

Helpdesk Research Report: Financing and Cost-effectiveness of Cash Transfer Schemes

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Query: What does the evidence base on the costing, financing and cost effectiveness of cash transfer schemes tell us?

Enquirer: Poverty Response Team, DFID

Contents

1. Overview
2. Costs and cost-effectiveness of long-term cash transfer programmes
3. Costs and cost-effectiveness of emergency cash transfer programmes
4. Financing and affordability of cash transfers
5. Additional information

1. Overview

Cash transfers are a form of social assistance in which money or cash-like instruments (e.g. vouchers) are distributed to vulnerable individuals or households. They can vary in targeting (eligibility requirements, such as age, poverty, and disability) or conditionality (specific actions required to receive payment, such as requiring children to attend school or a health clinic).

Costing

The cost of delivering cash transfer programmes varies widely: the proportion of total spending absorbed by administration and implementation costs has been reported as low as 1% and as high as 39%. Nine programmes listed below in the costs and cost-effectiveness section of this report provide cost data that shows a range of 3% to 27%, with a median of 10% and a mean of 13%. One World Bank study reported a range of 1% to 29% with a median of 9% or 10% depending on targeting (Grosh 1994 cited in Caldés et al. 2006).

Every programme is unique in its objectives, design, implementation, and context, and reported costs may or may not include activities like planning or evaluation, so it is difficult to make like-for-like comparisons. Furthermore, cost information is often difficult to obtain and it is not unusual for organisations to be unable or even unwilling to share data. Factors that influence the cost of a programme include:

- availability of transportation, communication, banking, and security services
- availability of different methods of distribution such as cash in hand, mobile phones, or ATMs
- the size of the area and population to be covered
- the ease of communicating with the target population (for example, pension recipients in their own villages vs. displaced populations in an emergency relief intervention)
- availability of support from government personnel and systems which may or may not be separately costed
- the number of disbursements to take place

- whether the programme is continuous or short-term
- whether a programme is a pilot programme or draws on past experience
- the degree of targeting to take place (which significantly increases overheads)
- economies of scale that may be present in very large programmes
- whether planning and design costs (either for the programme itself or for future phases) are included
- whether monitoring and evaluation is included in the cost of the programme, and how comprehensive the efforts are.

Cost-effectiveness

There is widespread agreement in the literature that cash transfers are effective in achieving a range of development objectives and that fears of creating dependency or enabling misuse of funds by recipients are groundless. While there are many impact evaluations of cash transfer programmes, there is very little hard data on cost-effectiveness, particularly compared with other types of interventions. There are wide variations in what costs are included in calculations, uncertainty in valuing benefits, and differences in programme objectives and methods, making comparisons difficult. Key lessons emerging from the literature are:

- Cost-effectiveness estimates suffer from insufficient data on costs as well as on values of direct and indirect benefits. Greater effort on monitoring and evaluation is required in order to make robust comparisons with other types of interventions. In most cases where hard data are available, cost-effectiveness estimates are limited to estimating the proportion of programme costs consumed by administration, but it is often difficult to separate out costs, particularly when existing government systems are involved. Indeed, in some cases agencies are not only unable but actually unwilling to provide information in sufficient detail.
- Evidence is inconclusive as to whether cash transfers are more or less cost-effective than other types of interventions, but they generally have lower administration/overhead costs. Interventions need to be evaluated on a case by case basis: some evaluations show cash transfers to be more cost-effective than other interventions, but in other cases the reverse is true. In at least one case, changing circumstances meant that the most cost-effective choice at the beginning of the programme was no longer the best choice by the end of it.
- Cash benefits are more flexible for recipients than other forms of aid such as food transfers.
- Cash transfers produce a wider range of indirect benefits than other forms of aid, such as stimulating the local economy and enabling investment in long-term assets rather than only current consumption.
- Cash transfers depend on the existence of local markets that can meet the demands of cash recipients. Some studies find that cash transfers can be disruptive to local markets, for example causing inflation, while others find no evidence of such effects. The size of the programme and the resilience of existing markets will influence outcomes on a case by case basis. Programmes should monitor for such impacts and be flexible enough to adjust if necessary.
- Conditionality affects outcomes, but monitoring compliance with the conditions increases costs considerably.
- Strict targeting of transfers limits the total cost of a cash transfer programme but it greatly increases the administration cost component. Providing benefits to selected members of a community can sometimes be divisive and unpopular, but may also be seen as fair in other cases.

Affordability and financing

There is widespread agreement that cash transfer programmes are no more expensive than other types of

development interventions, but that in most low-income countries it is unlikely that large-scale programmes can be funded purely from domestic resources.

