CHAPTER 5. LESSONS LEARNED: DESIGN AND IMPLEMENTATION OF CASH TRANSFER SCHEMES

The success of any transfer programme depends on good design and effective implementation. This chapter considers targeting criteria and procedures; issues around delivery of transfers (general challenges of disbursing large amounts of cash in poor communities, especially remote rural areas), as well as specific delivery mechanisms adopted in our case study countries; and management of cash transfer programmes.

5.1 Targeting Criteria and Procedures

The debate about targeting transfers has two aspects: *whether* to target, and *how* to target. The case for targeting is usually made on cost-effectiveness and equity grounds: with a limited public budget for social transfers, it seems sensible and fair to allocate these transfers to those who need them most. This implies excluding non-needy individuals or households, which raises the problem of *how* to target. The case against targeting is that it is expensive to achieve accurately and can be socially divisive. Wealthier people might also resent paying for programmes (through their taxes) that do not benefit them. For these reasons, a universal transfer programme, reaching an easily identifiable vulnerable group (such as older people or young children), has clear advantages in terms of coverage, administrative simplicity and acceptance.

In practice, many programmes adopt a compromise between narrowly targeted and untargeted (universal) transfers. For instance, Lesotho's Old Age Pension is universal for all citizens over 70. Other programmes, such as the Kalomo Pilot Scheme and Mozambique's Food Subsidy, have a number of complex proxy indicators and means testing procedures to define and identify eligible beneficiaries. Below, we examine alternative approaches to targeting that have been adopted in cash transfer programmes in east and southern Africa.

Proxy indicators and means testing

Successful targeting must be both *technically robust* (accurate) and *socially acceptable*. To satisfy programme administrators, it must correctly identify the intended beneficiaries. To be acceptable to the communities in which beneficiaries live, it must appear fair and must not generate resentment. This aspect is often neglected. In general, communities are more likely to accept an intervention that targets categories of people who face obvious disadvantages: orphans, older people, people with disabilities, people who are chronically ill. Some of these categories are used to define eligibility in our case study cash transfer programmes. However, while these proxy indicators are relatively simple to identify, they are not always robust indicators of economic vulnerability. Much depends on the support these individuals receive from their immediate family, extended family and community. One 11-year-old girl in our Mozambique study defined poverty poignantly, as *"not having any relatives to care for you"*. This is why proxy indicators or vulnerable groups are often qualified by phrases such as 'living alone' or 'without support' (as in 'widows living alone', or 'orphans without support'). Alternatively, as in Mozambique's Food Subsidy Programme and the Kalomo Pilot Scheme, a combination of targeting criteria is used: combining *proxy indicators* (eg, 'household dependency ratio > 300 per cent' in Zambia) with *means testing* (eg, 'no source of income' in Mozambique; 'poorest 10 per cent' in Zambia).

Targeting based on means testing (assessing individual wealth status) presents problems to both administrators and communities. Administrators find it extremely difficult to accurately measure an

individual or household's income and wealth, and often lack the administrative capacity to maintain and update information systems to accurately target the poor and vulnerable. Communities, on the other hand, find it hard to accept that the 'ten poorest households' will receive free transfers while the eleventh poorest household will not. This is especially problematic where poverty rates are high, as in rural areas throughout east and southern Africa, so that most people 'should' objectively receive assistance, but because of budget constraints only the 'poorest of the poor' are registered for transfer programmes. This inevitably results in 'exclusion errors' and resentment.

One way around these problems is to complement the cash transfer with other forms of assistance that people can access if they do not fall into the group defined as eligible for the grant. In Ethiopia, a two-pronged approach has evolved over many years, whereby those who can work do public works for food or cash, while those who cannot work (usually not more than 20 per cent of individuals) receive 'gratuitous relief'. This approach, which has been adapted for the Meket Project, makes social protection more comprehensive and the targeting system more socially acceptable. Another way around the targeting problem is to involve communities directly in the identification of beneficiaries (see Box 12).

