



The Role of Cash Transfers in Sub-Saharan Africa

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Introduction

- Cash Transfers: Funds provided to people and households to use during and after an emergency We focus on CT used to address severe food insecurity in emergencies and crises
- CT: Promote longer term food security yet respond to short term needs
- CT: Just one of options to be considered (food, cash, assets, tied vouchers, etc.)



Issues to consider

- Benefits of cash transfers vs food aid in addressing food crises
- Key design elements of effectively targeted and implemented cash transfer program
- Additional design elements in an inflationary environment
- Potential for cash transfers to cause inflation
- Remaining unanswered questions surrounding cash transfers



A general definition of cash transfers

- Cash Transfers may be conditional or unconditional
 - Conditional transfers entail tying receipt of funds to a specific household action, such as retaining girls in school (motivating a desired outcome)
 - Unconditional cash transfers are given to selected households without requirements for other action (use of funds determined by household)
- Our focus here: Unconditional cash transfers



When should they be considered? *

1. When the key problem is not supply of food, but rather ability of households to purchase food
2. Those most affected are net buyers of food
3. Any increase in demand can be met by the markets without causing significant inflation
4. Cash is a useful instrument in obtaining food
5. Administrative and financial systems function well, so cash can be distributed without extensive fraud or theft and violence

* For an applied approach, see the decision tree of Maxwell, Lentz and Barrett



Programs of note

- Concern Worldwide's Dowa Emergency Cash Transfer (DECT) program in Malawi
- Mozambique GAPVU program
- Meket Livelihoods Development Project in Ethiopia
- Kalomo District Pilot Social Cash Transfer Scheme in Zambia



Benefits to cash transfers: Evidence from empirical research

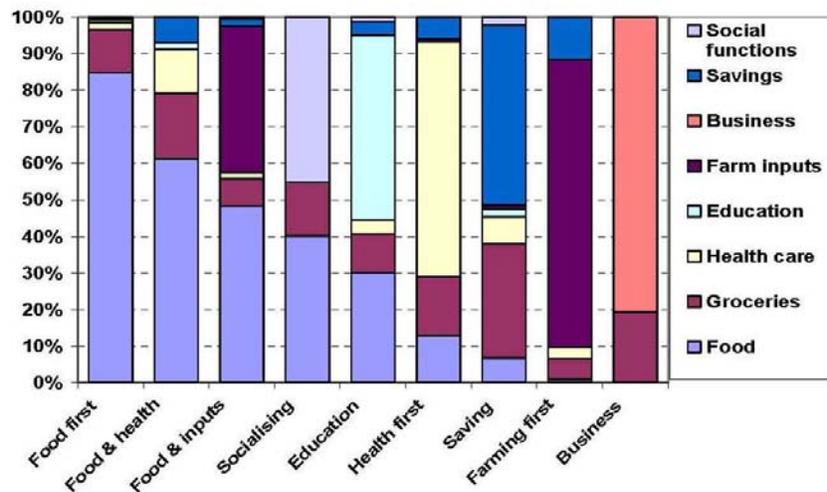
- Food security benefits
 - Address the same needs as food
 - Increased consumption levels (DECT)
 - Preferable to beneficiaries
 - Recipients have own priorities (Zambia Kalomo Pilot Scheme)
 - Transaction costs for recipients decrease (Meket Pilot Project):
 - Recipients could go to local food market, not have to wait for deliveries and transport food from delivery point



Benefits to cash transfers: Evidence from empirical research

- General income and expenditure benefits
 - Beneficiaries can address multiple needs
 - Paying health bills, Debt repayment (Somalia)
 - Allows wage earners a more stable working situation
 - Can stay within the region to work rather than migrate (Save the Children UK, Ethiopia)
 - Less likely to seek out casual employment (DECT Malawi)

Figure 6 Spending strategies of FACT beneficiaries in Malawi, 2006



Source: Devereux *et al.* (2006a: 34)

Benefits to cash transfers: Evidence from empirical research

- Indirect economic benefits
 - Reliability of resources for farmers, demand for shop owners
 - Debt repayment may go to the merchants, who can restock and continue operations
 - Multiplier effects for non-participants, especially small scale farmers (DECT Malawi)
 - Labor markets stimulated through farm investment (Zambia Pilot Program)



Targeting

- Targeting Inclusion errors
 - Desirability of cash increases incentives for fraud
 - Elites may capture benefits (India and Bangladesh)

- Targeting Exclusion errors
 - Price changes may cause nonparticipant household to become food insecure yet remain ineligible
 - Targeting may exclude larger households since total income (or other indicator) may appear be higher



