Health, Education and Social Protection
Sector Project: Systems of Social Protection

Social Cash Transfers – Reaching the Poorest

A contribution to the international debate based on experience in Zambia

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An Investment in Human Capital

Social protection systems enable people to make provisions that will help them cope with future crises like illness, death or the loss of a harvest. They also provide support for extremely poor people, who do not have sufficient self-help potential to maintain a decent standard of living. Basic social protection to safeguard crisis-ridden households from destitution is a subsidiary, but necessary element of social protection. It is also an investment in human capital. This is especially true for orphans and children living in households affected by the HIV/AIDS pandemic. Enabling these target groups to buy food and have access to health and education is not only a human right; it is the basis for future opportunities and productive engagement.

The Millennium Development Goals have challenged the international community to redirect their attention towards poverty reduction. International experts and policy makers have provoked an international debate on social cash transfers and their contribution to halving the proportion of people living in extreme poverty by the year 2015. As the World Development Report 2004 states, cash transfer programs can be a powerful way of promoting education, health, and nutritional outcomes. Many service delivery arrangements neglect the role of clients, especially poor clients. Demand-side cash transfers that can be flexibly used by poor families increase the purchasing power of the poor, thus contributing to pro-poor-growth.

This publication discusses the rationale behind establishing social cash transfer programs. It presents the costs and benefits arising from existing programs – in particular, the pilot cash transfer scheme in Kalomo District, Zambia – and identifies preconditions for successful implementation. Social Cash Transfers are only one of many options which reach out to the poorest members of society. They are most effective when complemented by other social protection programs, and their success depends largely on political will, administrative capacity and availability of financial resources. However, we believe it is an option we should seriously consider.

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Content

Social Cash Transfers – Reaching the Poorest

Social cash transfers are increasingly seen as an under-exploited means of providing basic social protection. Middle-income countries like Brazil, Mexico, China and the Republic of South Africa have rapidly expanded their social cash transfer schemes and have thereby achieved significant progress in reducing poverty. The biggest gap between the need for, and the provision of, basic social protection is found in the Least Developed Countries (LDCs) of sub-Saharan Africa. The Report of The Commission for Africa therefore recommends establishing and expanding social cash transfer programs as a matter of priority.

Preconditions for establishing social cash transfer programs are: the commitment to basic social protection of politically relevant groups in the respective countries, an appropriate implementation capacity, and sufficient financial resources. In many developing countries one or more of these preconditions are lacking. The paper gives recommendations on how development cooperation can sensitize partner governments to basic social protection, enhance the capacity of organizations mandated to implement social cash transfer programs and contribute to the sustainable financing of cash transfers.

The second part of the paper illustrates how the recommendations given in the first part can be put into practice. It presents a review of the Kalomo District Pilot Social Cash Transfer Scheme initiated in November 2003 by the Zambian Ministry of Community Development and Social Services in cooperation with Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), commissioned by the German Federal Ministry for Economic Cooperation and Development (BMZ). An analysis of the need for basic social protection concluded that approximately 10 percent of all households in Zambia (200,000 households) suffer from critical levels of poverty and high dependency ratios and are, therefore, unable to respond to any development opportunities provided by existing poverty reduction programs.

Following a discussion of the rationale, objectives, and recent history of the pilot scheme, the paper outlines the targeting, approval and payment process before concluding with a preliminary analysis of the scheme's performance and impact. Targeted beneficiaries and the local community have both expressed that the transfers have improved the well-being of the poorest households. Beneficiaries are using the transfers to buy food and meet other basic needs. Some beneficiaries have saved part of the cash and have used this to invest in seed and small livestock. Community leaders such as headmen have reported that begging is reduced, and local headmasters have observed an increase in school attendance.

The information generated by the pilot scheme is being used by the Zambian Social Protection Sector Advisory Group to draft the next National Development Plan (2006-2011) and to help develop a National Social Protection Strategy. The Government of the Republic of Zambia and development partners (ADB, DFID, CARE International) are also planning how to scale-up the cash transfer scheme to cover additional districts. At the same time, the pilot scheme has attracted international attention and is quoted in a number of recent reports on poverty reduction and social protection that have been published by Helpage International, Overseas Development Institute, International Labour Organisation and The Commission for Africa.


ERIN SUPER LOAF
Choma Bakery

Development Partnership for Basic Social Protection

This paper addresses organizations and experts in development cooperation who assist partner countries in the field of poverty reduction and social protection. The following text focuses on social cash transfers – widely regarded as an under-exploited tool for providing cost-effective basic social protection to critically poor sections of the population.

The first part of the paper summarizes:

- The rationale for establishing social cash transfer programs
- The costs and benefits of existing social cash transfer programs
- An assessment of preconditions for establishing sustainable social cash transfer programs in different categories of countries
- The options for development cooperation to influence these preconditions and to assist partner countries in establishing social cash transfer programs.

The second part of the paper is entitled “From Theory to Practice“ and presents a case study outlining how development cooperation is assisting the Government of the Republic of Zambia to design, implement and monitor a pilot social cash transfer scheme. In essence, the scheme aims to provide information on the feasibility, cost-effectiveness and impact of cash transfers as a component of the Zambian National Social Protection Strategy. The case study also shows how the results of the pilot scheme have influenced policy decisions taken by the Zambian government and various development partners.

Part 1

Review of Existing Knowledge about Social Cash Transfers in Development Cooperation

1. Definition and Rationale of Social Cash Transfers

Social cash transfer programs aim to provide basic social protection to those sections of the population who, for reasons beyond their control, are not able to provide for themselves. People in need of basic social protection usually live in labour-constrained households i.e. households with no adult members fit for productive work. Due to their limited self-help capacity, these households cannot access any of the labour-based poverty reduction programs offered by governments or aid organizations.

The bulk of households in need of basic social protection are headed by the elderly, widows, children, or individuals who are disabled or chronically sick. In Africa, the number of households consisting only of grandparents (mostly grandmothers) and orphans is still growing. This trend is largely due to the impact of HIV/AIDS. Unless these households are covered by social insurance schemes – which in developing countries are mostly limited to the small formal sector – they will be unable to provide their members with their most basic needs in terms of food, health care and education.

The main types of social cash transfers aiming at basic social protection are non-contributory pensions, social assistance to families or households and conditional cash transfers (transfers attached to conditions like regular attendance of schools or health services). In contrast to emergency programs, which are designed for temporary relief and mainly transfer assistance in kind, social cash transfer schemes are permanent programs that transfer cash on a regular and reliable basis to households or persons that meet certain eligibility criteria.

