Role of cash transfers in pro-poor market development programs aimed at the ultra-poor

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This document summarizes an on-line discussion organized jointly by the SEEP Network's Poverty Outreach Working Group (POWG)[1] and the Market Access Facilitation Initiative (MaFI)[2] during June 2010. The focus of this discussion was on the role of cash and/or asset transfers in making markets work for the ultra-poor, those without any productive assets and chronically food insecure.

The discussion started from the premise that addressing systemic market constraints is a necessary but insufficient approach to improve the livelihoods of the ultra-poor. In addition to making markets work better for the ultra-poor, targeted asset and cash transfers can be an effective way to enable ultra-poor households to benefit from better functioning markets. Asset and cash transfers are a legitimate element of a 'systemic' intervention aimed at improving the livelihoods of the ultra-poor. Based on Trickle Up's graduation program pilot (sponsored by CGAP and Ford Foundation), discussion participants provide examples and guidelines on how best to implement targeted asset transfer interventions.

The following MaFI and POWG members actively contributed to the discussion: Jo Sanson (Trickle Up), Jason Wolfe (USAID), Luis E. (Lucho) Osorio-Cortes (Practical Action), Janet Heisey (Trickle Up), and Marcus Jenal (Intercooperation Bangladesh).

[1] The SEEP Network's Poverty Outreach Working Group (POWG) is a learning and knowledge exchange community led by SEEP members focusing on innovative approaches to reach very poor people with sustainable, demand-led microfinance and microenterprise development services. See http://seepcommunity.com/group/povertyoutreach

[2] The Market Facilitation Initiative (MaFI) is a joint effort of the SEEP Network and the Livelihoods Network, with the support of Practical Action. MaFI aims to assist practitioners working in Pro-Poor Market Development to move from market assessments and program design to implementation by advancing practical principles, techniques, and tools. See http://seepnetwork.org/Pages/MarketFacilitationInitiative.aspx

Targeted cash and asset transfers versus systemic market interventions?

This discussion followed a previous on-line discussion[3] organized by MaFI on whether systemic market interventions reach the ultra-poor (and assist them in gaining access to better income-generating opportunities) or can ultra-poor households improve economically only if they are the recipients of focused interventions that strengthen their livelihood assets directly. Both cash and asset transfers are examples of such direct interventions and have gained in importance as a weapon to fight extreme poverty and inequality. On the other hand, direct household or individual interventions, especially if they involve cash or asset transfers, are often frowned upon by pro-poor market development practitioners. The reasons are familiar: cash transfers are not sustainable, they create dependency, or they cannot be replicated at scale. At the end of that original discussion, Mike Albu (one of the discussants) concluded that direct asset transfers and systemic market interventions can go hand in hand. "*If little thought is given to the wider systemic constraints facing the extreme poor, asset transfers may change little and fail to have a lasting impact. But where good analysis of the market system has shown that asset poverty is a binding constraint and other interventions are in place to ensure the wider market system works well enough to maintain the gains that extremely poor beneficiaries achieve, then direct asset transfers may be a highly appropriate 'systemic' intervention*".

The ensuing discussion, summarized in this paper, shifted the focus to the role and anticipated outcomes of such cash or asset transfer programs, practical lessons learned from field applications of programs employing them, and specific recommendations on how such transfers can bring about systemic, large-scale and sustainable access to markets by the ultra poor.

How are (conditional) cash transfers and asset transfers different?

Before discussing their role and impact, participants in the discussion emphasized the critical distinction between cash transfers and asset transfers. *Cash* transfers, usually conditional cash transfers (CCT) are small sums of money given to poor households (often to the mother of those households) on the condition that recipients participate in certain social services. They are a social protection mechanism (often through large-scale government programs) aimed at strengthening the human capital of the extreme poor, improving their health, education and nutrition. Since cash is used as an incentive, such programs also contribute directly to increased financial assets (incomes) of beneficiaries. *Asset* transfers on the other hand are usually targeted grants in the form of productive assets to very poor people aimed at strengthening their income generating potential. Often these productive assets are not given in kind, but in the form of cash, with an explicit condition that the money is spent on productive assets. This illustrates the main distinction between cash and asset transfers that the former are meant for consumption and the latter for production purposes.

