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CASH TRANSFER SCHEMES: A Review

- Vinod Koshti

Disclaimer:

This paper has been prepared purely based on the review of secondary literature and does not represent the position/stand of the organisation on the issue.

1. CASH TRANSFER SCHEMES

Cash Transfers (CT) are programs through which the governments try to eliminate food insecurity by providing their poor population with the financial means to purchase a sufficient amount of food. This is mostly accomplished by transferring small and regular amounts of cash to the poorest or the most vulnerable households, ensuring that their income reaches a minimum level. These measures are also known as cash-for-food schemes, since the money is intended to be spent on food. Of course there is no practical way to ensure it, but the evidence shows that it indeed happens, at least for most of it. It is based on the "poor-knows-best" approach, since it gives money to the poor with the belief that they are better capable to decide the most efficient and effective way to spend it. These schemes are more dignifying for the recipients, but they rely on the precondition that the markets (and supply of basic social services) are well developed and that households are in condition to make free choices.

2. TYPES OF CASH TRANSFERS

Cash transfers can be categorized along two dimensions:

1. Conditional and Unconditional
2. Targeted and Universal

2.1. Conditional and Unconditional Cash Transfers:

Unconditional transfers (UCT) provide cash to the poor to maintain minimum consumption levels: the beneficiaries are chosen solely on the basis of their economic and social condition, without asking the fulfilment of any task in return.

Conditional transfers (CCT) also provide cash to the poor to maintain minimum food consumption, but the grant is given in exchange for compliance to some predetermined conditions, usually school attendance by the children of the household, and regular health checks. The rationale of these schemes is to ensure that the aid does not only help families to keep an adequate nutritional status, but also forces them to invest in long-term assets that will give much better opportunities to their children when they grow up, breaking the vicious circle of intergenerational transmission of poverty.

2.2. Targeted and Universal:

Universal programs are defined as giving benefits to the whole population. It doesn't mean that all the people necessarily receive them at the same time, but that the criteria are designed in such way that, at some point, every individual will be covered under the scheme. For example, an old age pension scheme which gives a sum to every citizen above 60 years is considered universal, because in theory every person will eventually meet the requirement.

*Targeted***:** A similar scheme, that instead addresses every *poor* citizen above 60, is considered to be targeted, since some people will never be poor during their lifetime, so they will never be covered under the program.

3. ADVANTAGES OF CASH TRANSFERS

Cash transfers are considered part of the Social Safety Net, and are usually complementary to other governmental schemes. The evidence so far shows that they have a significant impact on poverty: in several countries, they caused huge reductions in the number of people living in poverty conditions, for a relatively limited expense, usually between 2-5% of the country's GDP.

There are some relevant advantages of cash transfers, compared to other type of aid (like direct food distribution).

3.1. Flexibility

Money is a flexible good; therefore it can be used to meet a variety of basic non-food needs (medicines, school fees, soap, lamps etc.). Beneficiaries of cash usually spend the majority of the transfer on food items, but almost all of them eventually face some other urgent need that they can fulfil through the grant. In addition, CT typically allow the purchase of a greater variety of food with better nutritional diversity, compared to the in-kind transfers which necessarily focus on easily transportable staple food like cereals.

3.2. Cost-Efficiency

Money is generally more cost-efficient, since transporting cash is way easier and cheaper than shipping food grains around the globe, especially if the country implementing the scheme has a developed financial sector.

The only factor that can make food-aid more efficient is a sufficient difference between wholesale prices (at which implementing agencies pay the food stocks) and retail prices (at which cash beneficiaries acquire their rations). If the difference, for a single ration of food, is higher than the per-ration administrative cost of an in-kind scheme, then cash transfers are less efficient.

3.3. Effectiveness

In several countries, CT have been effective in lifting millions of people out of hunger: in China, a transfer aimed to very poor urban dwellers reaches 22 million people, in Brazil the income of the poorest 5% was doubled, while it increased by 50% in South Africa, where the destitution gap was also reduced by 45%. In Mexico, after only 2 years the Progresa scheme had already reduced the poverty gap by 36%. In Bangladesh, in the areas where cash transfers were first piloted, hungry households fell from 97% to 27%, and severe malnourishment among children was reduced by 25%.

