift ultra-poor households out of intractable poverty traps. Modern policymakers need to aggressively move beyond the simplistic, binary debate of “cash versus training” and instead relentlessly focus on designing context-specific, comprehensively bundled interventions that accurately address the multiple, overlapping structural constraints faced by the world’s most vulnerable populations.

References

[1]. Baird, S., Ferreira, F. H., Özler, B., & Woolcock, M. (2014). Conditional, unconditional and everything in between: a systematic review of the effects of cash transfer programmes on schooling outcomes. Journal of Development Effectiveness, 6(1), 1-43.

[2]. Banerjee, A., Duflo, E., Goldberg, N., Karlan, D., Osei, R., Parienté, W., ... &Udry, C. (2015). A multifaceted program causes lasting progress for the very poor: Evidence from six countries. Science, 348(6236), 1260799.

[3]. Bastagli, F., Hagen-Zanker, J., Harman, L., Barca, V., Sturge, G., Schmidt, T., & Pellerano, L. (2016). Cash transfers: what does the evidence say. A rigorous review of programme impact and of the role of design and implementation features. London: ODI.

[4]. Blattman, C., Fiala, N., & Martinez, S. (2014). Generating skilled employment in developing economies: Experimental evidence from Uganda. The Quarterly Journal of Economics, 129(2), 697-752.

[5]. Blattman, C., & Ralston, L. (2015). Generating employment in poor and fragile states: Evidence from labor market and entrepreneurship programs. World Bank Group, Working Paper.

[6]. Card, D., Kluve, J., & Weber, A. (2015). What works? A meta analysis of recent active labor market program evaluations. NBER Working Paper No. 21431.

[7]. Cho, Y., & Honorati, M. (2014). Entrepreneurship programs in developing countries: A meta regression analysis. Labour Economics, 28, 110-130.

[8]. Haushofer, J., & Shapiro, J. (2016). The short-term impact of unconditional cash transfers to the poor: experimental evidence from Kenya. The Quarterly Journal of Economics, 131(4), 1973-2042.

[9]. Hirshleifer, S., McKenzie, D., Almeida, R., & Diris, C. (2016). The impact of vocational training for the unemployed: experimental evidence from Turkey. The Economic Journal, 126(595), 2115-2146.

[10]. Ibarrarán, P., Kluve, J., Ripani, L., & Shady, C. (2014). Experimental evidence on the long-term effects of a youth training program. ILR Review, 67(1), 171-214.

[11]. Kluve, J., Puerto, S., Robalino, D., Romero, J. M., Rother, F., Stöterau, J., ... & Witte, M. (2017). Interventions to improve the labour market outcomes of youth: a systematic review of training, entrepreneurship promotion, employment services, and subsidized employment interventions. Campbell Systematic Reviews, 13(1), 1-288.

[12]. Macours, K., Schady, N., & Vakis, R. (2012). Cash transfers, behavioral changes, and cognitive development in early childhood: Evidence from a randomized experiment. American Economic Journal: Applied Economics, 4(2), 247-273.