Referring to an **asset transfer** pilot program implemented by Trickle Up in India (one of several so-called graduation programs supported by CGAP and Ford Foundation), Jo Sanson (Trickle Up) emphasized that Trickle Up does not approach asset transfers as safety nets. In order to ensure that transferred assets are used productively, Trickle Up India builds in protection mechanisms, such as stipends to help

[3] This discussion was summarized in "Do systemic interventions reach the poorest of the poor" (Marcus Jenal) provide proper reference

participants survive through particularly difficult periods (such as lean seasons, pregnancy). Many livelihood activities initiated through asset transfers, such as animal husbandry and agriculture, require a long lead time before they yield profits, and the extreme poor usually do not have the luxury of putting aside activities that bring in income or food more immediately to invest in a longer term activity. Without such targeted stipends and other inputs (training, etc) participants may well be compelled to sell assets in order to feed their families, or to simply neglect their assets as they focus on meeting short term needs.

Box 1: Key terms	
Ultra-poor	The ultra-poor have no productive assets. They are chronically food-insecure, highly vulnerable to shocks and typically depend on occasional wage or domestic labor for cash income.
Systemic market interventions	Market interventions that address systemic constraints within an entire market system (as opposed to addressing singular market interactions), taking into account multiple interactions among diverse market players, standards, advocacy, market rules et cetera.
Social safety net	Non-contributory transfer programs seeking to prevent the poor or those vulnerable to shocks and poverty from falling below a certain poverty level. Safety net programs can be provided by the public sector (the State and aid donors) or by the private sector (NGOs, private firms, charities, and informal household transfers). Safety net transfers include cash transfers, food-based programs, in-kind transfers, conditional cash transfers, price subsidies, public works, etc.[4] Social safety nets do not typically include asset transfers.
Cash transfers	Provision of assistance in the form of cash to the poor or to those who face a probable risk of falling into poverty in the absence of the transfer. The main objective of these programs is to increase poor and vulnerable households' real income.[5]
Conditional cash transfers (CCT)	Conditional cash transfer programs transfer resources to poor households conditional on them taking active measures to build up the human capital of their children (enrolling their children in school, taking them for regular health care visits). CCT programs have two clear objectives. First, they seek to provide poor households with a minimum consumption floor. Second, in making transfers conditional, they seek to encourage the accumulation of human capital, and break a vicious cycle whereby poverty is transmitted across generations.[6]
Asset transfers	Transfers of productive assets. In contrast to cash transfers (that aim to increase a household's income directly), asset transfers aim to increase the household's asset base for future income generation.
Graduation program	The CGAP-Ford Foundation Graduation Program is a global effort to understand how safety nets, livelihoods, and microfinance can be sequenced to create pathways for the poorest to graduate out of extreme poverty, adapting a methodology used by BRAC in Bangladesh.[7]

[4] Grosh M, del Ninno C, & Tesliuc E (2008) 'For Protection and Promotion: The Design and Implementation of Effective Safety Nets'. Washington DC: The World Bank

[5] Fiszbein, A. and Schady, N. (2009) Conditional Cash Transfers: Reducing Present and Future Poverty World Bank Publications.

[6] Grosh M, del Ninno C, & Tesliuc E(2008) 'For Protection and Promotion: The Design and Implementation of Effective Safety Nets'. Washington DC: The World Bank

[7] http://www.cgap.org/p/site/c/template.rc/1.11.1925/ accessed November 13, 2010.

Using the large-scale *Bolsa Familia* program in Brazil as an example, Luis E. Osorio-Cortes (Practical Action) explained the critical factors contributing to the success of **conditional cash transfer** programs. In addition to cash transfer (in the form of a monthly allowance ranging between $10 to $70) to very poor families in return for keeping their children in the classroom and pay regular visits to health clinics, the Brazilian government introduced wide-ranging macro-economic reforms including privatization, reduction of trade barriers and market liberalization. Millions of Brazilians have since climbed out of poverty, owing -according to Osorio-Cortes- to a systemic approach (that in addition to macroeconomic reform also included improved health and education systems) accompanying a relatively low cost cash transfer program.