Community involvement in targeting

'Means testing plus community selection', where communities are asked to decide which of their members are the poorest, and to allocate a limited amount of external resources to them, features to some extent in all the case study schemes except Lesotho, with strong community involvement in Zambia and Ethiopia.

Lessons from these and other experiences in the region show mixed results. Giving communities the responsibility for selecting beneficiaries can be extremely divisive. Community targeting was adopted by the Government of Malawi around the distribution of free fertilizer and seed packages. Some communities rioted over the choices they were required to make; others divided the resources into tiny equal portions for all households; others rejected the packages altogether, complaining they brought too much trouble to their village. Conversely, in the Dedza Safety Nets Pilot Project implemented by an

Box 12: Approaches to Targeting Vulnerable Children in Kenya's Cash Subsidy Project

Whereas the South Africa Child Support Grant uses a more centralised means testing system, the evolving cash subsidy for children affected by HIV and AIDS in Kenya works through district and community processes to identify and prioritise beneficiaries.

- ***Who is a child affected by HIV and AIDS for the cash subsidy?*** A questionnaire was used to help district and community committees identify those eligible. This identified the poor(est) households, using a community-based definition of poverty, then identified those with the most vulnerable children – many took this to mean (and wanted it to mean) orphans. Sometimes this included children living with an elderly carer (a suggested criterion for the next phase). HIV status was not used in the targeting process to avoid stigma (and due to practical difficulties).
- This combination of a simple locally relevant poverty assessment and an identification of vulnerable children was seen to be important for two main reasons. Firstly, a cash subsidy is an income support measure, and not all children affected by HIV and AIDS are poor. Secondly, those in need of assistance can often be living in households affected by chronic illness, for example, those living with one single parent who is sick.
- ***Who is more vulnerable?*** Each of the three districts approached the final selection of the beneficiary children differently. One weighted the criteria to ensure all orphans benefited, one randomly selected from within the list of poorest and vulnerable, and one gave preference to younger children and girls.
- This was achieved through district-level Area Advisory Councils (set up to monitor and implement the Children's Act) working in co-ordination with the Children's Department (a department within the Ministry of Home Affairs) who have children's officers at district level. These officers assisted communities to identify children affected by HIV and AIDS, then agreed the list and disbursed funds. Community Development Committees were supported to play a key role in the identification process, and agreement with a broader community meeting was sought for final selections.
- Difficulties were experienced when it came to defining vulnerability and then selecting from a long list of eligible children. A clearer weighting system, with guidance, is being designed for the pilot stage to ensure that a common approach is taken to prioritising the most vulnerable.

NGO in one district of Malawi, communities were also asked to identify beneficiaries for cash transfers or vouchers, but in this case local committees had been mobilised several months in advance of the project and the eligibility criteria were 'categorical indicators' that were clearly visible and accepted as fair by the majority of community members. The latter situation seems to be the case in Ethiopia and Zambia, where the cash transfer schemes enjoy high levels of community support.

There are additional benefits from this approach: it can bring about improved understanding of local needs and vulnerabilities, and stimulation of open discussion of the issues and collective planning for the care of vulnerable children. This was the case in Kenya, where communities played an important role in identifying vulnerable children and verifying the final selection carried out the by Area Advisory Councils and the Children's Department (see Box 12 above).

Experience from all relevant case studies confirms that it is important not to underestimate the time and human resources required for the community-based selection process – and the level of understanding required by those involved. It is also important not to assume that communities function in a particular way, and that any existing community structures automatically represent the poorest. The case studies highlight different approaches to preventing any problems that might arise, including the Kalomo scheme's systems for monitoring who is receiving the transfer, hearing complaints and regularly re-targeting beneficiaries

5.2 Transfers: Cash or Food?

Is cash the most appropriate way to transfer social assistance to the poor and vulnerable? This is a long-running debate in social protection policy,[15] with firmly held views on either side. Lessons learned from Ethiopia, Lesotho, Mozambique and Zambia are summarised in Box 13.