- Most low-income countries are unable to raise sufficient funds from domestic taxation to fund social protection programmes
- New sources of revenue such as increased income from natural resources may provide opportunities for some countries to consider these sorts of programmes.
- Since donor funding can be variable, it is risky for countries to rely on international support to fund the long-term commitments needed for cash transfer schemes like social pensions and child benefits.
- Short-term cash transfers for humanitarian relief are effective and affordable, and produce long-term benefits that food aid does not.

2. Costs and cost-effectiveness of long-term cash transfer programmes

Devereux, S., Ellis, F., and White, P., 2008, 'The Cost-Effectiveness of Social Transfers', REBA Thematic Brief No. 5, Regional Evidence Building Agenda, Regional Hunger and Vulnerability Programme, Wahenga

http://www.wahenga.net/sites/default/files/briefs/REBA_Thematic_Brief_5.pdf

This paper summarises findings on cost-effectiveness coming out of a research programme covering 20 country case studies and 12 thematic studies on various aspects of cash transfers. The authors note that cost-effectiveness calculations are plagued by problems of insufficient data, especially with respect to valuing commodities, including all relevant costs of programme delivery, and identifying and valuing indirect impacts. "Reliable information on the cost-effectiveness of programmes is not nearly as widely collected, analysed or shared as it should be, so that in practice findings often remain inconclusive." (p. 1)

The authors highlight the following policy lessons (p. 8):

- Cost-effectiveness analysis requires much more systematic gathering and analysis of information before, during and after implementation than is presently achieved, both for costs and effects. Lack of basic scheme information makes cost-effectiveness findings inconclusive for most of the case studies in this programme.
- National social protection policies should contain explicit recommendations and guidelines on the collection and full disclosure of consistent and comparable data that can be used in the analysis of the cost-effectiveness of different social transfer interventions.
- Cost-effectiveness analysis should be conducted for different levels of programme objectives, from 'cost-efficiency' assessment at the output level to broader analysis of whether effects and impacts justify costs.
- More care is needed in attributing all relevant costs, and more transparency is needed in documenting these and making information publicly available.
- Valuing commodity transfers at local market prices at the point of delivery (rather than at procurement cost) would allow valid cost-efficiency comparisons between different instruments under changing market conditions.
- Broadening analysis to the level of impacts enables comparisons between different social transfer approaches, and between social transfers and other policy options. It is important to think beyond narrow technical parameters of transfer schemes to include broader social, economic and political considerations.

Devereux, S. and Pelham, L., 2005, 'Making Cash Count: Lessons from cash transfer schemes in east and southern Africa for supporting the most vulnerable children and households', Save the Children UK, HelpAge International, and Institute of Development Studies
<http://www.ids.ac.uk/index.cfm?objectid=FD827842-5056-8171-7BB990CABFDB1D87>

This study, commissioned by UNICEF, undertook a qualitative review of unconditional cash transfer schemes in 15 countries in eastern and southern Africa. The authors note that “rigorous impact assessments, comparative cost-benefit analyses (e.g. of cash transfers versus food aid and other in-kind transfers), and monitoring of intra-household spending patterns (especially by gender), are lacking and are urgently needed.” (p. v)

The study found that cash transfers are “put to a wide range of uses, from purchases of food, groceries, clothes and seeds to meeting the costs of services like education and health”, which generates “a range of benefits, as well as multiplier effects that stimulate the local economy.” (p. v) In most of the programmes examined in this study, eligibility criteria were transparent and accepted as fair by the community, and the programmes did not appear to create dependency. The study did not find evidence that cash transfers were inflationary, but noted that purchasing power varied over time and from place to place, causing significant variation in impact. It suggested that “there is a case for index-linking the value of cash transfers to food price movements, and for setting the transfer equivalent to the cost of a minimum basket of food and non-food items.” (p. v)

The authors estimate that scaling up Zambia’s Pilot Social Cash Transfer Scheme nation-wide might cost in the neighbourhood of US\$24 million, or 0.5% of GDP, and conclude that “social cash transfers must be considered affordable, especially if the government and donors share the costs.” (p. 42) Programmes in Lesotho and Mozambique are also considered affordable because costs are low, but programme coverage and impacts are limited. Data from the Mozambique case study “indicate that cash transfers are generally cheaper to deliver than food aid.” (p. 42)

Implementation of cash transfer programmes requires “adequate and sustained financing, administrative and management capacity, and political commitment. Finely targeted cash transfers may be more fiscally affordable than universal transfers” but delivering them is challenging, “especially where physical infrastructure and logistical capacity are constrained.” (p. vi) Projects implemented by NGOs enjoy the advantages of working closely with communities, but tend to be difficult to scale up. “Although more detailed work is needed into the full costs, cost-effectiveness and fiduciary risk of cash transfer programmes, the evidence from this review suggests that concerns about their ‘unaffordability’ or ‘fiscal unsustainability’ may be overstated. As the Government of Lesotho demonstrated by introducing a social pension against IMF advice, whether any public social transfer programme is feasible is a political choice, not purely a financial calculation.” (p. 42)

