Cash Transfers and Social Protection

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1 INTRODUCTION

Social protection has risen rapidly to the top of the policy agenda for many donors, governments and NGOs in southern Africa, where cash transfers have simultaneously emerged as a preferred mechanism for delivering social protection to poor and vulnerable people. The policy debates are moving so fast, and the evidence is accumulating so rapidly, that there never seems to be an appropriate time to take stock. Nonetheless, although much more is known now than 2-3 years ago, many significant knowledge gaps still remain. Some of these unresolved issues are explored in this paper: Are cash transfers inflationary? Are cash transfers empowering or disempowering for women? Do beneficiaries prefer food aid or cash?

The first part of this paper defines social protection as a set of responses to vulnerability, and considers whether cash transfers are an appropriate response to various sources of vulnerability. Not surprisingly, cash transfers are found to be an appropriate and effective means of mitigating some vulnerabilities, but are less effective and wholly inappropriate for addressing others. The second part of this paper asks whether cash transfers are the most appropriate response, in particular by comparing cash transfers with food transfers. We find that cash transfers have many advantages over food aid, but that there are circumstances and contexts in which food aid might be the more effective and appropriate intervention. This division separates out the nature of vulnerability from the nature of the social protection response, which is important because many interventions are designed and implemented without asking these two questions: (1) what specific source of vulnerability are we trying to mitigate? (2) what is the most appropriate social protection response to this source of vulnerability?

Social protection is a set of responses to vulnerability, but it needs to be tailored to the specific sources of vulnerability and forms that vulnerability takes. A fundamental distinction can be drawn, for instance, between 'demographic vulnerability' and 'economic vulnerability'. Demographic vulnerability is idiosyncratic, and can be related to physical characteristics (e.g. disability that prevents someone from working for a living) demographic factors (e.g. households with high dependency ratios, such as 'skip generation' households comprising only older people caring for young children) and life cycle changes (e.g. retiring from the workforce, or needing to take maternity leave). Economic vulnerability relates to conditions in the production system (e.g. a drought that triggers harvest failure), markets (e.g. seasonal food price rises, or unaffordable fertiliser prices), and the policy environment (e.g. constraints on local or cross-border trade) that undermine the efforts of working people to achieve and sustain a viable livelihood. While many forms of economic vulnerability can be mitigated with short-term safety nets or social insurance mechanisms, demographic vulnerabilities might require permanent social welfare transfers.

Two general conclusions follow from this analysis. Firstly, the design of any social protection programme should neither be ideological (e.g. a decision to introduce cash transfer programmes as a reaction against food aid) nor driven by the availability of resources (e.g. "surplus dumping" of food aid), but by an assessment of the nature of vulnerability and an understanding of the economic environment (specifically a market analysis) and the socio-cultural context (especially a gender analysis) into which the social protection programme is to be introduced. Secondly, vulnerability can only be sustainably reduced if social protection measures are institutionalised within national governments, where citizens have enforceable claims, rather than implemented and financed at the whim of donors and international NGOs. Cash transfer pilot projects must become part of nationally owned social protection programmes. This requires citizens to mobilise to claim these rights, and it requires accountable and responsive governments.

2 CASH TRANSFERS FOR SOCIAL PROTECTION

Social protection programmes must be designed to address particular problems in particular contexts. This might seem self-evident, but too many social protection interventions are driven by available resources (e.g. food, or cash) and familiar instruments (e.g. food-for-work) rather than needs assessments, and such interventions do not differentiate between different problems (or

the same problem in different contexts) that might require differentiated interventions. This section of the paper argues that any decision about designing a social protection intervention must begin with an analysis of vulnerability. This section sets out one possible framework for analysing sources of vulnerability and assessing the merits of cash transfers as a social protection response to each.

2.1. A framework for vulnerability analysis

Amartya Sen's entitlement approach provides a useful organising framework for understanding the sources of hunger and vulnerability to hunger. Sen (1981) categorised legal sources of food into four types of "entitlement" – production, labour, trade and transfers (respectively, food one grows, food one works for, food one buys, and food one is given). Following this categorisation, people can be hungry or vulnerable to hunger for several reasons:

(1) because their production is inadequate (production-based entitlement failure or deficit);

(2) because they cannot find work, or because their wages are insufficient to meet their basic needs (labour-based entitlement failure);

(3) because they have no assets to sell or the exchange value of their assets collapses (trade-based entitlement failure or decline);

(4) because they have no family or friends to provide informal support when they need it, and there no formal safety nets either (failure or absence of transfer-based entitlements).

These sources of vulnerability are summarised in Figure 1. All sources of entitlement failure or deficit can be either chronic (e.g. persistent food production deficits) or transitory (e.g. a drought-triggered harvest failure). Cash transfers can be provided in response to any source of chronic or transitory deficit in entitlement to food. But whether cash transfers are the most appropriate response to a particular entitlement failure or collapse can be decided only after an assessment of the specific circumstances. This paper explores some of the factors involved in making this judgement.

Figure 1 Entitlement failures and social protection responses

Entitlement category	Sources of vulnerability	Policy response
Production–based	• Harvest failure • Persistent food production deficits	• Fertiliser subsidies • Starter Packs
Labour–based	• Limited employment opportunities • Falling real wages	• Public works programmes • Minimum wage legislation
Trade–based	• Market failure • 'Failure of exchange entitlements' (terms of trade decline)	• Open market operations • Food price subsidies • Pricing policies
Transfer–based	• Failure of informal safety nets • Failure of emergency food aid • Absence of social protection	• Food aid • Cash transfers • Weather insurance

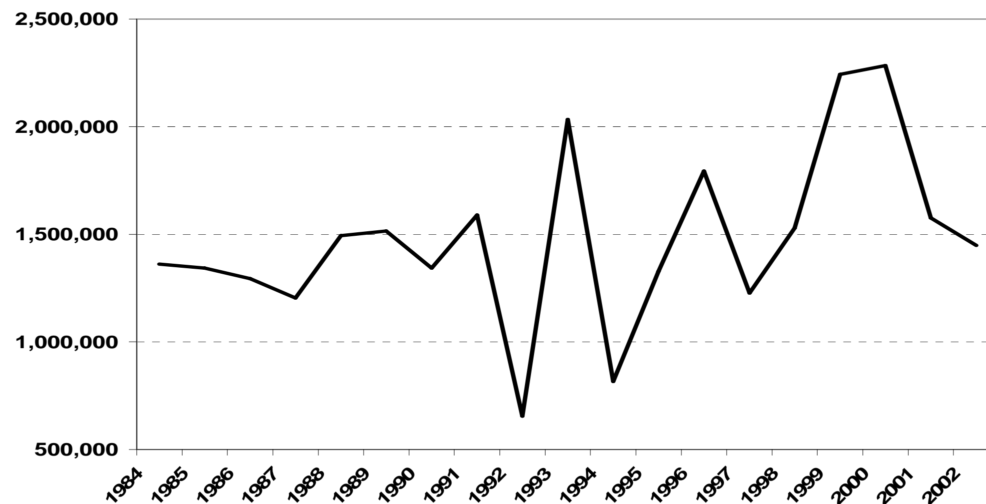
Source: Adapted from Devereux (2006: 1)