Box 13: Attitudes to Cash Transfers *Versus* Food Aid

Ethiopia

1) On previous 'cash for relief' projects in Meket *woreda,* beneficiaries registered a strong preference for cash transfers rather than food aid, on the grounds that cash allows a wider range of household needs to be met, including costs of schooling and farm inputs.
2) Thoughts on food versus cash varied in Meket, this is common, largely dependent on the availability of food in the markets (Amdissa and Devereux, 2005).

Lesotho

1) There was a strong preference among Lesotho pension recipients for payment in cash rather than food. This is probably a reflection on the highly monetised nature of Lesotho's economy.
2) Concerns were raised that food delivered as transfers would be sold and distort local markets. Some administrators felt that cash transfers could be inflationary, but that this was not a serious risk, given the strength of markets. Vouchers were seen as too complex.
3) Delivering food in Lesotho's mountainous terrain is more costly and difficult than delivering cash. Even with cash, a helicopter has been needed to reach isolated areas.

Mozambique

1) A group of secondary school girls highlighted the advantages of giving money as "sometimes adults have to sell rations in order to pay off small loans they have taken to pay for emergencies such as transport costs to medical centres".
2) When the programme was designed, beneficiaries of the Food Subsidy Programme were supposed to be "extremely food insecure", ie, "consuming only 60% of their minimum caloric requirements". Programme designers argued that: "inadequate consumption in urban areas is principally due to lack of purchasing power and therefore, a cash transfer was judged to be the appropriate intervention".

[15] Amartya Sen has argued that, where food markets are relatively well functioning, boosting household entitlement to food by providing 'cash aid' is a more efficient way of delivering assistance than providing 'food aid'. In effect, INAS in Mozambique follows that principle, as do most unconditional cash transfer programmes.

3) The 2004 Mozambique vulnerability assessment advocated cash transfer programmes in rural areas with production surpluses and food insecure households, to boost purchasing power in poor families and incentivise farmers to continue producing surpluses.

Zambia

1) Cash is preferred by most programme beneficiaries in Kalomo district, mainly because it gives them more choices than transfers in kind.
2) The cash transfer does not take seasonal price variations into account. This means that its value can vary from month to month, so that beneficiaries can buy less food when prices are high, during the annual hungry season, and more food when prices are low, after the harvest.
3) Cash also generates demand for goods and services and therefore strengthens markets, rather than creating disincentives to traders and producers, which should ultimately result in markets becoming integrated over both space and time, until price seasonality disappears.

5.3 Delivering Cash Transfers: Challenges and Mechanisms

Methods of delivery

Methods of delivering cash transfers to beneficiaries vary according to the context. In Lesotho, the cash is distributed through a well-developed network of post offices in rural settlements as well as urban areas, and pensioners collect their money using pension books that include their photograph. In Zambia, project beneficiaries located nearer the centre open bank accounts where their money is deposited. In Ethiopia, by contrast, no formal financial institutions exist in rural areas and people do not have personal documents or photographs, so cash is handed out in markets or at roadsides, where the names of beneficiaries are publicly announced and claimants are verified by designated observers. In other countries, such as Namibia and South Africa and outside Africa, technological advancements (eg biometrics, mobile automated teller machines, transferring cash via mobile phones etc) are being developed for transfer delivery.

Security concerns associated with moving substantial amounts of cash around rural areas means that armed security guards are needed to accompany the money. In South Africa and Namibia, private security firms are contracted to provide protection for the distribution of the social pension, but in Lesotho, the army and the police perform this service. In Zambia, the use of banks means that funds are transferred electronically, thereby by-passing the problem of securing physical cash although some cash still is taken to outlying pay points.

Box 14: Challenges of Delivering Cash Transfers in Rural Environments

Any country where financial services are not well developed faces challenges delivering and handling cash transfers to large numbers of rural residents. In Ethiopia, despite a harsh topography, decades of experience in delivering food aid has created an extensive network of trucking routes, warehouses and depots which suggests that delivering cash should be relatively simple – or at least that there are lessons for cash transfer programmes to learn from the logistics of food aid distribution. But cash poses a different set of logistical and management challenges.