Davies, M., 2009, 'DFID Social Transfers Evaluation Summary Report', IDS Research Report 60, Institute of Development Studies
<http://www.ids.ac.uk/go/idspublication/dfid-social-transfers-evaluation-summary-report>

This report presents generalised findings from evaluations of various social transfer programmes. It emphasises that “few schemes, either projects or national government schemes, have made any serious attempt to quantify the impacts of social transfers, especially in terms of poverty reduction and economic growth. Gathering evidence on the impacts of social transfers has, until recently, not been given adequate attention in the design of DFID-supported programmes. Overall however, in the programmes reviewed, social transfer schemes have a tendency to monitor ‘process’ indicators (inputs and activities) rather than ‘impact’ indicators (outputs and attributable changes in beneficiary wellbeing).” (p. 29)

This review examined “over 24 social transfer programmes in 16 countries” (p. 13), but data on programme costs per beneficiary were only obtainable for five programmes. These costs ranged widely: one programme in Bangladesh cost US\$287 per person, a programme in Ethiopia US\$35, and

programmes in Kenya, Malawi, and Zimbabwe ranged \$6.20 and \$8.33. No data on impact or effectiveness are included in this report, but Davies notes that “the cost-effectiveness of social protection programmes is... extremely challenging to determine, partly because full costs are difficult to obtain and partly because impacts (effectiveness) are difficult to attribute and to quantify.” (p. 30)

Fiszbein, A., and Schady, N., 2009, ‘Conditional Cash Transfers: Reducing Present and Future Poverty’, The World Bank

http://siteresources.worldbank.org/INTCCT/Resources/5757608-1234228266004/PRR-CCT_web_noembargo.pdf

Conditional cash transfer (CCT) programmes are widespread: “Virtually every country in Latin America has such a program. Elsewhere, there are large-scale programs in Bangladesh, Indonesia, and Turkey, and pilot programs in Cambodia, Malawi, Morocco, Pakistan, and South Africa, among others.” (p. 1) This report argues that CCTs have been an effective way to redistribute income to the poor and that there is good evidence of their effectiveness in reducing poverty. “In terms of budget, the costs range from about 0.50 percent of gross domestic product (GDP) in such countries as Brazil, Ecuador, and Mexico to 0.08 percent of GDP (Chile).” (p. 5)

White, P., 2006, ‘Cost comparison of cash, food and agricultural input transfer schemes in Malawi and Zambia: Summary of conclusions’, University of East Anglia Overseas Development Group

http://www.wahenga.net/sites/default/files/library/Transfer_Schemes_Malawi_Zambia_2006.pdf

This paper (commissioned by DFID) reviews the cost of delivering transfers compared with their market value to recipients of several types of social transfer schemes in Malawi and Zambia, including cash transfers. The authors note significant problems with obtaining reliable cost data, including that “agencies were often unable or reluctant to provide information in sufficient detail... In several cases this exercise was seen as being very sensitive, and on more than one occasion information was actually withheld for fear that it would be used ‘out of context’.” (p. 4)

Other studies argue that cash transfer programmes have the potential for lower costs, shorter lead times, greater predictability of supply, and more control and flexibility in their use. Counterarguments that cash is susceptible to misappropriation and misuse, and can fuel inflation, have found little empirical support. The authors’ estimates of cost-efficiency “broadly support this position”, finding that “the average cost of delivering the equivalent of a dollar in cash is in general considerably lower than that for a dollar’s worth of food” but also finding considerable variation and noting that the value of cash transfers can be eroded by rising commodity prices during times of scarcity. (p. 5)

The authors recommend that:

- DFID should compile data for comparing the cost-efficiency of social transfer schemes, with due caution regarding data quality limitations
- DFID should advocate for improved transparency in cost structures and more attention to monitoring and evaluation
- Monitoring and evaluation should include the routine compilation of market information for food, farm inputs and other essential commodities and services
- The Southern Africa Regional Hunger and Vulnerability Programme (RHVP) should maintain and further develop its cost-comparison work

Handa, S., and Davis, B., 2006, 'The Experience of Conditional Cash Transfers in Latin America and the Caribbean', ESA Working Paper No. 06-07, Food and Agriculture Organization of the United Nations

<ftp://ftp.fao.org/docrep/fao/009/ag429e/ag429e00.pdf>

This paper discusses experiences from six conditional cash transfer programmes in Latin America. The authors note that such programmes have become “the social protection/social safety net intervention of choice in Latin America” (p. 18) and that they have generally been successful in terms of reaching their objectives. However, they argue that “it is still not clear whether they constitute the most cost efficient or sustainable solution to the development bottleneck they seek to address.” (p. i) They also argue that there has not been sufficient analysis of whether inequities in services (notably health and education) are due to demand side constraints (income, preferences) or supply side constraints, or which is the more cost-effective option to pursue.

