

Safety Nets: Cash Transfers



THE WORLD BANK



KEY MESSAGES:

Cash transfers have been growing in importance as a key social protection measure in Africa. Cash transfers targeted to the poor, particularly children and other vulnerable groups, now help millions of Africans to support their basic consumption, avoid destitution, and respond to shocks. The growing experience on the ground has shown that these programs can operate efficiently with some integrating modern technology such as cell phones to deliver the transfers. Impact evaluations have confirmed that cash transfers have significantly improved food security, educational attainment, and health outcomes. Countries can achieve widespread coverage by spending only 1 to 2 percent of GDP. African countries should seek to consolidate and expand cash transfers, which ensuring their fiscal sustainability.

OVERVIEW

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Cash transfers provide recipients with sufficient resources to enable them to maintain a minimum level of consumption. These resources can be provided as child grants, disability benefits, targeted income support, and conditional and unconditional cash transfers. Cash transfers are typically targeted to the poor or to all people within certain vulnerable categories in the population such as orphans, older people, people with disabilities, and food-insecure households.

Making direct, regular, and predictable transfers of small sums of money to the poor has the potential to empower households in productive and life-improving ways. Providing cash transfers as part of a national safety net can also be a way to achieve other sectoral goals. For example, transfers to households can be accompanied by incentives and financial conditions to ensure that beneficiary households send their children to school and take advantage of health services.

Cash Transfers in Africa

Because of the success of these programs in other parts of the world, cash transfers have become increasingly popular among African policymakers. A 2010 review identified 123 cash transfer programs that have functioned since 2000 in 34 out of the 47 African countries that were reviewed. The coverage of these programs has ranged from large-scale programs in South Africa and Ethiopia to pilots in Senegal and Tanzania (see box). In addition, there is a growing trend towards shifting away from providing food aid towards providing cash transfers, as in Ethiopia, Kenya, and Niger.

These programs have had a variety of different objectives such as reducing poverty and food insecurity, meeting

Coverage of Current Cash Transfer Programs in Africa, Recipients

South Africa Child Grants	10 million
Ethiopia PSNP- Direct Support	1.5 million
Rwanda VUP	143,000
Mozambique PSA	163,000
Kenya CT-OVC	137,000
Ghana LEAP	65,000
Malawi Social Cash Transfer	26,000
Nigeria COPE	22,000
Tanzania TASAF CB-CCT	22,000 phase 1
Senegal NETS	26,000
Mauritius Social Aid	17,000

Source: Bank estimates.

Note: Most recent estimates. This does not include social pensions to the elderly, which are covered in the Pensions Policy Brief.

households' short-term food needs, encouraging extended families to care for AIDS orphans, repatriating refugees, and building human capital.

Initial impact evaluations of African programs have found that, in general, cash transfers have had a range of positive effects in terms of increased household consumption, better school attainment, improved health status, and increased service usage.

Key Design Elements

With the growing number of cash transfer programs in Africa, there is now a body of operational experience from which several lessons can be drawn:

- All of the cash transfer programs are targeted to a specific poor or vulnerable group, most often using categorical and community-based *targeting*. Using a mix of methods can make targeting more effective.
- There are trade-offs and benefits to providing *either cash or non-cash (or near-cash)* substitutes like food and food vouchers depending on the program's objectives, market competitiveness, and food availability, the cost effectiveness of the transfers, and consumer preferences.
- Cash transfer programs in Africa have tended to be *unconditional (UCTs) rather than conditional (CCTs)*, but interest in CCTs has been growing in Africa. There is a heated debate about whether it is appropriate and even feasible to put conditions on transfers in the African context (see box). Some programs, including a current pilot in Togo, have applied "soft" conditions that encourage behavioral change but do not penalize beneficiaries for non-compliance.
- Paying transfers in cash has created opportunities for *innovation* that were not previously possible with in-kind transfers, such as using banking systems and cell phones. Evidence from South Africa, Kenya, and Liberia has demonstrated that electronic payment systems involving smartcards or mobile phones can significantly reduce costs and leakage, while promoting the integration of poor households into the country's financial system.
- Strong, transparent systems with robust *accountability* measures are critical for retaining broad-based support for the safety net. For example, the PSNP in Ethiopia incorporates an appeals mechanism to allow complaints, for example, from people who may feel they were unfairly excluded from the program. Lesotho's Child Grants Program plans to use community groups

to monitor whether beneficiaries are using their unconditional transfers responsibly.