Many developing countries, especially the LDCs in sub-Saharan Africa, have so far not made much progress with regard to achieving the Millennium Development Goals (MDGs). This is one of the reasons why a number of international initiatives urge governments and development organizations operating in these countries to prioritize basic social protection. Some of these initiatives argue from a human rights perspective (e.g. The Voluntary Guidelines to Support the Progressive Realization of the Right to Food adopted by the FAO Council in November 2004) and /or from the perspective of specific vulnerable groups like the elderly or orphans (e.g. Age and Security, Helpage International, 2004). Others focus on the link between social protection and pro-poor growth (e.g. From Safety Net to Springboard – Social Protection Strategy, World Bank 2001).

However, these groups all conclude that social cash transfers have a positive impact on development and are an underexploited tool for achieving rapid and cost-effective reductions of hunger and critical poverty. The transfers also complement other forms of assistance by providing basic social protection to households that cannot be reached by mainstream development and poverty reduction programs.

When parents have died due to AIDS or other causes grandparents often become the caregivers of the orphans.

Therefore, the next generation of Poverty Reduction Strategy Papers (PRSPs) and donor Country Assistance Plans should integrate social cash transfers for critically poor and labour-constrained households into their poverty reduction strategies.

Since the 1990s an increasing number of developing countries have launched different types of cash transfer schemes to provide basic social protection. In Latin America, countries like Brazil, Mexico, Honduras and Nicaragua administer large-scale conditional cash transfer programs. Countries in Asia (e.g. PR China, India, Bangladesh, Nepal) and in Africa (e.g. Republic of South Africa, Namibia, Botswana, Lesotho) have rapidly expanded their non-contributory pension schemes. African LDCs (e.g. Mozambique, Zambia and Ethiopia) have also started small-scale social assistance programs for their most destitute households.

In the past, development cooperation projects and programs have concentrated mainly on poor households with self-help potential or have opted to establish social insurance schemes or to provide humanitarian aid in emergency situations. It is only recently that some of the leading development organizations (e.g. World Bank, ILO and DFID) and certain international commissions (e.g. The Commission for Africa) have begun to emphasize the need for basic social protection. These organizations point out that demographic trends (the increasing share of old people), the impact of AIDS (the increasing number of generation gap households), and the weakening of traditional social safety nets, have increased the number of households which require social welfare interventions. They also argue that LDCs require international assistance in order to meet these needs.

The German Government's Action Plan 2015 lists social protection as one of the areas of development cooperation that contributes to achieving the MDGs (BMZ, 2001). A detailed strategy for promoting social security and social welfare for particularly needy groups is outlined in a position paper published by the Federal Ministry for Economic Cooperation and Development (BMZ, 2002).

2. Costs and Benefits of Existing Social Cash Transfer Programs

An analysis of studies of social cash transfer programs in developing countries reveals that their impact has been positive and that the costs are affordable. In many cases, there have been positive secondary effects over and above the primary goal of poverty reduction:

- **Effectiveness:** Social cash transfer programs reduce extreme poverty in an effective and broad-ranging way. A study on non-contributory pensions showed that in the absence of this social transfer income, poverty in households with older people would be 5.3 percentage points higher in Brazil and 1.9 percentage points higher in South Africa. It is important to note that the impact of these programs was greatest for extremely poor individuals. In the absence of a non-contributory pension, indigence would be 8.9 percentage points higher in Brazil and 2.3 percentage points higher in South Africa. Even when a program could not lift a household above the poverty line, it nevertheless reduced the depth of poverty and, therefore, it's worst effects. Without these programs, it is estimated that the poverty gap would be a third larger in Brazil, and two-thirds larger for South Africa (Barrientos et. al., 2003). Apart from the elderly, disabled persons, women and children benefit from non-contributory pensions.

- **Impact on individuals:** Monetary transfers to groups such as the elderly can enhance their social status within and outside the family. In particular, the transfers can bring them greater recognition, social inclusion and autonomy. Studies have shown that recipients of a non-contributory pension regard it as a contribution to family income and use it for the feeding and basic education of the children living in the household (Barrientos/DeJong, 2002; Devereux, 2001; Helpage International, 2004).

- **Impact on family and community level:** Social cash transfer programs can support overburdened family networks and communities. In particular, they can go a long way towards alleviating the consequences of AIDS. Households that only consist of old people, disabled persons and children, cannot survive without a supplement to their income. In Zambia, about 10% of households are in this position (MCDSS/ PWAS, 2003, National Household Survey). 60% of household members are children; most of whom are orphans. The large number of AIDS orphans cannot be reached individually but must be reached by supporting the households where they live. The most recent analysis of the situation in Zambia revealed that a third of all orphans live in households headed by elderly people (UNICEF, 2004). Basic social protection can also support elderly people who have no, or few, children. This is of relevance in countries like China, where demographic trends are eroding family networks.

- **Impact in terms of pro-poor growth:** Expenditure on basic social protection is an investment in long-term economic development. Households receiving grants use them for food and health care for the family, for the basic education of their children, and for investments in physical capital that can provide a future source of income. The additional purchasing power transferred to the beneficiaries has a multiplier effect and strengthens the local economy. In this way, basic social protection breaks the vicious circle of poverty and promotes pro-poor growth. In fact, there is empirical evidence that social cash transfers kick-start a virtuous cycle.

- **Impact on self-help capacities:** There is no evidence to suggest that social cash transfer programs in developing countries significantly lead to increased dependency, or that they reduce the incentive to work (Leisering et al., 2004). On the contrary, they can (and in most cases do) help recipients to help themselves. In the Zambain pilot, 28% of the transfers are spent on investments and the scheme has stopped the practice of selling assets for food.

- **Impact on MDGs:** Social cash transfer programs bring quick results. This is an aspect of particular importance with regard to achieving the Millennium Development Goals by 2015. For example, Brazil started cash transfer schemes in 1995. These schemes now reach 7 million households and are projected to cover 11 million (40 million people) by December 2006 (personal communication from A.C.C. Filho, Director, Ministry of Social Development, Brazil).

- **Financial viability:** Social cash transfer programs are cost-effective because the transfer costs (administration and logistics) are low and even small payments can have a substantial impact. The program in Brazil costs 1% of Gross Domestic Product, whereas the South African and Namibian systems cost 1.4% and 2% respectively. It would cost an annual 21 million US dollars to expand the GTZ-assisted pilot social cash transfer scheme in Zambia to cover 10% of all households in the country. Overall, this figure corresponds to 0.5% of Gross Domestic Product or 5% of the annual ODA inflow.

