Development Research and Training

Chronic Poverty Research Centre

Social Protection and cash transfers in Uganda

Frequently asked questions on cash transfers

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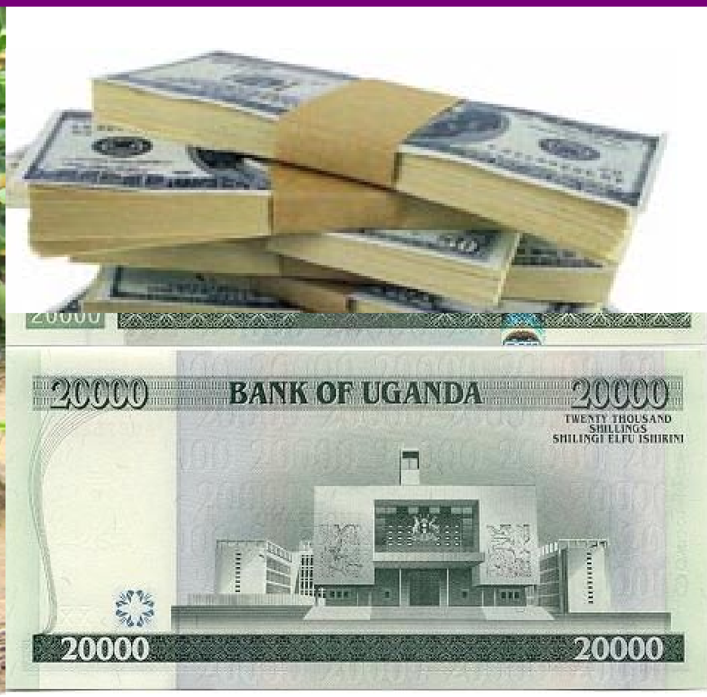

Uganda's Ministry of Gender Labor and Social Development (MGLSD), with funding support from DFID, is in the process of piloting a Cash transfer scheme, targeting chronically poor households. For a long time, it has been recognized that the lack of cash among people in chronic poverty makes it difficult for them to benefit from mainstream development programmes. A household that has no cash will neither be able to pay for a transport fare to a health facility nor buy uniforms or scholastic materials for their kids in school. The main objective of the MGLSD scheme, therefore, is to pilot the use of a regular cash transfer as a social protection instrument which has the dual purpose of promoting escape from chronic poverty and preventing those in poverty from sinking into deeper poverty. Benefits of such a scheme are expected to reach the most vulnerable households, including those living with children, elderly, chronically ill, and disabled persons.

Although social transfers have in the past been tried, with mixed levels of success, most of these focused attention on groups or communities. The MGLSD proposal, however, is to focus attention on households. Because this approach is still new to most Ugandans, many questions continue to be asked about the scheme: how it will work, who will benefit from it, where the money is going to come from, etc. In the following brief we attempt to answer some of the most frequently asked questions about cash transfers in the hope that this will throw more light about this innovative approach to helping the poorest of the poor in our communities.

Q: What are Cash Transfers?

As the name suggests, cash transfers are cash payments which are made to especially chronically poor households with an aim of supplementing household purchasing power, and improving acquisition of human capital. When transfers are regular and reliable, they encourage extremely poor households to invest in schooling and health, for example by compensating households for the direct costs associated with sending children to school (e.g. text books, uniforms, transport, etc). Regular and reliable transfers also improve the resilience of chronically poor households in the face of health and other shocks.

A cash transfer can be made in different ways, the most obvious ways being either a free transfer or as payment for work undertaken. Cash transfers can be made conditional or they can be given without conditions. The usual preference is for a free transfer, in order to avoid competing with other necessary economic activities of the household

Q: Why Does Uganda Need a Cash Transfer Scheme?

A: A large number of Ugandans are currently not benefiting from mainstream development interventions: Recent research shows that at least 7.5 million Ugandans live in chronic poverty and that most of these people are not benefiting from the traditional poverty reduction programmes. While such programmes as UPE, the removal of cost sharing in public health facilities, micro-finance development, and implementation of the Plan for Modernisation of Agriculture (PMA) have helped some people, there are many who continue to be excluded from these programmes. In the majority of cases the limiting factor to access to these programmes is "lack of cash".