- *Monitoring and Evaluation* plays an important role in all cash transfer programs. Evidence on the impacts of cash transfers on a range of outcomes has made a strong case for continued investments in these programs. A series of robust impact evaluations of cash transfers in Africa that are currently underway will yield further important insights into the optimal design and processes for the next generation of programs in Africa. Additionally, national monitoring systems are becoming more efficient through the use of ICT. In Kenya beneficiaries can be identified by smartcards and by their fingerprints, and their information is contained in a single database.

To Condition or Not?

The evidence on whether it is better to have conditional or unconditional cash transfers (CCTs and UCTs) in Africa has been inconclusive to date. The basic model developed in Latin America made the receipt of transfers conditional on beneficiaries' sending their children to school and making use of health services as a way to increase human capital and break the intergenerational transmission of poverty. Including conditions can also help to create political support for these kinds of programs.

Concerns have been raised about the feasibility of implementing CCTs in Africa, given the generally limited availability and poor quality of social services and given that African countries tend to have less implementation capacity than in Latin America.

By providing households with additional income, both CCTs and UCTs make it easier for households to access health and education services, among others. Recent analysis has begun to disentangle the effects of the cash transfer from the conditions. An experimental study in Malawi found that CCTs resulted in better school outcomes (lower dropout rates and higher attendance rates and test scores) than UCTs, while the UCTs resulted in lower levels of teenage pregnancy and marriage than CCTs.

These different effects suggest that the choice between a CCT and a UCT should be driven by what policymakers want to achieve and who they want to target with the program. When CCTs are the instrument of choice, these programs may need to allow conditionalities to differ depending on what services are available within a given area, an approach adopted in Nigeria's COPE program and Tanzania's CB-CCT.

COUNTRY EXAMPLES OF CASH TRANSFERS IN AFRICA



South Africa's Social Grants is the largest cash transfer program in Sub-Saharan Africa. It includes several types of means-tested grants targeted to the older people, poor families with children, foster families, people with disabilities, and war veterans. Roughly 15 million people receive a social grant, or about 30 percent of the national population. The child support grant (CSG), introduced in 1998, reaches about 10 million people, while the old age grant, which applies to poor people over 60 years of age, reaches a little over 2 million people. According to household survey data, social grants make up over 60 percent of the income of the poorest 20 percent of recipient households, with child grants being the largest contributor. Children who were enrolled in the CSG at birth completed significantly more grades of schooling and achieved higher scores on a math test than children who were enrolled at the age of six. These effects were particularly significant for girls. For children whose mothers had less than eight grades of schooling, the impact was even greater. Enrollment in the CSG reduced the likelihood of illness among children by 9 percentage points. The main effects on adolescents were reduced sexual activity and teen pregnancies and less drug and alcohol use.



Ethiopia's Productive Safety Net Program (PSNP) was launched in 2005 to transform the historic food aid system into a more predictable safety net that produces productive assets in poor communities. The PSNP provides cash and food transfers to food-insecure households through labor-intensive public works for households with able-bodied members (80 percent) and direct transfers to households that are unable to fulfill a work requirement (20 percent). Direct support cash and food transfers reach about 1.5 million people per year. Households receive transfers during six months of the year. The estimated annual transfers per household are equivalent to about 40 percent of their annual food needs. Impact evaluations found that providing direct support to households increases their food security and, in the few cases where average direct support transfers were large, this effect has been substantial. Increasing average direct support payments from 500 to 2,500 birr leads to a two-month increase in food security. Higher levels of direct support have also led to more rapid asset accumulation among beneficiary households. There is no evidence that direct support reduces ("crowds out") private transfers, and in fact there is some evidence that private transfers have increased.



Kenya Cash Transfer for Orphans and Vulnerable Children (CT-OVC) was initiated in response to concerns about the wellbeing of orphans and vulnerable children, particularly AIDS orphans. The objectives of the program are to encourage the fostering and family retention of children and to promote their human capital development. Eligible households, which are those who are poor and contain an OVC, receive a flat monthly transfer of US\$21. The program reached 150,000 households, including 495,000 OVC across the country as of June 2012, about 24 percent of the estimated number of households with OVCs. Impact evaluations have found significantly higher expenditures on food and health services among beneficiary households. The impact of the program on schooling is concentrated on the secondary level, where enrollment was increased by 9 percentage points and children from beneficiary households were less likely to be behind a grade and more likely to progress to the next grade.