3. Preconditions for Establishing Social Cash Transfer Programs in Different Categories of Developing Countries

The probability that a developing country will successfully establish and expand social cash transfer programs depends on the three factors given below in order of importance:

- **Political will** in terms of the commitment of politically relevant groups (government, political parties, parliament, religious and traditional leaders, civil society) with regard to human rights issues in general and with particular regard to including the poorest of the poor (i.e. those who are unable to provide for themselves) within comprehensive social protection strategies,

- **Administrative capacity** to implement cost-effective broad-scale social cash transfer programs,

• **Financial resources** required to implement social cash transfer programs in a sustainable way.

In a few developing countries all of these preconditions are in place. However, in most countries one or more of these factors is lacking. The following paragraphs give examples of the extent to which the preconditions listed above are present in different countries and how this affects the chances of successfully providing basic social protection. Based on this analysis, the next chapter explores the role development cooperation can play in influencing some of these factors.

For countries like China, Brazil, Mexico and South Africa it is not too difficult to rapidly expand social cash transfer programs – even without any donor contributions. These countries possess the financial resources, the administrative capacity, and – most importantly – the political will to provide broad-scale basic social protection.

Countries that were part of the Soviet Union have inherited comprehensive basic social protection schemes. However, due to shrinking state budgets and the prevailing context of structural reform, these so-called transition countries have drastically downsized their basic social protection programs. They now face the task of reforming and rebuilding their social protection systems. Most have the political will and the administrative capacity but are limited by a scarcity of revenues. In order to provide appropriate basic social protection to their most vulnerable households, they require international co-funding – soft loans for the more prosperous transition countries and grants for the LDCs.

The biggest discrepancy between the need for basic social protection and the ability to provide it is found in most of the countries of sub-Saharan Africa. The impact of HIV/AIDS in this region has resulted in the highest relative number of orphans and households which have lost their breadwinners. Growing poverty, especially in rural areas, has also lead to the breakdown of traditional family and community-based informal social safety nets. In addition, structural adjustment has reduced the number of households with formal sector employment that is covered by social insurance and pension schemes. For all these reasons, countries in sub-Saharan Africa have a large and growing number of households that are unable to support themselves and are in urgent need of social welfare interventions.

At the same time, most countries in sub-Saharan Africa (with the exception of the Republic of South Africa, Namibia, Botswana, Lesotho, Mauritius and – in urban areas – Mozambique) lack effective basic social protection programs. They are LDCs characterized by a scarcity of public funds. Their administrative capacity is limited and has further been weakened by the combined impact of AIDS and structural adjustment. Most of their development and poverty reduction programs are donor-financed. As a result of their dependence on development aid, their political priorities are dominated by donor-driven concepts. In many African countries, donors are the essential "drivers of change" – or the main impediments – within basic social protection policy-making processes.

Critically poor households in the Southern Province of Zambia can afford only one meal per day.

In summary, the preconditions for providing basic social protection vary from country to country. Development cooperation that aims to assist developing countries in their efforts to expand basic social protection has to take these differences into account. Assistance strategies have to be based on country-specific analyses of the need for basic social protection, the nature of existing programs, and the preconditions for designing and implementing basic social protection strategies.

Critically poor households are not able to meet the basic needs of the children in their care.

In principle, all the essential questions – political will, administrative capacity and financial resources – can be raised by development cooperation. However, given scarce resources donors may give priority to assisting those countries where the need for basic social protection is most urgent and where there is a high probability that development cooperation will have a positive impact on the political will, administrative capacity and financial sustainability of a program.

4. The Role of Development Cooperation in Assisting Partner Countries to Implement Sustainable Social Cash Transfer Schemes

This chapter gives recommendations to experts and agencies in development cooperation on how to sensitize partner governments to basic social protection and to improve the implementation capacity and financial sustainability of social cash transfer programs. Part 2 documents how this is done in practice, using the example of a social cash transfer pilot in Zambia.

Policy Advice for the Integration of Basic Social Protection into Poverty Reduction Strategies

Bilateral and multilateral development agencies have a long tradition of advising developing country governments on economic and social development issues. In recent years these services have concentrated on poverty reduction strategy processes. Improving basic social protection or strengthening the political will to reach the poorest of the poor has not yet played an important role in the objectives and activities of policy advisors. The following paragraphs summarize where technical cooperation can contribute to institutionalizing basic social protection.

Advisors can contribute to poverty analysis designed to provide information about the causes and the degree of poverty experienced by different categories of poor households. Together with an analysis of the outreach and cost-effectiveness of existing social protection programs this information is required for policy decisions and for priority setting. The information has to be structured in such a way that policy makers are able to identify which categories of households most urgently require social policy interventions, and which share of these households requires transfers (the share of households with limited self-help potential). The findings should also outline how much it would cost to provide the most destitute households with cash transfers that will meet the basic needs or at least ensure their survival. To be able to provide this information, all large scale national household surveys and poverty assessments have to develop a separate category for critically poor households with limited potential for self-help. This has not been adequately done in the past and this is one of the reasons why the first generation PRSPs are blind to basic social protection issues.

On the basis of this information, policy advisors can contribute to discussions about integrating basic social protection into a comprehensive poverty reduction and social protection strategy. This can be done in the context of PRSPs or as part of the National Social Protection Strategy process initiated by the World Bank Human Development Network. In these discussions, European advisors should contribute experience from their social market economies and social assistance programs.

In addition to providing information and supporting concept development, social policy advisors can contribute to political processes in a number of ways. For example, they can organize fora in which representatives from government, members of parliament, civil society, the media and donors exchange views and form coalitions. They can also finance experience exchanges between experts from different countries and – most importantly – they can ensure that all stakeholders (the poor included) are able to participate in designing a basic social protection program. To be effective, social protection strategies should be articulated in an integrated manner and discussed with all relevant social players as reforms are an opportunity to rethink the country's social contract (ADB, 2001, p 21).

Capacity Building for Organizations Implementing Social Cash Transfer Programs

In order to be cost-effective, social cash transfer programs have to reach a large share of the poorest of the poor living in households with limited self-help capacity (effectiveness of horizontal targeting) and ensure that households that do not meet these criteria are excluded (vertical effectiveness of targeting). Eligibility criteria and procedures should be transparent and should respect the human dignity of the beneficiaries. To create ownership and avoid weakening traditional social safety nets, communities should be involved in the design, implementation and monitoring of transfer programs. The delivery of the transfers has to be timely and reliable. Cooperation with other social policy interventions and with education and health services has to be ensured. Administrative and logistical costs should be as low as possible, and any form of corruption and mismanagement has to be avoided. A monitoring system should provide timely information on the performance and impact of the program. The resulting information should be used as a basis for corrective action and a means of keeping stakeholders informed.