For one thing, rural banks in Ethiopia are reluctant to handle monies disbursed to poor people under safety net programmes, because the amounts involved are too trivial to set up individual accounts for all beneficiaries, most of whom are illiterate and have never had any exposure to formal institutions such as banks. (The Zambian experience might be useful for Ethiopia to draw on here, since the Kalomo Pilot Scheme was used as a way of improving poor people's access to banking services.)

Secondly, security considerations inevitably arise when large quantities of cash are moved around in remote areas. Parts of Ethiopia are heavily militarised, with demobilised soldiers, militia and bandits carrying weapons that could be used to attack and rob trucks carrying cash. NGOs such as Save the Children UK who are engaged in cash transfer programmes face problems in transporting this cash, because they have a policy of not carrying armed personnel in their vehicles. One solution adopted in the Meket Livelihoods Project is for government vehicles to be used to transport the cash, so that armed guards can accompany the money.

The following four boxes describe the mechanics of the cash transfer delivery system in each of our country case study programmes. It is striking how in each case solutions have been found that are appropriate to local conditions.

Box 15a: Delivering Old Age Pensions in Lesotho

The draft 'Policy Framework on Old Age Pension Scheme' in Lesotho stated that a payment method would be found "that minimises the costs both to the recipients and Government". Post offices were selected for disbursing the funds, because of their wide spread across the country. Each month, the Ministry of Finance deposits the pension funds into the Post Office bank account at the Central Bank in Maseru. Post Office officials withdraw the money and distribute it to 291 pay points throughout the country. The Lesotho Defence Force and the Lesotho Mountain Police accompany these officials to ensure security. In some mountainous areas where there are no roads, the pension is distributed by helicopter.

Pensioners collect their money by going to their designated local post office with their pension book, which includes a photograph for identification purposes. After their name and identity are verified, the Post Office teller pays out M150, and the pensioner signs (or thumbprints) the pension book to acknowledge receipt. In cases where the pensioner sends a delegate on their behalf, a photograph of the delegate must be included in the pension book and a letter of verification must be produced, signed by the local chief.

This programme is in the early stages of delivery (it had only been running for six months at the time of this research). Some pensioners complained about the current irregularity of payments, and found it particularly frustrating that they sometimes spend hours walking (or paying for transport) to the post office only to be told that the pension has not yet arrived. Other schemes face similar problems – it is certainly not specific to a pension.

Box 15b: Delivering Cash Transfers in Kalomo District, Zambia

Two delivery mechanisms are used to disburse cash transfers to beneficiaries of the Kalomo District Social Cash Transfer Pilot Scheme. Beneficiaries living within 15km of Kalomo Town, the district capital, are advised on how to open bank accounts at the Kalomo branch of Finance Bank. About one-third of project participants have done so. Every month, money is paid into these accounts and beneficiaries draw out the money as and when they choose to do so.

For beneficiaries living further than 15km from Kalomo Town, 19 pay points have been established at rural health centres and schools, and a pay-point manager collects the money from town each month and distributes it to beneficiaries in the vicinity. For those unable to collect their money in person, designated delegates are authorised to receive the money on their behalf.

Box 15c: Delivering Cash Transfers in Rural Ethiopia: The Meket Project

In Ethiopia, problems of illiteracy and lack of documentation (eg, personal identification) among rural populations have been circumvented using several innovative tactics. Cash payments on the Meket Livelihoods Development Project, for example, are made using the following procedure. Firstly, beneficiaries gather by the roadside or at a market on a day when they have been told payments will be made. When the distribution team arrives, a team member (usually a *woreda* official) calls out names in groups of ten, and gives the list to the first person called. People queue up to 'sign', usually by making a fingerprint or thumbprint on the list. Fingerprints are used as signatures for two reasons. First, most beneficiaries are illiterate. Second, it serves as a control mechanism to prevent individuals from coming back to try to claim twice, since their fingers are stained with ink. After all ten people on the list have 'signed', payment is made: the first person on the list takes the money for all ten, each is told how much is due to him or her, and the money is shared out accordingly.