Conditional transfers have also proven to work better than alternative education policies: for example, the Progresa scheme was 10 times more effective in achieving one extra-year of schooling compared to the construction of new schools. In Nicaragua and Bangladesh, enrolment grew respectively by 23% and 30%. CCT also had long term impact, since in all three countries beneficiaries' lifetime earnings grew by 25% thanks to the investment in human capital.

Although also *in-kind aid* has had similar success in bringing relief, it is also true that food transfers failed to have a long-term impact: the cyclical repetition of the 'crisis' in many nations is a sign that food sacks couldn't avoid its comeback, since they don't solve the problems that lie at the roots of food insecurity, and every year beneficiaries find themselves unprepared for the hungry season.

On the other hand, targeting of CT is not always efficient, and even in a successful program like Progresa it was esteemed that around 20% of the benefits go to households in the upper 60% of the income distribution; though, this problem is also common to in-kind transfers.

3.4. Affordability

In the last century practically every developing country managed to organize movements of food sacks in emergency situations; given the easier portability of money, all countries should be financially able to put up a CT scheme.

It has been calculated that in Zambia giving cash transfer to the 10% poorest households of the nation would cost only 1% of the government budget. In India, increasing the pensions paid by the NOAPS by four times, and expanding the scheme to everyone over 60, plus all widows and single-parents, would cost only 2 billion dollars, compared to the ca. 10 billions spent on the voucher-based Public

Distribution System. The figures leave no doubt that if the political will exists, there are no financial constraints so tight that make a CT scheme unaffordable.

3.5. Effect on Local Markets

Entitling a community with higher purchasing power has a virtuous effect on the local economy, since the money will be spent in shops in the village or neighbourhood. The injection of cash gives start to a process of circulation of money which in the end benefits all the members of the community, and not only the direct beneficiaries of the program.

This aspect is a great advantage of CT schemes compared to food-aid, which on the contrary weakens local traders by lowering demand and prices: cash creates the basis for overcoming dependence on transfers by reinforcing local economies and multiplying opportunities, while market distortions created by food transfers could be irreversible and create a spiral of dependency.

However, it is important to stress the fact that local markets must be capable of responding to an increase in demand, or else a CT scheme could be even counter-productive (for example causing a sudden and sharp increase in food prices).

3.6. Delays and Interruptions

Another positive feature of cash transfers is that they suffer much less from delays. Shipping food from one country to another can be a very slow process, while transferring money electronically is a question of seconds. Also, money is much less prone to ‘pipeline’ interruptions, since its distribution chain is shorter and simpler.

3.7. Investments and Working Capital

A consequence of the higher flexibility of cash is that it allows beneficiaries to exploit so-called ‘multiplier effects’, that is, money can be used to earn more money.

A first example is the usage of cash as working capital: through the grant, recipients acquire some goods that they can profitably re-sell in petty trade activities (raw food to cook, balloons, souvenirs and so on).

Second, money can be invested in durable commodities, like livestock, tools and machinery, through which the beneficiaries can multiply their income sources.

A very frequent investment among households is in human capital: in healthcare for all members, and in instruction for the children, so that the intergenerational transmission of poverty is broken.

3.8. Asset Protection

Since cash is more flexible, it can be used to face unexpected emergency situations (like a sudden expense in healthcare following an accident) that would otherwise require the sale of some assets (for example livestock). This way, money actually protects the capital stock of households, indirectly improving their livelihood.

3.9. Choice and Dignity

Since cash recipients are not just passive receivers like food-aid beneficiaries, but are instead active spenders of money, they usually feel more dignified by their programs. In particular, the fact of having full choice on their expenditure reassures them that the government (or the donors) trusts them as being able to take the right decisions, and doesn't consider them as irresponsible. After all, no one knows better than them what is best for themselves: a feature that also improves overall economic efficiency of the intervention.

3.10. Empowerment of the Poor

Money transfers have also an indirect strengthening effect on the bargaining power of the poor: since they are freed from day-by-day survival concerns, they can rip off better contractual conditions.

3.11. Empowerment of Women

Contrary to the fears that giving cash transfers to women would expose them to risks of violence and mistreatment, it has been observed that CT usually increase the intra-household bargaining power of the individuals who receives them, regardless of gender. So, women were actually empowered by schemes in which they are the household's recipients (almost all of them), giving credence to CT as a tool for improving gender equity.

Empowerment of women also has a positive effect on children: in areas where the transfers were given to female heads, there was a reduction in violence and abuse towards children, as well as in child marriages, especially among girls.

