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Social transfers and chronic poverty: emerging evidence and the challenge ahead

A DFID practice paper

October 2005

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Acronyms

AIDS	acquired immune deficiency syndrome
BRAC	Bangladesh Rural Advancement Committee
DFID	Department for International Development, UK
FSTF	Food Security Task Force
GAPVU	Cash Payments to War-Displaced Urban Destitute Households Programme, Mozambique
GDP	gross domestic product
GTZ	German Technical Cooperation
HIV	human immunodeficiency virus
ILO	International Labour Organisation
MDGs	Millennium Development Goals
MOHA	Ministry of Home Affairs, Kenya
NACC	National AIDS Control Council, Kenya
NGOs	non-governmental organisations
OVC	orphans and vulnerable children
PRBS	poverty reduction budget support
PRS	poverty reduction strategy
PRSPs	poverty reduction strategy papers
SIDA	Swedish International Development Cooperation Agency
UN	United Nations
UNICEF	United Nations Children's Fund

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Executive summary

There are significant challenges still to be overcome if the Millennium Development Goals are to be achieved by 2015, particularly in sub-Saharan Africa. Large numbers of the very poor are being left behind, trapped in long-term, chronic poverty that is transmitted through the generations. Women, children, those living with disabilities and older people are disproportionately represented among this group. Where growth is taking place, "trickle-down" is often unable to reach the very poor and high levels of inequality in many countries are exacerbating this situation, reducing growth and the impact of growth on poverty.

In very poor countries, social transfers may offer an important option to tackle inequality and ensure that the benefits of growth reach those living in chronic poverty. They are regular and predictable grants – usually in the form of cash – that are provided to vulnerable households or individuals. Examples include pensions and child and household benefits. Although increasing numbers of developing countries are implementing social transfer programmes, they are still an underutilised policy option in many places. Evidence from existing social transfers in developing countries suggests that they can help tackle hunger, increase incomes, improve the education and health of the poorest families, promote gender equity and contribute to empowering poor people. In addition, there is evidence that social transfers can contribute to growth and the development of local markets.

As a result of this evidence, the Commission for Africa recommended the large-scale implementation of social transfers throughout the Africa region. In addition, the World Bank's 2006 *World Development Report* recognises their role in tackling poverty and inequality in other regions of the world.

Of course, the successful implementation of social transfers is not without its challenges. In particular, care needs to be taken to ensure that transfers reach the intended beneficiaries. Also, they are not the only option available to policy-makers wanting to reach the very poor and can have the greatest impact when complementing other actions, such as putting in place effective and accessible health and education services as well as measures to promote local production and employment.

One of the main arguments against social transfers in developing countries has been cost. Yet evidence is growing that modest transfers are affordable in even the poorest countries, particularly when the additional resources received from international development assistance are taken into account.

In addition, social transfers may well be a more cost-effective option than other initiatives currently used to address chronic poverty. In particular, they offer a cheaper and more effective option to the humanitarian assistance – usually in the form of food – that is provided to large numbers of poor people who live in predictable "emergency" situations that hit their communities on an annual basis. And, in contrast to cash, food aid can distort local markets and impact negatively on producers.

During the next few years, international aid flows will be scaled up considerably, presenting a dilemma on how to spend these new resources, particularly in countries with low capacity to absorb additional finance. Social transfers may present an innovative channel for these extra resources, ensuring that aid reaches and impacts on the poor directly. They may be able to reduce poverty without depending on the rapid economic growth that has proved elusive in many countries, particularly in Africa, during the past 30 years.

When implementing social transfers, a number of issues need to be addressed:

- **Political support and country ownership** will have to be built up. This may involve putting in place arguments and incentives to win the support of those with power and influence. The nature of the transfer instrument can play a role in building political support. For instance, a universal or conditional benefit can bring on board the middle classes. Donors can help this process by ensuring that financial assistance to countries is both long-term and predictable.

- Governments need to make **policy choices**. It should not be assumed that social transfers are necessarily the most appropriate and effective means of tackling chronic poverty in all contexts. Decisions on social transfers need to be placed within the context of a government's wider social policy and other spending plans. Trade-offs may be necessary where resources are limited.

- Social transfers should be integrated within a **strategic social protection framework** which is then incorporated into the national poverty reduction strategy (PRS). Appropriate mechanisms of government co-ordination, in particular with other sectors, also need to be established. Where conditions are suitable, it would be preferable for donors to provide financial support through the national budget.

- In many countries, the **capacity to implement** social transfer programmes is weak. Therefore, countries – with the support of donors – should be prepared to invest significantly in building up the capacity of their institutions and staff if social transfers are to be delivered effectively.

- It will be critical to ensure good **targeting of beneficiaries**. There is a wide range of targeting mechanisms that have been used in different countries and many could be adapted to other situations. But, all targeting mechanisms are potentially flawed and benefits are often captured by those not eligible to receive them. Therefore, it is important to make targeting mechanisms as transparent as possible and put in place effective systems of redress and accountability.

- In areas where both private and state institutions are weak, delivering cash to beneficiaries can present a significant challenge. Yet, states have demonstrated the capacity to deliver in-kind transfers to even the most remote communities. Therefore, putting in place systems to deliver cash – which is clearly more portable than food – should be feasible. Again, there are many experiences around the world from which lessons can be learnt. It will, though, be important to set up safeguards against corruption. One advantage of cash is that it offers a clarity to beneficiaries that facilitates transparency and enhances accountability.

- Experience suggests that social transfers can be implemented in countries with challenging environments, such as post-conflict states, and can play a key role in strengthening the social contract. In some countries, it may be best to engage with non-state actors while, in some situations, the United Nations may well take on a co-ordinating role.

In summary, the evidence suggests that social transfers may have a role in contributing to a range of MDGs in very poor countries. But it is difficult to draw definitive conclusions given the absence of national social transfer programmes in most of these countries. Nonetheless, there is a strong case for continuing engagement by the international community. Further work and support could include:

- Continuing to strengthen the evidence base on the potential role of social transfers as part of a wider poverty reduction strategy. This will include putting in place robust monitoring and evaluation systems within present and future programmes to enable lesson-learning. The international community should also identify evidence gaps and support further work in these areas.

- Working with governments to develop inclusive, evidence-based national strategic social protection frameworks that identify the role of social transfers. Strategic frameworks should be incorporated into national PRSs and ensure that social transfers complement other initiatives to reduce extreme poverty (such as in health, education, and agriculture).

- Helping design and fund social transfer programmes proposed by partner governments, within the context of a country-led approach. Where appropriate, this support could be most effectively provided through the national budget as poverty reduction budget support (PRBS). Complementary funding for institutional strengthening and technical assistance should also be considered. Funding commitments should be both long-term (minimum of five years) and predictable.
- In countries where humanitarian responses to predictable hunger and chronic poverty are the norm, the evidence is sufficiently strong to recommend that governments and donors should work together to put in place sustainable social transfer and broader social protection programmes.
- In fragile states, the international community should explore options for providing support for social transfers through UN agencies, humanitarian co-ordination bodies and NGOs.
- Many developing countries already have functioning social transfer schemes that face significant challenges. The international community should be willing to continue providing technical support to these countries.

1. Introduction: reaching those in extreme poverty

1. The international community is committed to the Millennium Development Goals (MDGs), including the commitment to halve poverty by 2015. But tremendous challenges remain. For example, 800 million people around the world are still hungry, 11 million children under five die unnecessarily each year, and 63 million primary-age girls are not in school. In sub-Saharan Africa, the situation is worsening. The number living on less than $1 a day is projected to increase from 314 million to 366 million by 2015. Deaths from AIDS continue to rise and will lead to an increase in the number of orphans from the present 43 million, 12.3 million of whom have been orphaned by AIDS.

