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Cash Transfers: Just giving them the money?

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The notion of making cash payments to those unable to afford life's basic necessities is gaining ground rapidly. It seems such an obvious idea that one wonders why it had never been thought of before. In some contexts, of course, it had: cash transfers such as family allowances and old-age pensions have long been part of social assistance in developed economies. These have been targeted (for example, by age) or made conditional (for example, on attendance at health clinics) in much the same way as targeting and conditionality are currently discussed for developing countries.

There are many reasons why cash transfers have been neglected in developing countries: the preoccupation has been with economic growth – with increasing the supply of food and other essential items, or with creating jobs. And there is a fear that handing over cash represents a waste of resources that could otherwise be invested productively and may reduce the incentive to seek work.

A more recent preoccupation has been with health and education – again, largely to ensure adequate supply, although funding has recently been linked to targeted provision.

There have also been valid concerns that cash is less effective than in-kind transfers in providing particular goods to those in need (for example, specialist foods and medicines to HIV/AIDS sufferers; staple foods to women who will try to ensure their fair allocation within the household). There have been less valid concerns, for example, that poor people will be unable to spend cash wisely, or that in-kind transfers may be subject to less embezzlement (for which there is little evidence). And there have been concerns that have little to do with poverty reduction, such as the way subsidised food in India is driven by a buffer-stock system that benefits the large farmer lobby, and that food aid is driven by OECD surpluses.

The advantages of cash transfers over those in kind in terms of delivery costs have tended to be neglected,

Oxfam cash programme in Somalia (© Oxfam GB)

partly because some of the costs of the latter, for example those associated with delivering food aid, are covered by donors.

Evidence from the past five years or so shows that cash transfers can contribute to poverty reduction. Examples from emergency relief 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 Catholic Relief Services in pioneering seed fairs and vouchers; cash for shelter in Ingushetia; and an urban voucher programme in the West Bank.

Most cash payments made in emergency relief are spent on immediate consumption, but more generous payments go partly to investment. An example has been cash projects implemented by Oxfam in Turkana and Save the Children in Ethiopia.

In the development context, the main challenges are to ensure that cash transfers are affordable and do not negatively affect markets or incentives. Small, incomesupplementing transfers to those unable to engage fully in the productive economy (widows, the elderly etc) meet all of these conditions. Evidence from India suggests, for instance, that social pensions are strongly poverty focused, and even if expanded in coverage and amount (currently under US$2 per person per month) they would still cost well under 0.1 % of GDP.

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Cash transfers in Zambia targeted to the poorest 10% of households in several villages stimulated local economic activity and opened up new options for farming. If scaled up nationwide, these would cost 0.5% of GDP. Cash transfers in Malawi allowed better access to farm inputs and, by having conditions placed on their use, stimulated access to health and education.

Where they replace food transfers, cash transfers can generate dual gains in isolated markets: they stimulate demand – and lack of demand may be constraining farm incomes – and they remove the potentially depressing effect of food transfers on local markets. These can be especially severe when such transfers are mis-timed in relation to local agricultural calendars. But cash transfers can also have broader impacts on markets: as well as providing safety nets and increasing demand, they reduce vulnerability to risk and so facilitate engagement by the poor in more productive enterprises. They also reduce the dangers of capital being diverted from productive activities to meet domestic shocks and stresses.

None the less, we need to know much more about how cash schemes can be designed and implemented. For instance, how much of a risk of inflationary pressure do they pose? How can they be designed to work with in-kind transfers? Do cash transfers side-step existing constraints on the capacity to absorb aid, or merely shift the problem elsewhere? What kind of targeting and conditionality works best?

To get delivery functioning well, simple criteria are needed, especially important when administrative systems are weak. It is equally important for poor people to understand and exercise their rights.

Preconditions for success in cash schemes include simple, transparent targeting criteria, automatic and robust delivery mechanisms and transparency regarding entitlements. Conditionality may also help. With these conditions in place, cash transfers are likely to be less costly to administer and less prone to corruption than other types of transfer, and so more cost-effective overall in reducing poverty.
They are not a panacea, however: often they will complement rather than replace other measures, and interventions will still be needed to remove social, market and administrative discrimination against the poor if they are to engage more fully in growth processes.

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