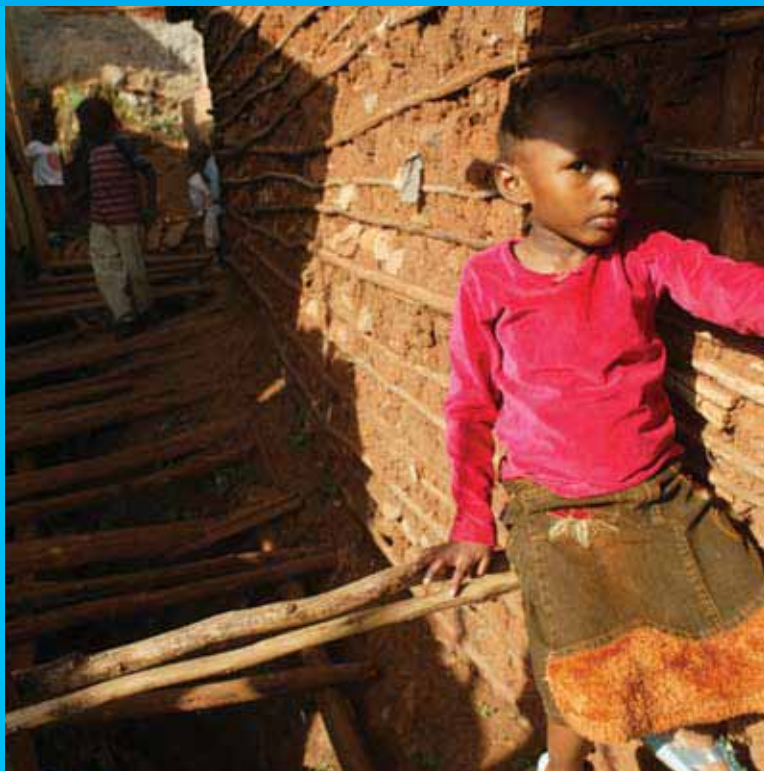


CAN THE KENYAN STATE PUT THE 300,000 MOST VULNERABLE CHILDREN IN THE COUNTRY ON A CASH TRANSFER PROGRAMME BY THE END OF 2010?

WORKING PAPER



DIVISION OF
POLICY AND PLANNING
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May 2007

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Executive Summary

The Republic of Kenya embarked on a cash transfer scheme for the most vulnerable children in 2004. Starting with 500 households in a first phase the programme is now expanding to 30,000 by the end of 2008 with a target of 300,000 by 2010. This paper reviews cash transfer programmes in Eastern and Southern Africa and particularly examines the question of why this intervention has not featured as a key element of development assistance in African countries since independence, describes lessons learned during the first phase of the scheme in Kenya and examines the affordability of reaching the 300,000 children by 2010 target versus alternatives such as a universal scheme for all children.

Key words: cash transfer programme, MDG 1, poverty reduction, poverty gap, targeting, capacity building, Kenya

Resumen Ejecutivo

En 2004, la República de Kenya inició un sistema de transferencia de efectivo para los niños más vulnerables. Durante su primera fase, el programa benefició a 500 hogares; a finales de 2008 se ampliará a 30.000 con el objetivo de alcanzar los 300.000 en 2010. Este documento examina los programas de transferencia de efectivo en África oriental y meridional y analiza especialmente la cuestión de por qué esta intervención no ha sido uno de los elementos más decisivos de la asistencia para el desarrollo en los países de África desde la independencia, describe las lecciones aprendidas durante la primera fase del sistema en Kenya y examina la viabilidad de llegar a los 300.000 niños en 2010 en comparación con otras alternativas como un sistema universal para todos los niños.

Palabras clave: programa de transferencia de efectivo, ODM 1, reducción de la pobreza, brecha de pobreza, selección, fomento de la capacidad, Kenya

Résumé Analytique

La République du Kenya s'est lancée en 2004 dans un plan de transfert de fonds pour les enfants les plus vulnérables. Ayant débuté avec 500 ménages, ce programme en aura atteint 30 000 à la fin de 2008 et vise le chiffre de 300 000 d'ici à 2010. Ce rapport examine les programmes de transfert de fonds en Afrique de l'Est et en Afrique australe, recherchant notamment des explications sur les raisons pour lesquelles cette intervention ne figure pas comme élément fondamental de l'aide au développement dans les pays africains depuis leur indépendance ; il décrit également les enseignements tirés de la première phase du programme au Kenya et examine la viabilité financière de l'objectif des 300 000 enfants d'ici à 2010 par rapport à d'autres alternatives, comme par exemple un régime universel pour tous les enfants.