Q: What long-term benefits can one expect from implementing cash transfer schemes?

A: Cash transfers can quicken the pace at which education and health outcomes are achieved: Cash Transfers help extremely poor households to access basic needs such as food, shelter and clothing as well as social services, including health and education. Because of their positive impact on education and skills, as well as health and nutrition, cash transfers can be important contributions to development at individual, household, community and national levels. In turn this leads to a more productive population and to reduced poverty.

Q: Why don't we use the traditional safety nets which the country has had for very many years?

A: Traditional safety nets are failing: Uganda's traditional safety nets have in the last few decades been declining in their visibility and effectiveness. In most parts of the country such groups as *"engozi"* (foot-ambulance groups) or *"munno mu kabi"* (friend-in-need groups) still operate, but their coverage is limited, and even these tend to reach out only to those who are able to make regular contributions to the group. In most cases chronically poor people are not able to make such contributions, hence they get excluded. It is also important to note that traditional safety nets are not strong enough when hazards affect many people in the community at the same time.

Q: Can't the existing national schemes such as the Pension Scheme or NSSF deal with the problem?

A: Existing social security programmes reach only a few people, and they exclude the poor: Current schemes such as the Pensions Scheme and the National Social Security Fund (NSSF) target only a small percentage of the population who work in the public and private formal sectors (less than 10 percent of the workforce). This means that the majority of people, especially those who work in the agricultural and informal sectors, are excluded from such schemes, which makes it necessary for alternatives to be provided for the larger and less secure majority.

Q: Why should we be worrying about the social security of the poorest?

A: Our shared aspiration to a fair and just society for all Ugandans requires that we care for, and support, the most vulnerable: Constructing a society that is just and fair to all its citizens is an aspiration shared by all Ugandans, and the best bequest to our children and grandchildren. Fairness compels us to address the situation of many people in acute poverty and destitution, through supporting and strengthening those institutions and groups that support those of us who fall into poverty as a consequence of factors beyond their control.

Q: Can Uganda afford Cash Transfers?

A: Costs are affordable and make good economic sense: While it is true that the cost of implementing a cash transfer can be high, because there are many people in poverty in our country, the cost of not supporting those who need the support is even higher. The hidden costs come in the form of lost productivity, the burden of disease, crime, etc. However there are good lessons to be learned from Uganda's neighbor Kenya and from Malawi and Zambia where similar schemes have been implemented with very promising results.

Q: Are cash transfers going to be the answer to extreme poverty?

A: Cash transfers are a significant contribution to addressing the problem: Cash transfers are not a panacea for all the problems of extreme poverty among our people. However they are an important factor in addressing the problem. Research evidence suggests that dependency on relatives and friends is one of the survival strategies of the poor. While this can be viewed as a positive response to the social responsibility of those who can afford, it is also true that dependency has a "pull-down" factor for some income earners, and could actually dip some into poverty.

Q: What are the other benefits which are likely to accrue from implementation of the cash transfer scheme?

A: There are many other possible benefits which can arise from adoption of cash transfer instrument. We mention only a few here below:

(1) Promoting growth and investment among poorest communities: When beneficiaries receive cash, they spend it in the local economy, boosting local trade and commerce. Evidence from a cash transfer scheme piloted by Concern Malawi reveals that there was a multiplier effect of $2.1 which was achieved from each 1 $ that was given out in a cash transfer.

(2) Reducing deficits: Chronically poor people experience many deficits, including low and irregular incomes and consumption; a lack of economic capacity; poor access to basic services; low levels of education and poor health status; and social exclusion. By supplementing households' purchasing power Cash Transfers reduce the impact of these deficits which enables quick improvement in nutrition and consumption.

(3) Supporting education and health: Reliable cash transfers can also encourage households to invest in education and health, for example by making it possible for them to buy uniforms, textbooks, meals or pay for transport. Households are also supported to meet the transport costs to accessing health services.

(4) Encouraging savings: Cash Transfers can also enable households to make small savings to cope with unexpected health and other costs, without falling into debt or selling productive assets. Examples from Malawi reveal that beneficiaries in the country's Cash Transfer scheme are now able to access credit and to start small-scale businesses.