Ministries, departments or other organizations mandated to implement social cash transfer programs, often find it difficult to meet the performance standards listed above. Providing capacity building can help to overcome these problems. Assistance may be required for improving and expanding existing transfer programs (which in some cases predate independence and have not changed much since then) or for the introduction of new programs. However, capacity building has to take into account that organizational development involves dealing with resistance from those with vested interests in maintaining the status quo, as well as with overcoming long established bureaucratic habits and enhancing managerial competence. In other words, capacity building is a process that requires substantial commitment and time, and should be organized in a step-by-step process, starting with pilot activities that are gradually scaled up. Hasty country-wide implementation of social cash transfer programs in LDCs with weak administrative structures can lead to poor performance. This, in turn, can have a negative impact on the political support and financial sustainability of such programs.

Avoiding the cumbersome organizational development of government organizations by commissioning NGOs to implement social cash transfer programs is not recommended. NGOs are more flexible and management-oriented in comparison with government organizations. However, they usually work in an uncoordinated patchwork fashion (they do not cover every part of a country) and in many countries they incur higher costs than government organizations. In addition, NGOs often depend on short- and medium-term donor assistance and financing through a national government will be difficult to achieve on a sustainable basis. Responsibility for broad-scale social cash transfer programs lies squarely with the public sector. While NGOs may be commissioned to implement social cash transfers for a transitional period, this should only occur in emergencies or in countries where government structures are eroded.

Sustainable Financing for Basic Social Protection in LDCs

The case for state-managed basic social protection derives from the government's responsibility to protect, promote and guarantee the social, economic and cultural rights of it's citizens. Governments have to budget for social protection in the same way as they budget for health and education. However, government revenues of LDCs are insufficient to finance even the most essential public services. In many African countries about 50% of public spending is financed by ODA. To be able to finance social cash transfer programs, LDCs need international co-financing. In the past, aid procedures and concepts of development cooperation have made it difficult to use ODA to finance basic social protection in a sustainable manner. The recent changes in development concepts and cooperation procedures (summarized below) have reduced these impediments.

At a conceptual level, the governments of developing countries and development organizations have often been confronted with the apparent dilemma of having to choose between growth and social equity. In the past, social expenditure in order to realize economic, social and cultural human rights was seen as wasteful and detrimental to economic growth. However, since the Rome Declaration on Food Security and the launch of the Millennium Development Goals, a process of reconciling growth with equity has taken place. The World Development Report 2006 on Equity and Development will focus on this issue. The main message of the report is that achieving equity and economic prosperity are, in the long term, complementary objectives. Given that 60% of the members of vulnerable households are children, providing social protection to these groups is increasingly recognised as an investment in human capital and a key part of pro-poor growth strategies. In its new definition, social protection is seen as public interventions that assist individuals, households and communities to manage risk better and that provide support for the critically poor. It regards social protection interventions as investments rather than costs (World Bank, 2001).

With respect to cooperation procedures, it is clear that the traditional project approach in development cooperation did not prove flexible enough to provide effective co-financing for social protection schemes. The current shift to donor harmonization, program funding, basket funding and budget support opens up opportunities to assist poor countries in financing long-term social programs. While middle-income countries are able to expand their social protection programs using their own resources, low-income countries should make maximum use of these new opportunities. Technical assistance can help LDCs to access international funds from bi- and multilateral sources like: drafting applications to the Global Fund for AIDS, Tuberculosis and Malaria requesting support to finance cash transfers for AIDS affected households. At the same time, high-income countries should establish additional financing facilities which permit global co-financing of low-income countries' efforts to provide basic social protection for those who are unable to provide for themselves.

Part 2

From Theory to Practice – the Pilot Social Cash Transfer Scheme, Kalomo District, Zambia

1. Poverty and the Need for Basic Social Protection in Zambia

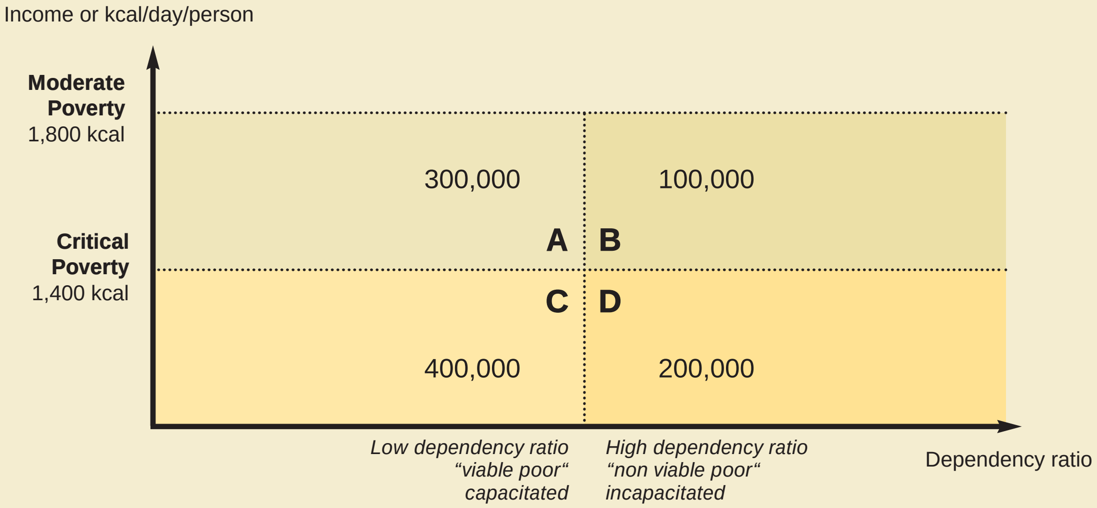
According to the Food and Agriculture Organization (FAO), 50 % of the Zambian population live below the food poverty line (FAO, 2004). In practice, this means that approximately 5.3 million people, living in around one million households, are food-poor. Food poverty refers to instances where an individual consumes on average less than the minimum energy requirement. In Zambia, the FAO identifies this as 1,800 kcal per person (adult equivalent) per day. When it comes to identifying the target groups for social protection initiatives, the consumption-based food poverty line is more appropriate than income-based measures of absolute poverty. There are a number of reasons for this: (i) actual food consumption is more closely related to a person's well-being than income; (ii) consumption is a better reflection of a household's ability to meet their basic needs; and (iii) consumption is more easily measured than income. With this in mind, the following report uses food poverty as a proximate poverty indicator.

In order to gain a better understanding of the nature and degree of vulnerability that is experienced by different poor households, it is important to break down the one million food poor households into more homogenous sub-groups. The criteria for distinguishing between these different groupings are the degree of poverty a household experiences, and the main causes for it's poverty. Unfortunately, the existing statistical data is not sufficiently disaggregated to permit this kind of analysis. The figures given below are approximate estimates based on a number of smaller surveys undertaken in 2003 by the Ministry of Community Development and Social Services (MCDSS) with assistance from GTZ.

