

Cash transfers in the context of pro-poor growth

Hot topic paper for OECD/DAC Povnet Risk and Vulnerability Task Group

John Farrington, Paul Harvey and Rachel Slater
London, ODI
Revised, July 2005

Abstract

There has been a stark dichotomy between development approaches concerned with the productive sectors, usually focusing on enhancing the *supply* of goods and services, and those concerned with social protection, which have been widely regarded as a drain on public resources. This paper argues that the two are complementary: as well as providing safety nets, the latter reduce vulnerability to risk and so facilitate engagement by the poor in more productive enterprises; they also reduce the dangers of an outflow of capital from productive activities to meet domestic shocks and stresses. However, transfers to the poor under social protection have generally been in kind, often taking the form of free or subsidised food. Recent experience in both development and rehabilitation contexts suggests a larger niche for cash transfers than many suppose. Many types of cash transfer would complement each other, and would also be complementary to other forms of transfer, such as “in-kind”, as well as to wider public investment. By allowing people to exercise choice, they switch emphasis from the *supply* to the *demand* side, at a single stroke increasing local demand for food and other products, and reducing the disruption to local markets that transfers in kind may cause. Preconditions for success in cash schemes include: government commitment to reducing poverty; long-term availability of funds either from taxation or from donor resources; simple, transparent targeting criteria; automatic and robust delivery mechanisms and transparency regarding people’s entitlements, so that people become aware of, and may exercise, their rights. Conditionality might also be appropriate but will depend on the objectives of the cash transfer and will need to be judged on a case by case basis. With these conditions in place, cash transfers are likely to be less costly to administer, no more prone to corruption than other types of transfer, and potentially cost-effective reducing certain types of poverty in certain contexts. They are not a panacea, however: they will complement (and have to be complemented by) other instruments, and policy will still have to remove social, market and administrative discrimination against the poor if they are to engage more fully in growth processes.

Why is the topic important for pro-poor growth?

The poor benefit from growth *either* through productive activity, i.e. through some combination of:

- greater productivity and higher incomes as farmers or other entrepreneurs,
- higher wages and/or more employment as labourers,
- lower product prices as consumers, or
- qualitative improvements in any of these,

or through subsidies and transfers (which are funded via the taxation of productive activity). The poor can be categorised broadly as those able to engage in productive activity, but who, owing to vulnerability and weak asset status, may engage only sporadically – and those unable to engage, i.e. the very young or very old, sick or disabled, or widows with large numbers of dependents. They are found in both urban and rural contexts – within the latter, predominantly (but by no means exclusively) in areas weakly integrated into market-oriented infrastructure and institutions, and often characterised by climatic variability and poor natural resource conditions. These types of poverty, and the contexts in which they occur, form the backdrop for this paper and are explicitly considered in Table 2, as also are variations in context from “emergency” to “stability”.

Our concern here is with transfers as one type of instrument within the broad category of “social protection”. This comprises well-known elements of social assistance (pensions, feeding schemes etc) with measures aiming to keep the poor engaged in production, or to help them to re-engage following a crisis.

There are longstanding debates over where the balance of public expenditure should lie - in allocating more to growth, or more to transfers or related measures targeted towards particular subcategories of the poor. There are tradeoffs among these, particularly where transfers are used primarily for consumption purposes with little bearing on growth, and the danger of “crowding out” investment in growth is potentially very real. However, there can be “win-win” complementarities, as when, for instance, part of a transfer is used for productive investment (either immediate, such as fertiliser, or longer term, such as health and education – and a number of the transfers reviewed below are “conditional” on participation by the recipient, or by family members, in health or education programmes). Even where cash transfers are used for consumption purposes this may have positive multiplier effects on local economies and may free up other household assets for productive purposes so care needs to be taken in making to firm a distinction between consumption and productive uses.

Other ways in which transfers and related measures can complement growth is by helping to create or retain assets, and so reduce the vulnerability of poor people to shocks and stresses. In overall terms, transfers may be a relatively minor instrument here, the more important ones being policy towards foreign direct investment, trade, infrastructure, technology, capacity building and so on. But they may be particularly important for the poor – and when, for instance, they are linked to savings or the provision of insurance of various kinds they can help to reduce risk and vulnerability. Our concern here is not primarily on broad questions of how to manage R & V, though we note:

- the need for different instruments to deal with different types of risk (such as covariate and idiosyncratic),
- the fact that markets for the means of protecting against risk (such as insurance) are highly imperfect, especially for the poor, and are failing to keep pace with the additional risk that globalisation brings
- the fact that productive activity necessarily involves risk, and that those better equipped as entrepreneurs will better be able to prevent, mitigate or cope with risk than the poor

- that the same types of risk appear much more threatening to the poor than to the better off, and tend to keep them in low-productivity near-subsistence activities, so perpetuating inefficiency and inequity.
- but the poor and better off often face different kinds of market. In particular, perceptions of high risk among the poor may encourage them to enter interlocked market arrangements (on unfavourable terms) with a local patron who offers them some degree of social protection. Discrimination based on gender, caste, class and creed may also exacerbate vulnerability.
- that funds are fungible – i.e. they flow from productive to domestic spheres (or vice versa) according to where the latest shock or stress occurs, so that policies need to address these spheres jointly, not singly. Left unchecked, the loss of productive assets can lead to downward spirals of poverty
- that households have strategies of their own for *risk management*, such as entering into low risk activities or diversifying into portfolios of activities with differing risk profiles – for example, growing more drought resistant crops, entering into petty trading or firewood collection, seasonal migration etc. Traditional strategies for *risk coping* include self-insurance using savings (for example, in the form of small livestock to be sold off when the need arises), and informal reciprocal support within the community.

Against this background, this paper examines the role of cash transfers in several guises: as long-term social security payments, as conditional payments, as “one-off” payments, such as post-emergency; as payments to the able-bodied, such as “cash for work”, or as support linked to other instruments, such as savings or insurance. All of these help to expand poor people’s *demand* for goods and services – whereas conventional interventions are practically all *supply*-focused, a distinction to which we take up at various points during the paper.