Observers are important elements of this system. Since beneficiaries typically do not have any form of identification, observers are there to ensure the right person receives the cash. These observers include Peasant Association officials and community elders, who know most community members personally. A further complication arises in cases where beneficiaries delegate someone in advance to collect the money for them. Again, the observers are there to ensure that the right delegate is receiving the cash. The public nature of the process and the presence of observers from the local community contribute to ensuring that errors and opportunities for corruption are minimised.

Box 15d: Delivering Cash Transfers in Urban Mozambique
In each urban centre of Mozambique, the money needed to pay all registered beneficiaries of the INAS Food Subsidy Programme is deposited into a dedicated bank account and withdrawn each month by local INAS officials, under police escort. Distribution occurs at various pay points (*posto de pagamento)* around town – sometimes these are under a tree in the open air. No pay point should be further than 30 minutes' walk from a beneficiary's home. Official identity documents (including birth certificates to verify age) must be produced, firstly to enrol on the INAS programme and secondly to collect benefits. Where necessary, INAS officials assist applicants to obtain these documents, including getting photographs taken and completing the forms. Beneficiaries reported no problems with the delivery procedure. Payments are usually made on the same day each month, and waiting times range from under half an hour to two hours but can take longer. This regularity and predictability is appreciated by beneficiaries, who pointed out that they depend on the money and that it helps them to plan their spending if they know the money is definitely coming on a certain day.

5.4 Management of the Systems

Capacity issues

Government capacity to run national programmes is often limited, and there are real challenges in overcoming capacity constraints. Many government-run cash transfer programmes suffer from being institutionally located in weaker government ministries and departments (eg the Department of Social Welfare in Lesotho, and the Ministry for Women and Social Action in Mozambique). This undermines their effectiveness in two ways: first, they lack management and administrative capacity (to put it crudely, the most capable administrators tend to gravitate towards higher-profile, more prestigious parts of government); and second, their bargaining power within government is low, so they have problems increasing or even maintaining their budget with the Ministry of Finance. In Mozambique, the Ministry for Women and Social Action (MMAS) is one of the weakest ministries. "MMAS's weaknesses, combined with published reports of the lack of transparent management in INAS in 2003 have indirectly limited INAS's ability to raise funds from the State Budget, which is its sole source of funding for the food subsidy programme" (Mozambique report).

Leakage

Corruption and 'leakages' are a consequence of weak management. Successful programmes are well-managed ones, and effective management requires budgeting for personnel, training and institution building. Apart from being good practice in itself, there is an important argument related to 'political sustainability'. When social welfare programmes become tainted with corruption scandals, they rapidly lose political support, both from the wealthier citizens whose taxes are funding the programme and from political elites. It would be most unfortunate if the current trend towards introducing unconditional cash transfers as a form of social welfare across Africa were to be undermined by corruption scandals that weaken their effectiveness and cause political support from governments and international donors to evaporate. These transfers should be considered a lifelong right of citizenship, not a time-bound project.

Three of our four case study programmes have been operational for less than two years, and only the longer running Mozambique Food Subsidy Programme has suffered problems with corruption and fraud. Its predecessor (GAPVU) was closed down in 1997 because of corruption. It should not be assumed that this is inevitable in all longer-running programmes (or necessarily any greater in cash-based social protection than other public sector activities), but it is vital to build risk management into any scheme. The collapse of GAPVU was at least partly because it aimed to maximise the 'alpha-ratio' (the proportion of total budget transferred directly to beneficiaries) by cutting back on management. This resulted in a lack of monitoring and cross-checking, inadequate supervision, no financial controls, and opportunities for corruption on a grand scale which went undetected until it was too late. GAPVU was relaunched as INAS, which was supposed to redress GAPVU's failings by introducing financial audits, greater transparency and public accountability. Information and monitoring systems were upgraded. INAS has also faced allegations of corruption and mis-spending of funds in recent years and