In Bangladesh, a transfer scheme conditional to school attendance gave higher sums to girls, with the result of having achieved gender parity in primary education in just a few years.

3.12. Impact on Children

Cash transfers have been proven to significantly increase nutritional quality and quantity among children, especially if the recipients are female. Although CT is often not directly aimed at children, unlike other programs like school meals, they have the advantage of reaching them indiscriminately at every age. Even in countries like India, where there are both a program addressing pre-school children (ICDS) as well as a mid-day meal scheme, there is a certain age span (e.g. high school) during which the children don't receive direct support. Cash transfers seem to be an effective way to ensure that spending and investment on kids is carried on.

3.13. Lower Supplementary Costs

CT beneficiaries usually incur in less "logistic" supplementary costs: cash can be carried easily, while collecting food bags and bringing them home can involve expensive transportation, especially if the distribution point is placed far away.

3.14. Constitution of Food Stocks

In countries where food prices are subject to seasonality, cash recipients can constitute food stocks in periods where the price is low, so that they don't have to incur in higher expenditure or food shortages later. This anticipating behaviour results in a smoother and less shock-prone consumption pattern, increasing nutritional and health status especially among the children.

4. RISKS AND PROBLEMS RELATED TO CASH TRANSFERS

4.1. Inflation

If cash transfers are not regularly updated, a period of high inflation could quickly erode their purchasing power, jeopardizing the effectiveness of the program. An example is the INAS in Mozambique, where the transferred amount has remained fixed for so long that now the grant is considered irrelevant to the beneficiaries' welfare.

Cash is not only affected by inflation, but can also be a cause of it: if the right macroeconomic conditions occur, a large cash injection in an area could create a rise in prices at local or even national level (depending on the scale of the scheme), and in the worst cases even an inflationary spiral.

4.2. Speculative Behaviour

Even if the value of cash transfers is too small to cause an inflationary push, there is still another risk related to prices. If the disbursement of the endowments is made at predetermined and regular pay-days, local traders could increase their prices exactly at those days to benefit from the temporarily high demand. In fact, such speculative behaviour has been reported in several countries where pilot projects have been established: Swaziland, Lesotho, Zambia are some examples.

4.3. Misuse

A very common worry about cash transfers is that the money could be misused by beneficiaries, especially in anti-social spending like buying alcohol or cigarettes. Although theoretically plausible, this concern has been empirically proven wrong: in fact, the idea that poor people would misuse money is probably based on prejudice, since in every country and every program analyzed, beneficiaries behave responsibly and episodes of misspending are anecdotal or nonexistent. After all, a hungry man mainly wants to eat, rather than drink or smoke. And poor parents care for their children exactly like everyone else: so there is no need to fear misuse of cash, which happens only in isolated cases that can be reported through apposite structures.

4.4. Intra-household conflict

Since money has more uses than in-kind transfers, there's the possibility of conflict within the household about how to spend the endowment. Surprisingly, almost all of these tensions do not occur between husband and wife, which on the contrary tend to a joint administration of cash, but instead across generations: especially the children, in programs where the transfer is calculated on a per-capita basis, tend to ask for "their share" of money and want to decide how to use it autonomously. These conflicts happen more often in households headed by older caretakers (like grandparents).

4.5. Incentives and Distortions

In CT programs there are a few risks related to incentives that have to be considered in the planning phase:

The first threat is related to targeting: if transfers go to people who are able to work, they could act as disincentive, causing people to work less, or put less effort in their jobs. On a macroeconomic scale, this translates to a distortion in the labour market, causing lower production and productivity, harming the economic development of the country or region.

A further worry is that CT programs in which the transfer is calculated on a per-capita basis could in fact create an incentive to overpopulation, or to taking in more children in the households just to get more money. There are basically two ways to avoid such an effect: either inserting caps to transfers (so that they are still per-capita, but with a maximum limit per household), or giving an additional lump sum to families with children, irrespective of their number (so that only two categories of beneficiaries are considered: with children and without). The former system is more fair and accurate, but the latter is much simpler and cheaper to implement and monitor, and has a stronger incentive against overpopulation.