The evidence reviewed below suggests that cash transfers have a number of positive attributes, but that they are not a panacea – the policy scope for introducing cash transfers has to be viewed against:

- how they complement or replace both the measures outlined above, and alternative forms of transfer such as the distribution of free or subsidised food;
- how they can complement (or be complemented by) broader measures such as higher investment in health or education, and improved pro-poor growth policies (regarding trade, foreign direct investment, public investment prioritisation, technology, regulatory reform, and so on)
- how well they can be targeted to specific sub-sets of the population
- what role conditionality can best play
- their impact on intra-household relations, especially gender relations
- what impact they have on local markets – both whether they are inflationary and whether they have positive multiplier effects
- how well they can ease transitions from emergency to normal situations
- how affordable (and financially sustainable for the long term) they are
- how far they can be designed to promote rights-based approaches to development

The sections that follow first review evidence on the performance of cash transfer schemes, and then examine areas of continuing debate before arriving at policy conclusions.

What do we know so far and/or still need to know?

Introduction

By contrast with conventional views that social protection is a drain on public resources, some have recently argued that social protection can be productive, stimulate investment and be potentially transformative (Devereux & Sabates-Wheeler 2004). Other reviews (e.g. Ravallion, 2003) argue for an increased role for cash within social protection. This is not a new position and was strongly argued by Sen more than twenty years ago but is coming back into fashion (Dreze & Sen 1989; Sen 1981). Recent work on agriculture has demonstrated the scope for synergies between livelihood protection and promotion (Farrington et al, 2004), and the role of cash transfers in strengthening the “demand side”.

Cash-based approaches have long been a major feature of OECD countries’ own social protection efforts, but are at the very early stages in developing countries (Box 1). Proponents of cash-based approaches argue that they can be more cost effective and timely, allow recipients greater choice and dignity, and have beneficial knock-on effects for local economic activity. Sceptics fear that cash approaches are often impractical due to additional risks of insecurity and corruption, and that targeting cash may be more difficult than commodities. In a relief context, there has been some interest in cash-based responses, but some donors remain tied to longstanding patterns of resource availability (i.e. food) and expertise in implementing cash based responses remains limited. Our interpretation of the possible strengths and weaknesses of cash transfers is given in Table 1, but it should be stressed that some of the potential concerns around cash have not been borne out in practice.

Table 1: Potential Advantages and Disadvantages of Cash Based Approaches

Potential Advantages	Potential Concerns
<i>Cost efficient</i> – lower costs of distributing cash than commodity based alternatives	<i>Inflationary risks</i> – if an injection of cash causes prices for key good to rise, then recipients will get less for their money and non-recipients will be worse off.
<i>Choice</i> – cash allows recipients to decide what they should spend the money on.	<i>Anti-social use</i> – cash can be used to buy anything, including e.g. alcohol
<i>Multiplier effects</i> – distributing cash can stimulate production and trade in e.g. agriculture	<i>Security risks</i> – Moving cash around may be risky for implementing staff and for the recipients.
	<i>More difficult to target</i> – even the wealthy will want to be included, whereas in-kind transfers may be less attractive

<p><i>Avoids disincentive effects</i> – unlike commodities (food, shelter) cash is unlikely to discourage local trade or production.</p> <p><i>Fewer costs for recipients</i> – Cash costs less than food to transport from the distribution site to recipients' homes.</p>	<p><i>More prone to diversion</i> – cash may be more easily diverted where corruption is high and prone to seizure by armed groups in conflicts.</p> <p><i>Disadvantages women</i> – women may be less able to keep control of cash than in-kind alternatives</p> <p><i>Less available from donors</i> – who may be more willing to provide commodities than cash</p> <p><i>Consumption / nutrition</i> – if a transfer has particular food consumption or nutrition objectives then food may be more effective.</p>
---	--

Box 1: Cash Transfers in Rich and Poor Countries

While cash transfers are the principal component of social safety nets in industrialised market economies, they play a far more limited role in developing economies. Very few developing country governments allocate more than 1% of their gross domestic product (GDP) to cash based social assistance programmes, against an average of 8% in OECD countries, where more than 80% of the population is covered by one or more forms of cash transfer programme, against less than 10% of the workforce in Africa and Asia.

Source: (Tabor 2002a)

In the field of *emergency relief* an ongoing literature review has suggested two main findings. The first is that cash and voucher approaches remain largely under-utilised in the humanitarian sector. The second is that there is a growing amount of experience with cash and voucher approaches and that the absolute dominance of commodity based approaches is being eroded. Examples include: a recent cash grant distribution in Somalia; ongoing cash relief in Ethiopia; cash for work in DRC and Afghanistan; cash for flood relief in Mozambique; cash payments in Bam, Iran; the work of CRS to pioneer seed fairs and vouchers; cash for shelter in Ingushetia; and an urban voucher programme in the West Bank (Harvey 2005).

The renewed interest in long-term welfare safety nets and social protection may also provide opportunities for reinvigorating the debate around *linking relief and development*. There is an emerging consensus among development specialists on the need to pay greater attention to the basic welfare needs of populations living in difficult environments. There might be opportunities both for welfare safety nets to be expanded during periods of crisis to help people to deal with shocks, and for cash transfers that begin as emergency interventions to be developed into longer term social protection programmes.

In the *development and welfare* contexts, there has been considerable interest in cash transfers to reduce poverty among those unable to engage fully in the productive economy (widows, the elderly etc), to stimulate access to health and education (see Box 2), and to access agricultural inputs (Box 4). But the capacity of transfers to stimulate demand on the local agricultural economy – potentially high, given that some 75% of additional income among the poor is typically spent on food – has received little attention.