When analysing the degree of hunger, it is useful to distinguish between moderate poverty (average energy consumption between 1,400 and 1,800 kcal per person per day) and critical poverty (average energy consumption less than 1,400 kcal). This difference is important, because individuals suffering extreme hunger over an extended period become physically weak, give up investing in their future (e.g. sending children to school), die from infections from which others can survive, and have a tendency to sell or consume their productive assets (e.g. livestock, tools, seed). For these reasons, critically poor people are slow to respond to programs, which demand a certain amount of effort and contributions (like credit and saving schemes). It is estimated that approximately 400,000 households (2 million people) in Zambia suffer from moderate food poverty and about 600,000 (3 million people) from critical poverty.

The causes of poverty can be broken down into conjunctural and structural factors. Of the one million households suffering from food poverty in Zambia, approximately 700,000 are poor because of conjunctural factors. Such poverty is caused by unemployment or underemployment and affects households with able-bodied adults who lack access to productive employment. These households are considered poor but viable; they will be able to escape from

Figure 1: Number of Households Suffering from Different Categories of Poverty in Zambia



The following figure summarizes the four categories of poverty described above:

The 300,000 households in category A are in a relatively favourable situation. They are moderately poor and have household members who are able to do productive work. They can respond to self-help projects and programs in order to overcome their poverty and hunger.

The 100,000 category B households are labour-constrained and are therefore unable to respond to labour-based interventions. However, in a very poor country like Zambia, these households are not eligible for social welfare interventions because they are only moderately poor. Households headed by a pensioner who only receives a small pension, or households regularly supported by the extended family, are typical of this group.

The 400,000 households in category C suffer from critical poverty even though they have household members who are able to perform productive work. Many small-scale farmers and fishermen fall into this category. To improve the economic situation of these households it is necessary to have targeted programs that are specifically tailored for vulnerable but viable households.

The 200,000 households in category D are in the most unfavourable situation. They suffer from critical poverty but are unable to respond to development projects or programs because they have no household members who are able to perform productive work. These households have a minimal or non-existent capacity to participate in self-help initiatives. This group – the 10% worst off households in Zambia – is the category that most urgently requires social protection or social welfare interventions. Children comprise 60% of the approximately one million Zambians living in Category D households.

In the process of economic development, which will be accompanied by increasing opportunities for employment and self-employment, a number of households in Category A and C will be able to escape from poverty. Category B and D households will, however, not automatically benefit from economic development, because they lack employable adults who can make use of such opportunities. Demographic trends (growing number of old people) and the impact of AIDS (more orphans and more generation gap households) will increase the number of incapacitated households considerably within the next 10 years. This has to be taken into account when designing the social protection strategy for Zambia.

poverty if they get access to credit, employment, or programs such as Food- or Cash-for-Work.

By contrast, the remaining 300,000 poor households are structurally poor. These households have few, or no able-bodied adult members, and their poverty is derived from this structural imbalance. In statistical terms, structurally poor households have a high dependency ratio, i.e. the number of dependent household members (those unable to perform productive work) is much greater than the number of members who are capable of performing productive work.

Table 1: Number and Structure of Beneficiary Households

Name of Area Coordinating Committee	Total no. of households	Total no. of households by gender of household head (HHH)		No. of households headed by elderly (over 64 years old) by gender of HHH		No. of AIDS-affected households		No. of household members including HHH by gender of HHH		No. of household members fit for work	No. of children (below 19 years old) by gender of child		Of them: no. of orphans by gender of child	
		M	F	M	F	Yes	Not sure	M	F		M	F	M	F
Choonga	169	73	96	36	38	105	64	263	307	10	176	162	147	134
Inkumbi	167	57	110	35	69	81	86	322	425	57	221	219	133	135
Siambala	201	65	136	34	86	92	109	352	393	26	266	197	186	129
Kanchele	185	42	143	22	82	98	87	247	361	7	191	195	136	135
Mukwela	95	45	50	26	21	47	48	151	185	10	107	107	71	80
Bekilumasi	210	67	145	31	71	127	83	371	479	13	255	266	206	193
Subtotal *(Proportion of grand total)*		**349** (34%)	**680** (66%)	**184** (33%)	**367** (67%)	**550** (54%)	**477** (46%)	**1,706** (44%)	**2,150** (56%)		**1,216** (51%)	**1,146** (49%)	**879** (52%)	**806** (48%)
Grand Total for Scheme *(Proportion of relevant total)*	**1,027** (100%)	**1,027** (100%)		**551** (54% off all households)		**1,027** (100%)		**3,856** (100%)		**123** (3% of all household members)	**2,362** (61% of all household members)		**1,685** (71% of all children, 44% of all household members)	

The table shows that 66% of the beneficiary households are female-headed, and 54% are elderly-headed. Overall, 54% of households are known to be affected by AIDS; the impact of HIV/AIDS on the remaining 46% of households is not known. A total of 61% of the household members are children, 71% of whom are orphans.

HIV/AIDS affects many of the households suffering from structural poverty. Often the breadwinners have died, leaving grandparents, who are too old to work, to care for orphans, who are too young to work. Structurally impoverished households such as these are considered non-viable because they are not able to respond to self-help programs or labour-based interventions.

2. History, Rationale and Objectives of the Pilot Scheme

The concept of the pilot scheme is based on applied research conducted in March/April 2003 by the GTZ-assisted Social Safety Net Project of the Ministry of Community Development and Social Services (MCDSS). The research covered the national, district, village and household levels, and involved primary data collection in 6 villages in the Choma District of the Southern Province. The main results of this work have been published in a report, which is available from the Social Safety Net Project (MCDSS/SSN, March 2003). Briefly summarised, the research highlights the following findings:

- 10% of all households urgently require social welfare interventions. They are critically poor (surviving on just one meal per day) and are also labour-constrained. Regardless of whether or not they are orphans, children living in these households are denied their very basic needs in terms of nutrition, medical services, clothing and basic education. AIDS is the main – but by no means only – factor causing this shortage of labour and accompanying destitution.

Beneficiaries of the Kalomo District Pilot Social Cash Transfer Scheme receive cash through saving accounts.

- Organizations at village, sub-district and district level are preoccupied with relief food operations, AIDS prevention, health care-related activities and development activities targeting 'capacitated' households. Assistance targeting labour-constrained households or other incapacitated households urgently requiring social welfare interventions is insignificant.

