COSTING UNCONDITIONAL CASH TRANSFERS

TECHNICAL BRIEF

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Introduction

Cash transfers are increasingly becoming an integral component of development programs in low and middle-income countries. The overwhelming and conclusive evidence accumulating for the positive effects of cash transfers on achieving multi-sectoral outcomes and building long-term resilience has facilitated this increased adoption. A 2016 UNICEF study reports that cash transfers in Sub-Saharan Africa now reach more than 50 million people (Handa et al., 2016). This expansion in social protection across Sub-Saharan Africa has come alongside a growing commitment to rights-based approaches that are more universal in nature – including unconditional cash transfers, programs with softened targeting, and universal basic income experiments. With this unprecedent rise in the use of cash transfers to empower households and build resilience, devising ways to maximize the cost-efficiency of program delivery is of paramount importance, both in developing and developed countries alike.

All cash transfer programs comprise a set of financial and socioeconomic costs. Financial costs encompass the quantifiable costs of cash transfers such as (i) the total cost of benefits (size of transfer × frequency of transfer × the number of beneficiaries), (ii) the administrative/operational costs of identifying beneficiaries and program delivery (delivery systems, verification of eligibility, etc.), and (iii) the cost of monitoring and evaluation.

Socioeconomic costs, often referred to as the indirect costs of cash transfers are more normative in nature and comprise private costs (opportunity costs, travel costs, etc.), social costs (erosion of community cohesion), psychosocial costs (stigma and loss of self-esteem), political costs (loss of political support), supply-side costs (e.g. ensuring adequate supply of schools and teachers to meet requirements of cash transfers conditioned on school attendance), and incentive-based costs (behavioral change to meet eligibility criteria) associated
with a program.¹ These normative costs make comprehensive costing of cash transfers particularly challenging.

This brief outlines an approach for estimating the financial costs of cash transfer programs. It discusses the ways in which various targeting approaches and design parameters can affect the financial costs of a program.² The brief also provides a framework for estimating the cost of scaling-up cash transfer programs by outlining the differences between costing pilots and full-scale programs.

Box 1: Socioeconomic Costs Associated with Cash Transfers (Devereux et al., 2015)

- **Private costs** to applicants – including transport, documentation, queuing time, and opportunity costs of applying for social transfers – can be prohibitively high and inadvertently exclude eligible poor individuals, or they can be set high deliberately, as a self-targeting device. Universal provision often minimises both private costs and the risks of exclusion, maximizing the net risk-adjusted benefits to the beneficiary.

- **Incentive costs** result from behavioral changes by applicants – e.g., in work effort or job-search, household composition, or migration – and these (dis)incentives vary by targeting mechanism because different criteria elicit varying behavioral responses to ensure eligibility. For example, a means test can create a poverty trap at the income threshold – since beneficiaries may prefer to limit their income to maintain their eligibility for the social protection benefits.

- **Social costs** exacerbate the divisions within communities between beneficiaries and the ineligible, eroding social capital and undermining social cohesion. While often intangible, these costs today warrant unprecedented scrutiny since fractured societies threaten human security. Increasingly, governments are turning towards universal approaches as much to build social solidarity as to effectively deliver social protection.

- **Psychosocial costs** include the intensification of the stigma that often accompanies poverty/HIV targeting, which can undermine personal self-esteem and exacerbate social exclusion. An increasing focus on developmental social protection requires more comprehensive approaches – that both tackle deprivation while broadly strengthening human capabilities. Universal provision provides the secure foundation of rights-based entitlement which complements the benefits with psycho-social resources, multiplying social protection’s developmental impacts.

- **Political costs** of targeting can be significant, given the evidence that a universal program generates broader political support than narrowly targeted benefits for the poor. Universal provision often generates a more generous net benefit for the poorest households by dramatically expanding the political constituency supporting the program, which can increase the program’s budget allocation more than universal provision dilutes the share going to the poorest households.

Analysis of socioeconomic (normative) costs is beyond the scope of this study, but policy considerations should hinge on full cost analysis of alternative approaches and their implications

¹ For more information, please refer to Devereux et al., 2015.
for the financial and socioeconomic costs of a program. This is particularly important when designing cash transfers for HIV-affected populations where the risk of stigmatization is high and social solidarity is integral to achieve developmental impact.