The following sections review evidence on cash-based transfers in relief and development contexts, addressing questions of impact and cost-effectiveness, preconditions for success, targeting, and affordability. The evidence base is diverse – in most of the emergency relief cases, donors and NGOs play important roles. Some of the development cases (e.g. Zambia – Schubert and Goldberg, 2004; and Malawi – Levy et al 2002) are “pilot” cases with strong donor involvement, so that any effects currently reported may overstate the impacts of cash transfers, once these are scaled up and managed by government. However, a number of the development cases have substantial government involvement – the social protection cases in India reviewed by Nayak et al (2002) and Farrington et al (2003) are exclusively government-designed and operated, as are those in South Africa (Case and Deaton, 1998), whilst the Brazilian *Bolsa Escola* (now *Bolsa Familia* - de Janvry et al, 2005) and Mexican *Progresa* cases (Barrientos and de Jong, 2004) have some donor involvement but strong government commitment. How far the results of pilot approaches and those with heavy donor/NGO involvement can be scaled up without loss of effectiveness, and sustained over the longer term, is open to question and, in the overview that follows, these are treated with some caution.

Impacts of cash transfers

Principles and criteria

Impact can be assessed against the costs of making an in-kind transfer compared with that of making cash available to purchase the same amount in the local market. Costs of transfer have to include the risk of theft or corruption. Estimates have to be adjusted if prices rise because local markets are unable to meet additional demand easily. A proportion of in-kind transfers are often sold by the recipients to purchase other essential goods often at disadvantageous prices. In-kind transfers also often impose additional costs on recipient households, such as transporting items from the distribution site. These additional costs for recipients need to be taken into account in cost-effectiveness calculations. Existing evidence on the cost effectiveness of different types of transfers is limited and making fair comparisons is fraught with methodological difficulties about which costs to include. In-kind transfers have clear transport and logistic costs but it is important to include the full administrative costs of making cash transfers in any comparison.

Secondary effects can also be important, and in some contexts semi-formal remittances and transfers through family links, religious groups, kin groups, death and burial societies, rotating fund societies and other forms of community association play a more substantial role in income maintenance and risk management than do official transfers.. The relationship between formal and informal transfers is complex: on the positive side, formal transfers may release for more productive use what had previously been tied up in informal transfers; on the negative side, they may displace

informal mechanisms altogether, so that communities and households are left with no fallback if formal transfers are discontinued¹.

Other impact assessment criteria include those of:

- “spending choices” – the flexibility allowed by cash transfers can be used positively (e.g. spending on necessary consumption or investment) or negatively (e.g. spending on alcohol):
- “who spends?” – male dominance in spending patterns possibly being undesirable as women may be less likely to control cash than in-kind transfers.
- incentives via conditionality – do cash payments have a particular niche in promoting desirable consumption of some services (e.g. education for girls; mother and child services; continuing education) which may be difficult for in-kind services to achieve?

None of the examples given below responds to all of these criteria, and evidence on secondary effects is particularly sparse, but the overall evidence suggests that, in some contexts and for some categories of the poor, cash transfers have considerable advantage over transfers in kind.

Examples of impact

A new generation of “conditional” cash transfer programmes in Latin America specifically target children from poor households – the cash provided being conditional on specific behaviour by recipient households such as school enrolment or regular use of primary healthcare (Rawlings & Rubio 2003; Smith & Subbarao 2003; Tabor 2002a; Tabor 2002b). Evaluations of these Latin American programmes have been broadly positive (Box 2 – see also de Janvry et al on Brazil’s *Bolsa Escola*). Though both the Brazilian and Mexican cases have some involvement from the World Bank and donors, the commitment of the respective governments to sustained implementation is strong.

Box 2: Outcomes of conditional cash transfers in Mexico

The Mexican government introduced *Progresa* in 1997 to support poor households with children in rural areas. The programme pays subsidies conditional on children attending school and mothers and infants attending regular primary health care and parenting sessions. Combined school and consumption subsidies are provided of up to US\$75 per household per month. Targeting is first geographic and secondly at the poorest households based on a proxy index. The programme reached 2.6 million or 40% of rural households in 2002, and has now been extended to urban areas.

The designers of *Progresa* incorporated programme evaluation from the start. Key findings are:

¹ IFPRI panel studies in Ethiopia and Malawi suggest that there is no conflict between cash transfer and informal social protection, given the impacts on social capital that repeated drought has had among the poorest (Hoddinott, 2005)

- The programme is well targeted with 58% of benefits going to households in the bottom quintile and 80% going to households in the bottom two quintiles of the national income distribution.
- The programme provided mean benefits equivalent to 20% of household income, reducing the poverty gap by 36%.
- Enrolments have risen in participating households, especially for secondary education and for girls.
- Participating households show reduced stunting for children aged 12-36 months, despite evidence that nutritional supplements are shared within the households.
- Among new-born babies, the incidence of illness declined by 25%. Adults report 18% fewer days in bed due to illness.
- Women report having greater control over household resources

Source: (Barrientos & de Jong 2004)

Evidence on old age pensions in India (Farrington et al. 2003) suggests that they offer considerable scope for poverty reduction, but are seriously under-funded. In parts of Orissa where pensions were doubled for a period, there was anecdotal evidence of a reduced rate of hunger-related deaths and less abandoning of the elderly. Where payments are reliable and regular, they smooth consumption, reduce price spikes and slumps and thereby enable agriculture-dependent households to anticipate demand and make sensible decisions about investment. Whilst the calls on pensions are many, at certain times in the year they provide important cash for agricultural labour, inputs and transport costs. Pensions in Namibia and South Africa have played an important role in poverty reduction and enabling old people to bear some of the burden of the HIV/AIDS epidemic, as well as permitting some investment in long-term human capital assets such as the grandchildren of recipients (Case & Deaton 1998; HelpAge 2004).

An example rooted in the productive economy is provided by the experience of a GTZ pilot programme in southern Zambia, where initial evidence suggests that transfers targeted at the poor have generated multiplier effects (Box 3).