- The MCDSS Public Welfare Assistance Scheme (PWAS) has a framework of welfare assistance committees at district, sub-district and village levels. This organizational structure was established in most districts in order to distribute transfers in kind to needy households. Partly due to extreme under-funding, the PWAS has had no significant impact on the welfare of households urgently requiring social welfare interventions. Nevertheless, the PWAS seems to have the potential to implement a scheme targeting households that are critically poor and labour-constrained.

- Rather than receiving transfers in kind (as is the case in nearly all Zambian transfer programs) the critically poor households were in favour of cash transfers, which they could use flexibly and according to their own priorities. Research also revealed that the administrative and logistical costs of cash transfers would be substantially lower than those for transfers in kind (such as food aid). Given that the additional purchasing power of poor households would exert an economic "multiplier effect" within the local economy, it was concluded that social cash transfers would be the most effective tool to reduce suffering and to ensure the survival of the most needy and incapacitated households.

The Kalomo Pilot Social Cash Transfer Scheme was designed to verify whether a social cash transfer scheme would be the most cost-effective means of facilitating the economic empowerment of destitute and incapacitated households. Details of the project design are documented in two separate reports (MCDSS/SSN, August 2003; MCDSS/SSN, November 2003). The pilot scheme is implemented by PWAS and has been financed by GTZ for an initial period of two years. Overall, the scheme has the following core objectives:

- Reduce extreme poverty, hunger and starvation in the most destitute and incapacitated (non-viable) 10% of households in the pilot region (approximately 1,000 households),

- Focus mainly – but not exclusively – on elderly-headed households that care for orphans and other vulnerable children (OVC) because the breadwinners are chronically sick or because they have died due to HIV/AIDS or other factors,

- Generate information on the feasibility, costs and impacts of a Social Cash Transfer Scheme component within a Zambian Social Protection Strategy.

Based on a draft operations manual, the scheme started with a test phase, which ran from November 2003 to April 2004. In April, the test phase was evaluated and the manual was improved (MCDSS/SSN, May 2004). On the 4th of May 2004 the Honourable Minister of Community Development and Social Services, Marina Nsingo, officially launched the scheme.

From May to November 2004 the scheme was rolled out to cover the whole pilot area. This consists of two agricultural blocks (Kalomo Central and Kanchele) with 143 villages, 5 township sections, 11,349 households and a population of approx. 70,000. The scheme now includes six Area Coordinating Committees (ACCs), 36 Community Welfare Assistance Committees (CWACs), 19 Pay Points and the Kalomo Branch of the Finance Bank. At present, the scheme is paying monthly cash transfers to 1,027 households with a population of 3,856 persons. Information on the structure of the beneficiary households is given in Table 1.

3. Target Group and Level of Transfers

The scheme targets households rather than individuals. To qualify, a household must fulfil the following two criteria:

- Critically poor (e.g. chronic hunger; undernourished; begging; in danger of starvation),

- Incapacitated (e.g. bread-winners are sick or have died; household has no able-bodied person of a working age, is composed solely of old, very young, or sick individuals; high dependency ratio).

Beneficiary households without children receive monthly ZMK 30,000 (US$6) in cash. Households with children (75% of the beneficiary households) receive ZMK 40,000 (US$ 8). This sum is the equivalent of the average price of a 50kg bag of maize. According to FAO, the poorest 10% of rural households in Southern Province consume on average one meal a day (FAO, 2003). If the beneficiary households spend the transfer on maize they will be able to have a second meal a day. The transfer does not lift the beneficiary households out of poverty; it simply lifts households out of critical, life-threatening, poverty and into moderate poverty. However, the beneficiary households are free to spend the ZMK 30,000 in any way they want. The scheme applies no conditions on how to use the monthly transfers.

At the same time, the scheme assumes that the beneficiary households spend the money wisely. Poor people are not stupid or irresponsible; they are the best at judging the precariousness of their situation and they are acutely aware of what they need to survive. It is also assumed that the heads of the beneficiary households (mostly older women) spend most of the transfers on the orphans and other vulnerable children (OVC) living in their care. All of the aforementioned assumptions are closely monitored by the scheme and have so far proved to be realistic.

4. The Targeting, Approval and Payment Process

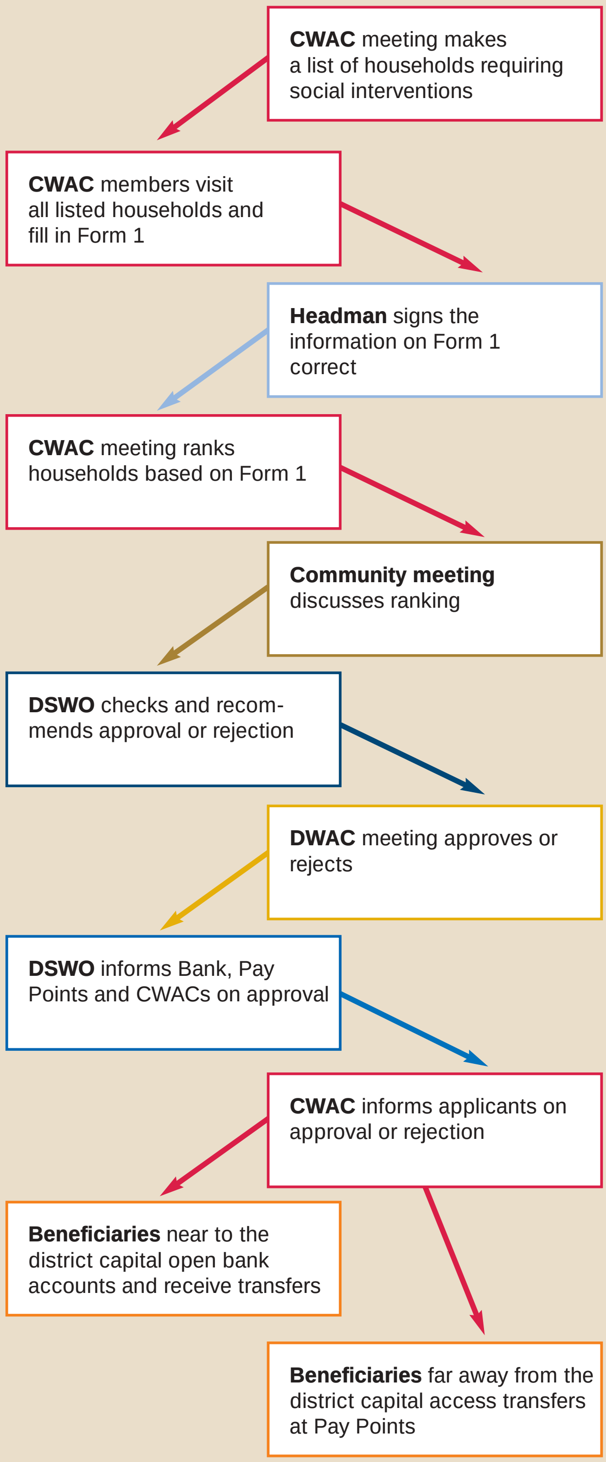
The targeting and approval process is done entirely through the Public Welfare Assistance Scheme (PWAS) structures. This system existed prior to the Social Cash Transfer Scheme and is essentially a hierarchical framework of voluntary committees. The Community Welfare Assistance Committees (CWACs) operate at the village-level and are responsible for an area covering 200 to 400 households. The members of the CWACs are elected or approved by the community and work together with other village-level committees who are operating within the social sector. Directly above the CWACs are the Area Coordinating Committees (ACCs). The ACCs coordinate between five and ten CWACs and are, in turn, coordinated by the District Welfare Assistance Committee (DWAC).