Program costs

- Cash transfers less costly to administer in some cases (Save the Children UK, Ethiopia; Meket Livelihood Project)
- Vast cost savings w/ transfers when food aid imported
 - 39-46% cheaper in Ethiopia (Save the Children UK)
 - Cost \$15 to deliver \$1 of food in the Democratic Republic of Congo (Save the Children UK)
- Transport costs of food eliminated
- Cash Transfer may be more costly
 - Highly inflation situations
 - Costly start up investments



Capacity issues

- Do existing financial institutions have the capacity to distribute the cash transfers?
 - Smart cards provided (DECT Malawi)
 - Money withdrawn from bank branch, or received at pay point
 - Savings accounts set up (Kalomo pilot scheme)
- If not, other methods available
 - Vouchers
 - Program staff distribute personally (Oxfam in Zambia)
 - In Lesotho, women given phones and minutes. (RHVP)
 - Could sell airtime to village



Capacity issues

- Are there enough trained staff in place to handle the distribution of cash?
 - Staff inexperience with Cash transfers is common
 - Programs in Zambia and Malawi held back from expansion
 - Mozambique: serious problems with GAPVU program
 - Insufficient budget for administrative staff
 - Expansion led to corruption
 - Staff perceptions important
 - Possibly uneasy providing cash instead of commodities



Information and communication strategies

- Educate beneficiaries on amounts, frequency of transfers
 - In Mozambique, only 7% of beneficiaries knew the amount they were owed (GAPVU)
 - Prevents leakages and corruption
 - Prevents over reliance on transfers
- Communication with traders needed
 - They can pre-position food to avoid limited supplies
- Working with communities can help prevent social tension due to the exclusion of some members of the community



Other issues

- Frequency of distributions dictated by several factors:
 - capacity constraints (GAPVU)
 - the distance of beneficiaries from financial institutions or distribution points (DECT Malawi)
- Cash transfer programs should promote long term development goals
 - Support income generating or capital building activities
 - Fewer positive externalities when majority of food is imported (Oxfam Malawi)



Dealing with inflation and volatile prices

- Should account for inflation and volatile prices
 - Inflation reduces the purchasing power of static transfers
 - Moz.: From 33% of minimum wage → 5%
 - Transfers last for shorter period than intended (DECT Malawi)
 - Plays a part in cost-effectiveness of cash transfers
 - Projects may be more expensive than food aid in part with high inflation (Oxfam in Zambia)
 - High food prices make cash transfers more costly than food aid (DECT Malawi)



Do cash transfer programs exert inflationary pressure?

- Evidence on the effect of cash transfer programs on prices is inconclusive
 - Little evidence of large price increases due to cash transfers
 - Of the programs surveyed (GAPVU, DECT, etc.), none found significant inflation due to program
- Market should be able to effectively respond to demand without severe inflation
- Communication with traders useful
 - stimulates constant availability of food

Remaining Issues

- Perception of cash transfers (public, private in US, Europe, and implementing countries)
- Beneficiary preferences
- Gender: who gets the transfer, who decides the type
- Impact of cash transfer programs in longer term
- Impact of urban cash transfer programs on rural economy
- Confidence of the existing empirical results
 - Key methodological questions
 - Internal project monitoring vs external assessment

Key Resources

- Malawi DECT program
 - Devereux, Stephen, Catherine Mthinda, Fergus Power, Patrick Sakala, and Abigail Suka. 2007. *An Evaluation of Concern Worldwide's Dowa Emergency Cash Transfer Project (DECT) in Malawi, 2006/07*. Dublin, Ireland: Concern Worldwide. [http://www.concern.net/documents/362/DECT 2007 - Final Evaluation Report \[July-07\] aa.pdf](http://www.concern.net/documents/362/DECT%2007%20-%20Final%20Evaluation%20Report%20%5BJuly-07%5D%20aa.pdf)
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 - Standing, Guy. 2008. *How Cash Transfers Boost Work and Economic Security*. Department of Economic and Social Affairs Working Paper No. 58. New York: United Nations. Available at <http://ideas.repec.org/p/une/wpaper/58.html>
- The Kalomo Pilot Social Cash Transfer Scheme in Zambia
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Key Resources

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- Congo
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- Kenya Pilot Project
 - Brewin, Mike. 2008. *Evaluation of Concern Kenya's Kerio Valley Cash Transfer Pilot (KVCTP)*. Dublin, Ireland: Concern Worldwide. Available at <http://www.concern.net/documents/1244/KenyaCashTransferPilot-EvaluationReport-July08.pdf>



For further information:

- Magen, B., Donovan, C., & Kelly, V. (2009). Can Cash Transfers Promote Food Security in the Context of Volatile Commodity Prices? A Review of Empirical Evidence. *MSU International Development Working Paper No. 97*
- <http://www.aec.msu.edu/fs2/papers/idwp96.pdf>

Thank You

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