Mots clés : programme de transfert de fonds, OMD 1, réduction de la pauvreté, écart de pauvreté, cibler, développement des capacités, Kenya.

CAN THE KENYAN STATE PUT THE 300,000 MOST VULNERABLE CHILDREN IN THE COUNTRY ON A CASH TRANSFER PROGRAMME BY THE END OF 2010?¹²

1. Introduction

For fifty years the rich countries of the world have been promoting the social and economic development of the poorer peoples of the world. To stimulate increased attention towards poverty reduction, UN member states agreed at the United Nations Millennium Summit in 2000 that added focus must be given to reducing poverty by half of 2000 levels by 2015 (Millennium Development Goal 1). The rights of all people as agreed by the member states of the United Nations are well articulated in the United Nations Declaration of Human Rights, and the covenants and conventions that elaborate upon the declaration. The following articles of the Universal Declaration of Human Rights (1948) justify why the state should become involved in ensuring social protection for its citizens:

Article 22: “Everyone as a member of society, has a right to social security, and is entitled to realisation of national effort and international cooperation and in accordance with the organisation and resources of each state, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality”

Article 25 “ Everyone has a right to a standard of living adequate for the health and well-being of himself and his family, including food, clothing, housing and medical care, and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age, or other lack of livelihood in circumstances beyond his control. Motherhood and childhood are entitled to special care and assistance.”

No UN member state has contradicted the notion that it is the duty of the state to work towards universal realisation of these rights. This paper describes actions the Republic of Kenya is taking to develop a cash transfer programme to the households of the most vulnerable children in Kenyan society as one way of acting upon articles 22 and 25 of the Universal Declaration of Human Rights. In reaching the 300,000 most vulnerable children by 2010 the Republic of Kenya must ensure that it can afford the costs of such a programme, will have to decide on a

¹ The Authors are grateful to Anna McCord, Cape Town University, who made extensive comments on a previous version of this paper and to Sudhanshu Handa, Regional Social Policy Adviser, UNICEF Eastern and Southern Africa, for assistance with the simulation exercise.

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number of programme design issues, such as targeting and conditionalities, and will have to build capacity to be able to service a programme of virtually nationwide reach.

2. An overview of cash transfers to vulnerable children in Africa

Transfers of resources from the better-off to the poorest members of society have been a feature of human organisation for millennia. Transfers have taken many forms, and examples include: a place to stay, food, clothing, a health service, a place in a school, and often cash. One can group elements of society that take responsibility for social protection (or welfare) into five³; markets, families, social networks, membership institutions, and public authorities. This paper concerns itself with the last category.

Operationally it is convenient to group social protection measures above the family level into three main elements⁴;

- social insurance, the organised pooling of resources so that individuals that suffer a permanent change in circumstances can draw on the pool (thus, social insurance is a form of social protection accessible only to those who have contributed);
- social assistance, otherwise known as the social wage at least for the in-kind elements, which includes all forms of non contributory transfers of resources including free education, free health care, school lunches and cash transfers to the poorest;
- enforcement of minimum standards in the workplace, such as minimum wages and safety regulations.

Arguably one can add microfinance to the list viz., the lending of small amounts of capital to poor people without collateral and at modest interest rates. These programmes, implemented together have the potential to result in social protection for the poorest members of society with the aim of lifting families out of an intergenerational cycle of poverty, and preventing others from falling into poverty.

Cash transfers to poor people, managed by public authorities and sourced from taxes were in place in several countries in Europe by the early years of the last century, where they complemented other forms of social assistance, such as free education and subsidised health care and housing. Cash transfers spread to the USA and Canada and to other parts of the world such as Australia and South Africa towards the middle of the last century. Thereafter the further spread in the use of cash transfers to the poor as a key tool of the state slowed greatly until ten years ago when a wave of new programmes started in several countries in Latin America.

³ De Neubourg, C. Modernising the social protection system – theoretical issues. Maastricht School of Governance lecture notes.