The report also notes that: “Fiscal sustainability remains an issue in the poorest countries where CCTs have been implemented through loans. Colombia’s program is financed through IDB and World Bank loans and the potential for sustainability is less clear.” (p. 18) The programme in Honduras is expected to continue to be supported through soft loans from the IDB, without commitments to permanent funding, and political backing for cash transfer programmes is in doubt in some countries.

The authors call for more investigation into the cost-effectiveness of conditional cash transfers and for comparisons with other types of programmes. “The large financial and institutional resources dedicated to the implementation of conditional cash transfer programs in Latin America, in rural areas in particular, have inevitably crowded out alternative rural development initiatives. The differential returns in terms of poverty and economic development also need to be compared across alternatives.” (p. 19)

Ellis, F., 2007, 'Introduction: Themes and Patterns', REBA Case Study Brief, Regional Hunger and Vulnerability Programme, Wahenga

http://www.wahenga.net/sites/default/files/briefs/REBA_Case_Study_Brief_Lessons.pdf

This paper provides a brief overview of key characteristics of 20 social transfer case studies drawn from six countries in southern Africa from 2006-07. Data on the cost (input) efficiency side of the cost-effectiveness question are available for many of the case studies. “Most schemes fall within the range of US\$1.20 to US\$1.40 required to deliver US\$1 worth of transfers” although “schemes vary considerably in terms of factors such as remoteness, seasonality, types of transfer, and variety of different aims” (p. 8), making direct comparisons difficult. The study does not attempt to quantify the output side of the cost effectiveness question, but notes that “the case studies in this collection can be distinguished between those where the transfer itself is the end result (for example, cash transfers to the destitute preventing hunger), and those where a longer term sustained impact is built into scheme design (for example, crop yields in the case of farm inputs, or school attendance in the case of school feeding)... It is unfortunately true that many social transfer schemes do not monitor longer term project impacts, with the result that whether or not sustained outcomes are achieved is often unknown.” (p. 8)

Case studies and programme evaluations

Sabates-Wheeler, R, and Devereaux, S., 2010, 'Cash Transfers and High Food Prices: Explaining Outcomes on Ethiopia's Productive Safety Net Programme', Working Paper 4, Future Agricultures Consortium, University of Sussex

http://www.future-agricultures.org/index.php?option=com_docman&Itemid=510

This paper examines Ethiopia's Productive Safety Net Programme (PSNP) based on information collected in 2006 and 2008 and finds that “food transfers or ‘cash plus food’ packages are superior to cash transfers

alone – they enable higher levels of income growth, livestock accumulation and self-reported food security.” (p. 2)

The programme was launched in 2005 and includes a public works programme providing temporary employment and a direct support programme delivering unconditional transfers of cash and food to households with no able-bodied members. The authors report that cash transfers created imbalances between demand and supply which drove up prices, and the amounts of the transfers did not take into account normal seasonal and regional price variations or general price inflation, which reduced their purchasing power. Early in the programme, in 2006, almost half of the recipients expressed a preference for cash-only (9%) or a combination of cash and food (36%), but by 2008, 84% preferred food-only transfers, “an entirely rational response to the combined effects of high food price inflation, deteriorating household food security, and the weakness of rural commodity markets.” (p. 7)

The authors suggest ways of redesigning interventions like the PSNP to be more responsive to price variability, but note that “they require unprecedented flexibility by governments and/or donors in terms of instruments (cash, food, vouchers) and financing.” (p. 14):

- Index-link cash transfers to the cost of a basket of basic food and non-food items
- Provide transfers in the form of commodity-denominated vouchers
- Extend the duration of transfers when food prices rise
- Switch out of cash transfers towards food transfers when cash is devalued by price rises
- Provide a combination of cash plus food
- Social transfers can be complemented by insurance for vulnerable households against price rises, such as employment guarantee schemes or weather-indexed crop insurance schemes
- Implement national mechanisms to stabilise food supplies and prices across a country, between seasons and from year to year, such as buffer stock management, pan-territorial pricing, and price banding

Concern Worldwide and Oxfam, 2007, ‘Cash Transfers as a response to disaster - Lessons from Oxfam GB and Concern Worldwide responses in Western Zambia (2007)’, Concern Worldwide and Oxfam GB

http://www.oxfam.org.uk/resources/countries/downloads/zambia_cash_transfers_200805.pdf

This report summarises evaluations of emergency cash transfer programmes undertaken in Zambia, one by Concern Worldwide and the other by Oxfam GB, in response to floods in 2006-07, reaching a total of 3800 households displaced by or affected by the flooding in one or two disbursements. Both projects reported that less than 0.5% of the money distributed was spent on “unproductive” uses. Flood-affected households spent more than 80% of the money on food, while displaced households spent less (43%) on food and more (about one-third) replacing household assets. There was no evidence that the programme caused inflation of maize prices, despite increased demand.