2. Large numbers of the poor are trapped in long-term, chronic poverty that is transmitted from generation to generation. Women, children, older people and those living with disabilities are disproportionately represented among this group. Excluded from the benefits of society, they suffer from hunger, poor nutrition and high levels of ill health and are unable to access adequate education. They have few productive assets and often sell or use what they do have during crisis periods, leaving them even more vulnerable.[1]

3. While economic growth is essential for sustainable poverty reduction, the very poor are unlikely to benefit from any "trickle-down" that may result from growth. And in countries where growth is inadequate, there is a need to put in place mechanisms that reduce poverty directly and improve the ability of the very poor to contribute to growth. The situation is exacerbated in countries where levels of inequality are high, such as in much of sub-Saharan Africa and Latin America. High inequality reduces both growth and the effectiveness of growth in tackling poverty. Unless specific measures are taken to reach the poorest, millions will continue to die needlessly or, at the very least, continue to suffer from inhumane living conditions.

4. There is growing evidence from some developing countries that **social transfers** could both help growth reach the very poor and, where growth is weak, have a direct impact on poverty. Social transfers are regular and predictable grants – usually in the form of cash – that are provided to vulnerable households or individuals. They are a form of social protection, in other words, part of a system of public actions put in place to protect and transform the livelihoods of citizens, including the vulnerable and chronically poor (see Box 1).

Box 1: Defining social protection

There are many definitions of social protection. Broadly defined, it encompasses a sub-set of public actions – carried out by the state or privately – that address risk, vulnerability and chronic poverty. Operationally, it is more helpful to define social protection by sub-dividing it into three key components:

- **Social insurance** comprises individuals pooling resources by paying contributions to the state or a private provider so that, if they suffer a "shock" or permanent change in their circumstances, they are able to receive financial support. Examples include unemployment insurance, contributory pensions and health insurance. Social insurance is, in general, only appropriate for better-off individuals although it can have an important role in preventing them falling into poverty.

- **Social assistance** involves non-contributory transfers to those deemed eligible by society on the basis of their vulnerability or poverty. Examples include social transfers and initiatives such as fee waivers for education and health, and school meals.

- **Setting and enforcing minimum standards** to protect citizens within the workplace, although this is difficult to achieve within the informal economy.

5. Social protection has long been recognised as a fundamental human right – see Box 2 – and social transfers can be seen as entitlements provided by the state as part of its social contract with its citizens.

6. Historically, social transfers have played a key role in reducing poverty in developed countries but have often been overlooked in developing countries. During the past decade, however, a growing number of less poor developing countries have introduced social transfer programmes which have begun to show encouraging results.

Box 2: The right to social protection

The Universal Declaration of Human Rights of 1948 states:

Article 22: "Everyone, as a member of society, has a right to social security and is entitled to realisation through national effort and international co-operation and in accordance with the organisation and resources of each State, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality."

Article 23.3: "Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection."

Article 25: "Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control. Motherhood and childhood are entitled to special care and assistance."

See also Articles 7, 9 and 11 of the International Covenant on Economic, Social and Cultural Rights (1966).

7. As a result of this evidence, the Commission for Africa identified social transfers as a key tool in tackling extreme poverty in sub-Saharan Africa. It proposed that African governments should develop social protection strategies to support families living in communities in which orphans and vulnerable children (OVCs) can be found and recommended that donors should commit to long-term, predictable funding of these strategies, with US$2 billion a year immediately, rising to US$5-6 billion a year by 2015. Most of this would be in the form of cash transfers and would make up a significant proportion of the overall package of extra spending for the region that was proposed by the Commissioners. The greater use of social transfers in developing countries worldwide is endorsed by the World Bank's *World Development Report* for 2006 which recognises their potential impact on poverty and inequality as well as their contribution to promoting and distributing growth.

8. In line with the Commission for Africa's broader recommendations, there is a growing international consensus that levels of spending on aid need to be scaled up. Within this context, social transfers could have a role in channelling at least part of this extra spending directly to the very poor, supporting their own efforts to climb out of poverty and providing a stimulus to local economic development.

9. Social transfers are not, of course, a panacea. Significant challenges need to be overcome if they are to be successfully implemented; experiences abound of programmes that have been captured by large sections of the non-poor. And, social transfers will not eliminate poverty by themselves. They are most effective when integrated within a wider national social protection system that complements interventions promoting growth and providing basic social services. Social transfers can contribute to enhancing the impact and reach of these services, particularly among the very poor.

10. The purpose of this paper is to set out the emerging evidence on the implementation and impact of social transfers in developing countries as well as some of the challenges that need to be addressed if implementation in countries with low institutional capacity is to be successful. It will also contribute to DFID's thinking on how to take forward the Commission for Africa's recommendations on social protection and consider implications for poor countries in other regions of the world.

11. The paper will begin by describing the type of social transfer programmes that can currently be found in developing countries. It will then consider the evidence on the impact of effective social transfer schemes on chronic poverty and their role in promoting and distributing growth. The following chapter will demonstrate that social transfers are affordable in even the poorest countries and, in fact, could be more cost-effective than other strategies currently used by the international community to tackle chronic poverty. The paper will then assess some of the challenges to be faced when implementing social transfer programmes and provide some suggestions, based on existing experience, on how these could be overcome. The paper concludes by suggesting options for moving the agenda forward internationally.

2. Social transfers: what are the options?

12. Social transfers can take a variety of forms and would normally be provided by the state to those citizens regarded as living in conditions of long-term extreme poverty or vulnerability.

13. Social transfers can be provided as cash, in-kind (often as food) or as vouchers. In many contexts, cash offers significant advantages. It is cheaper to deliver and is much less likely to harm local markets than, for example, food or agricultural inputs (although it may generate localised short-term inflation). A key disadvantage of vouchers, even when they are not restricted to specific purposes, is that they can often be redeemed only at certain outlets, thereby disadvantaging other market providers.[2] Even in times of high inflation, it should still be possible to use cash as a transfer by making it index-linked.

14. Providing cash also demonstrates a recognition by development practitioners that the poor are often in the best position to decide how to care for their own families. Food is insufficient for all their needs. Cash enables them to buy other essentials and invest in healthcare, education and other productive activities. The frequency with which poor people exchange food and other in-kind transfers for cash is an indication of the inadequacy of non-cash transfers.

15. Because of the advantages associated with cash, its use in social transfers will be the main focus of this paper. Nonetheless, in some circumstances cash may not be the best option. Where local markets are undeveloped and purchases are difficult to make, food may be a better short-term option. However, in the medium to long-term, the evidence suggests that traders are able to respond to influxes of cash even in remote or conflict-affected areas.[3] In some cases, it may be appropriate to provide a mix of cash and food, perhaps to ensure that young children – or even older people – receive nutritional supplements.

Types of social transfer

16. Social transfers in the form of cash are well-established in developed countries and are increasingly being adopted and adapted in those still developing. They are usually either provided to sections of the population regarded as vulnerable – such as older people, those living with disabilities and children – or specifically targeted on the poorest households. In many cases, transfers combine the two approaches, providing means-tested benefits to vulnerable citizens.

17. Non-contributory **social pensions** are gaining increasing recognition as an important tool for protecting older people, particularly those who have spent their lives in the informal sector or have never been employed. Pensions can be made universally available to all those over a certain age but, in most developing countries, they are means-tested. Even so, they can cover significant numbers of beneficiaries:

5.3 million in Brazil (32% of those over 60 years old), 1.9 million in South Africa (94% of those over 65) and 1.32 million in Bangladesh (37% of eligible older people).