Marcus Jenal (Intercooperation Bangladesh) noted that the two previous examples (asset transfer and conditional cash transfer, respectively) are at completely different levels of intervention in terms of effectiveness, cost, sustainability and impact. Trickle Up's asset transfer program works on a micro level and there is nothing that suggests that it also targets the system around the direct beneficiaries. Furthermore, this intervention seems rather costly as measured in investment per beneficiary, especially taking into account the high level of additional support to the program grantees.

The *Bolsa Familia* program in Brazil, on the other hand, includes interventions at macro level targeted at the system (structural reforms) in addition to direct support to the poor (in the form of cash grants) to take advantage of these macroeconomic changes. Such interventions are fairly cheap and reach a massive scale, targeting 55m people in the case of Brazil. The interesting question to ask from both approaches then is which has the highest impact in the long term?

One has to keep in mind, however, that both types of programs have quite different outcome objectives. The conditional cash transfer program enables poor households to increase their income while improving nutrition, health and education of their children, whereas in Trickle Up's asset transfer program, such government social safety nets are an external variable (the ultra-poor might or might not enjoy them), but the main expected outcome is to jumpstart new income-generating activities by targeted ultra-poor households through productive asset transfers. In this case, cash stipends are also provided, as temporary income support to give these households some breathing space while building up their new microenterprises.

Janet Heisey (Trickle Up) remarked that Trickle Up's graduation program pilot in India helps build the social capital of ultra-poor program participants by linking them to existing safety net programs. One program objective is to improve health care practices through provision of basic information around health and hygiene and by introducing participants to local health care providers. Trickle Up's local partner organizations also help create linkages with social safety net programs (guaranteed work schemes; public distribution schemes, etc.), as appropriate. Finally, for livelihood-specific training such as farming, Trickle Up tries to engage government agricultural extension agents with the expectation that participants will continue to have access to these individuals, or at least have an understanding of how services like this can be accessed, after the program ends.

Guiding principles for targeted asset transfers

At this part of the discussion, participants expressed an interest to learn more about how to implement asset transfer programs most effectively. Jo Sanson (Trickle Up) started out by stating that asset transfer programs need to be preceded by an intensive planning process (that includes the whole household) and a market assessment for potential microenterprises. Starting a microenterprise is a

difficult process for the extreme poor targeted by Trickle Up in India, as they are used to sell low-skill labor for wages and have little experience with asset-based livelihood activities. They often find that the income-generating activity that they first identify is not the one they eventually choose, once they spend time thinking through the labor and other resource requirements, the timing of returns, risks, and so on. This planning process can take months and takes into account both the specific needs and capacities of the household as well as local market opportunities, which have been assessed in advance of these discussions.

Still according to Jo, the objective of asset transfers is to build sustainable livelihoods - all the transferred assets are productive assets (livestock, inputs for fisheries, agriculture, etc). Progress is measured not only by the profitability and sustainability of the livelihood activities resulting from those assets, but also the extent to which participants continue to reduce vulnerability to shocks by using profits (and loans from savings groups – see below) to successfully diversify into other activities.

As health expenses usually constitute a major area of "leakage" that can undermine the accumulation of productive assets among the ultra poor, Trickle Up also provides both direct support around preventative health, and link participants to public health services from which they are entitled to receive benefits but often do not due to lack of knowledge, confidence, and social capital to demand entitlements.

Specific technical knowledge (skills) related to each livelihood activity is another condition that needs to be in place. For this target group, who generally have no or very little formal education, "just in time" training methods generally work best, where local partner staff regularly visit each household to provide advice based on the stage of development of each activity. Being able to immediately put learning to use appears to be important for instilling knowledge, which is the pay-off for being fairly labor intensive.

Another crucial step is to set up self-help groups (SHG) by the program participants to instill an ethos of saving (however small amounts) and to assist in the livelihood planning process. SHG and program participants are selected through a process of participatory wealth ranking (PWR) and therefore groups are not formed spontaneously. Trickle Up's SHGs in India tend to have from 10 to 20 female only members. In addition to savings and loans, an important function of the SHGs is to build mutual support and social capital among program participants. Only ultra-poor women are selected and members of a given SHG are from a fairly homogenous socioeconomic background. As a result, the amount participants can and will save regular is similar. If there would be significant differences in savings capacity among SGH members, the cohesiveness of the group would be jeopardized and less successful members might leave the group or be excluded.