2.2. Production-based vulnerability and social protection responses

Three sources of agricultural vulnerability in southern Africa

Livelihoods in southern Africa are dominated by rain-fed agriculture, which is the main source of food for the majority of the population – and, paradoxically, a major source of vulnerability to hunger. Harvests in southern Africa are extremely variable and unpredictable from year to year, due mainly to erratic rainfall. (Figure 2 illustrates the high, and possibly increasing, inter-annual variability of maize production in Malawi.) As a consequence or variations in food production, large numbers of farming households face sizeable food deficits every few years, despite striving for self-sufficiency in staple food production (mainly maize or cassava).

Figure 2 Maize production in Malawi, 1984–2002 (metric tonnes)



Source: Phiri (2005)

Agricultural production risk also reduces agricultural productivity indirectly, by affecting farmers' decisions around crop choices, investment in fertiliser and other inputs, and so on. Fear of crop failure induces cautious and conservative behaviour which aims at reducing risk and minimising losses (by avoiding costly expenditures that might yield negative returns), but at the expense of reducing productivity and perpetuating agricultural stagnation in the sector as a whole.

A third source of vulnerability affects farming households that are unable to achieve food production self-sufficiency even in good rainfall years. Following the food crisis in Malawi of 2001/02, a survey of 1,200 households across the country found that only 2.6% of households were self-sufficient in maize (Devereux *et al.* 2003), which is an indication of the severity of the production shock caused by erratic weather. However, only 23% of these 1,200 households reported that they were self-sufficient or had a surplus in the year before the crisis, which was a bumper year for maize production in Malawi. This implies that three in four rural Malawians are chronically food insecure – they never achieve self-sufficiency in maize. The reasons for chronic food insecurity in southern Africa (rather than vulnerability to rainfall shocks) are mostly related to constrained access to essential inputs: land, water, fertiliser, seeds, credit and labour. Addressing these constraints requires a range of policy interventions and/or development of markets, but the relevant question for purposes of this paper is whether cash transfers have a role to play.

Are cash transfers an appropriate response to all sources of agricultural vulnerability?

Cash transfers delivered as a humanitarian response to harvest failures are intended to enhance access to food by boosting household purchasing power. The expectation is that most of the cash transferred will be spent on buying food to bridge the deficit between household food production

and household food consumption needs. Theoretically, this is a perfectly logical intervention, as it replaces one source of food (production) with another (purchase). But this intervention will fail to achieve its intended outcome, if (1) markets are not flexible and responsive to increased demand; or (2) beneficiaries decide to spend the cash not on food but on other things instead.

If markets are not responsive, cash transfers will simply fuel inflation (more money chasing the same quantity of food will drive up prices), and cash transfers are inappropriate. On the other hand, the case is often made that cash transfers can stimulate markets, so that price inflation is a transitional effect that in itself will attract traders and facilitate market integration. More empirical research is needed into this issue in different contexts, requiring longitudinal analysis of markets and comparisons of cash recipients, food aid recipients and control groups of non-beneficiaries.

If beneficiaries spend cash transfers on something other than food, this could be either a 'positive' choice by beneficiaries (they might have important valid priorities, like health care costs, which cash transfers help them to meet) or a 'negative' choice (e.g. cash transfers are squandered by irresponsible beneficiaries,[1] which meets neither the programme objectives nor the needs of the beneficiary's family). In either case, food aid might be more appropriate than cash. (These issues are explored in more depth later in this paper.)

Cash transfers delivered as a response to agricultural risk can be effective if provided as a form of insurance (e.g. weather insurance), so that farmers are empowered to make reasonable investments in agriculture because the downside risks (the economic and welfare costs of harvest failure) are mitigated. This relates to current concerns with predictability of transfers – there is some evidence that people who are confident of receiving social assistance or social insurance will invest in higher-return inputs and activities and enjoy higher returns over time.

As a means of addressing chronic food insecurity, cash transfers have advantages and limitations. The main advantage is that cash transfers can be used to purchase inputs such as fertiliser, seeds and labour. People employed on public works programmes in southern Africa often hire labour to work on their farms while they are employed on road construction or other projects, using part of their cash wages or food rations to pay the agricultural labourers. (This is a positive multiplier effect: one public works place creates two work opportunities, and does not necessarily undermine farming.) Also, most evaluations of cash transfer projects find that some of the cash transferred to farmers was allocated to costs of farming, including purchase of inputs.

An analysis of spending patterns of beneficiaries of Concern Worldwide's 'FACT' project in Malawi found that most beneficiaries did spend the bulk of their FACT cash on purchasing food, but some invested heavily in their farms, either spending roughly half their cash transfer on food and half on cash, or spending most of the cash on farm inputs – especially fertiliser which was being sold by the Government at subsidised prices at the time. Though these cases were a small proportion of the total beneficiaries (roughly 4%) it suggests that some of the cash was used for "livelihood promotion", not just for "livelihood protection", and this potential link from social protection to economic growth is one of the main arguments often made in favour of cash transfers rather than food aid.

The main limitation of cash transfers is that they do not address the market failures that cause chronic production deficits – though, importantly, cash transfers or vouchers that are used to purchase inputs can support the development of input markets. A more appropriate intervention might be to strengthen input markets directly, or farmers' access to inputs, in order to stimulate production and reduce production deficits. Southern Africa has a long history of intervening in input markets – for instance through fertiliser subsidies, free input distribution, seeds and tools

[1] The Kalomo Pilot Social Cash Transfer Scheme in Zambia has produced T-shirts stating "The poor are not irresponsible". Agreed, there is no empirical basis for assuming that irresponsibility is concentrated among the poor, but if irresponsibility is randomly distributed across wealth groups in any population then it follows that *some* poor people – like some rich people – are likely to behave irresponsibly when given free handouts of cash.

fairs, and subsidised input credit – with mixed results. Nonetheless, as a general principle it is preferable to intervene with efforts to boost production – not just "productivity-enhancing safety nets", but supporting agricultural markets, institutions and infrastructure – rather than supporting minimum subsistence with cash or food handouts following inadequate harvests. Cash transfers should be seen as a transitional measure in this respect, to be used until more fundamental improvements in the economic and governance environment are achieved.