18. The generosity of social pensions varies considerably and this influences the extent to which they impact on poverty. Pensions tend to be higher in some of the better-off developing countries, such as Brazil and South Africa, where, in terms of equivalent purchasing power, they are set at around US$2.60 and US$1.20 a day respectively.[4] In poorer countries, such as India, Bangladesh, and Nepal, the level is lower, at between US$0.30 and US$0.70 a day. Yet, even at this low level, many of the middle-class in India still make the effort to access a pension.[5]

19. Transfers can also be targeted at other vulnerable groups. For instance, South Africa provides means-tested **disability benefits** of around US$1.20 a day to all those medically certified as eligible, means-tested **child support grants** of US$0.30 a day and grants to foster children of around US$1.10 a day. In Bangladesh, a **widows' allowance** provides around US$0.40 a day to eligible women, with no age restrictions.

20. Some countries provide **household transfers** to those living in extreme poverty (although, in practice, these can often be through individual household members). In China, the Minimum Living Standards programme was set up in 1999 to provide a cash transfer to households of very poor urban dwellers, mainly those with old people, those with disabilities, and the unemployed. By 2004, there were around 22 million beneficiaries. The size of the transfer varies according to the location and income of the beneficiaries. China is now attempting to extend the programme to rural areas. In Mozambique, the Cash Payments to War-Displaced Urban Destitute Households programme (GAPVU), which began in 1990, provided 16% of the population living in urban households with around US$0.20 a person a day.

21. **Conditional cash transfers** are a recent innovation in household transfers and are found mainly in Latin America. They are targeted mostly at poor households with children and provide cash on condition that the children attend school and health clinics. One of the earliest examples was the Bolsa Escola programme in Brazil which started in 1995. In 2003, it was integrated into the broader Bolsa Familia programme which, by early 2005, was reaching 6.6 million families.[6] It provides between US$0.45 and US$2.85 a day to households with children aged between six and 15, on condition that they attend 85% of classes. However, families without children who live in extreme poverty are also eligible for benefits. Other examples include Progresa – now known as Oportunidades – in Mexico (see Box 3) and the Red de Protección in Nicaragua. In Bangladesh, a similar Cash for Education programme provides a transfer of around US$0.43 a day for each household and reaches 2.4 million children.[7]

Box 3: The Progresa programme in Mexico

Progresa began in 1997. By early 2000, it covered about 2.6 million rural families. In 2002 its name was changed to Oportunidades and its reach was expanded to urban areas. It now covers 4.5 million families, 20% of the population of Mexico.

The programme selects, within the poorest communities in the country, the poorest households, mainly those with children. Families receive two cash transfers every two months. Mothers get a school grant (for children aged seven-18) ranging from US$0.50 a day for each child in third grade of primary school to US$2.90 (for boys) and US$3.20 (for girls) in secondary school, conditional on 85% attendance.

In addition, the programme provides US$0.75 a day for the purchase of food on condition of attending health clinics, as well as nutritional supplements in kind for underweight children between four months and two years and pregnant and breast-feeding mothers. On average, monthly transfers add around 20-30% to household income.[8]

22. The main argument in favour of making social transfers conditional is that they provide strong incentives for families to invest in the health and education of their children. However, they require greater administrative capacity than simple unconditional cash transfers and depend on other services being in place. To be most effective, school fees should be eliminated before implementing conditional cash transfer programmes or else the fees themselves will consume much of the transfer. It is important that conditional cash transfer programmes are well co-ordinated with other service providers. In Brazil, for example, the health and education ministries are responsible for monitoring compliance with the programme's conditions.

23. If health and education services are not in place, conditional cash transfers are not an appropriate instrument. Furthermore, families who are unable to send their children to school for reasons other than lack of money may miss out. In fact, there is still a debate on whether conditionality is necessary to increase school attendance among beneficiaries since there is evidence that unconditional cash transfers can have similar effects (see Chapter 3).

24. **Work programmes**, in which the state provides cash or food to the unemployed in exchange for work, combine elements of a social transfer with an insurance function, offering a safety net to those in the labour market. In addition, they should leave in place assets (such as infrastructure) that benefit the wider community. One of the most well-known work programmes is the Employment Guarantee Scheme in Maharashtra, India, which provides employment on demand – up to a defined threshold – for unskilled, unemployed workers. Its success has encouraged India to extend the scheme nationwide.

25. When well-implemented, work programmes can be a useful social protection tool. However, they have limitations. They are not appropriate for chronically poor households that are unable to participate in the labour market; for this group, social transfers should be the main focus of support. And the reality is that many work programmes are poorly designed and implemented, often providing employment for too short a period with minimal monitoring of the quality or usefulness of the assets left in place.[9]

3. What are the benefits of social transfers?

26. Evidence is growing of the contribution that well-implemented social transfers can play in transforming the lives of those living in extreme poverty by, for example, reducing hunger and income poverty, improving educational and health outcomes, empowering poor people and tackling gender inequities. They can have an important role in ensuring that the benefits of growth reach the very poor as well as better enabling poor people themselves to contribute to growth.

Tackling income poverty and hunger

27. In many poor countries, progress against the first Millennium Development Goal (MDG 1) – on income poverty and hunger – needs to improve significantly if it is to be achieved by 2015. A number of social transfer programmes are beginning to provide evidence of sustainable impacts on hunger, indicating their potential to contribute to food security and the achievement of MDG 1. In Mexico, for example, 70% of households participating in the Progresa programme have shown improved nutritional status. Its impact on stunted growth in children has also been impressive, with the growth rate among children aged 12-36 months increasing by one centimetre a child a year.[10] Similarly, in South Africa, having a recipient of the social pension in a household has been correlated with a three-to-four-centimetre increase in height among children.[11]

28. Social transfers have also brought about significant reductions in income poverty. For example, social pensions have doubled the income of the poorest 5% of the population in Brazil and increased it by 50% in South Africa.[12] In fact, the overall impact of the South African social security system on poverty has been to reduce the "destitution gap" by 45%.[13] Similarly, Mexico's Progresa programme reduced the poverty gap among beneficiaries by 36% between 1997 and 1999.[14] In Mozambique, the GAPVU[15] urban cash transfer programme managed to increase household incomes in poor towns by up to 41%.[16]

Educational and health outcomes

29. Social transfer programmes can also have a significant impact on the education and health MDGs, particularly when their implementation is well co-ordinated with the provision of education and health services. Conditional cash transfer programmes, for example, have increased school attendance among poor families, often significantly. The Bangladesh Cash for Education programme – formerly a food-for-education programme – has resulted in a 20-30% increase in school enrolment among beneficiaries, who are likely to stay in school up to two years longer than other children.[17] Similarly, in Nicaragua, the Red de Protección brought about a 23% increase in school attendance for the target population between 2000 and 2003.[18]

30. But cash transfers do not need to be made conditional on school attendance to impact on children's education. There is evidence from Brazil that old-age pensions have helped increase school attendance, especially among 12-14-year-old girls.[19] In Namibia, a significant proportion of old-age pensions is spent on children's education.[20] This is often the result of older people living with their extended families and contributing to the wider household budget, although many older people are the primary carers for children.

31. Furthermore, social transfers can help to raise the performance of children in school. By improving children's nutrition in their early years, social transfers can help enhance their long-term cognitive ability.[21] And once they are at school, a good diet and full stomach should ensure they perform better. Unlike school meals programmes, social transfers benefit pre-school children and other household members rather than just those in school.