**Estimating the Financial Cost of Cash Transfers**

The financial costs of a cash transfer program can be best understood when split into four components, by phase:

1. Program Design and Set-up Costs
2. Targeting Costs
3. Operational Costs
4. Monitoring and Evaluation Costs

**PROGRAM DESIGN AND SET-UP COSTS**

The cost of program design and set-up include the resource costs of designing the interventions (e.g., experts, research, data analysis) and of setting up the logistical and administrative arrangements for program delivery. For cash transfer programs, this means the identification of transfer amounts, target groups, and targeting mechanisms. It also includes the costs of setting up payment systems to deliver the cash to beneficiaries, developing partnerships for delivery (e.g. negotiating banking fees if delivered into bank accounts), developing delivery systems (particularly, if the existing infrastructure is poor – setting up mobile cash points, developing last mile banking infrastructure, monitoring and evaluation (e.g. infrastructure for data collection, storage and management). The lack of necessary capacity to deliver the program as designed can impede program impact and hold back resources from those that most require it, so the bulk of the capacity building or training costs for program officials is also borne at this stage.

**TARGETING COSTS**

Cash transfer programming, particularly in developing countries, is heavily influenced by ideology and is typically constrained by financial resources and institutional capacity. Operating within these limitations, countries sometimes choose to deliver narrowly targeted programs such as those aimed at poor households with stringent criteria and narrow definitions of eligibility instead of more universal programs, i.e., those aimed at everyone within a designated social, geographical, demographic or other category. The monetary cost of targeting cash transfers includes the cost of information collection and data analysis, administrative costs of eligibility verification, capacity building costs for program officials and the cost of operating tools and mechanisms like MIS (management information systems) and Single Registries. Although the development of systems (MIS and single registries) improve targeting accuracy and reduce the cost per beneficiary over time, managing these databases can be extremely resource-intensive as they require continuous data collection and management.
OPERATIONAL COSTS

Operational costs for cash transfers include the cost of disbursement – delivering cash to the beneficiaries. The cost depends on the mode of delivery - if benefits are distributed physically at designated pay points, this component will include the cost of delivering cash to the pay point, the administrative and resource cost of managing/handling the cash, and the cost of disbursement. If the cash is digitally transferred – through bank accounts, mobile money or electronic cash cards, the operational costs will typically include the bank’s fee for transfers and the cost of managing the bank transfer databases. Digital cash transfers may incur high fixed costs of setting-up the necessary partnerships, however they can dramatically reduce operational costs at scale, increase efficiency and transparency, and minimize leakages while simultaneously building/enhancing national infrastructure.

MONITORING AND EVALUATION COSTS

Monitoring and evaluation are essential to protect program success. They enable policymakers to fine-tune program design to improve program efficiency and outcomes. The monitoring and evaluation costs include the cost of evaluation design, developing monitoring frameworks, data

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**Box 2: The Cost of Targeting**

Targeting always incurs significant costs in terms of administrative and private expenses. When programs are narrowly targeted, policymakers are faced with a trade-off between targeting accuracy and program costs. Targeting processes require people, skills, time and financial resources. They also require extensive information collection and data analysis (these vary by mechanism adopted) and individual screening for eligibility makes the process very resource intensive. Targeting mechanisms that improve accuracy are also often the most cumbersome and require more administrative resources in terms of time and money. Targeting also incurs substantial indirect costs (socioeconomic costs) resulting from incentive distortions and stigmatization, while challenging social cohesion and inducing political complications.

These costs can exacerbate the natural exclusion associated with the effort to direct usually small benefits to millions of hard-to-identify eligible clients. In addition to the fiscal burden of inaccurately including non-eligible households (inclusion errors), the governments face a heavier burden of mistakenly excluding eligible households (exclusion errors). When designing social protection for equity, this trade-off between inclusion and exclusion can cost a program its efficiency – when policymakers apply stringent and narrow eligibility criteria to minimize inclusion errors, the errors of exclusion may become high enough to negate the potential benefits of the intervention.

*There is growing consensus among experts and practitioners that making existing cash transfers programs sensitive to HIV-specific risks and needs – instead of targeting them specifically at HIV-affected individuals – presents a better opportunity to address HIV risk without compromising the social balance within affected communities.* Programs which are more universal in their approach, that respond to HIV-specific risks and vulnerabilities and cover a wider range of poor and vulnerable children regardless of their HIV status, have demonstrated a stronger effect on poverty reduction and ability to build HIV resilience across a larger segment of society.