Box 3: Building multipliers and overcoming distortion in markets in Zambia

Though targeted households are 'destitute', often headed by elderly women with little capacity to work and containing a high proportion of children, especially orphans, a pilot cash transfer programme in Zambia, covering the poorest 10% of households in 143 villages and 5 townships, was established on the premise that additional purchasing power would create multiplier effects for the local economy.

As a December 2004 evaluation confirmed, the local economy was stimulated through the purchase of food, soap and blankets, but also of agricultural inputs. New forms of labour exchange emerged as destitute, labour-constrained households used their cash to rent in labour and draught power in order to plough and weed fields. Field visits suggested that transfers have not had inflationary effects on input prices, nor distorted local labour markets (which food aid is reported to have done in 2002 and 2003). Finally, cash enabled households to make investment decisions between agricultural

subsectors (for example maize versus small stock production) in response to real market signals, rather than signals distorted by inputs.

Source: Schubert and Goldberg (2004)

An example from Malawi, also donor-supported (Box 4), indicates how different types of transfer can have different effects on the local economy, and in turn, be affected differently by wider economic events. Other observations from Malawi ((Harnett & Cromwell 2000) indicate that, although most of the recipients of vouchers exchanged them for cash to buy basic household necessities, the money saved enabled them to work on their farms, rather than having to do casual labour during the planting season, and so gave rise to productive investment.

Box 4: Cash transfers, real value and complementary responses in Malawi

The Dedza pilot focused on three types of transfer to selected beneficiaries: a monthly cash transfer; monthly distribution of vouchers; and in-kind transfer (a package of goods including blankets, cooking utensils and soap in September and maize meal during the hungry months of October to May). Cash was found to be the simplest type of transfer to manage whilst food transfers distorted markets, as did vouchers since they could only be redeemed at recognised outlets to the disadvantage of others.

The value of cash transfers was undermined by the exceptional increase in maize prices during the 2001-2002 season: in May 2001, the monthly cash transfer purchased 70 kg of maize, but only 16kg by February 2002. As a general lesson, cash transfers are likely to be inadequate in the absence of measures to address wider economic instability.

Source: Levy *et al* (2002)

Other sources provide further evidence of impacts on markets. In general, where cash is being provided as emergency relief, the majority of evaluations show that it is spent on immediate consumption (Harvey, 2005). However, where the situation is less acute or where the amounts of cash provided are more generous there is limited evidence of investment in productive purposes. For example, a review of Oxfam's cash for work project in Turkana, found that larger sums were more likely to be spent on productive assets such as livestock or setting up small shops (Frize 2002). A recent review of cash transfers in Ethiopia suggested that relatively generous provision enabled poor households to renegotiate contractual sharecropping and livestock arrangements with richer households, addressing some the structural constraints to poverty (Adams 2005).

The evidence suggests that even in remote or conflict-affected areas, markets are often surprisingly robust and traders do respond to increased demand. If responses are weak, then the effect of increased cash availability may be inflationary, though, as Dreze and Sen (1989) have argued, upward pressure on food prices may in turn generate supply response.

As regards in-kind transfers, there has long been a debate over whether food aid lowers local prices for food. This could potentially have a positive impact on the food deficit poor, but a negative impact on those trying to sell surplus, such as farmers (Barrett & Maxwell 2005). These impacts may be stabilised or reversed, and incentives for local investment in agriculture increased, where food is acquired from local markets rather than distributed from donor surpluses. Similar effects might occur from the post-emergency distribution of shelter materials. There have also been questions over the cost of storing and distributing e.g. food commodities. For India, the World Bank has estimated that the total cost of acquiring, storing and distributing subsidised food under the Public Distribution System lies between one and two rupees per rupee of food delivered, depending on assumptions regarding corruption (World Bank, 2003). Whilst comparable estimates of the cost of delivering cash transfers are not available, it appears unlikely that they would be as high.

Potentially, the impact of cash transfers can depend on who in the household receives the benefit. Cash transfers targeted at women may have a stronger impact on the living standards of their children, particularly girls. Whilst cash transfers may have equalising impacts on bargaining power within some households, negotiating household power relations can be a long and painful process and cash transfers do not provide a magic bullet in this regard. In some contexts, women have expressed a preference for food over cash because they are better able to control its use. The general picture from a range of evaluations (Harvey, 2005) is that women are not especially economically disadvantaged by cash compared with in-kind transfers (Khogali & Takhar 2001a).

Preconditions for success in cash transfers

Targeting

Evidence on the success of targeting is mixed. Whilst the *Progres*a project (Box 2) seems to have been successful in targeting, as does also the GTZ project in southern Zambia, farmers in Malawi rejected the notion of targeting in relation to subsidised inputs on the grounds that they were all poor, and that it would be divisive (Levy et al, 2004). Among the most disturbing evidence on targeting comes from India, where errors of inclusion and exclusion often occur as a result of efforts to “vote catch” by politicians, abetted by administrators, as well as from plain rent-seeking. For instance, data from some 5000 households in 12 villages indicated that, although ostensibly focused on the poor, the beneficiaries of subsidised food distribution were predominantly from middle income quintiles, the situation being even worse in respect of social pensions (Farrington et al, forthcoming). However, there is little evidence that targeting cash is significantly more difficult than targeting other forms of assistance. Much of the evidence on cash based approaches seems to reinforce the more general point that targeting any form of assistance effectively is difficult and that there is a strong case to keep targeting criteria as simple and robust as possible. There may also be a case for universal benefits, of which child benefit payments in the UK are an example to both minimise the costs of targeting, maximise coverage and encourage support from better off and more politically influential constituencies.

Area-based targeting has strong appeal since in many countries poverty is concentrated in areas weakly integrated into infrastructure and market-oriented institutions, but this is problematic, given the likelihood of fostering dependency. An alternative may be to “weight” existing cash payments upwards for poor areas – thus, pensions, allowances and conditional transfers might be weighted upwards by 50%, or even doubled. This would have the merit of channelling additional resources to (or through) the same vulnerable groups as have been targeted nationally.