Each CWAC receives one day of preparatory training. This training is based on the Manual of Operations and is conducted by the District Social Welfare Officer (DSWO). The CWACs then use a multi-stage participatory process to identify the most needy and incapacitated 10% of the households living within their area. The first stage of this process involves interviewing all of the potential candidates for the scheme and documenting their household structure and degree of poverty on a standardised form. These households are then ranked according to the severity of their destitution: the poorest receives “rank 1”, the second poorest “rank 2” and so on. The finished ranking is then presented at a community meeting where it is discussed until a consensus is reached. On reaching a consensus, the CWACs send applications for the poorest 10% to the ACC, and these are passed on to the DSWO.

The DSWO scrutinises the applications submitted to him by the CWACs and presents them to the DWAC. The final decision concerning all applications is the responsibility of the DWAC.

Payments to approved beneficiary households are channelled through the Kalomo Branch of the Finance Bank. Beneficiaries living within 15 km of Kalomo Town open savings accounts, which are then used to receive payment transfers. For beneficiaries living further from town, 19 pay points have been established at rural health centres and schools. Standardised agreements signed by the DWAC chairperson and the pay point manager are used to formalise cooperation with these organizations. All of the financial transactions are closely monitored and controlled by the DSWO. A flow chart of the entire targeting, approval, and payment process, is given in Figure 2.

Figure 2:
Simplified Flow Chart of the Participatory Targeting, Approval, and Payment Process



5. Performance and Impact of the Scheme

In addition to the internal monitoring performed by the DSWO as part of his management tasks, the scheme also has an external Monitoring and Evaluation (M+E) system, which is implemented by an independent consultant. The M+E system has been designed to provide information on:

- Effectiveness of targeting
- Reliability, timeliness and costs of the scheme
- How households use the transfers, and which household members benefit
- Impact of the transfers on household-level welfare indicators (e.g. undernourishment, child mortality, school attendance and self-esteem)
- Impact on the community
- Other positive and negative impacts

The M+E system has already collected baseline data from beneficiary households. These data were collected immediately after approval but before beneficiaries had received the first transfer (MCDSS/GTZ, May 2005). From July 2005 onwards, quarterly monitoring reports will document the impact and effect of the transfers. Given that this

For this old lady and for the children in her care social assistance of ZMK 40,000 (US$ 8) per month is a significant contribution to meeting basic needs.

data is not available at this stage, the following paragraphs are based on internal monitoring and on spot-checks carried out during field visits.

Effectiveness of Targeting and Delivery

The vertical effectiveness of targeting is very high. The CWACs have been effective in accurately selecting households that are critically poor and incapacitated. Spot-checks have found very few cases where households did not fully meet the target-group criteria.

The horizontal effectiveness of targeting is not as good, and the scheme has not been able to approve all of the critically poor, incapacitated households living within the pilot area. This outcome is a consequence of the 10% limit on CWAC applications (the scheme only approves a maximum of 10% of all households living in the catchment area of a CWAC) rather than a failure on the part of the CWACs. In some villages more than 10% of the households fulfil the eligibility criteria. As a consequence, it is impossible to approve all of the potential applications. In these cases the CWACs try, where possible, to link excluded households to other social intervention programs.

For beneficiaries with bank accounts living within 15 km of Kalomo, the reliability and timeliness of the payments has been perfect. For those who live further out and rely on the pay points, achievement on these indicators has also been good once the pay points were established and began functioning. However, in some instances it took two to three months to establish the pay points and this caused a delay in the first payment to some of the beneficiaries.

The distance of up to 15 km is the biggest problem regarding the payment system. The need to travel so far to access the transfers is a particular concern for beneficiaries who are very old, handicapped or sick. The scheme has responded by establishing as many pay points as possible. But there is a limit to the extent to which these distances can be reduced in very sparsely populated rural areas (Kalomo District has a population density of less than 10 per square km). The scheme has also introduced a procedure whereby other household members – or a neighbour for beneficiaries living alone – can sign for and access the transfers on behalf of the household head.

Impact of the Transfers at the Target-Group Level

Heads of beneficiary households have understood the purpose of the transfers and make rational use of them e.g. buying basic necessities like food, soap and blankets. Some beneficiaries invest part of the transfers in seed, in getting a field ploughed by neighbours, or in buying a chicken or a goat for breeding and resale. A number of beneficiaries with savings accounts have also set aside part of their transfers so that they have something to fall-back on later on in the year when food becomes scarce. The beneficiary households report that the transfers have improved their well-being and have given them new hope. Headmen also report that the scheme has significantly reduced the incidence of begging.

The beneficiaries with bank accounts are not the only ones saving part of their transfers for future investments. A number of beneficiaries using the pay points have also started saving by using the traditional "Chilimba" system. According to this method, the beneficiaries form themselves into groups of 5; each time the beneficiaries collect their transfers, they all pay ZMK 5,000 to one member. The member in question then receives her own ZMK 30,000 plus an additional ZMK 20,000 from the other group members. The following month, another group member receives the pooled money which they can then use to make investments. So far, only women have been involved in the Chilimba system.

61% of the members of beneficiary households are children under 19 years of age (see Table 1). These children not only benefit from better nutrition; they are also able to buy basic school requirements such as books, pencils, clothing and soap. The headmasters of Mabuyu Basic School and of Matondo Community School (where beneficiaries within the school catchment areas have been receiving transfers for more than 9 months) report that the attendance and appearance of children from beneficiary households has improved substantially.

For beneficiaries and other stakeholders, the fact that the transfers are given in cash is one of the most important features of the scheme. Cash transfers are fungible; this enables beneficiaries to use them flexibly, and in accordance with their individual needs. In contrast to other assistance reaching the villages, the transfers are also regular and reliable. The systematic, transparent, and participatory way in which benefits are targeted and approved was another highly praised feature of the scheme.