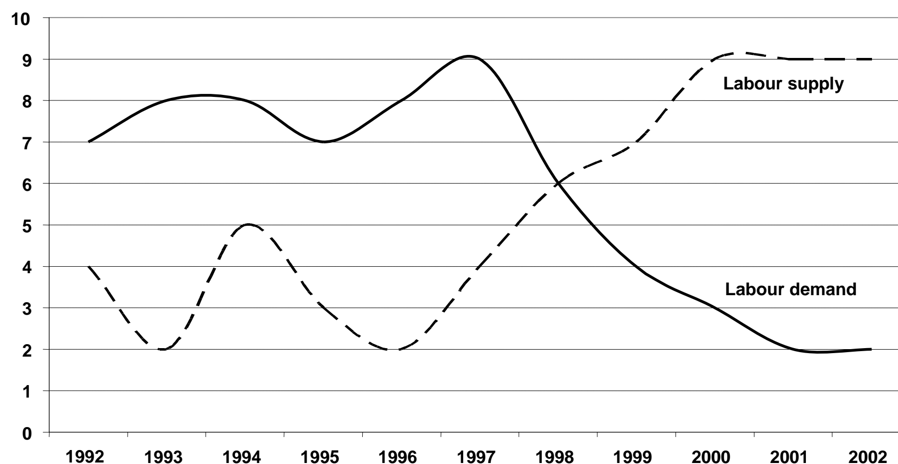
2.3. Labour-based vulnerability and social protection responses

Sources of vulnerability in rural labour markets in southern Africa

Rural livelihoods in southern Africa are relatively undiversified and sources of income are not well spread, with the consequence that 'covariant risk' means that almost all sources of food and income contract when erratic weather strikes. Not only does crop production collapse, off-farm employment opportunities decline because there is less demand for goods and services among neighbouring households and other affected communities, including less demand for rural labour (i.e. fewer employment opportunities). Weather shocks expose the weaknesses in rural labour markets, as more people are looking for work while less work is available. Moreover, Sen (1981) pointed out that non-agricultural livelihoods are also undermined by shocks to agriculture, such that people who provide goods and services to farmers can face 'derived destitution'.

Rural labour markets in southern Africa are weak even in non-crisis years, but dependence on casual work to bridge the gap between the granary running empty and the next harvest is high. This annual "hungry season" peaks in the early months of every year, when food is scarce and expensive. However, employment opportunities are limited at this time of year and compete with labour needs on farm (especially if work opportunities are dominated by agricultural labour, since the demand for labour for weeding etc. coincides with the time when this should be done on one's own farm). There is some evidence that the availability of casual work in parts of southern Africa is falling, as are real wages, because many farmers who were previously hiring labour are no longer hiring but instead looking for work themselves. According to one participatory assessment, farmers in southern Malawi believe that the numbers of people looking for work has exceeded the amount of work available in every year since the late 1990s (see Figure 3).

Figure 3 Supply and demand for casual labour in southern Malawi, 1992–2002



Source: Devereux *et al.* (2003: 64)

Are cash transfers an appropriate response to deficiencies in rural labour markets?

Cash transfers are likely to have more positive secondary and multiplier effects than food aid, because cash is spent on purchasing goods and services and this in turn creates employment

and income for the providers of these goods and services. "Derived destitution" is likely to be contained. Conversely, food aid does not boost purchasing power or stimulate demand directly, (though some food aid might be sold or exchanged), so it will have smaller multiplier effects. Empirical evidence from evaluations in Africa confirms that almost all cash transfers tend to be spent (very little is saved), while almost all food transfers tend to be consumed (very little is sold).[2] So the economic multiplier effects of cash transfers are strong and mostly positive, while the economic multiplier impacts of food aid are negligible at best and negative at worst.

The obvious policy response to thin labour markets is to create employment opportunities or promote efforts to create employment. Public works programmes have a long history in southern Africa. Employment-based safety nets (EBSN) are a form of conditional social transfer[3] (because beneficiaries have to work for their transfers of food or cash) which are alleged to have many advantages over unconditional cash transfers: they are self-targeting and avoid dependency (only the truly needy will apply for low-paid work), they reduce rural unemployment (especially in agricultural communities with seasonal underemployment), they are less stigmatising than handouts (especially if payment is made in cash wages rather than food rations) and they can create useful infrastructure (e.g. rainwater harvesting, or road construction) that should reduce vulnerability to production or market failures in the long run. In reality, public works programmes generally have a bad reputation, because the achievements of EBSNs have been less than optimal – the work requirement excludes many of the poorest from participating, bad timing interferes with agricultural production, the quality of works limits the value of assets constructed, and so on – but these problems are related to design and implementation failures. Public works remain popular with donors and governments because the principle remains sound.

Recognition that creating employment opportunities is beneficial in many ways has motivated the Employment Generation Scheme in Ethiopia and the Employment Guarantee Scheme in Maharashtra. Ethiopia's EGS has informed the design of its Productive Safety Net Programme (PSNP), which aims to provide cash-for-work or food-for-work on a predictable basis to eight million beneficiaries for five years. The well-known success of Maharashtra's EGS, in terms of stabilising household incomes and preventing food crises (Ravallion 1990) informed a national campaign around the "right to work", which resulted in the passing into law of the National Rural Employment Guarantee Act (NREGA) in 2005, which guarantees 100 days of employment at the minimum wage for every rural household in India. These principles of predictability of transfers and a right to employment that can be claimed from the state are unknown in southern Africa. If and when the institutional capacity, financial resources and political will exist to implement such guaranteed employment schemes in southern Africa, this option would be worth pursuing as part of a comprehensive social protection strategy.

2.4. Trade-based vulnerability and social protection responses

Sources of vulnerability in commodity markets in southern Africa

Anyone who purchases food on the market is vulnerable to the risk that food prices will be too high to be affordable. This risk is compounded if the consumer is trying to raise money to buy food by selling assets, when asset prices might be low and/or falling. Commodity markets (for food, livestock and other assets) in southern Africa are generally weak and fragmented, being characterised by high transactions costs – low volumes, small margins, information failures (Dorward and Kydd 2002) – and damaging policy interference. One consequence of weak markets is that food prices are variable and highly seasonal – they rise dramatically between one harvest and the next, especially in years of food shortage. Conversely, asset prices are prone to