⁴ DfID reaching the very poorest team: Tackling chronic poverty; the role of social transfers, DfID policy paper, July 2006

There is near? universal acknowledgement that the use of cash transfers to the most vulnerable has been very successful and one of the most powerful actions a state can take to reduce levels of poverty where it has been implemented. Why therefore has progress in using this tool been so poor in Africa? A strong case can be made in ascribing this lack of uptake of state responsibilities to five? areas of concern.

1) The large-scale ad hoc support for social transfers by non state actors and by the international aid programmes of other states across Africa. These social transfers take a number of forms.

Free food distributions targeted towards poorer people are a popular form of resource transfer, driven in part by existence of food surpluses generated by agricultural subsidies in the US and European economies. Pressure has been growing for years to eliminate these subsidies and this has led to a decline in the overall amount of surpluses available. The reliance of African states on free food hand outs therefore is increasingly tenuous and is one good reason for countries to move faster with developing their own state managed social protection systems. This is an important issue in Kenya where a large school feeding programme for primary school children in arid and semi arid districts has been operating for over twenty years.

Large amounts of resources are channelled to poor people in Africa when humanitarian emergencies are declared. Again, the use of food surpluses feature as a key element of the resource transfer package, and most of the rest is in the form of other in kind contributions such as housing materials, medicines, mosquito nets, and hygiene and sanitation supplies. The absence? lack of cash as a key component of humanitarian assistance has been called into question for many years but continues to be a fact of virtually all humanitarian operations; of course in many emergency settings transfers of cash would not be useful since there is often little or even nothing to buy locally. Again, food and commodities distributions are an important feature of the social protection scene in Kenya where over the last decades drought or flood induced humanitarian emergency operations have occurred several times, and there is a trend for total resources disbursed to increase over time.

The large scale channelling of non cash commodities to poor people by civil society organisations in non emergency settings funded via a combination of private donations and contributions from bilateral aid programme budgets is also common. Often the state is only formally involved in these activities as a peripheral actor, leading to a dilution of state responsibility and accountability and contributing to the lack of capacity and impetus for states to develop comprehensive social protection programmes. Analysis of the total use of resources via this form of transfer have identified overhead costs ranging between 20-60 per cent of total budget. Again, this form of social protection features in a major way in Kenya which hosts thousands of civil society organisations channelling resources, many of which have been raised outside of the Kenyan borders, to poor people all over the country.

Combined these transfers from bi-lateral development programmes and civil society organisations to non state actors by-passing state involvement adds up to a formidable mosaic of ad hoc actions that in part goes to explaining why the Kenyan state has moved so slowly to take up the responsibilities it signed up for when it ratified the UN Covenant on Economic Social and Cultural Rights.

2) Concern in some quarters, notably western aid organisations and donors, around possible ‘bad’ choices that the poor may make in relation to how they spend cash transfers. These concerns have been undermined over the years through observations of what is done with cash transfers when they have been a component, usually of small ad hoc programmes. Nevertheless the issue is often raised when discussions around funding an expanded programme in Kenya are tabled among potential donors, whether policy makers in the state apparatus or among foreign supporters of development budgets.

3) Concern that households will become dependent on the cash transfer. These concerns can be dealt with in the course of programme design whereby a clear exit strategy is agreed upon for households enrolled in the programme. This could be enrolment for four years, for example, followed by re-evaluation of the circumstances of the household, or inclusion in the programme until graduation of the vulnerable child from primary school.

4) Affordability. When developing cash transfers as a part of a comprehensive social protection scheme key questions revolve around who qualifies for cash, who does not, and where do the cut-off points lie. These are key questions of policy that the Kenyan scheme reported on in this paper is grappling with as it matures and in face of the likelihood that it will survive to scale-up beyond the initial target of 300,000 enrollees

5) Fears about inflationary pressures. Macro economists discussing cash transfers as a form of social protection often bring in the theoretical concern that cash transfers will lead to price inflation. These concerns are usually balanced by the notion that introducing more cash into the economy via the hands of the very poorest will also stimulate the creation of service sector jobs which in turn can help to contribute to economic growth and tax revenues.