32. Social transfers can impact on health outcomes by improving nutrition and by enhancing the ability of those living in extreme poverty to access health services and pay for medicines and other associated costs. In Namibia, for example, pensioners spend 13.8% of the cash they receive on health care for themselves but, in many cases, their pensions also cover spending on health for the entire household.[22]

33. Evidence on the impact of social transfers on health can be found in Mexico where Progresa has brought about a 12% reduction in ill-health among beneficiaries up to five years old and 19% fewer days of illness among adults.[23] In Nicaragua, where the transfer has been conditional on attending clinics for vaccinations, timely immunisation among recipient children aged between 12 and 23 months increased by 18%.[24]

34. Social transfers also benefit families living with HIV/AIDS. In line with the UNICEF framework for orphans and vulnerable children (OVCs), social transfers can provide an important element of an overall care package. For example, orphans will be more able to access and benefit from both education and health services (see Box 4 for an example from Kenya). This is particularly important for older people, with recent research showing that, in southern Africa, 59% of double orphans live in a household headed by an older person.[25] Transfers can also offer direct support to people with HIV/AIDS; improved nutrition will increase their resistance to the virus and the effectiveness of anti-retroviral drugs.

Box 4: Kenya cash transfer for OVCs

In 2004, the Ministry of Home Affairs (MOHA) and the National Aids Control Council (NACC) set out to develop a cash transfer scheme for orphans as an integral part of its strategy to encourage foster care in families. UNICEF and the Swedish International Development Cooperation Agency (SIDA) have funded a small pilot programme in three districts to assess the feasibility of this programme.

The households, caring for 500 children in total, each receive every month the equivalent of US$0.50 a day, and a similar amount for each child is given towards community-based initiatives.

Initial evaluations suggest that the money has been spent on food, clothing, shoes, medical expenses and other minor household purchases. School attendance has increased and some children with HIV/AIDS have been able to obtain anti-retroviral treatment. The project is receiving strong political support and there are plans to scale up the pilot to reach 2500 orphans.

35. However, experience in Mexico and Bangladesh indicates that social transfer programmes that successfully increase access to health and education services can be associated with a possible deterioration in the quality of service provision.[26] This is most likely if the necessary complementary investment in health and education services is not adequately increased. While not an argument against social transfers, it demonstrates clearly the need for good inter-sectoral co-ordination and equitable health and education policies.

Empowering the poor

36. Social transfers can have a role in empowering the poorest households. The provision of a guaranteed and predictable minimum income provides them with a level of basic security and increases their ability to plan for the future. Knowing their basic subsistence is secure removes a major day-to-day concern from poor people and enables them to adopt a longer-term vision. Investments, such as children's education, that take many years to come to fruition can become feasible aspirations rather than impossible dreams.

37. Households can also gain greater independence and control over their lives. In India, for example, the provision of social transfers to landless labourers has begun to change exploitative patron-client relationships in some communities, while the Maharashtra Employment Guarantee Scheme has enabled workers to negotiate better wages.[27] In Ethiopia, cash transfers have allowed poor households to renegotiate contractual sharecropping and livestock arrangements with richer households.[28]

38. In many contexts, social transfers can play an important role in restoring dignity. In Namibia, the social pension has conferred status on family members who were otherwise viewed as economic burdens.[29] In Zambia, in the Kalomo district, the introduction of a small cash transfer reduced the level of begging in communities, enhancing the self-worth of beneficiaries and improving their relations with the rest of the community.

39. Social transfers can also promote a strengthening of the state's relationship with its citizens. For example, successful targeting of transfers can be achieved only if beneficiaries are correctly identified, offering countries a reason to register their citizens. Likewise, old-age pensions require a good system of birth registrations. Once people have their existence recognised by the state, they will be more able to participate in the democratic process.

Gender equity

40. Social transfers are particularly important for women and girls, who are disproportionately represented among the extreme poor and more likely to be beneficiaries. They can, for example, address gender imbalances in access to education. In Bangladesh, the Cash for Education programme has helped achieve gender parity in primary education and, in combination with a Girls' Stipend programme that provides 2 million secondary-school girls with between US$0.50 and US$2.30 a day, has nearly removed the gender gap in secondary education. Similar impacts have been observed in Mexico and elsewhere.[30]

41. Mexico's Progresa programme shows how gender relations within the household can be transformed by giving cash only to women.[31] With few exceptions, men do not take the money from the women. The balance of power in the household has begun to shift, with men less likely to make unilateral decisions. Women have greater control over household expenditure. And they feel empowered, as expressed in greater self-confidence and awareness. On the other hand, there have been reports from South Africa of women being beaten up for cash.[32]

Promoting growth

42. Within the context of a wider package of social protection, social transfers have a role in promoting growth by helping tackle risk and vulnerability. This has been identified by DFID as one of the four key conditions of pro-poor growth.[33] They can also, in the long term, help address the high levels of inequality that can both reduce growth and the impact growth has on poverty.[34] Well-implemented social transfers can facilitate growth in a number of ways:

- They can give those poor households with some productive capacity greater confidence to undertake more risky activities, knowing they will have a minimum income to fall back on. When hit by crises, they have less need to sell their productive assets. They are also more able to delay sales of produce, thereby obtaining a better price. Work programmes can provide similar benefits. For example, the Employment Guarantee Scheme in Maharashtra, India, has encouraged farmers to plant more high-yielding (rather than drought-tolerant) crop varieties than farmers in neighbouring states.[35]

- Evidence is growing that beneficiaries of social transfers use them to invest in small-scale productive activities and assets, thereby setting in motion a potential multiplier effect. In Namibia, for example, beneficiaries of the social pension have been able to use their cash to invest in agriculture and livestock for their families.[36] Better nutrition enables people to work more productively.

- The influx of cash into local communities through social transfers, even when relatively small, can contribute to the generation of local markets. In Namibia, on the day the pension is paid, the places where people receive their cash turn into spontaneous markets. In some regions, businesses survive only because of purchases from households receiving pensions.[37] Evidence of similar effects is emerging from Brazil.[38]

43. There is little evidence that social transfers detract from growth by creating dependency and encouraging people to work less. In Mexico, for example, there has been no reduction in labour-force participation rates as a result of entering the Progresa programme.[39] In fact, social transfers may well promote employment by helping people meet essential costs such as travelling to work. Many chronically poor households, of course, are unable to participate in productive activities and social transfers are one way of ensuring they benefit from national growth.

44. In the longer term, social transfers promote growth by enabling households to invest in the education and health of their children. On reaching adulthood they can become productive members of society and break the poverty cycle in which their families have been trapped. It is estimated that the Bangladesh Cash for Education programme will increase beneficiaries' lifetime earnings by up to 25%.[40] A similar impact has been calculated for conditional cash transfer programmes in both Mexico and Nicaragua.[41]

Meeting the MDGs in the poorest countries

45. The evidence suggests, therefore, that social transfers could play an important role in achieving the MDGs. Their rapid spread throughout Latin America and the less-poor countries of southern Africa and parts of Asia is an indication of a growing consensus on the value of social transfers in these regions in tackling both poverty and high levels of inequality.

46. A key question, therefore, is whether social transfers can have a similar impact in very poor countries, as suggested by the Commission for Africa. More countries in Africa are beginning to take a serious look at social transfers and have set up small pilot schemes. One example, the Kalomo cash transfer pilot programme in Zambia, began in late 2003 with support from German Technical Cooperation (GTZ). It is beginning to demonstrate encouraging results (see Box 5).