continues to improve its systems (eg, with the production of clear guidelines). The long-standing social pension schemes in South Africa and Namibia have also experienced corruption and fraud scandals that Lesotho will do well to avoid. Already there are anecdotal reports in the Lesotho scheme of unreported deaths, 'ghost' beneficiaries, money going missing, and so on. There are important lessons to be learnt by the new generation of cash transfer programmes about how corruption might creep into long-running schemes, and how it can be dealt with once it has been detected.

5.5 Cost-effectiveness

Regular transfers cost a lot more than one-off payments, so issues of affordability and cost-effectiveness become important considerations. The costs of implementing cash transfer programmes include the payment itself (multiplied by the number of beneficiaries and the frequency of delivery), administrative personnel (salaries and expenses), transport (vehicles, fuel, maintenance), handling costs (bank charges, security guards) and office equipment (stationery, computers). Since one objective of these programmes is to maximise transfers to beneficiaries, managers often face pressure to minimise 'overheads', by keeping operating costs as low as possible.

Projects funded by donors and NGOs are usually fully costed, so it is fairly straightforward to calculate the total costs and unit costs per beneficiary. It is less straightforward to calculate the full costs of government-run programmes, since their personnel and administration costs are usually incorporated into normal government functions. The total cost per annum of Zambia's Pilot Social Cash Transfer Scheme, which reaches 1,027 households, is US$ 110,916, including US$ 90 per household as direct transfers plus US$ 18 for administrative costs (so the alpha-ratio is 83 per cent). Capacity development, monitoring and evaluation are not included in this calculation, but would add US$ 24–36 per household, for a maximum cost of US$ 144 per household and a total budget of under US$ 150,000 per year. If the scheme was extended to all 200,000 destitute households in Zambia, the annual costs would amount to US$ 22–26 million, depending on capacity development requirements. This is equivalent to 5 per cent of annual foreign aid inflows, or 0.5 per cent of Zambia's GDP, so social cash transfers must be considered affordable, especially if the government and donors share the costs.

Since the main cost of any transfer programme is the transfer itself, costs can be kept low if the payment is low, beneficiaries are few, or the transfer is delivered infrequently. Lesotho's Old Age Pension is restricted to citizens over 70 years old, and currently transfers M 117 million to 65,000 people, equivalent to 1.4 per cent of GDP – in line with the costs of social pensions in other countries. Lowering the age eligibility threshold to 65 would reach 114,000 citizens, but would raise the programme costs to M 205 million, or 2.5 per cent of GDP. Mozambique's Food Subsidy Programme transfers tiny amounts of cash, and could achieve bigger impacts by raising the payment level. Both these government-funded programmes are affordable because costs are low, but the consequence is that their coverage and impacts are limited.

Data from our Mozambique case study indicate that cash transfers are generally cheaper to deliver than food aid. According to WFP's Country Programme for Mozambique (2002-06)[16], it costs WFP US$ 23 to provide 63kg of maize per beneficiary per year (worth between Mzm 186,325 and Mzm 310,541, depending on the retail price of maize). It costs INAS US$ 66 to provide beneficiaries in Quelimane with Mzm 840,000 per year, which will purchase 168-280kg of maize. In comparative terms, it costs WFP US$ 0.37 to provide one kilogram of maize, while INAS beneficiaries can purchase one kilogram of maize for US$ 0.24 when the price is low and US$ 0.39 when the price is high (Collier and MacAskill, 2005).

Although more detailed work is needed into the full costs, cost-effectiveness and fiduciary risk of cash transfer programmes, the evidence from this review suggests that concerns about their 'unaffordability' or 'fiscal unsustainability' may be overstated. As the Government of Lesotho demonstrated by introducing a social pension against IMF advice, whether any public social transfer programme is feasible is a political choice, not purely a financial calculation.

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[16] Source www.wfp.org.