4.6. Inefficient Program Choice

Sometimes, the choice of a cash-for-work program instead of a traditional CT scheme is purely ideological, driven by the belief that no one should receive money for free (because of the incentive problems listed above). Although the concern can be theoretically right, there are situation in which it creates inefficiencies that would have otherwise been avoided: since cash-for-work projects require a much higher degree of administration, monitoring and supervision (to establish muster rolls, verify compliance, check the quality of works done etc.), they are considerably more costly in terms of money and human resources, and in some circumstances these costs far outweigh the benefits granted. In addition to that, the assets produced are often of poor quality.

It is therefore important that the choice of the program (conditional or unconditional, targeted or not etc.) is done carefully and is driven by practical considerations and empirical evidence.

4.7. Corruption

Since money is easy to hide and transport compared to food staples, there is widespread concern that corruption and diversions will happen more frequently and with less risk. In practice, however, there are a few features of cash transfers that counteract such effects:

In CT it's much easier for beneficiaries to check that they get the right endowment and not less. It is also easier to spread awareness of the correct amount that has to be delivered. This creates a bottom-up pressure on program officers to behave correctly.

CT requires fewer passages than food-aid: in fact, in some programs the government even directly transfers the owed amount from the Treasury on cash accounts owned by the beneficiaries. Having less intermediaries means less scope for corruption, since the accountability of the transfers is also less diffuse, and cross-checking is easier.

The result is that in CT schemes there haven't been more reports of corruption compared to other in-kind aid programs.

4.8. Market risk

Since cash transfers crucially rely on the capacity of local markets to satisfy an increased demand for essential goods, they carry the intrinsic risk that if the food market suddenly fails (due to disaster, war, economic crisis, poor harvest etc.), the people will be left with useless money they can't spend, and nothing to eat. This threat has to be taken seriously, because it would make a whole CT program pointless: therefore, some emergency strategies should be designed (for example, switch-to-food rules, analyzed below among the anti-inflation mechanisms).

4.9. Security risk

A concern linked with the disbursement of cash is that recipients could become targets for thieves on paydays, increasing the risk of violent aggression. The presence of armed guards at the distribution points (ATMs, Post Offices etc.) surely lowers this possibility, although it can't be completely cancelled out.

Also the trucks which carry money into rural areas could be susceptible of attacks; but in fact, this risk exists also for in-kind aid, and at least cash convoys are less visible.

4.10. Supply of Public Services

In conditional cash transfers, or in schemes where there's the indirect objective to raise school attendance or usage of another public service, it is straightforward that the 'supply-side' must be ready. Education and health facilities must be developed enough to sustain increased demand, or else the overload of the structures would quickly lead to deterioration in quality of the services provided. To avoid such outcomes, it is recommended that these schemes are accompanied by a parallel investment in structures and personnel (or maybe a parallel comprehensive program of restructuring).

4.11. Targeting errors

One of the most occurring faults in targeted schemes is represented by targeting errors. These can be of two types:

Inclusion error: a person or household who shouldn't be entitled to any transfer, due to its wealth or social status, is inscribed to receive the money. Inclusion errors usually happen when targeting criteria are not objective, not clear or simply too complex: this creates confusion among the population, resulting in overwhelming requests.

Exclusion errors: someone who has the right to get the money, due to its disadvantaged situation, is left out of the program. This kind of mistakes occurs most frequently when targeting is based on means testing and proxy variables: since these indicators are just approximations of wealth, there will always be some exceptions to the rule.

Targeting errors should be avoided whenever possible, not just because they make the scheme less efficient (wasting money on people who don't need it) or less effective (not helping someone who needs aid), but especially because they generate resentment among the beneficiary community, potentially causing its social disruption. Seeing that wealthy families receive cash, or that poor households are cut out because of some automatic rule, can spark long-lasting anger. There have been reports of villages which even refused the aid, since the process of deciding the recipients was ruining their social cohesion.

To prevent such problems, targeting rules should be simple and comprehensible, and based on obvious disadvantages recognized by everyone (like disabilities, old age and so on).

Another risk related to targeting is its intentional abuse: especially when it is carried out by the community itself, it can be subject to nepotism or other forms of bias, resulting in an uneven distribution of the benefits, which is detrimental for the social stability.

4.12. Risks for Women

In the majority of programs, cash transfers are given to women, since it has been proven empirically that the nutritional status of the children improves more than when the grant is given to female members of the household.