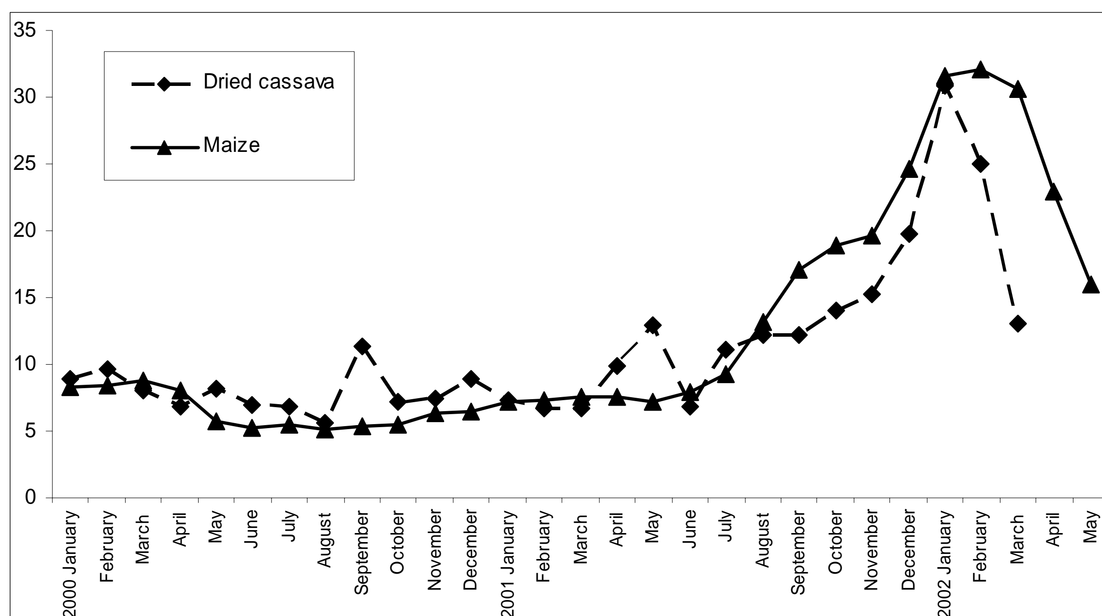
[2] In Ethiopia's Productive Safety Nets Programme, which transferred food to some beneficiaries and cash to others, 88% of food beneficiaries consumed all the food transferred to them, while 91% of cash beneficiaries spent some or all of the cash transferred.

[3] 'Social transfers' is a term that covers all resource transfers to beneficiaries, either in cash or in kind (e.g. food or fertiliser), subsidised or for free, whether conditional or unconditional.

collapse due to "excess supply" on the market, so that the terms of trade between assets and food fall and access to food is doubly reduced.

These twin effects can be seen in the case of Malawi by examining trends in food prices month by month in the period leading up to the food crisis of 2001/02, and by evidence on market prices of assets sold during the crisis period. Food prices throughout southern Africa follow a predictable pattern each year, being lowest after the main annual harvest when supplies are plentiful and demand is lowest, and rising to a peak just before the next harvest, when supplies are scarce and demand is highest. Reduced harvests triggered by erratic weather caused this pattern to be exaggerated in Malawi in 2001/02 (Figure 4). By January 2002, average retail prices of maize and cassava were 3-4 times higher than in the post-harvest period just 6-7 months earlier – in some isolated rural markets prices were 7-8 times higher. The failure of private and public interventions (trade and aid) to stabilise food supplies and prices contributed to the severity of the food crisis, as many people who were market-dependent for their staple food in early 2002 simply could not afford to pay these unprecedented prices.

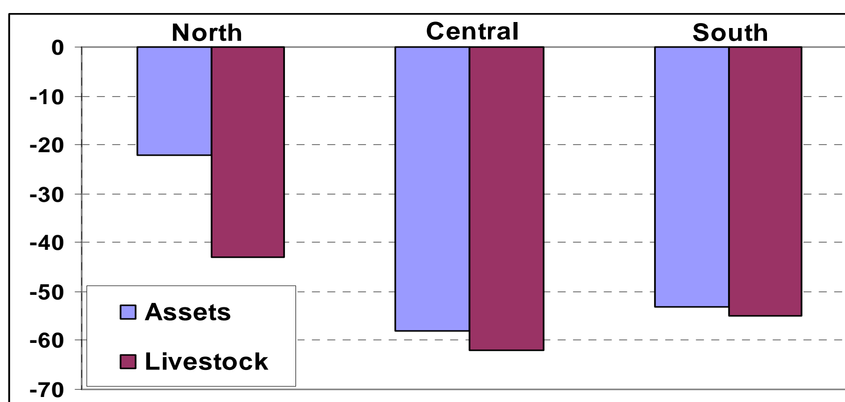
Figure 4 Average maize and cassava prices in Malawi, 2000 – 2002 (MK/kg)



Source: Tiba (2005)

When harvests fail, food prices rise and employment opportunities are scarce, rural households are forced into selling their assets to raise money to buy food. During the food crisis in Malawi in 2001/02, a wide range of household assets were sold, including clothing, radios, bicycles, kitchen utensils, furniture, farm tools, and livestock. Because of over-supply and limited demand for these items at the time, prices collapsed and many assets were sold for as little as half or a third of their replacement value. This "coping" behaviour was impoverishing in two ways: firstly, households disposed of valuable permanent assets to bridge a temporary consumption gap (undermining the family's productive capacity if the assets sold had contributed to generating income, like ploughs and livestock), and secondly they received less than the market value for most assets sold (thereby reducing the net wealth of the household). The "mean value losses" on assets sold in north, central and southern regions of Malawi is illustrated in Figure 5.

Figure 5 Mean value losses on asset sales in Malawi, by region, 2001/02



Source: Devereux *et al.* (2003)

Are cash transfers an appropriate response to weak commodity markets?

Cash transfers can protect household assets, by providing an alternative source of income for food purchases and avoid the necessity to dispose of assets at "distress" prices. An evaluation of the first round of Ethiopia's Productive Safety Net Programme (PSNP) found that three in five beneficiaries surveyed (62%) avoided having to sell assets to buy food in 2005, which they would otherwise have been forced to do, while over one-third of beneficiaries (36%) avoided drawing down their savings to buy food (Devereux *et al* 2006b). Since one of the stated objectives of the PSNP is to protect household assets and prevent impoverishment and destitution, this is an important and positive finding, given the convincing evidence that damaging coping strategies such as asset disposal are responsible for perpetuating cycles of vulnerability. Hoddinott (2005) shows how "past shocks continue to affect current levels of consumption": Malawian households that were directly affected by the 2001/02 food crisis still had lower consumption levels and asset holdings than non-affected households, when interviewed in 2004. Assets lost during food crises are very difficult to replace in poor households, but cash transfers that provide an alternative stream of income and allow households to hold onto their assets can undoubtedly limit these impoverishing consequences. Some households even acquire new assets, especially if cash transfers are regular and predictable: several FACT beneficiaries in Malawi, and 23% of PSNP beneficiaries in Ethiopia, had purchased livestock or household items by saving up some of their cash transfers over several months.