In the Concern Worldwide project, 73% of the total project funds went directly to the beneficiaries, with 27% being spent on costs associated with the registration, payment of cash, gender and HIV sensitisation, but not including the costs of the expatriate project manager or the project evaluation. This was considered “highly cost effective compared to typical food distribution projects. It is also significantly more cost effective than a response which attempted to provide the range of relief items which were actually purchased by beneficiaries with the cash. In addition, the flexibility of cash transfers (use of the money by the people according to their priority), the less burdensome logistical/administrative requirements (procurement, transport, quality maintenance, storage, delivery etc.), the lower requirement on staff time and a lower level of risk of ‘leakage’ make this type of intervention very attractive from a cost-effectiveness point of view.” (p. 8) The Oxfam project was part of a larger emergency response package which made it difficult to clearly separate costs and impacts; the direct cost of cash distribution was at least 9% of the

project cost, but this does not take into account project management.

Devereux, S., and Jere, P., 2008, 'Choice, Dignity and Empowerment? Cash and Food Transfers in Swaziland: An evaluation of Save the Children's Emergency Drought Response, 2007/08', Institute of Development Studies and PJ Development Consulting

<http://www.ids.ac.uk/index.cfm?objectid=21BE5A77-5056-8171-7B354BE571F19A42>

The Emergency Drought Response project provided a combination of cash and food to 6,200 households (nearly 40,000 people) and food rations to an additional 1,400 households in Swaziland on a monthly basis for six months in 2007-08. The programme included a comprehensive monitoring and evaluation system, which found that cash improved nutrition and dietary diversity, enabled purchase of additional non-food items, was invested in assets and livelihoods, did not change the use of "harmful" coping strategies (such as withdrawing children from school and selling assets), empowered women, was practical to distribute, and was preferred by beneficiaries after the fact (although not beforehand). The evaluation was inconclusive regarding the effect on markets: there were some indications that traders responded to demand by bringing increased stocks, but the programme may also have contributed to inflation.

While cash transfers cost less to administer (consuming 6% of project costs compared with 10% for food), overall distributing cash cost 30% more than the cost of distributing equivalent food in-kind, because of economies of scale in commodity costs – importing food in bulk at wholesale prices is cheaper than giving people cash to buy the equivalent food at retail prices in local markets. However, evidence on impacts suggests that cash transfers achieved far more substantial and diverse impacts than did food transfers, on a range of indicators. This leads the authors to be inconclusive, arguing on one hand that "cash transfers were almost certainly more cost-effective than food transfers, because the positive impacts derived from equivalent transfers of cash and food were higher for cash" (p. 21); but on the other hand writing that "food transfers were more cost-effective overall than cash transfers, but mainly because of differences in wholesale costs of importing food versus retail costs of buying food locally; in terms of delivery and management expenses, delivering cash was significantly cheaper." (p. 41)

Caldés, N., Coady, D., and Maluccio, J., 2006, 'The Cost of Poverty Alleviation Transfer Programs: A Comparative Analysis of Three Programs in Latin America', World Development, vol. 34, no. 5

<http://dx.doi.org/10.1016/j.worlddev.2005.10.003>

This paper notes that there is little rigorous evidence on costs of cash transfer programmes, and after analysing three programmes in Latin America, concludes that accurately calculating costs is a complicated task: "it is misleading to make calculations using only raw accounting data.... Rather, one must delve into the details and activities of the program." (p. 834) They cite other authors as calculating administration costs (the proportion of total programme spending that is absorbed by administration / implementation costs) ranging from 1% to 29%. For the three programmes examined in this paper (Mexico's Progresas, Honduras' Programa de Asignación Familiar, and Nicaragua's Red de Protección Social) the authors calculate administration costs ranging from 3.9% to 19.7%.

3. Costs and cost-effectiveness of emergency cash transfer programmes

Harvey, P., and Savage, K., 2006, 'No Small Change: Oxfam GB Malawi and Zambia Emergency Cash Transfer Projects: a Synthesis of key learning', Overseas Development Institute and Oxfam

<http://www.odi.org.uk/resources/download/605.pdf>

This report summarises lessons arising from a cash transfer programme undertaken in 2005 and 2006 in Malawi and Zambia as an alternative to emergency food aid. The programme was considered a success

(money was delivered to the intended recipients without problems and was believed to have been spent mostly on food) but the authors caution that assessing cost-effectiveness compared with food aid is difficult. "It was possible to compare the cost at which people bought maize with the cost of purchasing and transporting food aid" (p. 5) although with a significant range of uncertainty, and ignoring multiplier effects such as the circulation of money within the local economy to the extent that products bought were locally produced.