(5) Reducing social exclusion: Cash Transfers help to reduce social exclusion when beneficiaries cease to be perceived as a burden on their extended families or communities. Evidence from the Community HIV/AIDS scheme (CHAI) in Uganda and also from Malawi and Zambia reveals that with "cash empowerment" beneficiaries confidently attend community and

development meetings and freely interact with other community members sharing ideas and information.

Q: But Uganda has very many poor people. Who will be the beneficiaries be given the largenumber of the poor in the country?

A: Every household which is helped to escape from chronic poverty makes it easier and cheaper for others to escape as well: Any effort which is made to get people out of extreme and chronic poverty has two immediate effects. It directly helps the household that is targeted. It also makes it easier for the remaining households to be supported. However, we can again learn some lessons from Malawi. The proportion of people who are below the poverty line in the country is 52.4 percent. This is much higher than Uganda's 31.1 percent. And yet Malawi has shown that it is possible to start addressing the problem, even if the size of the task ahead is big. Uganda's proposal is, in fact, to start by targeting the 10 percent poorest category.

Q: How can one ensure that the people who are targeted are those in most need?

A: Local communities are the best channel for identifying beneficiaries: Selection of beneficiaries is best done by local communities themselves. By fully involving these communities and entrusting them with authority to decide on the criteria for selection it is possible to have problem-free selection of beneficiaries. The communities would only be supported by an independent committee whose role would only be to confirm that the correct process was used in the selection. In addition, on spot checks can be introduced by technical officers who are not part of the implementing institution to ensure that the targeted categories are the actual beneficiaries.

Q: Is there no danger that the poor will spend the money on purchasing alcohol or spend it on unnecessary things?

A: Poor people make rational choices: Many times it is wrongly assumed that if poor people are given cash assistance they will spend it on alcohol or other non-priority expenditures. This is a myth. According to Devereux et al (2005) there is little empirical evidence to support these myths[1]. In their review of four cash transfer schemes in Africa Devereux et al point out that individuals and households make careful and strategic decisions about how to use additional income for the best interests of the household, either in the short-term or for the longer term. This is affirmed by evidence from other African countries which are implementing Cash Transfers. Perhaps one of the most important findings with respect to utilization of cash received is that it is the regularity and predictability of the transfer which will determine how people spend and invest their money. There are good examples from Brazil, Malawi South Africa and Zambia of experiences on how money is spent.

Q: Is giving cash sustainable?

A: Sustainability can be achieved: Acquiring long-term financing for the scheme is one of the most difficult challenges of any cash transfer scheme. At the moment the two principal options for financing large scale cash transfers are the national budget (using locally generated tax revenue), and donor funding. By examining alternative budget scenarios from the recently concluded Uganda Cash Transfer Pilot, for example, it can be concluded that transferring 20%, 30% or 40% of the absolute poverty line respectively translates into 0.7%, 1.1% and 1.5% of GDP[2]. These are considerable proportions of the budget. However, considering the impacts that such transfers would have on the population and the economy, the transfer would be justified. Thus, once a decision has been made to implement cash transfers, the starting point needs to be the making commitments in the national budget and by linking the transfers to longer-term human development objectives. Some other African countries, such as Malawi, decided to set up a Social Protection Fund from which resources for the scheme are drawn.

In order to kick-start the scheme it will be necessary for Uganda to obtain reasonable amounts of funding from her development partners. This should help to finance the initial phase of the scheme. However, in order to increase ownership and to make it more sustainable, the scheme will in due course need to be embedded in the country's Social Protection Strategy.

Q: Won't Cash Transfers breed laziness or create disincentives leading to increased dependency?

A: Availability of small amounts of cash just "urge you on": First, the amount of cash which is normally transferred to households is very small indeed, and it cannot be depended on by that household to meet all their needs. Essentially this small but important amount of money is only enough to enable a household to obtain a second meal a day, thus supplementing on the little which those households may have already. However, the opportunities which a reliable cash transfer creates make such transfers very attractive as beneficiaries "aspire" to get out of poverty traps. Evidence from existing schemes elsewhere in Africa indeed reveal that most beneficiary households will even invest part of the transfer in livestock or agricultural supplies at some point in time. They encourage people to work because the poor who are benefiting have got an opportunity to realize their dreams with "just a helping hand".

