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- There is an imperative among donors and governments to demonstrate that cash transfers help households graduate from poverty and contribute to growth
- There is a contradiction between providing cash transfers to those who are unable to work, and the simultaneous expectation of graduation
- Cash transfers require complementary interventions if they are to result in graduation and stimulate growth

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Cash transfers: graduation and growth

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Despite their limited coverage and, usually, the small amounts of cash distributed to individuals, cash transfer programmes continue to be ambitious in their stated objectives, with many claiming that they are likely to result in graduation (however defined) out of poverty at a household level, and in growth at both local and national level. ODI has carried out a review of such expectations, as part of a wider, three-year study on cash transfers, funded by the Swiss Agency for Development Cooperation.

While some cash transfers, particularly of small, regular amounts targeted at children or the elderly, do not anticipate graduation, donors are often explicit in their expectations of graduation and growth where cash transfers are provided to other groups. The concerns of donors and governments about dependency and affordability make some donors particularly keen to demonstrate the positive impacts of cash transfers on both graduation and growth without making clear the likely constraints. The inherent tension between the emerging practice of targeting the non-productive, while simultaneously anticipating that cash transfer receipt will lead to graduation, has not been investigated adequately within the research community, nor recognised adequately by policy-makers and donors.

Government anticipation of graduation and growth

A number of governments have three linked concerns about cash transfers: that funding cash transfers represents non-productive consumption, rather than investment expenditure; that providing ongoing cash transfers to poor households will result in long-term dependency on government 'handouts'; and that such an intervention will commit governments to recurrent budget expenditure (McCord, 2009a).

These concerns are particularly acute in low income countries where there is no existing long-term, on-budget social security system. These concerns shape government (and donor) policy, programme design and rhetoric in relation to cash transfers. The result is programmes that in most cases require cash transfer programme beneficiaries to graduate out of poverty after a finite period of transfer receipt, which anticipate that investment in cash transfer programming will have economic benefits beyond the household, contributing to growth at both meso and macro level. As a result, many cash transfer programmes in low income countries are designed as time-bound, short term 'treatments' for poverty, aiming to graduate the poor out of dependence on the transfer, rather than providing the transfer on an ongoing basis, and there are widespread assumptions that support at the household level through cash transfers will also result in economic growth.

Defining and demonstrating graduation

The broad concept of graduation involves households moving out of poverty and away from dependence on social protection transfers, to an independent and sustainable livelihood. This is a long-term view, and the resilience and sustainability of livelihoods is key to achieving graduation in this way, as graduation takes place only when households are able to withstand a certain level of shocks and stresses.

However, graduation has different meanings in different contexts. In some instances it is linked to enabling cash transfer beneficiaries to participate in other initiatives that promote sustainable livelihoods. In other words, the cash transfer does not lead directly to graduation out of poverty, but enables participants to use other complementary interventions that may achieve this outcome. In Bangladesh for

Box 1: Social Protection in Zambia: The logic of graduation

Zambia's Fifth National Development Plan outlines two key objectives for social protection: ensuring that the livelihoods of poor households are secure enough to meet basic needs; and protecting poor households from the worst impacts of risks and shocks. Within this vision, social protection is not only about relief, but also about encouraging growth by enhancing household engagement in the productive economy. However, fiscal constraints mean that long-term support is not affordable for all low-capacity households and there is, therefore, significant policy pressure to ensure that they 'graduate' from short-term social protection.

The subsequent Social Protection Strategy of Zambia differentiates between incapacitated households that have no labour, and low-capacity households that have limited opportunity to build or utilise productive assets. This differentiation translates into a portfolio of programmes that, in principle, help to protect household consumption, prevent the distress sale of assets, and promote productivity-enhancing investments in livelihoods.

Cash transfers programmes, in particular the Public Welfare Assistance Scheme, provide unconditional cash transfers to 'incapacitated' households. The Targeted Food Security Pack provides seeds, fertilisers and training, to households with some labour and the other assets required to enable them to meet their household food needs. The Fertiliser Support Programme provides subsidised fertiliser to households that are able to generate a surplus. There is a logic in programming whereby household consumption is protected. In theory, households can gradually increase their productivity until they produce a surplus. However in practice, funding, coverage and implementation constraints across the Targeted Food Security Pack and the Fertiliser Support Programme mean that graduation is rare.

Source: Holmes and Slater (2008).