Robustness and efficiency of delivery mechanisms

The monthly amounts in which pensions are paid in India are generally too small to attract major rent seeking or politically motivated misappropriation, but there is scope for reducing errors of inclusion or exclusion at the selection stage, and for enhancing the automaticity and transparency of payments. There was no evidence that cash payments are more prone to corrupt administration than payments in kind. In India, Farrington et al (2003) argue for greater use of existing rural banks and post offices in making pensions payments

In Namibia, sparse population densities in rural areas led to the introduction of convoys of vehicles fitted with cash dispensing machines and protected by armed security guards following the privatisation of the social pensions system in 1996. These visit hundreds of designated payment points every month, and fingerprint identification methods are used for claimant recognition and verification. (Devereux 2000). In both Somalia and Afghanistan aid agencies have worked innovatively with money transfer companies used to transmitting remittances to distribute cash safely to households in insecure environments (Ali 2005).

Low corruptibility

Whilst robust delivery mechanisms can reduce the prospects of corruption, as can adequate public sector capacity building and monitoring, the prospect of large scale diversion of cash remain real, but food transfers are also known to be prone to misappropriation (Deshingkar et al, 2005). The switch from food to cash transfers in a Red Cross programme in Ethiopia resulted in ‘a significant reduction in the incidence of slippage (theft) and wastage associated with food distribution’ (Wilding & Ayalew 2001).

A strategy in some projects to decrease the likelihood of corruption has been to promote transparency about the amounts that people are entitled to. A review of Oxfam’s cash for work programme in Uganda found that beneficiaries knew the wage that they would receive for the work done. This transparency was welcomed and contrasted with previous food distributions, which they felt had not been transparent and had substantial leakage (Khogali & Takhar 2001b).

What are the big controversies, if any?

In some cases (e.g. Zambia), the introduction of cash transfers would represent net additional financial commitments; in others (e.g. India) they would require switching of resources among existing programmes. With international agencies, the issue is primarily one of switching, though this may be problematic for agencies (such as the World Food Program) long associated with transfers in kind. These situations point to four sets of issues which will take time to resolve:

- Affordability and sustainability for national programmes
- Acceptability to international agencies
- Complementarities between cash and other approaches
- “political will”

Affordability and sustainability for national governments

Affordability is a function of number of target beneficiaries multiplied by average payment. In many cases the payment is intended more as a “top up” than as a substitute wage.

Thus, in the Zambia project (Box 3) the allowance is US\$6.67 per month – well below the equivalent of “one dollar per day” extended over a month, and so is intended as a *contribution to* household living costs. If it were extended to all the 200,000 destitute households in Zambia, this would cost US\$19 M/yr – the equivalent of 4% of the annual foreign aid inflow, or 0.5% of the Zambia GDP. This certainly does not rule them out as unaffordable.

Similarly, in India pension payments are only around US\$1.60 per month from central funds (with an additional \$0.40 required as State-level contribution, but more paid by some States and less by others). By contrast, to pay cash-for-work would require over \$1 per day (i.e. at least \$20 per month) for compliance with minimum daily wage legislation. Financial capping means that social pensions in India are severely underfunded, but \$1.60 per month does make a difference to very poor households, and, to judge from problems in targeting, is something which even better off households find worth contesting. Farrington et al (2003) argue that the US\$100M/yr allocated by central government fails to cover more than a fraction of the elderly in need, and amounts to only US\$1.60 per month for those who do receive it. This total is miniscule in comparison with the US\$5.5bn paid out on other poverty focused rural development and transfer schemes, and the further US\$10.5bn paid on food procurement and subsidy. Furthermore, although we need more information on the delivery costs of cash transfer, these are likely to be lower than the costs of food distribution (almost Rs2 per rupee worth of food delivered in India) so that a higher percentage of available budgets under cash transfers would reach intended beneficiaries.

Yet, there has been political resistance to initiatives promoting wide-scale financial transfers, such as the draft 2004 Employment Guarantee Act in India. Proposed by social activists on the basis of the perceived success of schemes such as the Maharashtra Employment Guarantee Act of 1976, and consistent with the kinds of “Right to Basic Minimum Income” proposed by the International Labour Office, this was initially conceived as completely open-ended in the sense that anyone applying for work at any time had the right to be employed for as many days as s/he desired.

However, the National Advisory Council reduced this to a maximum of 100 days per household per year, and Drèze (2005) notes that a subsequent draft moved away from the principles of universality and self-selection by imposing “below poverty line” selection criteria, and allowing government to de-notify at any time the areas to which it applies. Drèze estimated that national implementation of the Act would cost around 1% of GDP. There have been concerns about the potential effect of employment guarantee on the motivation to seek work rather than rely on government as a provider, and questions around the complexity of implementation and scope for corruption at local level.

In development as in emergency contexts, the use of cash transfers differs between rich and poor countries, as rich countries have relatively strong states able to draw on significant tax revenues to fund social welfare schemes. Traditionally, these have been seen as unaffordable for developing countries. This is what Devereux (2002) describes as the ‘Catch 22 of social protection – the greater the need for social protection, the lower the capacity of the state to provide it’ (p. 5). This view, however, is increasingly being challenged, both on the grounds that poor countries could spend more of their own revenues and that international aid may have a role in supporting social protection measures in the medium and longer term. In the heavily aid dependent countries of sub-Saharan Africa the question is as much about whether donors are willing to fund social protection measures as it is about affordability for national governments. Some see efforts by certain governments (e.g. Brazil and Mexico) to engage the middle classes (whose taxes largely pay for transfers) in debates over support for the poor as signs of a commitment to long-term sustainability as a mechanism to ensure political support. Transfers may therefore not be as dictated by the best interests of the poor, but a compromise between political acceptability and best practice. India also has a set of social protection policies, including both cash and in-kind transfers, some of which have existed over several decades, and without donor support, and a commitment to sustainability can be imputed from this. However, in the case of highly aid-dependent countries, the sustainability question is more one of whether donors will commit over the long term.