Giving money to the poorest people in Africa as a key action for meeting poverty reduction targets has, until recently, hardly featured in national poverty reduction strategies and papers. However, in recent years many have argued that it is a strange anomaly that such a key element in the repertoire of instruments widely used in developed countries to provide social protection is barely evident across Africa, a continent that has seen massive and long standing support from international partners for the improvement of social protection. Apart from in South Africa where cash transfers have been provided by the state for over 50 years and which since the late eighties have been extended to all people, they have only recently been introduced or are being piloted in other countries. Examples include transfers to poorest households (Lesotho, Malawi, Mozambique, Zambia, Zimbabwe), cash relief grants to food-insecure households (Ethiopia), child support grants (Ethiopia, Namibia, South Africa), cash transfers to the most vulnerable children (Kenya), child care grants focussing on orphans and other vulnerable children (Lesotho, Malawi, South Africa, Tanzania), disability grants (Lesotho, Namibia, South Africa), and non-contributory ‘social pensions’ (Botswana, Lesotho, Namibia, South Africa).

Three main types of cash transfers can be used to tackle childhood poverty: a uniform benefit paid to the household for every child in the household; a household income supplement, paying a fraction of the difference between household income and the poverty line; and a minimum

guaranteed income, which supplements income up to a given level⁵. The effectiveness of any kind of cash transfer programme in poverty reduction can be assessed by at least two measures: the extent to which the programme reaches the poor (vertical efficiency) and the proportion of the poor who are covered by the programme (horizontal efficiency)⁶.

Barrientos and DeJong⁷ provided strong evidence from 15 countries around the world that transfers to households that qualify for transfer because they are considered among the most vulnerable and house children result in a reduction in rates of childhood poverty in developing countries. Cash transfer programmes in Mexico, Nicaragua and Bangladesh, for example, have reduced the incidence of illness among 0-5 year olds, reduced rates of stunting, and increased school enrolment and attendance⁸. There is an increasing realisation that provision of cash supports families and individuals to realise their rights to access health, education and other basic services, especially where these require cash inputs to cover user fees at the point of delivery. Transfers may also be a mechanism through which families can be encouraged to foster and adopt children and there is evidence that families are willing to foster children if they receive financial or other support⁹.

Save the Children, HelpAge International and the Institute of Development Studies were commissioned by UNICEF to undertake a qualitative review of unconditional cash transfers to households in 15 countries of eastern and southern Africa in 2005¹⁰. In addition to brief reviews of 15 programmes that deliver unconditional cash transfers on a regular basis to a defined group, a more detailed analysis was provided on programmes from Ethiopia, Lesotho, Mozambique and Zambia. In 2006, Devereux conducted a broader review of social protection measures in southern Africa¹¹. The following paragraphs summarise the relevant key findings of these reviews.

State-funded social security is better institutionalised in the wealthier countries of southern Africa than in the poorer countries of east Africa. Social assistance is increasingly being viewed as a 'right of citizenship' in many African countries. Cash transfer programmes implemented by governments tend to operate at national level, while those sponsored by donors through NGOs rather than the state are usually small scale and benefit fewer people living in a defined area. There appears to be a trade-off between the increased involvement of recipients in design, targeting and monitoring, and improved community mobilisation and ownership exhibited by donor and NGO-run programmes compared with the wider scale, more 'top-down' government schemes.

⁵ Barrientos, A., and DeJong, J., (2006). Child Poverty and Cash Transfers. IDS In Focus, Social Protection. Issue 1. May 2006.

⁶ Barrientos, A., and DeJong, J., (2004). Cash transfers and child poverty, CHIP Report 4.

⁷ Barrientos, A., and DeJong, J., (2004). *ibid*

⁸ Marcus, R. (2004). The role of cash transfers in tackling childhood poverty, CHIP Policy Briefing Paper 2

⁹ Subbarao, K. & Coury, D. (2003). Orphans in Sub-Saharan Countries: A Framework for Public Action.

¹⁰ Save the Children UK, HelpAge International and Institute of Development Studies (2005). Making cash count. Lessons from cash transfer schemes in east and southern Africa for supporting the most vulnerable children and households.

¹¹ Devereux, S. (2006). Social protection mechanisms in southern Africa. Regional Hunger and Vulnerability Programme. Institute of Development Studies

Of the unconditional cash schemes in operation in eastern and southern Africa, relatively few are child-oriented, with participation limited to households with children. Examples include the child support, foster care and care dependency grants in South Africa; the Kenya cash subsidy for vulnerable children; and transfers to former child soldiers in Burundi. In some cases, households qualifying for a transfer by other criteria are eligible for a higher level of transfer if they have children (e.g. Mozambique, Zambia).