In Zambia, the cash transfers appear to have been cost-effective initially but the appreciation of the kwacha over the duration of the project ended up rendering cash transfers slightly more expensive than food aid. In Malawi, the cash transfers were good value early in the programme, particularly as subsidised grain was also available, but as supplies of the subsidised grain disappeared and import shortages drove up prices, "this advantage was probably lost." (p. 5) The cost of delivering the programme in Zambia was about 30% of the value of the cash distributed, which is higher than what would be considered good practice and was attributed in part to the fact that this was a pilot project. The implementation cost of the Malawi programme was only 3%, but probably under-invested in management capacity and monitoring.

Lessons learned from the programmes include:

- Cash transfers, just like food aid, call for effective targeting and distribution skills
- Planning for cash projects needs to be integrated into disaster preparedness and contingency planning processes
- Good monitoring of markets and prices is key to understanding the impact and appropriateness of cash transfers, and analysis needs to be completed quickly in order to feed back into the delivery of the programme
- Programmes should be designed to be flexible to reflect changing circumstances, including for example contingencies in case of rising prices
- Cost-effectiveness cannot be assumed, particularly in remote rural areas with weak markets
- Cost-effectiveness calculations could be a more explicit part of the assessment process, and should feed into decisions about the appropriateness of cash compared to food aid
- There is scope to think more creatively about how to take advantage of the flexibility of cash; these projects were conceived as alternatives to food aid and delivery was timed as a food aid project would be, but alternative timing might be useful

The authors note that cash can have other indirect impacts not considered in this evaluation and conclude that deciding whether cash is appropriate or cost-effective "will have to be judged on a case-by-case basis using careful, context-specific analysis, particularly of prices and markets." (p. 7)

Devereux, S., and Mhlanga, M., 2008, 'Cash Transfers in Lesotho: An evaluation of World Vision's Cash and Food Transfers Pilot Project', Institute of Development Studies at the University of Sussex (IDS) and Mhlanga Consulting Services

<http://www.ids.ac.uk/download.cfm?objectId=F944A68C-5056-8171-7B2D6AC6735AD767>

This "Cash and Food Transfers Pilot Project" (CFTPP) was carried out in Lesotho in 2007-08 in response to the country's worst drought in 30 years. The programme delivered cash, food, or both to 9,172 households or 41,200 people. The authors of this independent evaluation were unable to reach a firm conclusion about the cost-effectiveness of the cash transfers: "The cash transfer component of the CFTPP was a well implemented, intensively managed and closely monitored small-scale pilot project. On the other hand, the food component was part of a large-scale food aid programme that was supported by the World Food Programme, and WFP purchases food in bulk or receives it free of charge or at heavily subsidised prices. Under these conditions, comparative cost analysis did not only prove to be difficult but could not establish with certainty the merits of one intervention over the other." (pp. 26-27) For recipients,

many of whom had to travel long distances to claim their benefits, it was more expensive to collect food than cash. However, the authors conclude that “The CFTPP experience has shown that cash transfers can be delivered at reasonable cost, with administrative efficiency that is higher than food aid interventions and convenience for beneficiaries that could also be comparable if local markets are functioning well.” (p. 28)

Ali, D., Toure, F., and Kiewied, T., 2005, ‘Cash relief in a contested area: Lessons from Somalia’, Humanitarian Practice Network, Overseas Development Institute
<http://www.odihpn.org/report.asp?id=2627>

This paper describes an emergency cash relief programme carried out by Horn Relief and Norwegian People’s Aid in the Sool Plateau in Somalia in 2003-2004. The programme was a one-off, short-term distribution intended to cover basic needs for six weeks, and was targeted at 13,000 extremely vulnerable households. Funds were distributed in US dollars, mostly because of practical difficulties obtaining and transporting the large numbers of banknotes that would have been required to distribute Somali shillings.