Acceptability in international agencies has remained a barrier to the more widespread adoption of cash-based approaches. The way in which the architecture of the humanitarian system is structured inhibits cash-based approaches as the dominant UN actor is mandated to provide food aid and large volumes of aid continue to be tied to food surpluses in donor countries. Giving people money also seems to inspire a more deep seated reluctance on the part of aid professionals, which raises complex issues about attitudes towards the poor. Partly, this is about a loss of control: giving people money involves a transfer of choice from the agency to the affected population. The widespread assumption that people will misuse cash, for example, hints at the feelings of superiority which sometimes underpin relations with the people who are labelled ‘beneficiaries’ by the agencies concerned, a term which itself suggests the passive receipt of assistance. There are also concerns that cash transfers will create dependency on “handouts” and that incentives to seek work will be reduced. Whilst this is certainly a valid concern of policies such as employment guarantee schemes, there is little evidence so far to suggest that small, regular payments will generate such effects (Harvey 2005b).

The current likely expansion of aid budgets may create pressure on donors to spend more, and, coupled with a “freeze” on staff numbers, may prompt increased interest in cash transfers. An important question for donors is whether cash transfers open up new avenues for resources to be channelled through central government, which may be less limited by absorptive capacity constraints. Alternatively they may represent a form of development assistance which is less dependent on central government implementation channels, and so allow absorptive capacity constraints to be side-stepped. Few donors would wish to emulate the example of Colonel Gaddafi, who is known to have thrown cash from an open-top car on official visits to e.g. Malawi and Mozambique (Harvey et al, 2005), but to channel cash transfers through local government and/or through NGOs may be an option where central government is constrained.

Complementarities between cash and other approaches

Specific kinds of cash transfers are likely to be geared to particular target groups (the elderly, widows, households with young children, the able-bodied unemployed) and, in a comprehensive approach, each would be complementary to the others. Similarly, in-kind transfers, such as food distribution, may continue to have an important role to play when harvests fail, and when cash transfers alone may prove simply to be inflationary. The debate is over where the boundary between these and other approaches lies, the tendency hitherto having been to rely predominantly on in-kind transfers, particularly in emergency relief.

Inappropriate use of in-kind transfers also have negative impacts on markets which inevitably have major private sector involvement. Deeper assessment is needed of how far routine cash transfers (on the demand side) and private traders bringing in goods (on the supply side) can go towards meeting subsistence requirements whilst keeping markets reasonably stable, before resort is made to in-kind transfers. Whilst food distribution can serve as an important “safety net”, it is unlikely that private food markets will develop fully if large scale public food aid is a regular annual event.

The scope for wider complementarities also merits scrutiny: although transfers may be necessary on an indefinite basis for those chronically unable to engage in the productive economy, their role may be important for many of those who *are* able to work, but a relatively small part of overall development policy, by comparison with policies towards e.g. public investment prioritisation, foreign direct investment, trade, technology and capacity building. In areas well-integrated into the market economy, the (poverty reduction) imperatives will be to set up such policies in ways which are competitive yet poverty reducing, and to supplement them with others geared to improvements such as reduced transactions costs, reduced or mitigated risk through insurance schemes for productive and domestic purposes, and reductions in other market imperfections, such as the segmentation and interlocking which commonly face the poor. Cash transfers may allow fuller engagement by the poor in their own farming as the requirement to seek casual and unreliable off-farm work is reduced (Harnett and Cromwell, 2000), or by allowing productive investment. Cash grants “matched” to savings schemes may be able to enhance the assets of the poor and so reduce vulnerability. But much of their impact on pro-poor growth may also be either long term (such as cash transfers made conditional on attendance at health clinics,

schools or capacity building courses) and/or indirect, as unconditional transfers (e.g. old age pensions in southern Africa) are in part directed by recipients towards the education of grandchildren. In all events, a “give them dollars” approach (Hanlon, 2004) will in itself be inadequate and needs to be complemented by broader measures spanning economic and social sectors.

“Political will”

It may be much easier to persuade governments to expand cash transfer programmes where they are a partial substitute for existing social protection, than where they require “new” money. However, policymaking is not a linear process from “problem” to “enquiry” to “evidence” to “solutions” to “implementation of evidence-based solutions”. It is, rather, a process of contestation among the “solutions” proffered by different groups, often dominated by elites, and often dependent on electoral cycles, the availability of windows of policy opportunity, and the possibility of engaging the interest of policy “champions”. Thus, in India, large farmers in Punjab, Haryana and elsewhere, who produce food surpluses, have for years campaigned successfully not to lose preferential support prices for selling food to government, for subsidised redistribution to the poor located (mainly) in other States. This elite pressure led to a grain mountain of 62 million tonnes in 2002 (against about 15 million needed for food security purposes). This has prompted adverse reaction, and efforts to reduce stocks and purchases, but some trends, such as pressure on government to acknowledge a “right to food”² have inadvertently consolidated government efforts within this narrow instrument, when it would have been opportune to explore a fuller role for cash transfers. Similarly, attitudes towards certain categories of the poor – such as the elderly and widows – are often influenced by very short term political considerations: they do not generally make vocal demands on the political system, and politicians see them as a weak electoral force and, literally, a short-lived one, so that there is little perception among politicians of urgency to shift resources in this direction. But there are exceptions here: in some settings, such as southern Africa, social pensions are seen in part as a government response to the HIV/AIDS crisis and so are politically attractive.