Can cash transfers protect people against rapid food price rises? Arguably not, as high prices suggest supply failure rather than demand failure – consumers are exerting upward pressure on prices but traders are not responding so supplies are not coming in to bring prices back down – and in this context cash transfers are likely to simply push food prices up even higher.[4] A recent review of nine cash transfer projects in Africa and Asia found no evidence of inflationary effects on commodity prices, except for a short initial period in local markets in a few cases. However, most of these projects were implemented on a small scale and only for a short period (Harvey 2005: 33). Similarly, recent innovations with cash transfer programmes in southern Africa do not provide sufficient evidence on this crucial issue, because small-scale cash projects have been implemented alongside (rather than instead of) large-scale food aid programmes.

[4] Amartya Sen made a strong case for cash transfers rather than food aid in his reanalysis of several famines in Africa and South Asia. Famines in Bangladesh, Ethiopia and the Sahel which had previously been characterised as "supply failure" or "food availability decline" famines were reclassified by Sen (1981) as "demand failure" or "food entitlement decline" famines, on the basis that food availability at national and regional levels had not declined, or was adequate to meet all food needs. On this basis Sen argued for cash transfers to restore lost "entitlements" to food. One critique of this recommendation is that it assumes well-functioning markets, but most famines in Africa are characterised by weak markets that are slow to respond to signals of demand.

During the 2005/06 food crisis, Concern Worldwide transferred cash to 5,050 beneficiaries in Malawi for four months, while Oxfam GB reached 6,000 beneficiaries in Malawi and 13,500 in Zambia with cash transfers for five months. Although food prices were very high during the period when these cash transfers were being paid, these interventions can not be held responsible for fuelling food price inflation in either Malawi or Zambia. Prices were already high and still rising before either cash transfer project was launched, and both interventions were on a small scale in the context of a very large food-based emergency response. Evaluations of both the Concern and Oxfam projects found no evidence of inflationary impacts on food markets, and no evidence either that traders responded to increased beneficiary purchasing power by trucking more food into local markets. Both findings can be explained by the small scale and short duration of the cash interventions.

More puzzling is why the distribution of hundreds of thousands of tons of food aid to millions of people did not dampen price rises. The FACT project effectively compensated beneficiaries for unexpectedly high food prices by "underwriting" these price rises – FACT paid beneficiaries enough money to purchase the same basket of food items whatever its price. Maintaining this constant purchasing power required close monitoring of local markets, adjusting the payment made to beneficiaries every month, and an extraordinary degree of flexibility on the part of the NGO and its donor partner – which had to provide more funds than initially requested at short notice, when maize prices exceeded the most pessimistic predictions of the Malawi VAC.

So the impact of large-scale cash-based interventions as a dominant humanitarian response has not yet been tested in southern Africa. Given the weakness of markets, widespread suspicion about traders, and the political risks if markets fail, it seems likely that food-based interventions will continue to dominate emergency responses for some time to come.

2.5. Transfer-based vulnerability and social protection responses

Sources of vulnerability in informal transfers in southern Africa

In many southern African countries, the capacity of communities to support their most vulnerable members, especially but not only during crisis periods, appears to be eroding (Ellis 2006). The reasons for this include increasingly unpredictable weather (harvest shocks reduce the availability of food and income to redistribute to neighbours), HIV/AIDS (which places multiple stresses on affected families and communities), market liberalisation and poor economic performance (which have undermined the viability of livelihoods), and social change (an increasing individualism and commercialisation of social and economic relationships). The combination of long-term processes and short-term shocks can be lethal, and fewer southern Africans now feel they can rely on their relatives and neighbours than in the past.

Although informal transfers are declining in significance and reliability, Ellis (2006) points out that they have not disappeared altogether, and he argues that formal social protection interventions – which clearly have a growing role to play – should complement rather than substitute for informal social insurance mechanisms.

Are cash transfers an appropriate response to failures of informal transfer systems?

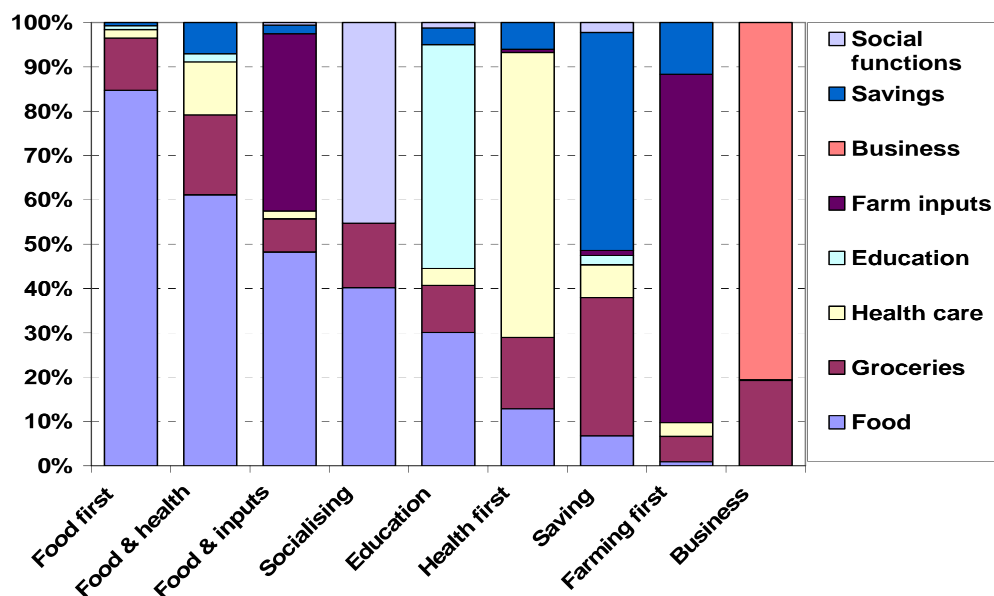
In emergency situations, when people cannot meet their minimum subsistence needs and support from their extended families and communities is inadequate, the humanitarian case for social transfers is overwhelming. if food supply failures are severe and food markets are weak, there are strong arguments for providing emergency assistance in the form of food aid rather than cash. Empirical studies have found that emergency food aid has not only saved lives but has reduced household vulnerability, partly by protecting household assets and children's nutrition levels (Quisumbing 2003). This impact on nutrition is enhanced by evidence that more food is consumed for equivalent values of transfer – some proportion of any cash transfer is likely to be spent on other things (Edirisinghe 1998).