Many have pointed out that this could create a risk of abuse or violence from husbands who want to decide how to spend the cash; however, such behaviour has been rarely observed, for many reasons. First, men usually trust their wives and think they can do better choices for the household. Second, women tend to immediately spend the money on food staples and other fundamental goods, tackling the problem from the beginning. Finally, cash is relatively easy to hide, if necessary. Reports of violence towards women were anecdotal rather than systematic, and occurred only in a small number of countries.

4.13. Mistrust by Donors

In privately funded schemes, the mistrust towards cash transfer schemes compared to food-aid, due to the concerns expressed above (especially corruption and misuse), can cause shortage of funds, since the donors prefer to finance other programs that they consider more reliable.

On the other hand, it is also true that some cash transfer schemes require less passages, allowing donors to reach the poor more directly and leaving less scopes for corruption; but the 'lightness' and versatility of cash are still viewed with suspect, at least compared to other forms of aid.

4.14. Capacity Building

Cash transfers are a relatively recent innovation in many developing countries: for decades, the majority of the aid and social security programs have been in kind. The consequence is that there are only a few officers who possess the training and capacities to design and run cash schemes, since the majority of them have only experience of transportation and disbursement of food.

This situation creates an urge to retrain administrative staff to acquire the necessary skills needed to manage cash transfer programs; pilot projects are also of crucial importance to build experience and avoid planning errors.

4.15. Exclusion of Migrants

A paradox concerning the choice of beneficiaries is that in any case, migrants are disadvantaged. If they are employed, and are therefore registered somehow, they are less eligible for relief schemes since they have an income. But if they have no job, than they are most likely “invisible” to the institutions, that is, they don’t appear in any document or registry that could signal their presence to the State. Therefore, they are systematically excluded from any scheme, even if they are among the neediest. To correct this deficiency, special procedures for migrants, that take into account their status, should be designed for every program.

5. CASH TRANSFERS IN INDIA

Today, the single most important cash transfer program in India is the **National Old-Age Pension Scheme** (NOAPS), through which millions of old people receive a monthly sum to cover their food expenditures. The scheme has been effective in guaranteeing food security to many, though it is not immune to a series of problems, like diversion of funds through fake beneficiaries or loss of purchasing power (since the transfer has been adjusted for inflation only once and after 10 years). Such deficiencies should be corrected through some reform of the program’s management system.

Other cash-for-food schemes are the **National Maternity Benefit Scheme** (NMBS), a transfer targeted to poor women who are close to delivery, and the **National Family Benefit Scheme** (NFBS), a one-time high value transfer paid to poor household who have lost their primary breadwinner. These are much smaller in scope, and easier to manage, though in the first there has been much confusion about the scheme being conditional on delivering in hospital or not (a problem of unclear advertising).

6. CONCLUSION

Cash Transfers seems to be a valuable solution to food insecurity, and in an appropriate context they are more effective than in-kind aid, since they generate a number of positive side-effects (like the stimulation of local markets) that improve the overall economy of the targeted areas and the livelihoods of the beneficiaries.

Recently there has been debate about whether two important in-kind governmental social security programs, the Integrated Child Development Service and the Public Distribution System, should be reformed to be turned into cash transfer schemes. The reasons behind the request for change are basically the organizational shortcomings in the former (the Anganwadi system is costly and sometimes insufficient) and the massive leakages due to corruption in the latter (about one third of the food grains is siphoned off and sold on the black market, there has been buying and selling of fake vouchers, etc.). Other food distribution programs, like the Mid Day Meal Scheme, will continue to disburse in-kind aid since they have proven to work well enough.

Though the substitution of food-aid with cash would probably solve the cited problems, being Cash Transfer (CT) less costly and more difficult to divert, it would expose beneficiaries to other kinds of risk:

- The most important threat is represented by erosion of purchasing power: in the last 10 years, inflation rates in India have been on an average of 5%, with peaks of 8%, meaning that if the transfers are not regularly and readily updated, they would quickly become irrelevant.
- In-kind aid (in ICDS) and vouchers (in PDS) instead protect their beneficiaries from price increases, and since in other CT schemes (like NOAPS) the adjustments were done irregularly and with substantial delay, the people righteously mistrust the ability of the government to avoid this problem in a new scheme, and some protests against the shift towards cash have already been issued.
- The other major problem is the lack of adequate market structures in some rural regions, which would make the cash transfers ineffective, since there would be no shops to buy food from.