Quantitative data on the impact of the scheme with regard to changes in the number of meals consumed, the nutritional status of children, school attendance and the health, the self-esteem, and the social position of different categories of household members differentiated by gender are collected by the M+E system but are not yet available.

The Role of the Community

Community members that are not beneficiaries – especially CWAC members, headmen and teachers – are welcoming and supportive of the scheme. More than 90% of the CWACs that have been integrated into the scheme have effectively performed all the functions that were laid down in the Manual of Operations and outlined in the preparatory training. The concept of voluntarism seems to be well established and accepted throughout the PWAS structures. This is remarkable considering that, although they are not destitute, most committee members are themselves living in absolute poverty. CWAC members take pride in their role and are satisfied with the impact of their work on the well-being of the beneficiary households.

The decision to integrate headmen into the CWAC training had clear positive effects. In general, most headmen play a constructive role in assisting the CWACs, especially when organising community meetings. Headmen are traditionally the first to be approached for help by destitute households. This is a reason why many headmen were interested in ensuring the success of the scheme. Moreover, the headmen also realised that the scheme resulted in a reduction in begging. In cases where headmen tried to exert undue influence, this was contained by other actors during the approval process.

6. Roles and Tasks of Cooperating Partners

The PWAS structures at national, provincial, district, sub-district and village levels implement the scheme. The CWACs, the ACCs and the DWAC work on a voluntary basis and are responsible for counselling the beneficiaries and effectively targeting the transfers. In order to facilitate the smooth functioning of these committees (46 in the pilot area) the DSWO and his staff (3 officers) have to provide capacity building for all of the voluntary PWAS groups. This assistance includes the provision of training, motivation, supervision and guidance to individual committees. The DSWO and his staff also supervise the delivery of the transfers through the Finance Bank and the 19 pay points. In addition they provide monthly internal monitoring reports on the performance of the scheme to the provincial and national level of PWAS.

The scheme demands much from the district level officers of the MCDSS in terms of the quality and quantity of their work. Mastering the additional tasks requires leadership-skills as well as good communication, administration and problem-solving abilities. The scheme requires higher standards of professional management and discipline in comparison to the workload normally carried out by district level MCDSS officers. In order to achieve these standards, it is necessary for the Provincial Social Welfare Officer (PSWO) to provide close supervision and guidance to the district-level officers. The MCDSS's efforts to strengthen the district offices are supplemented by capacity building assistance provided by GTZ. This assistance takes the form of day-to-day advisory services and training, as well as the provision of equipment, materials and monthly administrative budgets that are managed by the DSWO. The success of the scheme depends heavily on the performance of the district officers.

7. Financial Sustainability

Since the beginning of 2004, substantial progress has been made towards ensuring the financial sustainability of the scheme, both within and beyond the pilot area, once the two year pilot phase has ended:

The MCDSS and the African Development Bank (ADB) have planned a Zambia Child Welfare Project (ZCWP) for the period 2005 to 2009. The ZCWP will include an expansion of the Social Cash Transfer Scheme to 8 districts for a period of 5 years. The scheme will be financed by an ADB grant of US$ 4 million and a Government of the Republic of Zambia contribution of US$ 1 million. GTZ plans to contribute technical assistance as part of the ongoing project (MCDSS/SSN, December 2004), and the government has committed to continue funding after 2009. However, the Ministry of Finance expressed reservations to signing the loan agreement (only the cash transfer component is a grant), and the fate of the project – further delays, re-planning or cancellation – is not yet clear.

The rationale for integrating social cash transfers into a Child Welfare Project is based on the fact that the majority of the people living in the poorest 10% of households are children (see Table 1). Many of them are orphans. All of these children are deprived of their basic needs in terms of nutrition, clothing and shelter, basic education and access to health services. The most cost-effective way to improve the welfare of these children is to economically empower their caregivers. It is assumed that more than 50% of the transfers received by the heads of critically poor households will be spent on meeting the needs of the orphans and other vulnerable children living in these households.

DFID has signed a Program Partnership Agreement (PPA) with CARE International, which includes a social cash transfer component. Kazungula will be the first district where a PPA-financed social cash transfer scheme will be established. The PWAS will serve as the implementing structure for both the ZCWP and PPA-financed schemes.

The government of the Republic of Zambia has established a Social Protection Sector Advisory Group (SP/SAG), which is chaired by the Permanent Secretary of the MCDSS. The main task of SP/SAG is to integrate social protection into the 2006-2008 PRSP. Following completion of this task, the SP/SAG will be involved in coordinating and monitoring the social protection programs and will eventually advise the government on establishing the 2009-2011 PRSP. Importantly, the SP/SAG provides the institutional platform to successively integrate the social cash transfer scheme into the budget process, thus ensuring that the scheme is financially sustainable. There is evidence that policy makers and donor agencies have begun to recognise the important role that social transfers can play in coping with the impact of HIV/AIDS and successfully meeting the Millennium Development Goals (GRZ, 2005).

If the Social Cash Transfer Scheme is extended to all of the 200,000 destitute households in Zambia (category D households in Figure 1), the annual costs will amount to US$ 21 million – the equivalent of 5% of the annual foreign aid inflow, or 0.5% of the Zambian GDP. This shows social cash transfers are affordable – especially if the costs are shared between the development partners and the Government of the Republic of Zambia.

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List of Abbreviations

ACC	Area Coordinating Committee
ADB	African Development Bank
AIDS	Acquired Immune Deficiency Syndrome
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (German Federal Ministry for Economic Cooperation and Development)
CSO	Central Statistical Office
CWAC	Community Welfare Assistance Committee
DFID	UK Department for International Development
DSWO	District Social Welfare Officer
DWAC	District Welfare Assistance Committee
FAO	Food and Agriculture Organization
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH (German technical cooperation)
HIV	Human Immunodeficiency Virus
ILO	International Labour Organization
LDC	Least Developed Country
M+E	Monitoring and Evaluation
MCDSS	Ministry of Community Development and Social Services
MDGs	Millennium Development Goals
ODA	Official Development Aid
ODI	Overseas Development Institute
OVC	Orphans and Vulnerable Children
PPA	Program Partnership Agreement
PRSP	Poverty Reduction Strategy Paper
PSWO	Provincial Social Welfare Officer
PWAS	Public Welfare Assistance Scheme
SP/SAG	Social Protection Sector Advisory Group
UNICEF	United Nations Children’s Fund
ZCWP	Zambia Child Welfare Project
ZMK	Zambian Kwacha

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