Recently, however, cash transfers have been successfully piloted as an alternative to food aid in many emergency contexts in several countries (Harvey 2006). Cash transfers are generally found to have lower transactions costs – 53% of the value of American food aid in 2000 was spent on shipping and handling (Barrett and Maxwell 2005) – and provided that markets are relatively well functioning cash transfers can accelerate the recovery of local economies following a rapid-onset disaster (such as hurricane Mitch in Guatemala and Nicaragua, or the Indian Ocean tsunami). This cannot be generalised – cash is not always better than food, nor is food always better than cash – it depends on the responsiveness of markets and the elasticity of food supplies.

During the recent food crisis in southern Africa, Concern Worldwide and Oxfam GB introduced unconditional cash transfer projects in several districts of Malawi and Zambia, to complement the distribution of relief food aid. The common objective of these interventions was to restore lost entitlements to food following harvest failures, through increasing household purchasing power rather than through direct distribution of food. Evaluations confirm that this objective was broadly achieved. Oxfam beneficiaries spent 80-85% of their cash transfers on food (Oxfam 2006), while Concern beneficiaries spent close to 60% of their cash transfers on food (Devereux *et al.* 2006) – but note that the 'Food and Cash Transfers' (FACT) project also provided a package of food (maize, beans and oil) as well as cash.

While FACT food transfers were mostly consumed at home, FACT cash transfers were used not only to buy additional food, but also to meet a range of household non-food expenses. In effect, the cash transfer was added to total household income and beneficiaries were able to exercise choice in terms of prioritising spending needs. Some of these were immediate consumption items (groceries, milling maize, health care, debt repayment), while others were investments in longer-term livelihoods (education, investment in farming or small businesses, acquiring assets). If we consider patterns of spending rather than spending on individual items, it appears that different households pursued different strategies in terms of their use of FACT cash transfers. Although food purchases were dominant in most cases, some households invested almost all the cash in their farm or business, while others with health problems allocated most of the cash to meeting the costs of health care (Figure 6). Health care is a major expenditure for poor and vulnerable households which cannot be addressed with food aid. In Ethiopia's PSNP, almost half (46%) of beneficiaries surveyed reported that they had used more healthcare services since receiving cash transfers (Devereux *et al.* 2006b).

Figure 6 Spending strategies of FACT beneficiaries in Malawi, 2006



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

Small amounts of FACT food transfers were shared with neighbours and relatives, and about one in four non-beneficiaries interviewed reported having received some free food from beneficiaries. Conversely, cash transfers were hardly shared at all – a few beneficiaries lent FACT money at low or zero interest to non-beneficiaries, but cash gifts were extremely rare. Although the extent of sharing of transfers might seem low, the project was targeted at reached people who normally receive assistance from their neighbours rather than giving support themselves. Since most informal transfers tend to be made between poor households (rather than from rich to poor, when the poor 'beneficiary' typically has to repay in some way), an indirect benefit of cash transfer programmes could be that they alleviate the pressure on poor community members to provide support to their even poorer neighbours and relatives.

In non-emergency contexts, the case for cash transfers as a social welfare transfer is stronger and clearer than during food-related emergencies. Ethiopia's PSNP is targeted on chronically food insecure households and delivers transfers for several months each year. Most beneficiaries face chronic food deficits and 80% spent some of their cash transfers on buying food in 2005, but many beneficiaries also allocated some of their PSNP cash to buying groceries (59%), clothes (41%), health (29%), education (15%), farm inputs (15%), or paying debts (16%) or taxes (15%) (Devereux *et al.* 2006b). Poor people have a wider range of needs than just food, and cash transfers allow beneficiaries to meet these non-food needs.

In Zambia's Kalomo Pilot Project and in Ethiopia's PSNP, cash beneficiaries consistently report that receiving cash transfers enables them to retain more of their food production for consumption needs. Over 60% of PSNP households stated that In the absence of cash transfers they would have been forced into selling some of their harvest to meet urgent cash needs, then going hungry or buying food back at much higher prices in the hungry season several months later. This is another damaging "poverty ratchet" in communities strongly affected by production and price seasonality, and cash transfers help to smooth these negative consequences to some extent. Interestingly, the last disbursement on the FACT project in Malawi was in April 2006, when the harvest was coming in, and beneficiaries appreciated having cash at this time so that they could protect their harvest against the pressure to sell it to meet non-food needs. One recommendation of the FACT external evaluation was to establish a cash-based seasonal safety net that protects the rural poor against high hungry season food prices, but this could also be implemented around harvest time so that farmers retain their production and are less dependent on markets later in the year when prices are highest.

3 CASH *VERSUS* FOOD TRANSFERS

The "cash *versus* food" debate has become unnecessarily polarised, even acrimonious. It is also spurious and misdirected. Instead of assessing the efficacy of one social protection instrument against another in abstraction, the conceptualisation and design of social protection programmes should be driven by a context-specific assessment of needs and the objectives of the programme. Depending on the context and the objectives, cash might be chosen as the resource transferred in some circumstances, and food in others.[5] Social protection should be *objectives-driven,* not *instrument-driven,* and it should be *beneficiary-driven,* not *donor-driven*.

[5] Amartya Sen made a strong case for cash transfers rather than food aid in his reanalysis of several famines in Africa and South Asia. Famines in Bangladesh, Ethiopia and the Sahel which had previously been characterised as "supply failure" or "food availability decline" famines were reclassified by Sen (1981) as "demand failure" or "food entitlement decline" famines, on the basis that food availability at national and regional levels had not declined, or was adequate to meet all food needs. On this basis Sen argued for cash transfers to restore lost "entitlements" to food. One critique of this recommendation is that it assumes well-functioning markets, but most famines in Africa are characterised by weak markets that are slow to respond to signals of demand.

Although discussions around cash and food are usually presented as technical, complex social and political factors typically underpin these debates, as all the actors involved have their own preferences, prejudices and agendas. A stakeholder analysis or policy process analysis might be useful to uncover these political interests and pressures. This section is a preliminary attempt at mapping out the parameters of such an analysis, by examining the positions of three sets of stakeholders: donors, government and beneficiaries.

3.1. Donors – resources and fashions

Social protection continues to gain momentum among multilateral agencies and bilateral donors, and cash transfers are enjoying particular attention as a delivery mechanism that can achieve multiple objectives for social protection. Donors that are strongly supportive of an increasing role for cash transfers include DFID, the EU/EC, GTZ, OECD DAC (PovNet), and the World Bank. Donors that are contemplating supporting cash transfers include: FAO, UNDP, UNICEF, USAID and even WFP, which has recently implemented a post-tsunami cash transfer pilot project in Sri Lanka. Very few donors remain hostile or sceptical to cash transfers, and even those with vested interests in food aid, such as WFP, recognise the complementary roles of food aid and cash transfers. The World Bank is arguing for cash transfers as a central component of national Social Protection Programmes in Africa, while DFID and the ILO have argued the case for affordability of cash transfers even in very low-income countries. A costing exercise by DFID concluded that cash transfers in Malawi and Zambia are considerably cheaper (typically one-third to half the cost) than delivering comparable amounts of food aid.