² See www.indiarighttofood.com

Table 2: Contextualising transfers in cash and in kind

<i>Poor clients are:</i>	<i>in humanitarian crisis</i>	<i>engaged in productive economy</i>			<i>chronically unable to engage in production</i>
Objectives of transfers:	To overcome crisis	To promote “hanging in” or “re-engagement” in productive economy by reducing shocks and stresses and promoting asset creation/retention			To provide social assistance
		<i>“normal” economic conditions</i>	<i>Acute crisis in productive economy caused by drought, flooding etc</i>	<i>Chronic difficulty attributable to remoteness, succession of below average rainfall years etc</i>	
Roles of in-kind instruments	Emergency provision of food, clothing, shelter etc	(a) focus on excluded (or adversely incorporated) groups – on grounds of gender, caste, class and creed – providing e.g. feeding schemes, subsidised food transfers ...	(b) Emergency-type provision of food etc targeted to practically all within most affected areas, plus food-for-work as in (e)	(c) Possible food provision	Feeding schemes and provision of subsidised food, fuel etc, & possibly hostel accommodation
Roles of cash instruments	Cash transfers for basic needs for food clothing, shelter etc.	(d) focus as in (a), providing conditional & targeted cash allowances, but also more widely subsidise micro-credit and insurance provide matching grants to small savings schemes, and possibly provide employment guarantee	(e) Continue as in (d), but also provide e.g. public works on self-targeting basis, with cash and/or food payments	(f) as in (d), but possibly add in regular cash grants to all below poverty line, so that demand in local markets is stimulated. Employment guarantee is also an option	Allowances for the elderly, widows, disabled, HIV/AIDS -affected households, war veterans, plus targeted and conditional child allowances...
Complementary measures	In-kind transfers may complement cash approaches, as may interventions to address market failures such as road building	(g) Reservations of places in higher education, elected bodies, civil service etc for disadvantaged groups; expanded provision of health and education for them	(h) Public investment in water supply, flood control and other infrastructure	(i) Public investment, but also support to strategies such as migration by the poor, and expanded provision of health and education for them	Expanded provision of health and education
Concerns over in-kind transfers	As in (j)	(j) Potential disruption of markets and disincentive to local producers and traders; goods supplied may not match individual needs, and be sold below value in order to raise cash. High cost of storage and distribution of goods	(k) as in (j), plus timing of “exit” is crucial if markets not to be distorted	(l) as in (j)	As in (j)
Concerns over cash transfers	(m) insecurity and corruption risks, gender concerns, anti-social use, risks of inflation and whether markets are too disrupted to respond	(n) some as in (m), plus affordability, sustainability and possible disincentive/dependency effects of employment guarantee	(o) as in (m) and (n), but also inflationary effects of cash injections	(o) as in (m,n,o)	Affordability and sustainability

What sort of policy implications and suggestions for donors can we give?

Donors will be interested in the recommended best practice outlined below. Three further points will be of particular interest to them:

Capacity of governments to absorb aid: as the emergent “give them dollars” school (see e.g. Hanlon, 2004) suggests, cash transfers have the added merit of bypassing conventional donor-government relations which may suffer absorptive capacity constraints, chronic rent-seeking, or problems of “over-specification” of the conditions that government has to put in place for successful poverty reduction. However, cash transfer programmes can themselves often be administratively complex and will still face government capacity constraints. Even if the local spending power of the poor is increased substantially through cash transfers, this still leaves them facing markets, bureaucracies and political systems which disadvantage them. Cash transfers are therefore not a panacea for poverty reduction: improvement in these larger spheres, carefully negotiated between donors and governments, will also continue to be necessary.

Relief and development linkages : There is a growing interest in cash transfers in both relief operations and development assistance as part of social protection and safety net approaches. Yet the complementarities among these remain relatively unexplored. It may be possible, for instance, to tailor long term cash transfer projects to prepare for and deal with emergencies better than hitherto. By the same token, attention need to be given to ways of modifying emergency cash transfer approaches to enhance their complementarity with long-term cash transfer projects during crises.

Long-term commitment: a number of countries, particularly in sub-Saharan Africa, are highly aid-dependent. They are unlikely to have resources of their own to commit to long-term cash transfers such as old age pensions and allowances. It seems likely that donors will have to recognise that their commitment to these countries has to be long-term, and that the stability and credibility of certain kinds of cash transfer will depend on such commitment.

Recommend best practices

The evidence supports many of the positive features of cash transfers outlined in Table 1, and few of the negatives. However, some of this evidence is gleaned from donor-led pilot projects, which may show weaker performance when implemented by government on a larger scale. The evidence must therefore be treated with caution, and we need to know more about the effects of and preconditions for cash transfers as they “go to scale”. Even so, we conclude that cash transfers merit more attention in both development and humanitarian contexts than hitherto. However, expansion of cash transfers will require:

- i. the search for complementarities among cash transfers, and between them and other interventions in both productive and social protection spheres

- ii. the judicious use of conditionalities, especially e.g. in relation to child health and education, and as a means of winning over middle classes whose taxes finance such transfers in middle income countries (Brazil, Mexico, S Africa)
- iii. the judicious use of targeting. This may be self-targeting in the case of cash for work, and, in the case of other schemes, targeting by age (pensions), or civil/social status (widows, orphans, war veterans, members of indigenous tribes etc).
- iv. clear and simple eligibility criteria to help in stimulating among those targeted an awareness of their rights, and thence a capacity to hold government and delivery agencies to account. Efforts to prevent errors of inclusion via sophisticated targets in several countries (perhaps especially India) have not worked, and have merely increased corruption by placing discretion in the hands of local officials and elected representatives. There are strong arguments for spending a little more, tolerating errors of inclusion, but capturing all the needy, promoting “rights-awareness” and strengthening civil society
- v. participation by the poor in the design and implementation of cash transfer programmes is essential for their success
- vi. simple delivery mechanisms which are robust in the face of chronic rent-seeking. Evidence (e.g. Nayak et al, 2003) suggests that small, regular, automated payments are less likely to suffer corruption than large, infrequent, discretionary payments. The spread of computerisation will help in this regard, but will be much reinforced by the eventual introduction of personal identity systems, and the registration of births, deaths and marriages
- vii. monitoring and evaluation systems will be needed to identify the costs and effectiveness of different kinds of cash transfer, about which much more information is needed. The *Progresa* programme in Mexico established monitoring criteria and mechanisms from the outset, allowing clear distinctions between experiment and counterfactual.

