

# Project Briefing

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## Key points

- Cash transfer programmes in Kenya, Malawi and Zambia reach only 1-4% of the poor
- Targeting is determined largely by donor preferences, and is restrictive, resulting in large exclusion errors
- Given low national funding commitments, existing cash transfer programmes can only be scaled up nationally with donor support equivalent to 1-2% of GDP

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## Cash transfers: affordability and sustainability

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**D**rawing on case studies in Kenya, Malawi and Zambia, this paper explores the affordability and sustainability of providing cash transfers to alleviate poverty. The paper reviews cash transfer programme coverage and costs, the fiscal implications of programme extension to cover all eligible beneficiaries, the extent of national government resource allocation to cash transfers, the role of donor funding and perceptions of affordability and prospects for the sustainability of cash transfer programming. The case studies were part of a three-year study on cash transfers by ODI, funded by the Swiss Agency for Development Cooperation.

### Cash transfer coverage

There are various social protection initiatives in each of the three countries, including a limited number of cash transfer programmes. All the cash transfer programmes are currently in pilot or initial roll-out stages, and none are being implemented on a national scale. They are largely championed by the donor community, particularly UNICEF and the UK Department for International Development (DFID), and promote the interests of specific demographic or geographical groups, rather than being targeted exclusively on the basis of poverty. Kenya has three main cash transfer programmes: for children, the elderly, and those living in destitution in arid areas, while Malawi and Zambia have only one major programme each, focusing primarily on transfers to ultra-poor households with labour constraints (Table 1).

### High exclusion rates

The coverage of these pilot programmes is extremely low, ranging from 3% of eligible households in Zambia, to 8% in Malawi and 9% in Kenya. These figures represent only the level of coverage among households considered eligible, variously defined as ultra poor, extreme

poor, hardcore poor, 'incapacitated' or 'non viable' households. These comprise only 10% of the overall population in Malawi and Zambia, and 19% in Kenya. If calculated in terms of all poor households, these programmes cover less than 1% of all poor households in Zambia, 2% in Malawi, and 4% in Kenya.

Even if implemented nationally (as planned for the coming years) these programmes would exclude more than one million poor households in Malawi and Zambia and more than two million in Kenya, given the strict rationing of access. Targeting criteria that restrict eligibility to the lowest decile (or in the case of Kenya the lowest quintile) of the population often exclude households with members of working age and low dependency ratios.

The targeting of a defined subset of the poor, such as the poorest 10%, as illustrated in the case studies, is becoming an accepted practice in cash transfer design among some influential agencies and donors, irrespective of the distribution of poverty within different contexts. The result is high levels of exclusion of the poor. This form of targeting is not the result of binding donor resource constraints, but is a design choice, despite the absence of robust empirical or ethical rationales for this subdivision of the poor in any particular context. The ethics of selecting a fraction of the poor, and excluding the majority by design, are problematic in the absence of alternative social protection programmes for those excluded. The exclusion of households that are not labour constrained is similarly problematic, as it is based on the assumption that all labour has the potential to be used productively. This fails to recognise the reality of under and un-employment, and the phenomenon of the working poor (Slater and Farrington, 2009).

### Variation in transfer value

While there are similarities across cash transfer programme design in terms of target group,

**Table 1: Summary of cash transfer programmes and coverage in Kenya, Malawi and Zambia**

	Major cash transfer Programmes (major international partner indicated in parenthesis)	Coverage (households)	Eligible Households Nationally	% of Eligible households included in cash transfer programme, (actual and target)	Total Number of Poor Households Nationally	Coverage as % of Poor Households (actual and target, where available)
Kenya	Child Benefit (UNICEF)	75,000 Target: 125,000 by 2015	1.4 million  Eligibility: Hard core poor (19% of all households)	5% (8.7%)	3.5 million	2.0% (3.6%)
	Hunger Safety Nets (DFID)	60,000 Target: 300,000 by 2017		4.2% (20.8%)		1.7% (8.6%)
	Cash Transfers for the Elderly (Government)	300 Target: 8,000+ by 2011		0.0% (0.6%)		0.0% (0.2%)
Malawi	Social Cash Transfers (UNICEF)	24,000 Target: 296,000 by 2014	296,000  Eligibility: Ultra-poor and labour constrained (10% of all households)	8% (100%)	1.3 million	2% (23%)
Zambia	Cash Transfers (GTZ, DFID, Irish Aid, Care International)	7,000 households Target: All eligible households by 2012	200,000  Eligibility: Destitute and labour constrained (10% of all households)	3.5%	1.3 million	0.5% (15%)

**Table 2: Indicative cost of national provision**

	Programmes	National Estimate of Cost at Scale
Kenya	Government National Cash Transfer for all ultra poor Households (notional)	0.8% GDP 3% of total government budget
Malawi	Social Cash Transfers	1.7% GDP 4.2% of total government budget
Zambia	Social Cash Transfers	0.5% GDP 2% total government budget

Source: Own calculations from Ikiara (2009), Chisinga (2009) and Habasonda (2009).

percentage of the population targeted, and overall objectives, the levels of transfer offered differ significantly. A common level of 'coverage' does not mean a common level of transfer value. In Kenya the value of the household transfers under the child and elderly cash transfer programmes is kept low deliberately to avoid a 'dependency' effect, and aims to provide 10-20% of the household ultra poverty line (with a grant value of between \$15 and \$20 per month) (Pearson and Alviar, 2009). By contrast, the Malawi Social Cash Transfer programme aims to provide 100% of the ultra poverty line (ranging from \$4-\$13 per household) (Chisinga, 2009). However, the value of the Malawian transfer has not changed since 2005, despite high inflation and the recent food price crisis, so it is unlikely that the programme currently achieves this objective.

