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CASH TRANSFERS – MERE 'GADAFFI SYNDROME', OR SERIOUS POTENTIAL FOR RURAL REHABILITATION AND DEVELOPMENT?

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There has been a stark dichotomy between development approaches concerned with the productive sectors, usually focusing on enhancing the 'supply side', 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 and that social protection is less of a 'drain' than previously thought. Transfers to the poor under social protection have generally been in kind, often taking the form of free or subsidised food. Nevertheless, recent experience in both development and rehabilitation contexts suggests a larger niche for cash transfers than many suppose, sometimes instead of 'in-kind' transfers, at other times, in parallel with them. This paper reviews the evidence, drawing out implications for agriculture and natural resource development.

Policy conclusions

- Cash transfer programmes can deliver measurable welfare benefits and stimulate economic growth, both through investment in the 'supply side' and through stronger, steadier demand for agricultural produce.
- Preconditions for success in cash schemes include transparent targeting criteria, automatic and robust delivery mechanisms and transparency about people's entitlements. Conditionality may also help.
- With these conditions in place, cash schemes have the potential to be less corruptible than in-kind transfers, and will almost certainly cost less to administer.
- Despite some danger of inflationary pressure, they are likely to stimulate local food markets, whereas food transfers may damage them.
- Early attention to rigorous impact evaluation can help to identify where cash transfers are successful, and generate political and donor commitment to supporting them.
- Longer-term social protection programmes may have a role in enabling people to deal with shocks and stresses more successfully.
- There is potential for exploring links between long-term social protection programmes and emergency relief.
- It would be inappropriate for relief or development policy to be entirely driven by a 'give them cash' rhetoric. Such policy has to remove the structural and administrative constraints facing the poor, which a little extra spending power alone cannot do. Nevertheless, there is certainly scope for cash transfers to play a stronger role than hitherto.

Introduction

On State visits to sub-Saharan African countries, Colonel Gadaffi has been known to demonstrate his munificence by throwing cash from an open-top car. Even those bureaucrats most hard-pressed to spend (potentially) massive increases in aid to Africa are unlikely to emulate this approach. Nevertheless, some reviews (e.g. Ravallion, 2003) argue for an increased role for cash within social protection. Others argue that social protection can be productive, stimulate investment and be potentially transformative (Devereux and Sabates-Wheeler, 2004). 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' 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 are tied to longstanding patterns of resource availability (i.e. food) and expertise in implementing cash-based responses remains limited. Our interpretation of the possible pros and cons of cash transfers is given in Table 1, but it should be stressed that some of the potential drawbacks of cash have not been borne out in practice.

Box 1 Cash transfers in rich and poor countries

While cash transfers are the principal component of the social safety net 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, 2002)

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

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Table 1 Potential advantages and disadvantages of cash-based approaches

Potential Advantages	Potential Disadvantages
Cost efficient – lower costs of distributing cash than commodity based alternatives.	*Inflationary risks* – if an injection of cash causes prices for key goods to rise, then recipients will get less for their money and non-recipients will be worse off.
Choice – cash allows recipients to decide what they should spend the money on.	*Anti-social use* – cash can be used to buy anything, including e.g. alcohol.
Multiplier effects – distributing cash can stimulate production and trade in e.g. agriculture.	*Security risks* – moving cash around may be risky for implementing staff and for the recipients.
Avoids disincentive effects – unlike commodities (food, shelter) cash is unlikely to discourage local trade or production.	*More difficult to target* – even the wealthy will want to be included, whereas they may not in food transfers.
Fewer costs for recipients – cash costs less than food to transport from the distribution site to recipients' homes.	*More prone to diversion* – cash may be more easily diverted where corruption is high and prone to seizure by armed groups in conflicts.
	Disadvantages women – women may be less able to keep control of cash than food.
	Less available from donors – who may be more willing to provide commodities than cash.
	Consumption / nutrition – if a transfer has particular food consumption or nutrition objectives then food may be more effective.

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* context, 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 3). But the capacity of transfers to stimulate demand on the local agricultural economy – potentially high, given that some 75 per cent of additional income among the poor is typically spent on food – has received little attention.

This paper reviews evidence on cash-based transfers in relief and development contexts, addressing questions of cost-effectiveness, preconditions for success, targeting, and affordability.

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, and such estimates have to be adjusted if prices rise because local markets are unable to meet additional demand easily. They also have to be adjusted to take into account any miscalculation of 'in-kind' transfer of a particular commodity, leading in some cases to (often disadvantageous) sale of one commodity in order to acquire more of another. 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 discontinued.

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:
- 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 school 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 and DeJong, 2004)

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, given that 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 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. (Tabor, 2002). Evaluations of these Latin American programmes have been broadly positive (Box 2).

A review of old age pensions in India (Farrington et al., 2003) argues that they offer considerable scope for poverty reduction, but are seriously under-funded. It found that 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

Box 3 Building multipliers and overcoming distortion in markets in Zambia

Since 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)

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.

An example rooted in the productive economy is provided by GTZ experience in southern Zambia, where transfers targeted at the poor were intended to generate multiplier effects (Box 3).

An example from Malawi (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 and 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.

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).

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 2001–2 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)

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. 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.

Potentially, the impact of cash transfers can depend on who in the household receives the benefit. Cash transfers targeted at women 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.

Preconditions for success in cash transfers

Targeting

Evidence on the success of targeting is uneven. Whilst the Progresa 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 4000 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.

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).

Corruptibility

Whilst robust delivery mechanisms can reduce the prospects of corruption, the prospect of large scale diversion of cash remain real, but food transfers are also known to be prone to misappropriation (Deshingkar et al., forthcoming). 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 and 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 and Takhar, 2001).

Affordability

Affordability is a function of number of target beneficiaries multiplied by average payment. A calculation relating to the Zambia project (Box 3) suggested that to extend the scheme to all the 200,000 destitute households in Zambia would cost US$16 M/yr – the equivalent of 4 per cent of the annual foreign aid inflow, or 0.4 per cent of the Zambia GDP. This certainly does not rule them out as unaffordable.

Financial capping means that social pensions in India are severely underfunded. 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. Every rupee worth of subsidised food distributed costs some Rs2 to administer, but vested political interests prevent money from being switched out of food subsidy and into pensions.

Several have made the point that cash transfers are only likely to be effective when complemented by other investments. Barrientos and DeJong (2004) for example argue that cash transfers require a significant investment in the provision of basic services to ensure that supply is able to respond to the increased demand arising from cash transfers.

Conclusion

Overall, the potential of cash transfers for poverty reduction has been underestimated in both relief and development contexts. 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, 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.

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