Source: Samson, et al., 2006
collection and analysis. These costs can be lowered substantially when systems such as the monitoring information system (MIS) are developed during set-up of the program or combined with registration processes. Developing a centralized single registry can further reduce the cost of targeting and monitoring across multiple programs.

**Estimating the Cost of Cash Transfer Programs**

In costing cash transfer programs and identifying the optimal way to achieve intended outcomes, policymakers need to identify the precise intentions of a transfer. For instance, how important is the coverage of children or a reduction in child poverty and vulnerability; how important is it to reach female-headed households, etc. These goals will vary for each country and must be considered when designing cash transfer interventions to build the resilience of vulnerable populations against HIV risks.

Microsimulation offers an excellent opportunity to quantify and analyze the impact of alternative design parameters on achieving the intended outcomes. It allows policymakers not only to optimize program costs and outcomes but also to profile the potential beneficiaries and fine-tune the targeting mechanism considering household demographics and other context-specific vulnerabilities that improve targeting effectiveness. These measures have the potential to minimize program cost and increase the cost-efficiency of generating the intended outcomes.

**COSTING PILOTS AND NATIONALLY-SCALED PROGRAMS**

The costs of setting up a program and the costs of scaling a pilot are significantly different for two main reasons: (i) program costs are non-linear as they benefit from economies at scale, (ii) pilots tend to face more ‘teething problems.’ Pilot programs, as with any program in the initial stages, incur higher costs associated with setting up efficient delivery systems and building effective partnerships. Many such costs incurred for the pilot phase payoff as the program expands, i.e., the investments in systems during the initial stages generate returns as the program scales. Pilot programs also learn lessons such as identifying barriers to program take-up and bottlenecks in delivery. Identifying these in the pilot phase and using them to refine systems leads to greater efficiency when taking a program to scale. Evidence-building pilots provide an opportunity for policymakers to test and build effective and efficient implementation systems with a significantly lower investment than is required for a nationally scaled program.4

**COST EFFICIENCY OF CASH TRANSFER PROGRAMS**

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4 Please see Samson and Golchha (2019) *Costing Complex Cash Transfers: A Case Study of the Savings and Investment Linkages (SAIL) Program in South Africa* for a case study on costing a pilot and the cost of scale-up.
The cost efficiency of programs depends on how sensitive the program design is to contextual factors such as demographics and the national poverty profile; to what extent the program realizes economies of scale; whether national capacity is sufficient to deliver the program effectively and if the program benefits from shared systems such as MIS and single registries.

In ensuring a program’s cost efficiency based on the monetary aspects of program cost, policymakers may choose to vary either benefit value or the size of the beneficiary population (through alternative targeting approaches). However, the authors strongly recommend that any policy analysis also account for the normative costs to evaluate the total costs and benefits of alternative targeting approaches. Programs which are universal in their approach tend to cover a wider range of poor and vulnerable children and demonstrate a stronger effect on building resilience across a larger segment of society. Heavily targeted programs, on the other hand, not only have higher implementation costs but are associated with higher psychosocial and social costs and lack the community-wide economic and social strengthening outcomes of broader cash transfers.

That said, no one type of program will yield optimal results in all countries. For instance, where many target households live just above the poverty line, a poverty-targeted transfer will be less effective reaching targeted households than a universal transfer based on other demographic characteristics. For instance, if a cash transfer program aims to reach households with orphans, and a large proportion of these households live just above the poverty line, a poverty-targeted transfer will exclude these households by design. In such cases, a universal grant is likely to reach a larger share of target group households than a poverty-targeted transfer. Depending on demographics, a universal grant targeted at a non-orphan population such as female-headed households or households with young children may be more effective at reaching orphans than a poverty-targeted transfer. However, where poorer households have a significantly larger size that other potential target households, a poverty targeted transfer might generate better results by reaching a higher number of individuals at comparable cost.5 Likewise, transfers made digitally through mobile phones might generate substantial gains where mobile penetration is high and fail in countries where mobile penetration is low. Adequate understanding of the national context and systems and policy that is rooted in evidence are integral to achieving effective and efficient programming.

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5 Please see Samson and Golchha (2019) Leveraging Cash Transfers for Orphans and Vulnerable Children: What Works Best? for further discussion and illustration of how universally targeted program that are tailored based on national demographic characteristics can outperform poverty-targeted transfers.
Bibliography


Devereux, S. et al., n.d. *Cost, Affordability and Value of Social Transfers*, s.l.: RHVP.