The impact of cash transfers on poverty among children depends on the resource allocation decisions of the household. Knowledge of intra-household resource allocation is limited because of the great variation in household arrangements and social and cultural norms¹². Evidence from the four African case studies reviewed in the “Making Cash Count” study and other reviews strongly suggests that a scheme does not have to specifically target children in order to reach them and to have positive impacts. Whatever the criteria for accessing the grant, be it old age, foster care, or other non-child specific grants, the resources are put towards household-wide welfare, which also enhances child welfare. Any kind of cash transfer programme aimed at poor households with children is likely to have an effect on the extent to which the children in those households can realise their rights. For example, the old age grant in South Africa had a major impact on child poverty although it is not specifically targeted at children¹³. More rigorous evaluations and more quantification and analysis of impact are required as the schemes reviewed in the “making Cash Count” mature. Nevertheless, the case studies support the results of other research that highlights the positive impact of unconditional transfers, especially social pensions, on tackling child poverty^{14 15}.

Concerns that cash transfers might be inflationary are not supported by evidence in eastern and southern Africa (e.g. unconditional cash transfers in emergencies in Malawi¹⁶), probably because most programmes transfer only small amounts of cash to limited numbers of people. The purchasing power of cash transferred varies both temporally (e.g. season to season) and geographically (between rural and urban areas)¹⁷. This variability in purchasing power, both within and across programmes means that the impact on household well-being may range from negligible to highly significant. Thus, some argue the case for index-linking the value of cash transfers to food price movements, and for setting the transfer equivalent to the cost of a minimum basket of food and non-food items, adjusted for household size, although in practise this will increase the complexities and hence the overhead administrative costs.

Evidence suggests that cash received is put to a wide range of uses, from purchases of food, groceries, clothes and seeds to meeting the costs of services such as education and health. Much of this spending benefits children, both directly and indirectly, and this also applies to pensions targeted at older people, since grandparents are increasingly caring for orphans and other vulnerable children. The first priority in terms of spending cash transfers is usually on meeting

¹² Barrientos, A., and DeJong, J., (2004).

¹³ Duflo, E. (2000). Child Health and Household Resources in South Africa: Evidence from the Old Age Pension Programme. *The American Economic Review*. 2000

¹⁴ Barrientos, A., and DeJong, J., (2004). *ibid*.

¹⁵ Devereux, S. (2001). Social pensions in Namibia and South Africa, IDS Discussion Paper 379

¹⁶ Devereux, S. (2006).

¹⁷ Devereux, S. (2006). *ibid*

immediate consumption needs, especially food, but also groceries and small household items^{18, 19}. Some transfer income is typically spent on service-related costs, including health and education. There is little evidence to support the assumption that cash will be abused by adults, rather than spent on household welfare and no evidence of this kind of abuse of cash transfers was observed in any of the “Making Cash Count” case studies. Evidence from the first phase of the Kenya programme (not yet published), backs up the evidence from other countries. In Kenya, even though the value of the transfer was relatively small on a monthly basis, due to programmatic cash flow problems leading to combined, larger disbursements several months apart, several households were able to invest these somewhat larger sums in small businesses such as second hand clothes retailing, chicken farming and charcoal selling. The rest of the income was spent on food, other domestic requirements such as soap and fuel and on school fees.

As regards the issue of creating 'dependency', two features of cash transfer programmes minimise this risk: firstly, most programmes selectively target groups who are vulnerable either because they are economically inactive and/or they are unable to engage in formal or informal sector work (due to elevated levels of unemployment or the collapse of their livelihoods), and therefore are already dependent. Secondly, in most programmes the value of the cash transfer is too small to meet all of the household's basic consumption needs. Thirdly, a basic requirement of a well designed programme is a clear exit as well as an enrolment strategy. Extensive research in South Africa on the social pension suggests that social protection cash transfers do not reduce income from other 'informal' transfers, e.g. from family members, etc²⁰ -.

Resource constraints imply that rationing of access to social transfer interventions through the targeting of the neediest may be desirable. Targeting at first glance seems sensible and fair but even if perfectly executed to include only the poorest, necessitates the exclusion of a proportion of individuals or households, some of whom may be only slightly less needy than those selected to receive a transfer. This is especially problematic where poverty rates are high and tax collection is low as in much of east and southern Africa. Means-testing (assessing individual wealth status) is one mechanism for selecting recipients in a targeted programme, but this can be expensive, can be resented, can stigmatise recipients, is administratively burdensome, and is prone to corruption²¹.