One of the most persuasive complaints against food aid for decades has been that it is driven more by the availability of food in donor countries (i.e. "surplus disposal") and vested interests (e.g. protecting American and European farmers), rather than by the needs and preferences of beneficiaries, or the best interests of local economies and recipient governments. Paradoxically, much of the growing momentum behind cash transfers is motivated by growing resistance among certain donors to non-emergency food aid. In southern Africa, these donors were alarmed by the prospect of food-producing economies like Malawi becoming permanently dependent on concessional food imports, not least because evaluations of programme and project food aid have found little evidence of positive impacts, in terms of promoting sustainable food security or reducing vulnerability at either household or national levels.

DFID, GTZ and UNICEF are among the donors that are already supporting projects, technically and financially, that deliver regular cash transfers to beneficiaries in several southern African counties. The thinking behind this appears to be motivated by recognition of several factors: (1) in most non-emergency contexts, cash transfers have a number of logistical, economic and even developmental advantages; (2) in the context of the MDGs, cash injections to poor households and communities can contribute to pro-poor growth and poverty reduction, both directly and through multiplier effects; (3) new thinking on social protection sees it as an economic investment, not a social welfare "sink" for public funds; (4) calculations confirm that targeted cash transfers can be fiscally affordable, and are cheaper to deliver than food imports; (5) poor and vulnerable people have a number of non-food needs which are best addressed by cash transfers; e.g. foster care grants and pensions can provide support to OVCs and households affected by HIV/AIDS.

The Commission for Africa report in 2005 noted that various cash-based transfers – child-care grants, disability allowances, pensions, and other targeted social assistance transfers – produce a broad range of secondary benefits, reach many secondary beneficiaries, and promote positive social goals such as increased investment in children's education, health care and nutrition. The Commission argued that these positive benefits can be promoted even more effectively if cash transfers are made conditional on school attendance or immunisation of children – following models adopted in Latin America, such as PROGRESA, Bolsa Escola, and Zero Hunger. To date, however, the donor agenda in southern Africa has been dominated by unconditional transfers, possibly because of concerns that education and health services are not adequate.

3.2. Governments – capacities and politics

Until very recently, most governments in southern Africa were nervous or sceptical about cash transfers. Especially in emergency contexts, governments that are concerned to minimise malnutrition and mortality (and the associated negative publicity) tend to appeal for food rather than cash, even if markets appear resilient enough to respond to cash transfers. In Namibia during the 1991/92 drought, the Government of Namibia initially responded favourably to a scoping study suggesting that traders would deliver food to drought-affected households (not least because the cash-based social pension had been positively associated with extending trade and infrastructure to remote rural areas), but ultimately reverted to appealing for food aid. In Zambia following a drought in 1995/96, the Government allowed one donor (the Netherlands Embassy) to run a cash-for-work programme in drought-affected Western Province, but implemented food-for-work throughout the rest of the country.

More recently, cash transfer pilot projects were implemented by donors and NGOs in Malawi and Zambia during the 2005/06 food crisis, but only as a small complement to national government-administered food-based relief programmes. As discussed above, the small scale of these projects dampened their impact on markets and makes it impossible to determine whether they would have been as effective had they gone to scale, but it seems unlikely that governments would take the risk of completely replacing humanitarian food aid operations with national emergency cash relief programmes.

In non-emergency contexts, cash transfer programmes are seen as less risky, and in fact African governments have implemented cash transfer programmes as social welfare or social security measures since colonial times. Social pensions, disability grants, veterans allowances and other regular cash payments to designated vulnerable groups are common in most countries of southern Africa. Some governments have taken the lead in introducing cash-based social protection, with or without donor support. In 2004, the Government of Lesotho introduced its Old Age Pension, despite the IMF declaring it unaffordable.

In the Horn of Africa, the Government of Ethiopia announced its determination to break the cycle of food aid dependency, and this prompted the introduction of the Productive Safety Net Programme (PSNP) in 2004. The PSNP aimed to achieve *"a gradual shift away from a system dominated by emergency humanitarian aid to productive safety net system resources via multi-year framework"* (Government of Ethiopia 2004a: 4). The cycle of dependence on food aid was to be broken by a shift in *"the financing of the programme from food aid to cash"* (Government of Ethiopia 2004b: 1), which together with complementary support – mainly "Livelihoods Packages" – would enable beneficiaries to improve their livelihoods, until they "graduate" out of dependence on social transfers within a maximum period of five years. (Graduation means that the household is no longer chronically food insecure and also has the economic resilience to resist falling back into chronic food insecurity in the future.)

Two important *"basic principles"* of the PSNP are: predictability (*"A safety net delayed is a safety net denied. Consequently, resource flows must be predictable"*), and avoiding dependency (*"by requiring able-bodied beneficiaries to provide labour in exchange for program transfers"*). Most of the transfers are delivered through Public Works, with a approximately 20% of beneficiaries receiving "Direct Support" because their households have no able-bodied members able to participate in public works.

Cash transfers were preferred because they were seen as supporting investment and markets as well as consumption: *"Through the provision of cash transfers rather than food, the programme will enable smallholders to increase consumption and investment levels and stimulate the development of rural markets"* (DFID 2005). But concerns about the weakness of markets and rural infrastructure led to programme areas being divided into "high capacity" and "low capacity" districts, with cash transfers delivered only to the first category and food transfers going to the latter. Even then, many communities complained about difficulties in accessing food and high prices in local markets, and many switched from cash to food halfway through the first round of

distributions in 2005. Clearly, the transition from food aid to cash transfers in Ethiopia is a process that will take time and must be undertaken in stages.

3.3. Beneficiaries – behaviour and preferences

It is now generally accepted that the impact of social transfers on beneficiaries and households depends crucially on the socio-cultural context, especially gender relations and intra-household decision-making power. But social protection programming is rarely informed by an *analysis* of local culture and gender relations. Instead, programme designers tend to ignore culture or to impose socio-cultural *assumptions* on beneficiary communities and families. (e.g. *"Give food aid to a woman and she will feed her children; give cash to a man and he will drink it away."*)

Evaluations of cash transfer programmes are inconclusive: some report no misuse of cash, while others do find evidence of male beneficiaries squandering some or all of the cash on alcohol or womanising. Though the scale of this misuse appears to be limited, it is difficult to quantify and needs further investigation. One solution might be to give cash transfers to women wherever possible, enhancing their control over household resources, given the persuasive evidence that resources given to women – such as social pensions, or child support grants – tend to impact more strongly on the wellbeing of children, and that empowering women economically also tends to empower them within the household (Barrientos and DeJong 2006).

