

»» Materials on Development Financing



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“Cash transfer” and “in-kind transfer”: overview of programme types and lessons learned in Financial Cooperation

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Direct “cash” or “in-kind” transfers to people in need have been an important instrument in Financial Cooperation with developing countries for many years. This instrument has its origins in the area of emergency relief and disaster response. They also, however, became firmly established in development cooperation at the structural level, at the latest when the employment programmes (“social funds”) were initiated to cushion the social costs of the structural adjustment policies in the 1990s. In recent years, they have mainly been seen as a very successful instrument in poverty alleviation and basic social security (mainly as “conditional cash transfer programmes” in Latin America, as “employment guarantee programmes” in Asia) and as a stabilisation measure in a crisis context (e.g. in the form of “cash for work”). KfW Development Bank is currently financing 35 projects in this area with a total commitment volume of EUR 395 million.

The common fundamental feature of transfer programmes is the direct transfer of support payments (“in cash” or “in kind”) to target groups in need. This distinguishes them from investments in infrastructure and technical production capacities or investments in institutional capacities (“capacity development”). When countries implement transfer programmes, they are primarily pursuing social goals such as emergency assistance, reduction of poverty and inequality or improving health and education. Transfer programmes can also be implemented in humanitarian crises and after natural disasters as effective and efficient short-term aid measures.

When are which forms of transfer programmes (cash/in kind) used?

Support “in cash” carries generally more advantages than support “in kind”, because it enables recipients to deploy the funds in line with their needs and priorities and because market forces (supply and demand) can be used to meet demand. Cash transfers are therefore considered to

be a more efficient and needs-oriented solution.

Cash transfers are mainly used as an instrument to provide basic social security (i.e. to cover the basic needs of the poorest and most vulnerable sections of the population). Regular transfer payments aim to increase the income of these people so that there is enough money available for food, basic medical care and, if applicable, for their children to attend school. Cash transfer programmes are also often successfully used in refugee camps: as long as the goods or services beneficiaries need are in ready supply on the market, cash transfers are the instrument of choice.

“In-kind” transfer programmes, on the other hand, are mainly used in humanitarian emergency situations when market access no longer exists, i.e. private supply channels are no longer functional. In crisis situations, non-monetary assets are often distributed to all residents of an affected region (e.g. people in areas affected by drought or flooding). An eligibility assessment of individuals which is

usually time-consuming and resource-intensive can often be waived if there is a situation of general scarcity.



Malawi – social security for the extremely poor



Social cash transfers secure the basic needs of the poorest and enable a better future: this large family in Malawi benefits from basic state allowances – supported by KfW.

Malawi is one of the poorest countries in the world. Around 25% of the population lives in extreme poverty. Roughly 10% of all households are extremely poor and have limited ability to work due to old age, illness or too many people who depend on a single income. These households are caught in a poverty trap – they do not have enough resources available to escape poverty on their own.

Since 2009, KfW has been supporting the Malawi government on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ), and later also the EU, in alleviating poverty through cash transfers. A total of EUR 88 million has been provided to support institutional development and then the gradual expansion of a cash transfer programme to support the poorest sections of the population.

Under the programme, households that do not have a member with 100% ability to work and that have to get by with an average of one meal a day receive monthly financial support. The amount of the payment depends on the number of people living in the household. In addition, contributions are paid for children to attend school regularly. A household receives on average MKW 7,000 (around EUR 8.00) per month to cover essential basic needs like enough food. Families can also send their children to school instead of having them work and they can save up for smaller investments, e.g. better housing or a small domestic animal or seeds to improve their economic situation.

Until today, 180,000 households in 18 of the 28 districts of Malawi have received support from German FC and other donors. Over 800,000 people are benefiting. Preparations are currently underway to expand the programme to the entire country.

These “in-kind” transfer programmes require however much more complex logistics for procurement and the distribution of in-kind benefits than cash transfer programmes.

A special type of cash transfers programmes is employment generation measures that are implemented as “cash-for-work” programmes (CfW). CfW programmes create short- and medium-term income opportunities for individuals who are fit to work, mainly through public works or community projects that are particularly labour-intensive. They often include the construction of roads or other (re-)construction measures (school buildings, markets, etc.), removal of debris or rubbish, work in agriculture, etc., i.e. simple tasks that can also be performed by low-skilled workers, often in combination with qualification measures (training on the job). Wages must be set in such a way that, on the one hand, they allow for people to make a living and, on the other, they do not replace regular jobs. This is why they usually fall at the lower end of the wage scale.

One variant of “cash-for-work” programmes is what are known as “employment guarantee programmes”: here, people in need are guaranteed a minimum number of working days every year under employment programmes – they are still paid even if the agency responsible for the measure cannot offer any suitable work. These programmes therefore have the character of a basic social security net. The most well-known programme of this kind is the “National Rural Employment Guarantee Scheme” of India.

