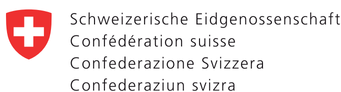
Project Briefing

No 28 • November 2009



Key points

- Lump sum transfers work better in post-emergency than development contexts, as long as markets remain functional
- Lump sums can work in development contexts, when complemented by small, regular transfers and advisory services
- Prospects for successful investment decrease when the size of the transfer is many times larger than annual income

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Cash transfers: lump sums

John Farrington

ODI has carried out a review of the performance of lump sum cash transfers, as part of a wider, three-year study on cash transfers funded by the Swiss Agency for Development Cooperation. Lump sums were found to perform better in post-emergency than development contexts, especially where beneficiaries were familiar with the assets that had to be replaced (fishing boats, livestock etc) and markets continued to function. In development contexts, appropriate complementary measures, such as the provision of land in housing projects and of small, time-bound stipends and veterinary services in livestock projects, resulted in moderate success. Phased, conditional payments were time-consuming but generally effective. Without these complementary actions, lump sums are more akin to investment funds than social transfers, tend to favour men over women, and allow those who invest early to take a lion's share of market opportunities. Successful management therefore tends to be high-cost, and has the added challenges of needing to limit the different types of corruption that lump sums attract, and discouraging the dissipation of the lump sum, or its re-direction to purposes other than those intended by the donor. Some experimentation will be required across differing contexts and different income categories, but there are arguments to suggest that the transfer should be limited to the equivalent of a few years' income.

OECD countries allocate an average of 8% of gross domestic product to their own social assistance programmes. In developing countries, the figure is rarely more than 1%. Cash transfers are increasingly regarded as successful in middle-income countries, such as Brazil, Mexico and South Africa, and the low-income countries of Sub-Saharan Africa and Asia are now considering them as a starting-point for integrated social protection systems.

Whether social transfers should be provided, in what form, and in what amount, has been the subject of much debate. There has been a growing commitment to needs- or rights-based social transfers but, in some quarters, the view persists that social transfers are a drain on public resources, and in all contexts, they compete with other public expenditure priorities. Debates concerning the form of transfer have focused on whether they should be in cash or in kind. Cash allows recipients to acquire the goods or services they need – preferences will vary among households and individuals – and cash lends itself to automated transfer where electronic technology is in place. It is likely to be less costly to transfer than goods. On the other hand, it may be more prone to various kinds of diversion than in-kind transfers, and the 'quality' of spending may vary by gender, with women more likely to spend on children's and household needs than men.

Against this background, cash transfers are becoming popular, and in some instances policy-makers are seeking guidance on where lump sum transfers may be more appropriate than small, regular transfers. Lump-sum transfers offer two distinct advantages: one is the ease of 'single shot' administration; the other is that they permit a rapid boost to livelihoods either in post-emergency or in developmental contexts, where, for instance, large assets such as a house, fishing boat, or livestock are to be acquired or replaced. However, they may represent a much larger sum than households are accustomed to handling, which (in the absence of adequate advisory and support services) may increase the risk that the lump sum is either dissipated or poorly invested. Also, income flows from lump sum investments may take time to come on-stream, which may mean that the lump sum is used for immediate consumption purposes rather than the intended investment.

Evidence

Part of the ODI study has focused on assessing how effective lump-sum transfers have been against three sets of questions:

- First, whether the money has been spent on the intended purpose and whether any other conditions have been adhered to;

- Second, whether lumpy transfers are more prone to corruption than small, regular transfers, and;
- Third, how programme design can address the potential drawbacks of lump sum provision; what kinds of support might be appropriate to households so that they can make best use of the transfer; what the optimum size of transfer for investment purposes might be; and whether support systems for the management of windfall gains in OECD countries – equivalent to a lump sum transfer in developing countries – offer any guidance.

These questions were addressed in two differing contexts, namely post-emergency and development contexts. In the former, the focus here is largely on asset replacement. Within development contexts, it is on the purchase of housing, and on the creation of self-employment and income generating opportunities, linked to the purchase of productive assets. The concern throughout was with transfers to individuals and not to communities or organisations.

Evidence was drawn from specially commissioned reviews of post-emergency and developmental use of lump-sum transfers, and from case-studies of a major housing programme in India, Indira Awaas Yojana (IAY), the DFID-supported Chars Livelihoods Programme in Bangladesh, and from a compensation programme for those who lost assets as a result of dam construction in Lesotho (the Lesotho Highlands Water Project).

Reaching definitive conclusions on the cost-effectiveness of lump-sum grants by comparison with others such as small, regular payments, or in-kind transfers, is not straightforward. There are rarely comparable experiences involving the three approaches with the same population and in the same contexts. Nor are baselines available against which change can be assessed. This paper, therefore, restricts itself to drawing inferences from comparisons of somewhat dissimilar case studies and, for this reason, the conclusions must be regarded as tentative.

Findings

Six main conclusions are drawn:

First, lump sum transfers work better in post-emergency than developmental contexts: their potential for rapid disbursement fits well into post-emergency requirements. Further, in these contexts the emphasis tends to be on the replacement of assets with which the recipients are familiar, so that there is a good ‘fit’ between actual and intended spending patterns, and to ensure that re-investment in productive assets has good prospects of generating acceptable economic returns.

Second, and mainly in a developmental context, the performance of assets in which recipients of lump sums have invested will be influenced by wider economic and social trends. Where markets for the products or services generated by the investment are small, where the economy is generally stagnant (whether through internal or external forces) and where illness and morbidity is high (for example in households with high HIV/AIDS prevalence), then it will be difficult for investments of any kind to generate acceptable returns. All of these conditions apply, for example, in the Lesotho case. Recipients facing some or all of these conditions may be better served by small, regular transfers in cash or in kind, in the form of social assistance, rather than lump sums intended for productive investment, which – at best –benefit only those few who are among the first to invest.