Recent evaluations of cash transfer programmes in southern Africa find some limited evidence of negative gender impacts. The Oxfam project in Malawi and Zambia found no evidence of misuse of cash transfers, while the FACT project in Malawi found evidence of limited misuse of cash by men. However, the FACT evaluation team included a gender specialist to investigate gender impacts, and used methods specifically designed to uncover these.[6] Where such methods are not used, the verdict should be "not proven" rather than "not guilty". Gendered analysis of social protection programmes should be prioritised throughout, from design to evaluation.

A popular argument against food aid is its alleged disincentive and dependency effects. A recent review of the literature concludes that claims for the disincentive effects of food aid are dominated by "case studies and anecdotes" (Abdulai *et al.* 2005: 1690). The authors point out that some supposed indicators of disincentives and dependency, such as lower food production or labour supply by beneficiaries, may instead reflect good targeting of food aid on labour-constrained or economically inactive households. The significance of de-linking correlation and causality is demonstrated empirically with analysis of Ethiopian food aid data, which confirms by controlling for household characteristics that the disincentive effects of food aid may have been overstated.[7] Reviewing the literature from southern Africa, Maunder (1996) similarly concludes that there is no evidence for negative impacts of food aid on agricultural production, *positive* impacts on labour availability, but strong evidence of falling demand and prices for food on local markets.

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[6] Sensitive issues such as anti-social or illegal behaviour are better researched through indirect qualitative methods than through direct personal questioning in household surveys. When FACT beneficiaries were asked in post-distribution monitoring surveys how they had spent their cash transfers, none admitted to buying alcohol or womanising. When men were asked in focus groups during the evaluation how they had spent their FACT cash, they again denied squandering any money on alcohol or womanising. However, asked whether they were aware of any cases where FACT money was wasted, women in focus groups reported isolated incidents of men drinking the money away or spending it on "second wives" (Devereux *et al,* 2006a).

[7] "In rural Ethiopia, simple test statistics, such as a comparison of means, or simple regressions, suggest that the disincentive effects of food aid on household behaviors are many, large in magnitude and statistically significant. However, when we take into account household characteristics such as age, sex, and education of head; land holdings; size; and location – characteristics that can affect behaviors and on which food aid is commonly targeted – many of these adverse effects vanish" (Abdulai *et al.* 2005: 1701).

It is increasingly recognised that the *predictability* of social transfers is more important than their *modality,* not least in terms of influencing beneficiary behaviour. Households that have confident expectations of receiving regular transfers (either in cash or in commodities) are better able to adjust their behaviour, either positively or negatively. For example, expectations that food aid will be delivered could cause farmers to neglect their crops, while the provision of unemployment benefits in European countries have been asserted to induce laziness. This effect (known as "moral hazard") is independent of whether the social transfer is made in food or in cash. Conversely, predictable social transfers can also induce positive behavioural effects, such as saving up to purchase productive assets, accessing credit for inputs or small enterprises, or risk-taking rather than risk-aversion in farming and business decisions.

It is extremely unusual – even unheard of – for social protection programmers to ask beneficiaries what type of transfer they would prefer, and to design programmes that reflect these preferences. Yet it is well known that beneficiary preferences vary by season, location and gender. In Malawi, surveys have established that women are more likely to request food while men are more likely to request cash. People living in communities far from towns and markets tend to prefer transfers of food aid (to reduce their transactions costs and travel time), while people living closer to towns and markets are more content with cash (since they can easily access a range of goods and services). When beneficiaries of Ethiopia's PSNP were asked about their preferences for different types of transfers, more than half replied that they preferred food (54%), while less than one in ten favoured cash (9%) and one in three expressed a preference for a package of food and cash (36%) (Devereux *et al.* 2006b: 27). Long distances to markets, and the unpredictability of marketed food supplies and prices, might explain these findings – in much of southern Africa, respondents are likely to be less negative about cash transfers. But as donors, NGOs and governments sit in their offices planning social protection strategies, policies and programmes, do they care what the intended beneficiaries of their plans think?

4. CONCLUSIONS

The technical arguments in favour of expanding the role of cash transfers in social protection are all but won. There is convincing empirical evidence that cash transfers have positive impacts on beneficiaries' lives and livelihoods, that they generate a range of indirect and multiplier benefits for secondary beneficiaries and for local economies, and that they are affordable even in poor countries.

This does not mean that cash transfers are a panacea. They have their limitations and they are not applicable in every situation. In some contexts the market might not be strong enough to support cash transfers, and in some cultures cash transfers could be mis-used and achieve little benefits. There is a danger that over-optimistic expectations about the multiple benefits of cash transfers will distract policy attention away from the underlying causes of poverty and vulnerability, which cash transfers can address only marginally, if at all.

If vulnerability is caused by chronic or transitory food production deficits, for instance, then cash transfers (but also food aid) can bridge consumption deficits in farming households, but more sustainable solutions would require other measures to strengthen agricultural production systems, such as investing in agricultural research and extension, building irrigation infrastructure to reduce output variability, and enhancing access to farm inputs to raise productivity.

If vulnerability is related to weaknesses in commodity markets (e.g. food price seasonality), then cash transfers once again can protect vulnerable beneficiaries against high food prices (but not against total failures of food supply, and possibly less effectively than food aid), but sustainable solutions must be found in encouraging traders and strengthening markets, or by putting in place reliable insurance mechanisms (such as weather insurance) rather than *ad hoc* appeals for emergency relief. Another insurance mechanism that responds to weaknesses in rural labour markets is a guaranteed employment scheme, of the kind that was extended from Maharashtra

state to all of India in 2005. This has the advantage of being enforceable and upgrading a welfare programme to the status of a right of citizenship.

The next challenge facing cash transfers in southern Africa is to scale up from pilot projects to national programmes, and to institutionalise them within government structures. This will not only expand coverage from the local to the national level, it should also enhance accountability, as beneficiaries cannot hold donors and NGOs – which design, fund and implement several cash transfer programmes at present – to account. In fact, the dominance of donor agencies and international NGOs in cash transfers and social protection strategising in the region is cause for concern. A missing voice in these debates is civil society, especially representatives of workers (e.g. trade unions), farmers organisations and women's groups. The right to social protection should be a campaigning issue, and citizens should be claiming this right from their national governments. It is time for the social protection discourse in southern Africa to move beyond technical debates about targeting and selection of instruments, and into the realm of politics and governance.

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