References

- Adams, L. 2005, *HPG Background Case Study, Save the Children's Cash Responses in Ethiopia*, Humanitarian Policy Group, Overseas Development Institute.
- Ali, D. e. a. 2005, *Cash relief in a contested are: lessons from Somalia*, HPN Network Paper No 50, Overseas Development Institute.
- Barrett, C. & Maxwell, D. 2005, *Food Aid After Fifty Years: Recasting its Role*.
- Barrientos, A. & DeJong, J. 2004, *Child poverty and cash transfers*, Childhood Poverty Research and Policy Centre Report No 4, Save the Children and the C.
- Case, A. & Deaton, A. 1998, "Large Scale Transfers to the Elderly in South Africa", *Economic Journal*, *Economic Journal*, vol. 108, no. 450.

- de Janvry, A, Finan, F, Sadoulet, E and de la Briere, B (2005) Evaluating the implementation of a decentralised conditional cash transfer program: a study of Brazil's *Bolsa Escola* program. Unpublished report prepared for the World Bank
- Deshingkar, P, Johnson, C and Farrington, J (2005) State transfers to the poor and back: the case of food for work in India. *World Development* 33 (4) 575-591.
- Devereux, S. 2000, *Social Safety Nets for Poverty Alleviation in Southern Africa*, A research report for the Department for International Development, ESCOR Report R7017.
- Devereux, S. (2002) *Social Protection for the Poor: Lessons from Recent International Experience*, IDS Working Paper 142
- Devereux, S. & Sabates-Wheeler, R. 2004, *Transformative Social Protection*, IDS Working Paper 232.
- Dreze, J (2005) Employment Guarantee Act: Promise and Reality. Paper for the International Conference on Employment and Income Security in India. New Delhi, April 6 – 8 2005, convened by Institute for Human Development, New Delhi
- Dreze, J. & Sen, A. 1989, *Hunger and Public Action* Clarendon Press, Oxford.
- Farrington, J., Saxena, N., Barton, T., & Nayak, R. 2003, *Post offices, pensions and computers: new opportunities for combining growth and social protection in weakly integrated rural areas*, Overseas Development Institute.
- Farrington, J, Slater, R and Holmes, R (2004) Social protection and pro-poor agricultural growth: what scope for synergies? *Natural Resource Perspectives No 91*. London: ODI
- Farrington, J., Deshingkar, P., Johnson, C., and Start, D. (eds) (forthcoming) *Rural Livelihood Futures: Concepts and Evidence from India*, Delhi and Oxford: OUP.
- Frize, J. 2002, *Review of cash for work component of the drought recovery programme in Turkana and Wajir Districts (September 2001 - June 2002)*.
- Hanlon, J (2004) It is possible just to give money to the poor. *Development and Change* 35 (2) 375-383.
- Harnett, P. & Cromwell, E. 2000, *Malawi Starter Pack Scheme 1999-2000 Follow-up study of flexi-vouchers: 'As good as money': Final Report*.
- Harvey, P (2005) *Cash and Vouchers in Emergencies: A Discussion Paper*, Humanitarian Policy Group, Overseas Development Institute
- Harvey, P. and Lind, J. (2005) *Dependency and Humanitarian Relief: A Critical Analysis*, HPG Research Report 19, Overseas Development Institute
- Harvey, P, Slater, R and Farrington, J (2005) Cash transfers - mere 'Gadaffi Syndrome', or serious potential for rural rehabilitation and development? *Natural Resource Perspectives Paper 97*, London: ODI

HelpAge 2004, *Age and Security: how social pensions can deliver effective aid to poor older people and their families*.

Hoddinott, J (2005) Vulnerability, Shocks, and Impacts in Ethiopia and Malawi: Implications for Public Action. Report commissioned by DFID. Washington, DC: IFPRI

Khogali, H. & Takhar, P. 2001a, "Empowering women through cash relief in humanitarian contexts", *Gender and Development*, vol. Vol 9, no. No 3.

Khogali, H. & Takhar, P. 2001b, *Evaluation of Oxfam GB Cash for Work Programme, Kitgum/Pader District, Uganda, 2000/1*.

Levy, S., Nyasulu, G. and Kuyeli, J. (2002) 'Dedza safety nets pilot project: learning lessons about direct welfare transfers for Malawi's National Safety Nets Strategy' ...

Levy, S., with Barahona, C., and Chinsinga, B. Food security, social protection, growth and poverty reduction synergies: the starter pack programme in Malawi. *Natural Resource Perspectives Paper 94*, London: ODI.

Nayak, R, Saxena, NC and Farrington, J (2002) 'Reaching the Poor? The Influence of Policy and Administrative Processes on the Implementation of Government Poverty Schemes in India', *Working Paper 175*. London: ODI

Ravallion, M. 2003, *Targeted Transfers in Poor Countries: Revisiting the Trade-Offs and Policy Options*, World Bank Social Protection Discussion Paper Series.

Rawlings, L. & Rubio, G. 2003, *Evaluating the Impact of Conditional Cash Transfer Programs: Lessons from Latin America*, World Bank Policy Research Working Paper 3119.

Schubert, B. and Goldberg, J. (2004) 'The Pilot Social Cash Transfer Scheme: Kalomo District, Zambia', GTZ, Lusaka.

Sen, A. 1981, *Poverty and famines* Clarendon Press, Oxford.

Smith, J. & Subbarao, K. 2003, *What role for safety net transfers in very low income countries*, Social Protection Discussion Paper Series, World Bank.

Tabor, S. 2002a, *Direct cash transfers*, Social Safety Net Primer Series, World Bank Institute.

Tabor, S. 2002b, *Assisting the poor with cash: design and implementation of social transfer programs*, The World Bank, Social Protection Discussion Paper Series.

Wilding, J. & Ayalew, M. 2001, *Evaluation of cash based EGS in Ambassel and Kutaber woredas of South Wollo, Ethiopia*.

World Bank (2003) 'India: Sustaining Reform, Reducing Poverty', Report No. 25797-IN, Washington DC: Poverty Reduction and Economic Management Sector Unit, South Asia Region, World Bank.