Box 5: The Kalomo cash transfer pilot scheme in Zambia

The Kalomo programme provides a small transfer of US$0.50 a day to the poorest 10% of households in the Kalomo district of Zambia, some 1000 in total. Households with children receive US$0.17 more. Over 50% of the beneficiary households are headed either by older people or children, and 57% of the beneficiaries are children.

Although at an early stage, the programme is already demonstrating similar impacts to other cash transfer programmes. Households report improved nutrition, with an increase in the number of meals and amount of food they consume a day. Fewer people are dying, the health status of beneficiaries has improved and overall absenteeism from school has declined by 16%.

People have invested, on average, almost 30% of the cash they have received by purchasing, for example, goats for breeding, oxen to help with ploughing, and seed for planting. Others have paid neighbours to plough their gardens. DFID is committed to scaling up the pilot. Initially, the programme will be extended to 10,000 beneficiary households and the potential for a national programme is being explored.[42]

47. As set out in DFID's policy paper *Why we need to work more effectively in fragile states*, social protection can have a key role in providing more secure livelihoods in countries with challenging environments.[43] Experience suggests that social transfers can be effectively implemented in fragile states. For instance, the GAPVU urban cash transfer programme in Mozambique was originally established in a conflict situation in 1990 and functioned well throughout the crisis.[44]

48. Social transfers alone are unable to tackle adequately all aspects of chronic poverty. To be most effective they should complement the provision of health and education services and investments to promote growth (such as infrastructure and access to credit). For example, while social transfers can play a key role in responding to the needs of children affected by HIV/AIDS, a broader package of support is required that includes, among other things, psycho-social support and paediatric anti-retroviral drugs. Similarly, the Challenging the Frontiers of Poverty Reduction project in Bangladesh demonstrates how social transfers can be integrated within broader livelihoods programmes (see Box 6).

Box 6: Support to "ultra-poor" women in Bangladesh

DFID supports the Challenging the Frontiers of Poverty Reduction project in Bangladesh, implemented by the Bangladesh Rural Advancement Committee (BRAC). This is an example of a social transfer programme that is integrated within a broader package of support to the chronically poor.

The programme initially provides 70,000 women with a non-cash asset – worth, on average, the equivalent of US$440 – to begin an income-generating activity, such as poultry rearing, livestock, horticulture or a non-farm activity. The women also receive a transfer equivalent to US$0.73 a day for 18 months.

A review of the programme found the number of households without enough to eat had been reduced from 97% to 27% within two years, and severe malnourishment among under-fives was down by 27%. On average, the value of assets had increased 222%.

4. Financing social transfers in the poorest countries

49. To date, one of the main arguments against social transfer schemes in poor countries has been their cost. However, evidence is increasing that social transfer schemes are affordable even in the poorest countries, particularly if donor aid is taken into account. In fact, social transfers may well be a more cost-effective option than some other development interventions.

Affordability of social transfers

50. In Zambia, it has been calculated that scaling up the Kalomo pilot cash transfer programme (see Box 5) to a national level to provide the poorest 10% of households (around 1 million people) with around US$0.50 a day would cost US$20 million a year, or just under 1% of the 2005 government budget. The International Labour Organisation (ILO) has calculated the cost of providing a similar level of benefit to the same proportion of households in seven other African countries (see Table 1).[45] In none of the examples would the cost rise above 3.1% of estimated government expenditure and, in Senegal, it would be as little as 0.6%. The cost of providing an old-age pension of US$0.50 a day to all people over 65 would be only slightly more expensive, between 1.3% (in Guinea) and 3.7% (in Tanzania) of government expenditure.[46] A means-tested pension would be significantly cheaper.

Table 1: Cost of providing a social transfer equivalent to US$0.50 a day (in purchasing power parity terms) to the poorest 10% of households

	Cost of benefit (US$millions)	As % of GDP	As % of estimated government expenditure	As % of development assistance (2003 level)
Burkina Faso	13.4	0.3	1.8	3.0
Cameroon	27.8	0.2	1.2	3.1
Ethiopia	50.8	0.7	2.4	3.4
Guinea	6.3	0.2	0.7	2.7
Kenya	77.2	0.5	1.7	16.0
Senegal	10.4	0.1	0.6	2.3
Tanzania	82.4	0.7	3.1	4.9

51. Similar studies on the cost of national social transfer programmes in other regions of the world still need to be undertaken. However, some current large-scale programmes require similar levels of spending to those calculated for Africa as a proportion of GDP. For example, in Brazil, Bolsa Familia cost around 0.2% of GDP in 2003[47] (compared with 7.3% of GDP for "contributory" pensions that benefit the better-off[48]). In Mexico, Progresa required 0.32% of GDP in 2000. In India, it has been calculated that increasing the size of the present pension fourfold and giving it to everyone over 60, as well as all widows and single-parent families, would cost $2 billion a year. This compares favourably with the $10.5 billion currently allocated to acquiring food at minimum support prices.[49] However, the South African pension, which costs around 1.4% of GDP, is increasingly regarded as unsustainable by some observers.

52. Therefore, while the potential costs of national social transfer programmes in poor countries are not insignificant, the evidence suggests that they are affordable if the political will exists. This is even more so if the additional funding provided by international development assistance is taken into account. The cost of scaling up the Kalomo programme in Zambia to national level would represent only 2.8% of overall development assistance.[50] As Table 1 demonstrates, national social transfer programmes in the seven countries studied by the ILO would represent less than 5% of development assistance for all countries except Kenya.

53. Furthermore, within a context of rising levels of international development assistance in countries with a limited capacity to absorb these extra funds, social transfers may offer an innovative delivery system that allows donors to reach the poor directly.[51] While making an immediate contribution to poverty reduction, they could also provide a significant stimulus to local economic growth.

The cost-effectiveness of social transfers

54. In many countries, social transfers may be a more cost-effective option than some existing initiatives directed at the chronically poor, achieving a greater impact on poverty at a significantly lower cost.

55. One area in which social transfers may well be more cost-effective is food security. One of the immediate challenges in Africa is to develop an effective response to the predictable humanitarian crises that hit the chronically poor in many countries every year. To date, the most common response has been the provision of humanitarian assistance, usually as food. The failure of these schemes is shown by the annual repetition of the "crisis" as a result of the inability of beneficiaries to build assets and prepare themselves for the next hungry season.

56. The humanitarian assistance provided to many African countries to tackle predictable food crises and other disasters is considerable – US$3 billion in 2003 – with minimal long-term impact. Social transfers could reach the same people at a much lower annual cost per person, making a greater long-term difference to their lives. A regular, predictable social transfer in the form of cash is likely to be both more effective and cheaper. In Zambia, for instance, a food transfer programme delivering the equivalent benefits to a national cash transfer programme would be almost four times more expensive, at around US$72 million annually.[52] In part, this is because of the higher costs of administration and transport associated with food compared with cash, particularly if it is brought from overseas.[53]

57. Regular, predictable cash transfers provide the potential for developing a market-based solution to chronic poverty, which is not possible with the current humanitarian approach. Cash in people's hands should promote a response from the market since it is very rare for food not to be available for purchase within a country even during so-called hungry seasons. One example of a programme that aims to move away from a humanitarian response to a market-based approach is the Ethiopian National Productive Safety Net Programme, established in 2005, which seeks to combine social transfers and work programmes to reach 5 million people. DFID has committed £70 million to this programme over three years.

58. When replacing humanitarian food responses with social transfers, it will be important to ensure a good transition process. Social transfer programmes take time to implement and scale up and cannot immediately replace emergency aid. Therefore, countries should continue with some form of emergency assistance until social transfer systems are fully established. An emergency response is still appropriate when a real emergency occurs.