The review viewed this cash transfer programme as successful and cost-effective. Overhead costs were reported as 17% of the total cost of the programme, compared with 25% to 35% for other types of interventions. The authors note that factors contributing to the success of this programme included “a holistic analysis of the situation”, confirmation in advance that markets were functioning well and were able to respond to increased demand without inflation, the ability of cash to relieve pressure on an overstretched credit system, functioning money transfer companies, relatively good security in the local region, and “implementation capacity on the ground... able to deal with potential social, political and security sensitivities.” (p. 15) The authors suggest the following general policy lessons (pp. 15-16):

- International organisations should consider cash as an option and rationally analyse experiences to address the question of how cash relief could be successful in their area of operations.
- The overall architecture of the humanitarian system should be revised to promote cash relief as a viable relief intervention
- Standardised operational guidelines should be developed for cash-based responses

4. Financing and affordability of cash transfers

Hanlon, J., Barrientos, A., and Hulme, D., 2010, ‘Just Give Money to the Poor: The Development Revolution from the Global South’, Kumarian Press, USA

A limited preview of this book is available from Google Books:

<http://books.google.com/books?id=M2WWhIzQON0C&printsec=frontcover>

This book from the Chronic Poverty Research Centre argues in favour of cash transfers as enabling people in poverty to escape from ‘poverty traps’. Chapter 9 addresses the financial feasibility of cash transfers, citing ILO estimates that universal old-age and disability pensions would cost between 0.5% and 1.5% of GDP, and child benefits 1.5% to 3.5% of GDP. It argues that lack of social protection results in continued suffering which is not measured in terms of GDP and that developing countries already provide larger subsidies to the non-poor, such as energy subsidies and contributory pension subsidies. “Countries that have started cash transfers have paid for them largely through their own tax revenues” (p. 153), sometimes with international assistance, in substitution for other subsidy programmes, or from money freed up due to debt relief. However, most Southern countries have very limited ability to raise money from domestic taxation. Revenue from natural resources is an opportunity open to some countries. While international donors cannot make long-term commitments, they can assist with programme start-up costs, and general budget support is used to finance cash transfers in some countries. It concludes that “even the poorest countries can afford cash transfers and can take the lead, designing the program themselves, learning from the experiences of other southern countries, and paying for initial phases from government

revenues.” (p. 162)

McCord, A., 2009, ‘Cash transfers: affordability and sustainability’, Overseas Development Institute
<http://www.odi.org.uk/resources/download/3508.pdf>

This paper draws on case studies in Kenya, Malawi, and Zambia to consider the affordability and sustainability of cash transfer programmes. Programmes in all three countries are in early stages and are quite limited in scope; even with narrow targeting they cover only between 3% and 9% of households considered eligible. Scaling up programmes to cover the entire eligible population would cost between 0.5 and 1.7% of GDP, or 2 to 4% of the total government budget in these three countries; broadening eligibility could require 2 to 7% of GDP. Targeting is influenced by donor priorities, notably current availability of funds for HIV/AIDS programming, so cash transfer programmes are targeted at households affected by HIV/AIDS.

Cash transfer programmes in Zambia and Malawi are almost entirely dependent on external donors, but the Kenyan government covers 30% of the cost of that country’s Child Benefit programme and 100% of the cost of its Cash Transfers for the Elderly programme. In all three countries, long-term sustainability of cash transfer programmes requires ongoing donor support; “large scale programmes could not be funded exclusively from domestic resources in any of the three case study countries”. (p. 4) McCord notes that “countries are more likely to allocate domestic resources to cash transfers where there is a perceived political need for the government to transfer resources to the poor to promote national stability and retain power (Nepal and Kenya) and where governments do not want cash transfer programming to be vulnerable to donor policy shifts and funding fluctuations (Kenya).” (p. 3) In Kenya, Malawi and Zambia, national decision-makers felt “it was legitimate to allocate a limited share of GDP to cash transfers, in order to address the needs of a tightly defined and limited target group representing the ‘deserving poor’... it was argued consistently that such provision for the ‘deserving poor’, was morally appropriate, and the cost, estimated at between 0.5 and 1% of GDP was considered ‘affordable’.” (p. 4)

The report concludes that (p. 4):

- Governments are willing to accept donor funds for cash transfer programming, but are not committed to this form of social protection and generally allocate domestic resources to other policy priorities.
- Cash transfer programmes are only affordable on the basis of continued donor provision, and are not sustainable domestically without a major shift in domestic budget priorities, which is not expected.
- The limited sustainability of cash transfer programming is the result of binding fiscal constraints faced by low-income countries with low domestic resource bases, combined with a reluctance to carry out budgetary reprioritisation in favour of social protection provision.
- It is not possible to scale up current pilots on the basis of domestic resources, and large scale social transfer programmes are regarded by some governments as unaffordable.