Ghana's Livelihood Empowerment against Poverty (LEAP) Program is a social cash transfer program that provides cash and health insurance to extremely poor households across Ghana to alleviate short-term poverty and encourage long-term human capital development. Eligibility is based on poverty and having a household member in at least one of three demographic categories a single parent with an orphan or vulnerable child (OVC), an elderly poor person, or a person with an extreme disability (PWD) who is unable to work. LEAP started in a trial phase in March 2008 and, as of 2012, 65,000 households are enrolled. Beneficiaries receive bimonthly cash transfers of between US\$4 and \$8 per month. An impact evaluation is currently ongoing.

CHALLENGES AND OPPORTUNITIES

Emphasize the productive aspects of cash transfer safety nets. Cash transfers are often viewed only in terms of ensuring minimum household consumption in the face of shocks. However, beyond this immediate stabilization effect, cash transfers have been shown to increase human capital, build assets, and contribute to broad-based economic growth. For example, South Africa's child grant program increased school attendance and decreased hunger among children while also increasing maternal labor force participation. An external evaluation of Mali's *Bourse Maman* CCT concluded that the program increased school enrollment and attendance significantly. Households that received cash in Swaziland's Emergency Drought Response program were able not only to smooth their consumption but also to invest in important activities such as their children's education despite the negative effects of the drought.

Explore the possibility of moving away from food and other non-cash transfers to cash transfers. Transforming ad hoc food-based programs into more predictable cash transfers can create a more effective safety net. Many African countries spend the largest share of their safety net budget on food distribution in times of emergency. Creating cash transfer programs for households in chronic poverty that can be scaled up in times of shocks can be more dependable foundation for the safety net.

Consolidate and expand cash transfers. The experience so far with cash transfers in African countries demonstrates that this instrument can be an effective safety net. Where small pilot programs exist, most of these can be expanded into national programs. Pilots have been introduced in Kenya, Senegal, Burkina Faso, Zambia, and Tanzania, among

other countries, many of which have been expanded. In countries where not enough experience on cash transfers exists, implementing well designed pilots can shed light on the design of the full program and generate political support. This was the case in Niger where a small pilot program allowed for the development and testing of program procedures that were then incorporated in the scaled-up program. A key aspect of national programs will be to establish robust targeting, governance, monitoring, and accountability mechanisms. The adoption of management information systems and such innovations as ICT and the use of mobile phones can facilitate the process of registering and paying beneficiaries and promises to significantly expand the coverage of cash transfers.

Create a sustainable fiscal base for programs. Budgeting 1 to 2 percent of GDP for a cash transfer program can achieve significant coverage and impact. Cash transfers are most common in middle-income countries in Africa where they are largely funded through the national budget, whereas in lower-income countries, programs often have to rely on external funding. Ensuring the sustainability of these programs over time will mean increasing the extent to which they are funded from the domestic budget, particularly as economies expand. Nonetheless, external funding is likely to continue to play a crucial role in most countries in the region as donors can provide useful technical support and apply their knowledge of global best practices in the area of cash transfers. However, donors must ensure that their support is provided as part of a government-owned national social protection program.

Additional Resources and Readings:

Fiszbein, A. and N. Schady with F. Ferreira, M. Grosh, N. Kelleher, P. Olinto, and E. Skoufias (2009). "Conditional Cash Transfers: Reducing Present and Future Poverty." World Bank, Washington, D.C.

Garcia M. and C. Moor (2012). "The Cash Dividend: The Rise of Cash Transfer Programs in Sub-Saharan Africa." World Bank, Washington, D.C.

Grosh M, C. Del Ninno, E. Tesliuc, and A. Ouerghi (2008). For Protection and Promotion: The Design and Implementation of Effective Safety Nets. World Bank, Washington, D.C.

Kakwani, N., F. Soares and H. Son (2005). "Conditional Cash Transfers in African Countries." International Poverty Centre, UNDP/IPEA Working Paper number 9.

World Bank (2012). *Africa Social Protection Strategy*. World Bank, Washington, D.C.

Further guidance and toolkits on the design and implementation of cash transfers can be found on the World Bank's Social Protection and Labor website: www.worldbank.org/sp.