59. There are also indications that, in certain contexts, social transfers may be more cost-effective than a range of other interventions. The main aim of many work programmes, for example, is to deliver cash or food to beneficiaries. The demand for recipients to work is often in response to ideological concerns that people should not receive something for nothing. However, work programmes have higher administration costs than social transfers and many of the assets constructed by beneficiaries are often of poor quality and little use – and, therefore, a poor investment. In Malawi, it has been calculated that the unit cost of transferring cash to the very poor is around eight times higher for work programmes compared with a simple cash transfer.[54]

60. Cash transfers can even be a cost-effective option for achieving better school attendance. For example, in Mexico, a recent study has concluded that conditional cash grants have been over ten times more cost-effective in achieving an extra year of schooling for children compared with the construction of new schools.[55] However, there are indications that providing cash transfers to increase access may result in a deterioration in children's performance if there is no additional investment in the schools they attend.[56]

61. Clearly, comparing the cost-effectiveness of a social transfer with another development intervention is context-specific. Nonetheless, it would appear that, in some instances, social transfers may result in considerable savings when compared with other development interventions – and achieve similar or better outcomes.

5. Challenges in implementing social transfer programmes

62. Although social transfers can play a major role in poverty reduction, in many developing countries they face significant political, institutional and technical challenges. These are not insurmountable but success will require much commitment, effort and investment.

Building country ownership and political will

63. Social transfer programmes are compatible and consistent with country-led approaches to development and innovative approaches to development financing such as poverty reduction budget support. In combination with other interventions, they can play a key role in ensuring that a country-led approach meets the needs and interests of the most excluded and poorest citizens.

64. However, as with other public policies, social transfers require political endorsement and commitment. Building this political will may be a significant challenge, particularly in poor countries with little experience of successful social welfare systems. The excluded and vulnerable are often politically weak and find their interests absent from or not prioritised in poverty reduction strategies and national plans. Governments are more likely to respond to citizens and interests that have a stronger voice. And those whose interests are well served by the status quo may resist change if they perceive that it will not benefit them. Meeting the needs of the poorest may, in some cases, be regarded as a waste of resources, mistakenly understood as diverting the state from its key tasks of promoting growth and increasing access to social services.

65. Building political support will require an analysis of the social and political forces for and against change. Based on this analysis, reformers can assess any existing momentum for change and draw up plans to build support for specific reforms or initiatives, identifying allies and putting in place arguments and incentives to bring opponents on-side, particularly those in the middle class. The aim should be to construct a “constituency for change” in favour of social transfers.

66. Experience suggests that political support can be built in many ways, depending on country context. Putting in place universal benefits, for example, could gain the support of the middle class and those in the formal economy. In Brazil, the support of the middle classes was one reason for making the Bolsa Familia programme conditional on accessing educational and health services. In China, in contrast, one of the main incentives behind the Minimum Living Standards scheme has been to promote social cohesion in urban areas, with the government recognising that it has to provide the unemployed with a minimum income.

67. One common means of creating a constituency for change is to build the evidence base by implementing a small pilot programme. This was important in developing a political consensus in favour of some of the Latin American conditional cash transfer programmes. It is also a key motive behind the pilot cash transfer programmes that have recently been initiated with support from UNICEF in Kenya and GTZ in Zambia (see Boxes 4 and 5).

68. Donors have a role in building political support by ensuring that any financial assistance for social transfer programmes is both long-term and predictable. Poor countries will be reluctant to accept donor support for large-scale programmes if they cannot guarantee their sustainability; withdrawing such programmes may damage their chances of re-election.

69. In many countries classified as **fragile states**, governments may be unresponsive to the needs of their poor citizens or unable to deliver effective support, perhaps because of conflict or post-conflict situations. In these countries, the international community still has a responsibility to assist the poor and this may include providing social transfers. In such situations, it may be more appropriate to engage with non-state actors, at least in the initial stages of implementation.[57] The aim should be to gradually put in place an effective national social welfare system. This could also contribute to strengthening the social contract within fragile states and, in particular, the state's relationship with its more vulnerable citizens.

Policy choices within a country-led approach

70. The international community is committed to supporting country-led approaches to development which, ideally, should be set out in a national poverty reduction strategic framework. Within this broader context, social transfers are one potential policy option for tackling chronic poverty, though one that has, admittedly, been underutilised in many developing countries.

71. It should not be assumed that social transfers are necessarily the most appropriate and effective means of tackling chronic poverty in all contexts. There is a range of other policy options and countries need to make choices. Decisions on social transfers need to be placed within the context of a government's wider social policy and clear links need to be made to the provision of other social services. Where resources are constrained, governments need to decide which elements of social policy to prioritise and their sequencing. But decisions on how to tackle chronic poverty should be based on a good analysis of the causes of poverty in specific countries. Studies on the costs and benefits of different policy options may also help inform decision-makers.

72. Options for reaching the very poor could include a range of social assistance mechanisms, not just social transfers. For instance, fee waivers for health and education could make a significant contribution to increasing access to services among the poor. In the Kisoro district of Uganda, for example, abolishing fees brought about a 120% increase in attendance at outpatient clinics.[58] But, fee waivers will not help everyone since other costs may act as barriers to their access (such as transport, medicine, uniforms, and books). Social transfers could help cover these costs if set at an adequate level.

73. One way of setting out national commitments to social transfer programmes is within a strategic framework – such as the national social protection strategies that many countries are currently developing – which is then incorporated into the PRS. Attention should be given to avoiding a multiplicity of national frameworks or, at the very least, ensuring they are complementary. For instance, national plans of action for OVCs should, where possible, be aligned with existing or proposed social protection strategies. And, where relevant, sectoral plans should also identify complementarities with social transfer programmes.

74. Once plans for social transfer programmes are included within national strategic plans, such as the PRS, donor funding for these programmes could be most effectively provided through the national budget as poverty reduction budget support (PRBS), as long as countries are deemed eligible for this type of funding.[59]

Strengthening co-ordination around social transfers

75. Since transfers cut across the work of various ministries – such as food security, health, education, HIV/AIDS, and OVCs – good co-ordination among ministries, as well as non-state actors such as NGOs, is essential. Often, the ministries responsible for traditional social assistance programmes – such as ministries of social welfare – are relatively weak, with little influence over other ministries. Given the cross-cutting nature of social transfers, consideration should be given to locating strategic responsibility in a more powerful ministry, such as finance, the presidency, or a major sectoral ministry. Once established, responsibility could be transferred to a potentially weaker ministry.

76. In fragile states, it is important for donors and other non-state actors to work in a co-ordinated manner with government, avoiding the uneven distribution of benefits to different groups which could create tensions among the local population. United Nations agencies could have a legitimate co-ordinating role in such contexts.

Building government capacity to implement social transfers

77. In poor countries with limited experience of social transfer systems, the capacity to administer and deliver transfers is likely to be weak in the early stages of implementation. A too-rapid introduction of social transfers could overwhelm local capacity and undermine broader civil service reform initiatives. Many large and successful social transfer programmes, such as Progresa and Bolsa Familia, started as small initiatives in specific geographic locations. They were gradually expanded as interest was generated and lessons were learnt. The same model should be followed in weaker institutional contexts.

78. Donors and governments should be willing to invest in building capacity to deliver social transfer programmes. Even where donor support for social transfers will be delivered through the government budget, it may be necessary to put in place a complementary programme to strengthen the institutions that will manage and deliver the transfers. However, such programmes should be coherent with national reforms to build government capacity, including in financial management and planning.