In many instances, the considerations determining transfer levels often reflect donor interests or ideological concerns, rather than empirically- or ethically-based criteria linked to particular outcomes, or funding constraints.

## Cash transfer cost

Cash transfer programme costs are kept down by limiting eligibility. In the countries studied, the cost of taking the programmes 'to scale', offering full coverage of the eligible population (10% of households in Malawi and Zambia and 19% in Kenya), would be between 0.5 and 1.7% of GDP, or 2 to 4% of the total government budget in these three countries (Table 2).

However, these figures illustrate the cost of addressing the needs of only a small and arbitrarily defined segment of the poor on a national basis. They do not represent the cost of social protection coverage for all the poor, as the restrictive targeting they entail would result in low coverage and high levels of exclusion. Without allowing for possible economies of scale, extending similar transfers to all the poor in the case study countries would require approximately 2 to 7% of GDP. This would be a significant, and perhaps unsustainable, drain on the fiscus if funded exclusively from domestic resources.

## The influence of international resource availability on targeting

Targeting practices are, in many instances, determined by international donor priorities. The case studies indicated that the scale of cash transfer implementation is not limited by lack of donor funds, with both Kenya and Zambia able to access donor resources to maintain and even extend cash transfer provision in the context of the global financial crisis. However, the limited targeting practices and demographic orientation of donor-funded cash transfer programmes are influenced by in-country donor preferences, and by the relatively abundant availability of resources earmarked for HIV/AIDS-related programming internationally, such as the

President's Emergency Plan for AIDS Relief (PEPFAR) and the Global Fund to Fight AIDS, Tuberculosis and Malaria, compared with funds available for other vulnerable populations, or the poor in general. Cash transfer programmes funded by both PEPFAR and the Global Fund tend to allocate spending to households affected by HIV/AIDS on the basis of proxy targets, prioritising households that are labour constrained or contain children. Households without these characteristics are, typically, excluded from programmes funded from these sources.

The exclusion of such households also reflects a concern on the part of both donors and governments that cash transfers would lead to dependency and withdrawal from the labour market, despite the lack of evidence to support this contention (McCord, 2009).

The adoption of restrictive cash transfer targeting practices that are popular with donors, such as targeting those in the lowest decile or quartile with particular demographic and labour market characteristics, result in low coverage and high exclusion rates among the poor (Slater and Farrington, 2009).

### Government allocations

The scale of government allocations to cash transfer programmes from domestic funds varies considerably. In the countries studied, the low levels of contribution suggest that cash transfer programming may not be a domestic policy priority. While the Kenyan government covers a significant percentage of cash transfer costs from domestic resources, government contributions to cash transfer programming in Zambia and Malawi are insignificant (Table 3).

The Zambian government contributes only a small proportion of the cost of the cash transfer programme (approximately 5%), equivalent to only 1% of the resources allocated to the state employee pension scheme. In Malawi, the government does not anticipate making a financial contribution to the cash transfer programme until 2011-2012, and will then contribute only 12% of the total cost per annum as the programme is extended. This implies that the rhetorical commitment to cash transfer provision in Malawi and Zambia is not matched by a commensurate fiscal commitment. The cash transfer programmes in Malawi and Zambia depend, essentially, on continued and increasing donor funding. In the absence of domestic financing plans, this level of ongoing external donor reliance implies that cash transfer programming is not a national policy priority.

The Kenyan situation differs, with the government currently contributing 30% of the costs of the Child Benefit programme (\$3.9 million), and planning to maintain contributions of up to 20% in the coming years as coverage increases, maintaining support in the face of the financial crisis, and extending its funding to cash transfers for the elderly (\$7.2 million), funded wholly from domestic resources. This reflects Kenya's concern to promote policy stability by limiting reliance on donor funding which is subject to shifts in donor preferences, thereby safe-

guarding the predictability of resource flows to the poor through cash transfers.

In the three cash transfer programmes in Kenya, the greatest proportion of domestic resources goes to grants for the elderly, where donor funding is most limited, and the lowest proportion to areas with significant and ongoing donor funding, such as the drought-affected Sahel area covered by the Hunger Safety Net (HSN) programme, and the child benefit programme, which receives significant PEPFAR and Global Fund financing through UNICEF. The simultaneous roll out of three programmes designed to support the poorest households, adopting differing criteria and implementation modalities suggests potential efficiency losses in a resource constrained environment.