Voucher schemes combine cash and in-kind programmes: vouchers instead of cash are distributed to buy certain goods (e.g. food, seeds) or services (e.g. births attended by midwives or vaccinations). In certain circumstances, the advantages of both systems (use of market forces, targeted containment of specific shortages) can be combined. Depending on the context, it can sometimes make sense to issue the vouchers to the target group at no cost or to only subsidise the service.



Cash-for-work in Jordan



Labour-intensive road construction in Jordan: income for refugees and the poor population as well as improvement of the local infrastructure.

The aim of the Employment Intensive Investment Programme in Jordan is to give refugees short-term economic opportunities without losing sight of the local population.

So far KfW has provided EUR 20 million on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ) to fund projects implemented by the International Labour Organization (ILO) to equally benefit Syrian refugees and the local population in Jordan. Income opportunities for up to 8,300 people and their families are being created with activities that are implemented in close cooperation with the local communities.

Roads, cisterns, greenhouses and other infrastructure are built or maintained in labour-intensive projects mainly in rural areas; urban streets, parks and playgrounds are cleared of refuse and improved.

Support training measures for the target group not only aim to improve the living conditions of people in the short term, but they also make access to the labour market easier for programme participants in the medium term.

Voucher schemes are relatively common in refugee projects (cashless purchase of everyday goods) as well as in the public healthcare sector. They enable people in need to benefit directly from services important for development that they could otherwise not afford. On the other hand, when the vouchers are redeemed, this puts pressure on demand which can lead to an expansion of these services and thus to sustainable structural and needs-based further development of the market. Voucher schemes of this kind usually require a stable environment and more time for preparation and are thus not directly suitable as an immediate response to

acute crisis.



Reproductive health - healthcare services for safe births and family planning in Yemen



Health vouchers enable safe births and appropriate medical care for mothers and newborns.

Yemen is experiencing a serious humanitarian crisis as a result of the ongoing conflict. Basic social needs are not guaranteed in many areas. Healthcare services for mothers and newborns are lacking particularly in rural areas: four out of five children are born at home because the journey to hospital is often too expensive. Rates of maternal and infant mortality in Yemen are very high in an international comparison.

Since 2009, KfW has been financing the Reproductive Health Voucher Programme on behalf of the German Federal Government with around EUR 19.5 million. These funds are used to subsidise voucher booklets for safe motherhood. The vouchers can be redeemed to finance transport to the medical facility, for pre- and post-natal exams as well as medically supervised births and treatment of any complications. At the same time, vouchers are distributed for long-term family planning. As part of a comprehensive information and monitoring system, the path of every individual voucher can be traced from distribution to the buyer all the way to invoicing of the individual services. The project is being carried out by the Yamaan Foundation which was founded with KfW's support.

The voucher programme, which was already established before the crisis, has also been remarkably successful in the very challenging conditions that currently exist. As a result of the project, use of the respective healthcare services rose by 25-32% despite the conflict situation. At the same time, the participating medical facilities have a stable source of income (which is usually the only one). This is helping to stabilise healthcare in Yemen during the current crisis even beyond the specific voucher services. The quality of the services is also improved and the entire healthcare system strengthened by the accreditation system for medical facilities and midwives in the project districts and through the cooperation with medical facilities in the management of the programme.

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Voucher systems in the healthcare sector can also serve as a bridge to establishing a general health insurance system if the structures for a comprehensive system of service invoicing, reimbursement and quality control are not yet in place. German development cooperation can provide support for the seamless and needs-based transition from emergency-based transfer programmes to voucher systems and all the way to modern health insurance models.

Executing agency structures: government or NGO/UN?

Transfer programmes for people in need are generally a core government task and should therefore also usually be administered by government institutions. In practice, however, deciding between government structures or non-governmental organisations/UN organisations as executing agencies of the measures is often more complex: regular transfer payments to provide basic social security to the poorest sections of the population are long-term, structurally oriented measures. Transfer programmes of this kind require transparent management of a large number of small-sized payments. The key to the success of efficient and targeted disbursements is functioning administrative structures down to the local level.

In acute crisis situations, e.g. after earthquakes or floods or in the event of epidemics, weak government struc-

tures are sometimes overwhelmed with handling assistance programmes that are effective in the short term and, in particularly fragile contexts, government structures are lacking altogether. In cases like these, the involvement of non-governmental or UN organisations is often the only way to provide immediate assistance. These programmes, if they are continued in the medium or long term, for example, transitioned from emergency aid to structurally oriented development cooperation, should be placed in government hands which often need to be strengthened for this purpose. Establishing relevant national systems is not only useful after disasters, but also as a preventative measure – development cooperation therefore also increasingly promotes approaches that contribute to making social security systems in developing countries more resilient to external shock.