Ensuring transfers reach the poorest

79. A major challenge of any social transfer programme is ensuring that grants reach those who are meant to benefit from the programme. Even well-targeted programmes have potential beneficiaries who miss out or some people included who should not be. In Mexico's Progresa programme, which has good targeting, 20% of benefits still go to families among the richest 60% of the population.[60] Some programmes can be very poorly targeted. In one example of a subsidised food distribution programme in India, the recipients were predominantly from middle-income families, even though the programme was meant to benefit only the poor.[61]

80. It is impossible to ensure perfect targeting of transfers. The aim should be to make targeting as effective as possible while minimising costs. This will involve a necessary trade-off since some targeting options may require expensive and complex procedures that many countries cannot administer or afford. Providing a universal benefit may be cheaper to administer, but this will be off-set by the higher overall cost of the programme.

81. Targeting can either focus on identifying and reaching the poorest or transfers can be provided to a specific category of the population that is recognised as vulnerable, such as older people or those living with a disability. In many contexts, decisions on who to target will be influenced by local political considerations. In some countries, there may be strong political support for targeting the poorest households while, in others, it may be more acceptable to provide transfers to other groups regarded as vulnerable. However, there is a risk in some countries that governments will want to focus on households with greater productive capacity in the belief that they will be able to graduate from assistance in the short to medium term, leaving behind the most vulnerable – including large numbers of children.

82. The choice of targeting mechanism depends on a range of factors including availability of relevant information, capacity of government institutions and cost. Targeting options include:

- means-testing, although this requires high-quality data that is not available in many countries and may be expensive to put in place;
- geographical targeting, whereby transfers are provided to everyone living in areas where there is a high incidence of poverty;
- community-based targeting, which uses community structures to identify the poorest members of a community or those eligible according to agreed criteria (see Box 7);
- providing benefits to those recognised as belonging to a specific vulnerable category of the population; and
- self-targeting such as in work programmes that offer a below-market wage, based on the logic that individuals choose to opt in to the programme.

Box 7: Community-based targeting in Ethiopia

The National Productive Safety Net Programme, which started in 2005, uses community targeting to select beneficiaries. Household selection is the responsibility of the community Food Security Task Force (FSTF) which consists mainly of community representatives, a central government "development agent" and a member of the sub-district (Kabele) council.

Selection criteria include: chronically food insecure households who have faced food shortages over three years, households who suffer a sudden and severe loss of assets and are unable to support themselves, and households without family support and other means of assistance.

Once the FSTF has made its initial selection, the list is made public for one week and, following a community meeting to agree the list, it is sent to the sub-district council for final approval.

83. Targeting can be open to abuse. Community targeting can, for example, be used as a form of patronage or resources can be diverted to relatives of the more powerful members of a community. The poorest members of the community are, by definition, among the weakest and least able to defend their own interests. In such situations, targeting a clearly identified population group – such as older people – may be better.

84. Specific challenges are presented by men and women migrants who have left their home locality to find work. While in employment they are less likely to be eligible for a social transfer but, if they become vulnerable as a result of, for example, disability, old-age, ill-health or loss of employment, there is a danger they will become invisible and therefore uncounted. As a result, they may be unable to access the social transfers to which they are entitled.

85. To ensure transfers reach the right hands, robust and transparent systems of accountability need to be put in place. Good communication systems that reach the poorest households will make people aware of the criteria for claiming transfers and act as a disincentive to fraudulent claims. Ensuring people can access information on who receives benefits – perhaps by making names public – is another safeguard. Although there may be concerns about stigmatising the recipients of benefits, this is often exaggerated. Recipients are frequently stigmatised anyway by the nature of their extreme poverty and any dangers of increased stigmatisation are likely to be more than off-set by the greater dignity provided by the transfer itself.

86. The security of a social transfer programme can also be enhanced by putting in place effective monitoring by competent authorities. This should be combined with an appeals system that is accessible, fair and easily understood by even the most vulnerable citizens.

Social (cash) transfer delivery systems

87. A key feature of social transfers is that, to be effective, they need to be regular and predictable. Therefore, reliable delivery systems must be put in place, a significant challenge in countries with low institutional capacity and limited provision of financial services. But even in the very poorest regions, countries have demonstrated the capacity to deliver in-kind transfers, such as food or agricultural inputs, to large populations. Given that cash offers significant advantages in terms of its portability, its delivery in similar environments should be possible.

88. Experience is increasing on how to deliver cash transfers to poor households in developing countries. Identifying the most appropriate system is, of course, context-specific and needs to be based on an analysis of the institutions within reach of beneficiaries and their reliability. Examples include:

- The banking system is commonly used in situations where banks are close to a large proportion of potential beneficiaries. Where banks do not currently exist, it may be possible to generate a win-win situation by setting up "village banks" that provide a wide range of financial services to local communities and cover part of their costs by charging for delivering cash transfers.
- In India, the post office has been widely used to distribute pensions. Of India's 154,000 branches, 137,000 are in rural areas, administering 114 million savings accounts.
- In more remote communities, cash could be delivered through other distribution points, such as schools or health clinics. In the Kalomo pilot scheme in Zambia, government employees, such as teachers, collect the cash from the bank and deliver it to beneficiaries in their communities. They receive a small stipend for this service. In Brazil, lottery agents have been used to process Bolsa Familia payments.
- NGOs with a good presence in communities could work with the state to transfer cash. The private sector may also have a role. In Mozambique, a one-off cash payment provided to those displaced by flooding was contracted out to an international management consultancy which, in turn, used a range of public and private organisations to deliver the cash.[62]
- In Namibia, following the privatisation of the social pensions system in 1996, convoys of vehicles fitted with cash dispensing machines and protected by armed guards have been used to take cash to remote and small communities. They visit hundreds of payment points every month.[63]

89. Even in fragile states, such as those in post-conflict situations, there have been experiences of delivering cash on a regular and predictable basis. As part of the peace process in Mozambique, in 1994, 93,000 demobilised soldiers were given a minimum of US$7 a month over a two-year period. The cash was paid every two months at local bank branches or post offices. Despite low levels of education, the soldiers had no difficulty in handling the cheques they were given.[64]

The potential for corruption

90. Corruption is an obvious risk with cash transfers and a key challenge for targeting is to ensure the money gets into the right hands. The GAPVU programme in Mozambique – which was a model cash transfer programme in its first five years – rapidly collapsed as a result of corruption scandals and had to be replaced by the similar National Institute for Social Action programme.[65] But, in general, there is little evidence to suggest that the risk within the delivery system is any greater than with other development initiatives, including the many in-kind transfers currently undertaken. Nonetheless, social transfer programmes require an in-depth assessment and analysis of risks to identify safeguards that need to be put in place to prevent corruption.

91. Providing clear information to recipients on the size of their entitlement should make it more difficult for implementing agencies and staff to siphon off funds. Compared with food, which is notoriously difficult to control, the clarity of cash transfers means they are more easily monitored by recipients. Evidence from India suggests that the small, regular payments provided by social transfers are much less likely to be embezzled than larger one-off transfers, particularly if they are passed through less corruptible institutions such as the post office.[66] Furthermore, leakage appears to be reduced where the poor are aware of their rights and are able to access information for monitoring the performance of schemes.

92. Safeguards also need to be put in place to ensure money is handed over to the right people. In Zambia, beneficiaries of the Kalomo cash pilot programme are required to sign cheques while, in Namibia and Mozambique, fingerprinting is used. South Africa has introduced biometric identification to accompany withdrawals from cash dispensing machines. Again, good monitoring of delivery by competent authorities will be important.