... example, graduation refers to the process by which the extreme poor build a sufficient asset base to access and effectively utilise micro-finance services. In this context, interest in graduation emerged from concerns that, despite widespread success, micro-finance programmes do not reach (and, perhaps, are not appropriate for) the very poorest households, given the risk inherent in micro-finance and the fact that the poorest households are highly averse to taking risks. For example, using credit to invest in fertiliser is risky where precipitation is unpredictable or output prices are volatile. But receipt of regular and predictable cash transfers over a period of time may enable the poor to take some (even small) risks and benefit from participation in micro-finance activities. In Zambia, there is a similar view, with 'graduation' referring to the process by which household capacity is increased through social protection measures. For poor households with limited labour, graduation as a result of cash transfers is seen as a long-term objective whereby support to the human capital development of children – through education for example – promotes the likelihood of inter-generational graduation. For poor households with higher levels of existing capacity the expectation to graduate relies on a transitional approach, moving from the Food Security Pack to the Fertiliser Support Programme, which provides inputs for small agricultural producers to increase production levels (Box 1).

... Where cash transfers are targeted explicitly at those who are 'non-productive', or unable to partici-

pate in more developmental activities due to labour constraints or lack of physical assets such as land (as in the Zambia case and in some Malawi Cash Transfer programmes) there is a tension between the expectation that cash transfers will lead to graduation, and the fact that it is the 'non-productive' segments of the poor who are targeted. This tension can undermine policy coherence and challenge the programme outcomes anticipated by donors and governments. This tension also remains unresolved in many programmes, with cash transfers sometimes presented as explicitly for the non-productive, implying an ongoing dependence on the transfer, while being considered simultaneously as a short term intervention offering a mechanism for graduation. The likelihood of graduation is undermined when those who are least economically productive are targeted, and this is compounded by the low value of many transfers (15% of basic household consumption needs in Nepal, and 20% in Kenya (Holmes, 2009, and McCord, 2009b), reducing the likelihood that the funds transferred will be used for anything but immediate consumption.

When targeted at potentially productive households, such as those with available labour, appropriately designed cash transfer programmes can enable households to access and utilise other development interventions. Examples would include programmes that are provided in association with other complementary interventions or where a large cash transfer is provided to enable people to buy assets, together with a supporting stipend. In the Chars Livelihoods Programme (CLP) and BRAC's Challenging the Frontiers of Poverty Reduction (CFPR) programme in Bangladesh, for example, beneficiaries receive a large cash grant for the purchase of a productive asset, and also receive training and a cash stipend for 18 months. The stipends are critical in both programmes as they enable households to meet short term consumption needs and maintain their assets before they start to produce income (Farrington, 2009)). In Ethiopia, households participating in the Productive Safety Net Programme (PSNP) make greater use of credit facilities, health, education and water services (Slater et al. 2006). This is the result of increased demand for services by those receiving the cash transfer, and the improvement of service supply as the result of the public works component of the PSNP.

To contribute to employment prospects and wage income, cash transfers need to increase household and asset portfolios, agricultural production and/or human capital development. There is little evidence internationally that this has happened. Often, the expectations of graduation are not proportionate to the scale of cash transfer programming or the value of the transfers themselves. Moreover, the available evidence suggests that where cash transfer programmes are implemented in isolation from other complementary interventions to promote livelihoods, graduation is unlikely.

The impact of cash transfers on growth

Graduation is often (mistakenly) considered to be synonymous with growth. Even if it is assumed that cash transfer programmes result in improvements in household asset portfolios and productivity at a microeconomic level that result in graduation (either out of dependence on the cash transfer programme or out of poverty), there is little evidence on the impact of cash transfers on the local economy, and no evidence of cash transfer-induced increases in household welfare having a significant impact on national GDP in low income countries, largely due to the small scale of most programmes. This is not to say that cash transfers do not or cannot contribute to aggregate economic growth. Cash transfers can affect local markets, by generating increased demand that can, in turn, trigger a supply response by local producers. Conversely, where markets are not able to respond by increasing supply in this way, cash transfers can have a negative impact by pushing up local prices. In Ethiopia, evidence from the Meket Livelihoods Programme demonstrates that shifting from food to cash-based transfer programmes had negative implications for the availability and price of food in local markets, especially in remote, food deficit areas, undermining prospects for both graduation and growth (Kebede, 2006).

However, it is the limited scale of most programmes, combined with the low absolute value of the transfer, and the fact that cash transfer programmes tend to be implemented among economically marginalised populations that limit the potential of most cash transfer programmes in terms of any significant macro-economic impact.