Food security for Syrian refugees with e-vouchers

Since the outbreak of the civil war in Syria in 2011, the UN's World Food Programme (WFP) has been distributing food vouchers to Syrian refugees in the neighbouring country of Lebanon. As early as 2013, the programme, which is supported by KfW on behalf of the German Federal Government with a total of around EUR 60 million, switched over from paper vouchers to e-vouchers. The people in need receive a personalised electronic food card in credit card format that is credited with USD 27 per person every month. The card holders can make cashless purchases of basic food like vegetables, fruit, meat, bread and milk without cash in accredited shops equipped with the card readers. The credit can be flexibly used for different kinds of food and spread across several shopping trips.

The e-voucher system offers many advantages: different needs can be met more easily, and local retail (e.g. family-run shops) can be systematically strengthened through the accreditation system. In addition, the use of vouchers makes it much more difficult for the funds to be used for illegitimate purposes and illegal trade. The programme was able to distribute a total of 360,000 e-cards by 2016 benefiting over 1 million hungry people.

Conditional vs unconditional programmes

When designing transfer programmes, one special aspect is the option to define conditions or services in kind for participation to simultaneously bring about other desirable developmental impacts by distributing payments. Typical conditions for cash transfers include, e.g. proof that children are attending school or taking part in medical exams and immunisation programmes. Known examples of “conditional cash transfers” are the very successful social transfer programmes that aim to alleviate poverty in emerging economies such as Brazil (Bolsa Familia) or Mexico (Oportunidades).

Conditional programmes require functioning administrative structures that, in addition to identifying the beneficiaries, can also continuously monitor whether conditions have been met. As a result, these kinds of programmes are particularly suitable for middle income countries where functional administrations can guarantee effective compliance monitoring. Defining conditions also only makes sense if the resulting costs of monitoring do not exceed the expected added value, and if there is an adequate supply of services available so that recipients can meet the desired conditions (e.g. additional physician's visits) with reasonable effort.

The targeting problem

If a transfer payment is not to be made to everyone in a region, the targeting problem arises, i.e. needs-based selection of eligible people or households to ensure that no one is left out (i) who is truly in need (coverage), but also (ii) to prevent giving payments to people who are not reliant on them. The beneficiaries should be selected based on criteria that are as transparent and objective as possible (in crisis contexts, of course, also conflict-neutral). Standard selection criteria are income poverty, assets, age, illness, refugees, etc. If there is no government proof of need, often proxy-based methods (e.g. quality of dwellings, demographic structure of the household), participatory

methods (consensus-based identification within the target group) or self-targeting methods (by means of incentive structures that are only really effective for the most destitute) are used. No method can identify everyone in need with 100% accuracy while reliably excluding individuals who are not eligible at the same time. Accuracy can often be improved by a combination of different measures.

Increasing efficiency through the use of innovative, ICT-supported technologies – digitalisation

There is huge potential for the use of efficiency-boosting ICT-supported technologies in transfer programmes. This starts already when proof of eligibility is provided: for programmes that are based on regular (e.g. monthly) transfers, the result of the first eligibility test can be stored on largely tamper-proof (e.g. furnished with biometric data) smart cards that people can use to identify themselves when they obtain something else. This considerably reduces the executing agency's administrative workload for verification (not necessary to repeat the eligibility check) and makes it possible to disperse the transfer to the beneficiary immediately (without them having to appear several times in person). Smart cards also make it possible to compare data electronically with other databases (e.g. register of residents, tax authority) so that changes in the eligibility conditions (e.g. income, number of children, etc.) can be more easily updated and improper use is also easier to detect.

ICT-supported methods can also be used for targeting: high-resolution satellite images can, for example, be used to identify particularly poor regions based on the existing infrastructure and land use. Within these regions, the neediest households can be determined by the construction materials used for their dwellings, e.g. the type of roof covering (straw, plastic, tin, brick). These types of new methods must be subject to a critical assessment, but have a large potential for reducing the workload for effective targeting.



Food for work and other transfer services in Ethiopia



Direct food aid to alleviate distress during periods of drought is an important component of the Productive Safety Nets Programme in Ethiopia.

Local droughts and resulting food shortages are a common occurrence in Ethiopia. In 2015, as a result of the climate phenomenon El Niño, large parts of the country saw no rainfall at all. There was also much less rainfall in 2016 so that over 80% of the 9.7 million people in the regions affected no longer had an adequate supply of food.