Niño-Zarazúa, M., Barrientos, A., Hulme, D., and Hickey, S., ‘Social protection in sub-Saharan Africa: Will the green shoots blossom?’, BWPI Working Paper 116, Brooks World Poverty Institute, University of Manchester
<http://www.bwpi.manchester.ac.uk/resources/Working-Papers/bwpi-wp-11610.pdf>

Interest in various forms of income transfer schemes and other forms of social protection has grown rapidly in sub-Saharan Africa. The ILO has concluded that well designed programmes directed at older and disabled people and children, and covering primary health provision, could be affordable in most countries and provide universal coverage: “one percent of GDP could be sufficient to cover a basic

pension, two percent of GDP a child-focused transfer, and two to three percent of GDP could finance primary health provision.” (p. 19)

However, raising such resources from current domestic sources is likely to be infeasible as “few countries in sub-Saharan Africa have the capacity to collect taxes to support new social protection initiatives.” (p. 19) For most countries in Middle Africa, redistributing income from the relatively small proportion of well-off people would require “100 percent marginal tax rates, or greater.” (p.19) Revenues from natural resources, as well as external support in the form of debt relief and budget support, may provide opportunities for new revenue streams.

National case studies

Holmes, R., and Jackson, A., 2007, ‘Cash Transfers in Sierra Leone: Appropriate, Affordable and Feasible?’, Overseas Development Institute

<http://www.odi.org.uk/resources/download/3163.pdf>

There is no official social protection strategy currently in place in Sierra Leone, but some social protection programmes including cash transfers are being implemented by the government and international actors. Current social protection expenditure (including other types of schemes besides cash transfers) is less than 0.2% of GDP, while elsewhere in Africa, cash transfer schemes currently operating cost between 0.7% and 2% of GDP.

The authors provide some estimated costs for cash transfer schemes that could be considered:

- Scaling Up the Ministry of Labour ‘Social Safety Net’ Scheme: US\$23.1 million or 1.5% of GDP
- Target the Bottom 10 Percent: Close the Poverty Gap: US\$8.5 million or 0.6% of GDP
- Support Vulnerable Children (National Commission for Social Action Model): US\$8.5 million or 2.1% of GDP

Sierra Leone has extremely limited domestic financial resources and is highly aid-dependent, with close to half of the government’s budget provided by donors. “Whether or not a cash transfer scheme is affordable will depend critically on donor support. Current donor programmes in Sierra Leone run into tens of millions of dollars, so there is definitely the potential for significant funding, as long as a viable and well-run scheme is proposed and demonstrated.” (p. 4)

Chiwele, D. K., 2010, ‘Assessing Administrative Capacity and Costs of Cash Transfer Schemes in Zambia: Implications for Rollout’, International Policy Centre for Inclusive Growth, United Nations Development Programme

<http://www.ipc-undp.org/pub/IPCCountryStudy20.pdf>

Zambia intends to roll out a nation-wide social cash transfer scheme (SCTS) by 2012. This paper examines capacity to implement the programme in terms of administration, physical assets and infrastructure, and costs and financing. On the issue of financing, the paper notes that “government funding of social protection in the past has been low and erratic. Between 1994 and 2006, it was less than 1 per cent of the GRZ total expenditure in most years.... Although in some years the GRZ has budgeted for what could reasonably support social protection activities, releases have been poor, as low as 10 to 12 per cent of the budget amount in some years.” (p.5)

The cost of rolling out the SCTS is estimated to reach US\$44.4 million per year when the entire country is covered. This is a huge amount and there is justifiable concern whether the GRZ can sustain this without donor support and at the very least it will require major restructuring of the social protection budget and more funding allocated to social protection by the Ministry of Finance. However, “social protection thus far

has attracted such little political support and... the Ministry of Finance remains unconvinced regarding its economic merits.” (p. 5)

Son, H. H., 2008, ‘Conditional Cash Transfer Programs: An Effective Tool for Poverty Alleviation?’, Economics and Research Department Policy Brief Series No. 51, Asian Development Bank

http://www.adb.org/Documents/EDRC/Policy_Briefs/PB051.pdf

Conditional cash transfer (CCT) programs are increasingly perceived as an effective tool and even a “magic bullet” for poverty reduction (p. 1) This policy brief notes that initial administration costs of CCTs can be very high as “much of the budget is spent on undertaking targeting of transfers and monitoring the recipients’ actions.” (p. 4) but these costs decline over time.

The paper argues that CCTs are cost-effective by way of comparison with fuel or energy subsidies which are “highly regressive and are often more costly than CCT programs” and consumed 5% to 8% of GDP in Indonesia and Egypt (p. 4), and by way of comparison with contributory pensions in Brazil, where “the government spends 3.7% of GDP to cover the deficit in the main federal pension programs, which deliver more than 50% of their benefits to the richest 20% of the population. On the other hand, Brazil’s Bolsa Familia, covering the poorest 20% of the population, cost about 0.4% of GDP in 2007.” (p. 4)

The paper argues that conditionality is important to achieve desired objectives, and that there is a tradeoff between targeting and efficiency: “On one hand, the emphasis on targeting and conditionality helps maximize the program’s impact and effectiveness. However, targeting and monitoring can increase the cost per beneficiary, which reduces the program’s efficiency.” (p. 8)

5. Additional information

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