Evaluation and impact assessment

93. Evaluation, monitoring and impact assessment should be essential aspects of the management arrangements for social transfer programmes. They can offer a further safeguard to promote good targeting of programmes and discourage corruption. They can also provide the information that will help improve programmes and support international lesson-learning. Impact assessment also provides the evidence base to generate political support for programmes by demonstrating whether they are making a real difference to people's lives.

94. Mexico's Progresa programme offers an excellent example of good-quality monitoring, evaluation and impact assessment. However, one lesson from Mexico is that this is not cheap. Between 1997 and 2000, Progresa spent around US$4.5 million a year on monitoring and evaluation, just over 1% of overall programme funding. However, the success of the programme and the political support it has achieved demonstrates that this has been a worthwhile investment.

6. The forward agenda

95. The evidence from many developing countries is that social transfers can contribute to achieving a range of MDGs, particularly if set within a wider national poverty reduction strategy. However, a lack of national social transfer programmes – and, therefore, conclusive evidence – in very poor countries, particularly in Africa, means it is still not possible to draw definitive conclusions on the impact and feasibility of social transfers in these contexts. Nonetheless, their potential impact may be significant and there is a strong case for continued engagement by the international community. In particular, the evidence base in very poor countries needs to be strengthened and this can happen only if national programmes are implemented.

96. There are a number of potential areas of support by the international community to countries wishing to move forward with the implementation of social transfer programmes, including further work to broaden our understanding of their impact and feasibility:

- Continuing to build the evidence base on the potential role of social transfers as part of a wider poverty reduction strategy. This will include putting in place robust monitoring and evaluation systems within present and future programmes. International lesson-learning should be strengthened, including enabling developing countries to learn from each other.

- There are still many evidence gaps that need to be filled. Suggested areas for further work include:
  - assessing the cost-effectiveness of social transfers as against other initiatives;
  - exploring how social transfers can be combined with other interventions to tackle priority issues (such as girls' education and OVCs living in a context of HIV and AIDs);
  - the impact of social transfers on growth;
  - the role of social transfers in building up local financial services;
  - assessing the relative effectiveness of conditional and non-conditional household transfers in improving health and education outcomes; and
  - the feasibility of using social transfers as an option for scaling up donor flows in countries with constrained capacity.

- Governments need support to develop evidence-based, national social protection frameworks in which the role of social transfers is identified. This is a key recommendation of the Commission for Africa and is also relevant for poor countries elsewhere. Social protection frameworks should be incorporated into national PRSs and ensure social transfers complement other initiatives to reduce extreme poverty (such as in health, education, and agriculture).

- Within the context of a country-led approach, help should continue to be provided for the design and funding of social transfer programmes proposed by partner governments, where these are likely to have a major impact on attaining the MDGs. Where appropriate, this support may be most effectively provided through the national budget as PRBS. Complementary funding for institutional strengthening and technical assistance should also be considered. Any funding commitments should be both long-term (minimum of five years) and predictable.

- In countries where humanitarian responses to predictable hunger and chronic poverty are the norm, the evidence is sufficiently strong to recommend that governments and other donors should work together to put in place sustainable social transfer and broader social protection programmes. However, until these permanent programmes are established, donors should continue to respond to food security appeals on a case-by-case basis, judging each on its merits. Where feasible and appropriate, consideration should be given to providing cash instead of food as part of the emergency response.

- In fragile states, options for providing support for social transfers through UN agencies, humanitarian co-ordination bodies and NGOs should be explored.

- Many developing countries already have functioning social transfer schemes that face significant challenges. Technical support should continue to be provided to these countries.

Endnotes

1 See DFID's policy paper *Reducing poverty by tackling social exclusion* for a more detailed explanation.

2 In Honduras, a social transfer programme uses vouchers that can be exchanged at a wide range of outlets. They provide a guarantee against theft in that they can be easily cancelled.

3 Farrington et al (2005)

4 In the text, all figures on levels of benefits are given in purchasing power parity equivalents, using US dollars. Figures on levels of spending are given in real terms.

5 Harvey et al (2005)

6 It is expected that, by the end of 2006, Bolsa Familia will reach 11.2 million families, around 44 million people.

7 Barrientos and Dejong (2004:40)

8 Rivera et al (2004); Skoufias (2005); Shanghai Poverty Conference

9 See McCord (2005) for a more detailed critique of work programmes.

10 Skoufias and McClafferty (2001:38)

11 Barrientos and Lloyd-Sherlock (2002:12)

12 HelpAge and IDPM (2003)

13 Samson et al (2004)

14 Morley and Cody (2003: 62f)

15 Cash Payments to War-Displaced Urban Destitute Households Programme (GAPVU).

16 Devereux (2002:667)

17 Barrientos and DeJong (2004)

18 Maluccio (2005:8)

19 Barrientos and Lloyd-Sherlock (2002:12), citing De Carvalho Filho (2000)

20 Devereux (2001:44)

21 Dercon (2005)

22 Devereux (2001:44)

23 Skoufias and McClafferty (2001:iii)

24 Rawlings (2004:10)

25 Presentation by Sylvia Beales at Overseas Development Institute, June 2005

26 Social Development Direct/Verulam Associates Ltd (2005:37) and Skoufias (2005:2)

27 Greenslade and Johnstone (2004)

28 Adams (2005)

29 Devereux (2002:670)

30 Rubalcava, Teruel and Thomas (2002); and Barrientos and Smith (2005).

31 Skoufias and McClafferty (2001:45-51)

32 Slater (2000)

33 As set out in the DFID briefing paper *How to accelerate pro-poor growth: a basic framework for policy analysis* the four conditions of pro-poor growth are: creating strong incentives for investment, fostering international economic links, providing access to assets and markets, and tackling risk and vulnerability.

34 For further information, see the DFID briefing paper *Inequality: its role in growth and income poverty reduction*.

35 Devereux (2002:665)

36 Devereux (2001:43-44)

37 Cichon and Knop (2003:8)

38 Ministry of Social Development and Fight Against Hunger (2005:18)

39 Skoufias and McClafferty (2001:44)

40 Barrientos and DeJong (2004)

41 Rawlings (2004:14)

42 Ministry of Community Development and Social Services and GTZ (2005).

43 See DFID (2005) *Why we need to work more effectively in fragile states*

44 See Devereux and Pelham (2005).

45 Pal et al (2005)

46 The cost also includes the provision of a disability pension to 1% of the working population.

47 It is expected to rise to 0.5% of GDP by 2006.

48 The figure refers to 2004.

49 Farrington et al (2003)

50 Development assistance is calculated using 2003 figures.

51 For a more detailed discussion, see: ODI briefing paper (2005), *Scaling Up versus Absorptive Capacity: Challenges and Opportunities for Reaching the MDGs in Africa*.

52 This calculation is based on normal costs associated with humanitarian food transfer programmes of the World Food Programme.

53 A study by Save the Children Fund (Levine and Chastre 2004:11) provides figures on the costs of providing food aid. For example, it has cost donors US$15 to deliver US$1 of food aid to the Democratic Republic of Congo from Uganda.

54 Smith (2001:39) referred to in McCord (2005:n11)

55 Coady and Parker (2002)

56 See Skoufias (2005:51)

57 See DFID (2005) *Why we need to work more effectively in fragile states*.

58 Yates and Cooper (2004)

59 See DFID (2005) *Partnerships for poverty reduction* for more information.

60 Barrientos and Dejong (2004:26)

61 Harvey et al (2005:3)

62 In Somalia, cash transfers funded by DFID have been delivered using Western Union. The company already delivers remittances to most parts of the country.

63 Devereux (2001:19)

64 Hanlon (2004)

65 Devereux and Pelham (2005)

66 Farrington et al (2003)

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