KfW supports diverse measures adapted to each individual situation to ease people's immediate hardships, but also to enable those affected to restore and improve their productive livelihoods in the medium term, thus increasing their resilience to future droughts. One key measure is the financing of the Productive Safety Nets Programme (PSNP) of the Ethiopian government that is being carried out with support from the World Food Programme (WFP).

In the public works component with a total funding of EUR 10 million, the affected population is working on production-oriented, community-based infrastructure projects, e.g. water and soil conservation or the rehabilitation of paths and drainage channels. In return, people receive food, in appropriate cases also money (cash for work) or vouchers.

Over 350,000 participants in the work programme have already been supplied with food. More than 60,000 other households not fit for work received food without any prior obligation. According to households surveyed as part of project monitoring, nearly 80% also use the newly created infrastructure and are convinced that it meets their needs.

Transfer services also play an important role in other projects in Ethiopia. Through UNICEF, KfW supports, for example, around 50,000 internally displaced refugees with aid packages that contain, among other things, household utensils and tent tarps.

Payment cards, in addition to cash payments, or transfer to an account or mobile phone are increasingly used for cash transfer programmes. This does not just make the transactions easier, more efficient and more secure, it also promotes the target group's access to financial services: if participation in a cash transfer programme is linked to setting up a bank account, this enables recipients to start saving money. With the recipients' permission, the executing agencies of these programmes can draw conclusions from account use for the effectiveness of the measures. ICT solutions of course are also used for monitoring and in the evaluation of relevant programmes.

Sustainability – overcoming poverty traps through transfer programmes

Particularly in the case of transfer programmes that are not designed from the outset to temporarily bridge acute emergency situations, but are intended to be permanent basic social security programmes, the sustainability of the impacts is the top priority. Researchers have identified many cause-and-effect chains which lead poverty to become self-perpetuating (known as poverty traps). The most well-known poverty trap is the correlation between poverty and health: poor people cannot afford proper medical treatment or medicine. As a result, they are more frequently ill and less productive which reduces their income and deepens their poverty.

Experience shows that transfer programmes are fully capable of sustainably overcoming these kinds of structural causes of poverty (poverty traps): cash transfers enable households to finance, for example, medical costs or to take advantage of medical services with vouchers, thus preventing or reducing income losses due to illness.

Poverty researchers, however, also highlight a remarkably high level of change above and below the poverty line: even though many people manage to lift themselves out of poverty, at the same time, many non-poor slide back into poverty or suffer pov-

erty for the first time (often triggered by misfortunes such as the death of the primary breadwinner or harvest losses caused by drought) so that the overall poverty rate in the country may not change much at all. Even if it is possible to overcome poverty in individual cases through transfer programmes, it is therefore necessary to establish transfer programmes of this kind as permanent systems.

Conclusion

Various independent evaluations have shown that transfer programmes are a highly effective instrument in poverty alleviation and sustainable development. They have become firmly established in KfW's toolbox, both in emergency and temporary assistance as well as in long-term structurally oriented development cooperation. Thanks to a broad range of design options, they can be adapted very flexibly to the respective conditions in each individual case.

Also in terms of the effective deployment of funds, cash transfers do not have to shy away from comparison with traditional projects: on the one hand, less effort is often needed to provide funds via cash transfers, particularly in complex need situations; on the other hand, a number of studies show that monetary transfer payments (even unconditional ones) are overwhelmingly used for purposes consistent with development policy aims (food, medicine, school attendance, etc.).

The effects of transfer programmes, however, extend far beyond these direct effects: cash transfers, for example, strengthen demand for consumer goods and generate proven positive effects on the development of economy and trade in the target regions – one visible sign is that markets are often established in direct proximity to disbursement stations which allows people who are not direct beneficiaries to also benefit. The role that social transfers for the poorest play in society overall is another crucial aspect. Basic social security provided by the government does not just save people in precarious material emergencies, but it also makes participation in society possible and

thus encourages social cohesion. In addition, government transfer programmes strengthen people's trust in the government, thereby reinforcing its legitimacy – an important aspect of good governance and a central aspect in the prevention of violent domestic conflicts.

Transfer programmes sometimes also have, in addition to the direct impact on poverty (SDG 1), significant synergy effects on many other important goals from the global Sustainability Agenda 2030, e.g. food security (SDG 2), improved access to healthcare (SDG 3) and education (SDG 4), economy (SDG 8), reducing inequality (SDG 10) and promoting peaceful societies (SDG 16).

The potential of transfer programmes is still largely untapped. KfW has many years of experience with the successful implementation of these kinds of programmes and actively participates in their further development in line with needs. KfW currently supports 31 ongoing transfer programmes with a total of EUR 395 million (as at end of 2016). The potential for the developmentally meaningful use of transfer programmes is thus still largely untapped.



Photos

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