Third, economic conditions other than limited markets or limited investment opportunities are important. Funds may be dissipated and/or poorly invested where lump sums transferred for investment purposes lie outside recipients’ previous experience of resource management. Some experimentation will be required according to economic and social contexts and degree of poverty, but, as mentioned, there is a suggestion that transfers should not exceed a few years’ typical income for intended beneficiaries. In a different dimension, where investment is geared to certain kinds of asset (such as a cow in the Bangladesh case), there is much to be gained from supporting this lump-sum investment by small, regular transfers (of around $3 per month in this case) so that small consumption requirements can be met while awaiting more long-term benefits to come on-stream (the calf, or milk) without having to sell the main asset (the cow).

Fourth, while business planning, skills enhancement and training support for recipients of lump sums will, in most cases, be necessary (except where individuals have clear ideas on investment from exposure to other economic contexts – as was evident for a few in Lesotho), these inputs will not be sufficient for successful choice and implementation of investments.

Fifth, other conditions need to be in place in specific contexts. With the IAY in India, for instance, recipients are unlikely to use the funds to build houses, as intended, if they do not have secure tenure of housing plots. For many of the poor, ensuring such tenure will be a precondition for investment along the intended lines. Here, as elsewhere, the lump-sum grant is likely to be dissipated on non-intended expenditure if the amount provided falls below the sum needed to purchase the designated asset.

Sixth, the transfer of large, individual sums attracts two broad kinds of corruption: one is the petty bureaucratic off-take of informal commission, which affects both large and small transfers. The other is more overtly political in nature, and involves the directing of funds by politicians to ‘buy’ or reward support. Making transfers largely electronic (and therefore largely automatic) can help to reduce the former kind of corruption in the case of both large and small transfers, but not the latter.

Options for policy

In the development context, housing grants pose specific requirements of the kind outlined above: they must be large enough for purpose, and secure

access to building plots must be ensured. Generally, resource constraints mean that too few grants can be provided in relation to the need for improved housing, resulting in rationed access, and providing grants to only a few in this way may be socially divisive. For all of these reasons, housing programmes require particularly close monitoring, and the overall policy question is whether spreading the same total funds over a much larger number of recipients in the form of small, regular cash transfers would increase overall wellbeing by a greater amount.

In a developmental context, lump-sum transfers for purposes other than housing pose different challenges. Basically, two broad models suggest themselves: a closely-managed model of the Bangladesh Chars type has important dimensions of supervision (of the type of asset purchased – a cow in this case), of targeting (to poor female-headed households), of technical support (on husbandry and veterinary requirements), financial support, (a small monthly stipend is provided to prevent sale of the asset before milk and calves come on-stream to meet immediate consumption needs) and sequencing (the monthly stipend is phased out after 18 months, whereas charges for veterinary and related services are phased in). This is an approach that is thought through coherently and managed closely, ensuring high asset retention, and apparently sustainable income streams for women who, in many other contexts, would be judged incapable of productive economic activity. However, such an approach has very considerable management costs.

An alternative that can be managed less closely is simply to provide a lump sum and, through the provision of guidelines, business planning advice, training, and progress-dependent phased payments, attempt to ensure that it is spent broadly in the ways intended, and, that assets generate intended levels of returns. Although this is a less structured approach, even here considerable monitoring will be necessary: both individual recipients and the programme as a whole may need to adapt in the light of experience. The evidence suggests that, even where support, guidance and monitoring of these kinds are provided, the failure rate is likely to be high. There are three main reasons for this: first, the capacity to make and manage productive investments is not distributed evenly among the population; second, local markets may be limited, and returns to investment (after the initial few recipients have captured the market) may be low; and, third, the degree to which entrepreneurial skills can be taught is also limited. In addition, there appear to be gender effects: the evidence here suggests that women from poor households have been less comfortable with lump-sum grants than men. To improve the capacity of women to use such grants effectively would require long-term changes in gender relations, not only at the household level, but also in wider social and economic relations, and, while individual programmes may contribute to such changes, they are unlikely to achieve anything more than minor improvements.

It follows that a more cost effective alternative to an 'open to all' approach for funds of this kind is to target them towards those able to demonstrate entrepreneurial skills. This implies specific acknowledgement that these are, essentially, entrepreneurial start-up funds, that provision will be made on a selective basis, and that the exclusiveness (including gender exclusion) of the approach are a price worth paying for more efficient use of scarce funds. Where a more socially protecting than enterprise approach is preferred, policy-makers would be better advised to introduce or expand programmes involving small, regular cash transfers, rather than pursue lump-sum approaches.

Conclusions

Lump sum transfers realise much of their potential in post-emergency contexts: they can be disbursed rapidly, and, where markets still function, allow beneficiaries to replace lost assets quickly. In development contexts, they require careful management, including phased payments, conditional on spending criteria having been met in earlier tranches. Investment support and training are also useful, though there are aspects of entrepreneurship that cannot be taught. Other support requirements are context-specific: the provision of secure access to land for housing projects, and of veterinary services for livestock-based investments. Where the benefits from investment take time to come on-stream (as with e.g. milk production), small, regular stipends prevent sale of the major asset in order to meet ongoing consumption requirements. Finally, the prospects of successful investment are enhanced where the size of lump sum is not entirely beyond the grasp of beneficiaries – i.e. it bears some relation to annual income.

References and project information

References:

Farrington, J. (2009) 'Lump sum cash transfers in developmental and post-emergency contexts: how well have they performed?' ODI Research Report.

Project Information:

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

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ISSN 1756-7602