Heavy reliance on donor funding for the continued operation and extension of cash transfer programmes means that national programme design is likely to match donor priorities, be consistent with the funding criteria of international bodies such as PEPFAR, and be influenced by the agendas of agencies, such as UNICEF, which channel funds to recipient countries. The existence of extensive HIV/AIDS related funding has meant that cash transfers addressing the needs of orphans and other vulnerable children may be funded through PEPFAR and the Global Fund. This has influenced the nature of cash transfer programming in low-income countries, generating a demographic focus on children and colouring the development of the cash transfer discourse.

The differing budgetary allocations to cash transfers do not only reflect the amount of resources available. This is an issue of policy choice, susceptible to political priorities. Recent research suggests that countries are more likely to allocate domestic resources to cash transfers where there is a perceived political need for the government to transfer resources to the poor to promote national stability and retain power (Nepal and Kenya) and where governments do not want cash transfer programming to be vulnerable to donor policy shifts and funding fluctuations (Kenya). In Nepal, where binding fiscal constraints have resulted in low value state funded cash transfers, some of which do not cover a significant percentage of the poverty gap, these transfers are none-the-less important as they represent a symbolic extension of state support for previously marginalised and excluded groups (Holmes and Upadhyaya, 2009).

**Table 3: Current government contributions to cash transfer programmes**

	Major cash transfer programmes	Current government contribution (2009/10)
Kenya	Child Benefit (UNICEF)	\$3.9 million (30% of programme cost)
	Hunger Safety Nets (DFID)	No government contribution
	CT for the Elderly	\$7.2 million (all programme cost)
Malawi	Social Cash Transfers	No government contribution
Zambia	Social Cash Transfers	Approx 5% of programme cost

Source: own calculations based on Ikiara, 2009, Chisinga 2009, Habasonda 2009



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## Perceptions of affordability

Research in Kenya, Malawi and Zambia revealed a perception among key national decision-makers that it was legitimate to allocate a limited share of GDP to cash transfers, in order to address the needs of a tightly defined and limited target group representing the 'deserving poor', identified primarily in terms of their constrained labour availability, rather than the poor in general. It was argued consistently that such provision for the 'deserving poor', was morally appropriate, and the cost, estimated at between 0.5 and 1% of GDP was considered 'affordable', although there was no commensurate view that this should be funded domestically. In two of the three case studies this 'affordable' level of provision was funded externally, as it was seen as appropriate to use external funds for what is perceived domestically as 'consumption expenditure', and for this reason not a domestic expenditure priority.

## Cash transfer sustainability

The continuation of all but one of the cash transfer programmes in the case study countries is contingent on ongoing donor support, as domestic resources are insufficient to support large scale cash transfer programmes.

Longer-term programme 'sustainability' is also wholly dependent on continuing donor allocations, as large scale programmes could not be funded exclusively from domestic resources in any of the three case study countries, and even the current small scale of cash transfer programming would not be feasible without donors covering most programme costs. Cash transfer provision in Malawi and Zambia is 'affordable' and 'sustainable' only as long as donor support continues, and any extension of provision is wholly contingent on increased donor allocations. Even in Kenya, where there is more domestic funding of cash transfers to ensure the predictability of financing flows, there has been increased reliance on external resources as a result of the global financial crisis.

## Conclusion

While governments are, in general, willing to accept donor funds for cash transfer programming, this does not necessarily imply a domestic fiscal commitment to cash transfer or social protection provision, in the form envisaged by the international community. In the case study countries governments preferred to allocate their domestic resources according to their own policy priorities, either to alternative social protection activities, such as the government employee pension scheme in Zambia, to alternative target groups, such as the elderly in the case of Kenya, or to alternative policy areas.

An analysis of domestic allocations to cash transfer programming suggests that there is a gap between a rhetorical endorsement of cash transfer provision, and a domestic fiscal commitment to supporting such programmes, even in the case of high profile cash transfer programmes such as those in Zambia and Malawi. For these reasons, cash transfer programmes are only affordable on the basis of continued donor provision, and are not sustainable domestically without a major shift in domestic budget priorities. There are no signs of such a shift in medium term budget plans in the countries studied.

The case studies suggest that the limited sustainability of current cash transfer programming is the result of binding fiscal constraints faced by low-income countries with low domestic resource bases, combined with a reluctance to carry out budgetary reprioritisation in favour of social protection provision. In this context it is not possible to scale up current pilots on the basis of domestic resources, and large scale social transfer programmes are regarded by some governments as unaffordable. This illustrates the problems inherent in international donor assertions about the 'affordability' of cash transfer provision in low-income countries, (for example ILO, 2008), and challenges the appropriateness of adopting Latin American models for cash transfer programming in Africa, given the primarily domestic funding base for cash transfer programming in Latin America and the middle-income context.

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### Project Information:

This briefing is one of a series of six produced as an output from a three year ODI research study on cash transfers and their role in social protection. The study explores issues of interest to donors and governments, comparing cash with other forms of transfer, identifying where cash transfers are appropriate, examining how contextual, design and implementation factors affect their impact, and how they may best be targeted and sequenced with other initiatives, and also reviewing affordability and the political economy of cash transfer provision. This project is funded by the Swiss Agency for Development and Cooperation (SDC).

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