An Economic Strengthening Pathway

In a recent paper[8] Jason Wolfe (enterprise development advisor, USAID) describes an *Economic Strengthening Pathway* model, which presents a new way to link vulnerable households (who prioritize risk reduction above income maximization and allocate their scarce resources to maintain consumption) to growth-oriented strategies. "Reconciling the need for both risk-sensitive and growth-oriented

[8] Wolfe, J. (2009) Household Economic Strengthening in Tanzania: Technical Guidance for PEPFAR II Programming. http://www.scribd.com/doc/33448072/Household-Economic-Strengthening-in-Tanzania-Framework-for-PEPFAR-Programming

strategies is the center of the challenge to reduce household vulnerability and improve family resiliency. The overall program framework should view economic strengthening not as a single event – a household was vulnerable and now it is not – but as a pathway towards growth and decreasing vulnerability."

Trickle Up's graduation program pilot in India (sponsored by CGAP and Ford Foundation) aims to graduate ultra-poor households from cash transfers or food assistance (to stabilize consumption and meet basic needs) to a more growth-oriented strategy facilitated by a productive asset transfer, livelihood training and access to savings and loans.

Jason adds that the pathway concept embraces the dynamic nature of working with real people (as opposed to idealized economic models of unrealistically rational human behavior). On one hand, people change their perceptions and behaviors in response to interventions, and practitioners have to have some schema in mind for how they think their behavior will change so that interventions can grow with them. On the other hand, there are too many projects with utterly mismatched interventions for the households they're trying to benefit. For instance, many go straight for promoting high-return income-generating activities that actually expose households to greater risk in the short-term without ensuring that these same households have ways of managing and mitigating the risk.

Jo Sanson remarked that employing a pathway concept is crucial for determining the appropriateness of different interventions, as well as assessing effectiveness. Otherwise you can end up trying to compare apples and oranges, as the needs and capacities of target populations can differ so much, requiring quite different types of interventions, especially in the early stages. This is something of a struggle, as specifically targeting people who are towards the bottom of the economic strengthening pathway does usually require more resources with less dramatic results, at least in the short run - it's so much easier to demonstrate many of the quality of life type results that people like to see (and we all aim to achieve) when you're already starting at the "expand household income and consumption stage".

Janet Heisey added that careful monitoring is a key component to ensure successful outcomes. For instance, in its India graduation pilot Trickle Up needed to fine-tune and intensify the coaching by partner staff and to strengthen the livelihood planning component of the program. This strategy evolved as Trickle Up gained greater clarity about the nature of the population it serves and the objectives it seeks to achieve through the intervention.

Summary

Cash and asset transfers are proving to be effective ways to enable ultra-poor households to benefit from market opportunities and ascend the economic strengthening ladder. It is important, however, that they are implemented while simultaneously addressing wider systemic constraints that keep the ultra-poor from fully participating in markets.

Cash transfers and asset transfers are different interventions with different objectives. Cash transfers seek to increase a poor household's income (and consumption) directly, and if such transfers are conditional, they also encourage human capital (education, health, nutrition…) formation. Asset transfers, on the other hand, aim to increase the household's productive asset base enabling very poor households to generate more income themselves.

Trickle Up's experience in India with the CGAP/Ford Foundation graduation program has yielded important lessons on how to implement targeted asset transfer programs successfully. This includes an intensive planning process with participants and a thorough market assessment for potential

microenterprises. Health shocks are a major threat to accumulation of productive assets among the ultra poor, and Trickle Up provides both direct supports around preventative health, as well as link participants to public health services. Just-in-time skill training during regular house visits is also important to help mostly illiterate participants to gain the confidence and knowledge to conduct their new microenterprise activities. Lastly, participants form self-help groups (SHG) to instill an ethos of saving and to assist each other in continued livelihood planning.

Targeted asset transfers can be considered a part along an *Economic Strengthening Pathway*, allowing households to move from a risk-reducing consumption-maintaining stage to more growth-oriented livelihood strategies and reduced vulnerability. Employing a pathway concept is crucial for determining the appropriateness of different interventions, as well as assessing effectiveness, allowing practitioners to fine-tune their strategies as circumstances and behavior of program participants is better understood along the way.

Links and References

For more information on the CGAP/Ford Foundation Graduation Program, see
http://www.cgap.org/p/site/c/template.rc/1.11.1925/

For papers on impact of cash transfer programs:

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