Complementarities and sequencing

As mentioned, the implementation of a cash transfer programme alone is unlikely to result in either graduation or growth, but where programmes are combined with complementary, well-sequenced interventions they have greater potential. However, the size and coverage of programmes that are intended to complement cash transfer programmes is rarely adequate, a situation often exacerbated by institutional coordination problems and limited implementation capacity. For example, in the Ethiopian PSNP, coverage of complementary programmes, such as agricultural finance and training packages, was more limited than PSNP coverage. While beneficiary households did increase their asset portfolios, households tended to exit the programme because they were deselected, rather than because they had achieved sustainable and independent livelihoods that generated sufficient income to meet their needs, even in the face of shocks and stresses.

Ghana's recently implemented cash transfer programme, Livelihood Empowerment Against

Poverty (LEAP), illustrates the challenges of effective coordination across programmes. LEAP aims to link beneficiaries with complementary interventions, such as agricultural services and health care and insurance. The programme is still small-scale (currently in its pilot phase targeting those caring for orphans and vulnerable children) and experiencing a number of challenges in terms of effective delivery and the implementation of complementary services. The mapping of the availability of these additional services at the district or community levels has been inadequate, and the micro-credit and entrepreneurial programmes that were to be integrated with the cash transfer programme have been small-scale and not widespread, and no costing for the provision of these services in beneficiary communities has been undertaken (Jones et al, 2008). Part of the reason for this is the limited institutional capacity to carry out practical coordination across multiple government agencies. Intra- and inter-agency information sharing has been weak and few government officers are well informed about LEAP implementation plans (ibid). In Latin America however, cash transfer programmes tend to have much more institutionalised and transparent mechanisms, together with greater capacity for providing complementary services. In Mexico, for example, Oportunidades administers income and nutritional supplements to five million households as well as providing conditional cash transfers.

Low-income countries face a serious catch-22 situation where cash transfers are only likely to contribute to graduation and growth if implemented alongside major investments in other developmental programmes. However, the lack of institutional capacity, compounded by financial resource constraints, results not in complementarity, but in a trade-off between cash transfers and those same programmes.

Maximising growth and graduation from cash transfer programmes

Despite the limited evidence from cash transfer programmes, existing studies do enable some conclusions to be drawn in terms of how programme design can maximise the likelihood of graduation and growth outcomes. Alongside complementary programming, predictability and timing are important in terms of graduation. Cash transfers must be delivered predictably as this enables poor households to plan and make the best use of their resources. When transfers do not arrive when expected, households often have to take credit and lose a proportion of their transfer in debt payment when it eventually arrives. Transfers made during the hungry months are likely to be spent on food when it is most expensive, while payments made when prices are low free up some cash for expenditure that will enhance productivity. Small, regular cash transfers are spent mainly on consumption, but larger, lump sum transfers are more likely to be spent on productive activities if

stipends are provided simultaneously to support immediate consumption needs (Farrington, 2009). In terms of growth, the main conclusion is that programme scale is critical, as is the size of the transfer. Where coverage of cash transfers is low, the impact on demand will be limited, and while household consumption may increase, the total market share of beneficiaries remains small, and the potential growth impact is marginal. Even if design issues can be addressed, programme financing and capacity constraints remain the major factors inhibiting successful cash transfer programme implementation.

Conclusion

For either graduation or growth to take place, cash transfer programmes must be implemented effectively, on a large scale, with adequate national, district and community level coordination, and trans-

fers must reach poor people regularly and on time. A further requirement is the existence of capacity to extend the provision of other complementary programmes and services (such as health, education and agricultural extension). Such capacity is rare in low income countries, given the limited administrative, managerial and financial resources available, and coordination problems abound. However, while cash transfers may not, in many cases, lead to widespread graduation or growth, the provision of cash to promote consumption smoothing in the context of a temporary disruption of livelihoods – or the ongoing provision of a transfer in situations of chronic poverty, are valid interventions in themselves. The only problem in the latter case is the ongoing demand on resources implied by such a programme, compared to a one off ‘treatment’ for poverty that could lead to graduation. This may be hard for some governments, and donors, to accept.



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Project Information:

This paper is one of a series of outputs from two ongoing ODI research studies (2006-2009). One study, funded by SDC, aims to compare cash transfers with other forms of transfer, identifying where cash transfers may be preferable, the pre-conditions for cash transfers to work well and how they may best be targeted and sequenced with other initiatives. The other study focuses on the linkages between social protection and agricultural growth and is funded by DFID.

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