In addition, Uganda's pilot design has an objective of preventing households from permanently relying on the Cash Transfers. In order to prevent this, the proposed pilot will have mechanisms to assess whether and how beneficiaries will graduate and exit from the programme. Households will initially benefit from the project for a period of 3 years after which there will be a review and recertification process basing on the agreed criteria..

Q: Are Cash Transfers a foreign import? Are they not likely to weaken traditional social safety nets?

A: Cash Transfers are firmly rooted in traditional social safety nets: The concept and practice of Social Transfers are firmly rooted in traditional African society. For many centuries different Ugandan societies have extended assistance to their less privileged members. The only difference between the schemes which are being proposed now and those of the past is that the newer schemes are more formalized and they are delivered through more structured institutional mechanisms.

It is also important to note that in their original form traditional social safety nets which are based on the extended family relationships are presently overstretched and the increased family and community obligations, especially in the wake of HIV and AIDS, make it difficult for them to effectively cope with increased risk.

On the contrary, however, cash transfers help to strengthen community responses and coherence, and they enhance mutual assistance and reciprocity.

[1] Devereux et al. 2005, Harvey 2005

[2] For a detailed discussion of this see Ssewanyana, Sarah (2007): Options for Targeting and Simulations of the Poverty Effectiveness of Alternative Types of Transfers (Background Paper for the Uganda Csh Transfer Pilot Design, CPRC/ODI/DRT).

Q: Why Cash Transfers when there is prosperity for all? What's the difference?

A: The two are different and they target different categories of the poor: The "Prosperity for All" programme target the active poor – those who already have assets, but who need to further stimulate their investments. The project follows a typical micro finance approach of lending out to those who are expected to repay their loans after they have made some profits, while Cash Transfers target the chronically poor specifically – those who are unable and don't even have physical assets to enable them secure loans to benefit from mainstream development interventions.

Q: How will the Cash Transfers be linked to other social safety nets/ social transfers?

A: They will enable the benefiting chronically poor people earn income. When successfully implemented, Cash Transfers enable extremely poor categories of the population to "move up the ladder" and to join such groups as *"Munno Mukabi"* (friend in need), *burial groups, 'Nigiina'* all of which enhance social capital and link up to other financial opportunities.. In the long run, cash transfers will not only ensure group cohesiveness but also learning from each other.

Q: In a country with limited spread of financial institutions, how will cash be delivered to remote areas?

A: Other delivery mechanisms can be used: Although Uganda's financial institutions are not widely spread out in the rural areas, there can be other delivery mechanisms. Most of these have been tried and tested to satisfaction in other countries and would only need adaptation to fit the Uganda situation. Money may be delivered via Post Offices, fuel filling stations, cash vans, etc. One of the schemes in Kenya is piloting the use of fuel filling stations, while in Zambia and Malawi designated pay points are used. The pilot scheme implemented by Concern Malawi has a mobile Bank which goes to the communities once every month. The mobile bank uses electronic cards which are used by each beneficiary to access the cash.

Q: What will happen to the poor in communities where money is not the preferred medium of exchange?

A: Money will be used to purchase what is required: From the consultations that have been held in Uganda on the desirability of Cash Transfers we can confirm that most community members prefer being given money to being given "goodies" such as foodstuffs, blankets, etc. With money they can make conscious decisions about what to prioritise in their lives.

Q: How would the implementing organisations avoid leakages?

A: Possible means of avoiding leakages can be used: Strong monitoring systems can be put in place to ensure all possible leakages are prevented. Ensuring the various offices working on the programme have different roles to play can also be a means of avoiding leakages. Such roles include; registration of possible beneficiaries, verification of beneficiaries, enrolling beneficiaries, delivering the cash and verification of cash. If such an arrangement is in place, there is a possibility of avoiding/reducing leakage as separate accountability will be expected from each of them. Above all, making the process open and transparent to everyone, especially community members, is the best way to avoid leakage.

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