The Kenya programme is focussing on a three step targeting mechanism whereby the local level children's areas advisory committee makes a first selection based on a cap on numbers determined by budgetary availability and the criteria for selection; the criteria include selected households must be universally acknowledged to be the poorest households in the community; households that do not have able bodied persons of working age within; households particularly badly affected by HIV/AIDS; the presence of disabled children; the household is not receiving significant in-kind support from one of the many existing programmes managed through civil society. The second phase consists of a computerised checking of the first selection to ensure that the criteria have been correctly applied and met, and the third phase is a public discussion to

¹⁸Save the Children UK, HelpAge International and Institute of Development Studies (2005).

¹⁹ Devereux, S. (2006).

²⁰ Lund, F. (2002), 'Crowding in' care, security and micro-enterprise formation: Revisiting the role of the State in poverty reduction, and in development. *Journal of International Development*, 14 (6).

²¹ Marcus, R. (2004). The role of cash transfers in tackling childhood poverty, CHIP Policy Briefing Paper 2

finalise the list, at which certain households can be removed from the preliminary list and others added, following public discussion and agreement.

In contrast, a universal transfer programme, reaching an easily identifiable vulnerable group (such as older people or young children), has clear advantages in terms of coverage, administrative simplicity and acceptance, but will be more expensive. One way of addressing this advocated by Sadoulet and de Janvry²² is to adjust the amount of assistance to the level of perceived need (instead of using uniform transfers), but this is likely to be extremely difficult to implement in much of Africa due to information and capacity constraints. Another way of managing a universal grant is to claw back the grant in the better off households through income taxation.

Government capacity to run national programmes is often limited, and there are real challenges in strengthening and sustaining this capacity. Many government-run cash transfer programmes suffer from being institutionally located in weaker government ministries and departments. Since one objective of cash transfer programmes is to maximise transfers to cash recipients, managers often face pressure to minimise ‘overheads’, by keeping operating costs as low as possible, but this can lead to insufficient financial control and monitoring and can result in corruption. The delivery and handling of cash transfers to large numbers of rural residents in countries where financial services are not well developed also presents significant challenges. Regular transfers cost much more than one-off payments, so issues of affordability and cost-effectiveness become important considerations. Evidence from Malawi²³ suggests that cash and in-kind transfers have the lowest delivery costs, with around 70 per cent of the total cost of the project reaching participants. By contrast, vouchers have high delivery costs with sometimes 40 per cent of total programme costs going on administration.

Discussions on the design of cash transfer programmes in Africa have recently focused on the question of imposing conditionalities on those qualifying for transfers. Cash transfers that are conditional, for example, on school attendance or taking young children for regular health checks have the potential to both enhance children's development and also reduce income poverty. Many of the established programmes in the Caribbean and South America impose such conditionalities on recipients²⁴. In Jamaica, for example, families with children enrolled in the cash transfer programme receive cash and social assistance conditional on regular school attendance and preventive visits to health centres. After just one year, an evaluation revealed that the programme had a positive impact on school attendance and preventive health care usage by children. For example, participants’ school attendance increased from 11.1% to 45.5% and when asked about reasons for increasing school attendance relative to previous years, “trying to comply with PATH requirement” was cited 74% of the time^{25,26}. However, it is not clear in the

²² Sadoulet E. & de Janvry, A. (2002). *Alternative Targeting and Calibrating Schemes for Educational Grants Programs: lessons from PROGRESA*. University of California.

²³ Nyasulu, G. & Kuyeli, J. (2002). *Dedza Safety Nets Pilot Project: learning lessons about direct welfare transfers for Malawi’s National Safety Nets Strategy*. Concern Universal.

²⁴ Barrientos, A., and DeJong, J., (2004).

²⁵ Levy, D. & Ohls, J. (2006). *Findings from the Impact Evaluation of Jamaica’s PATH Programme*

²⁶ Key informant interview with Mrs. Ridsen, Director, PATH, Ministry of Labour & Social Security, August 2006

literature whether it is the effect of the cash transfer, or the conditionality itself which is leading to the increased school or clinic attendance.

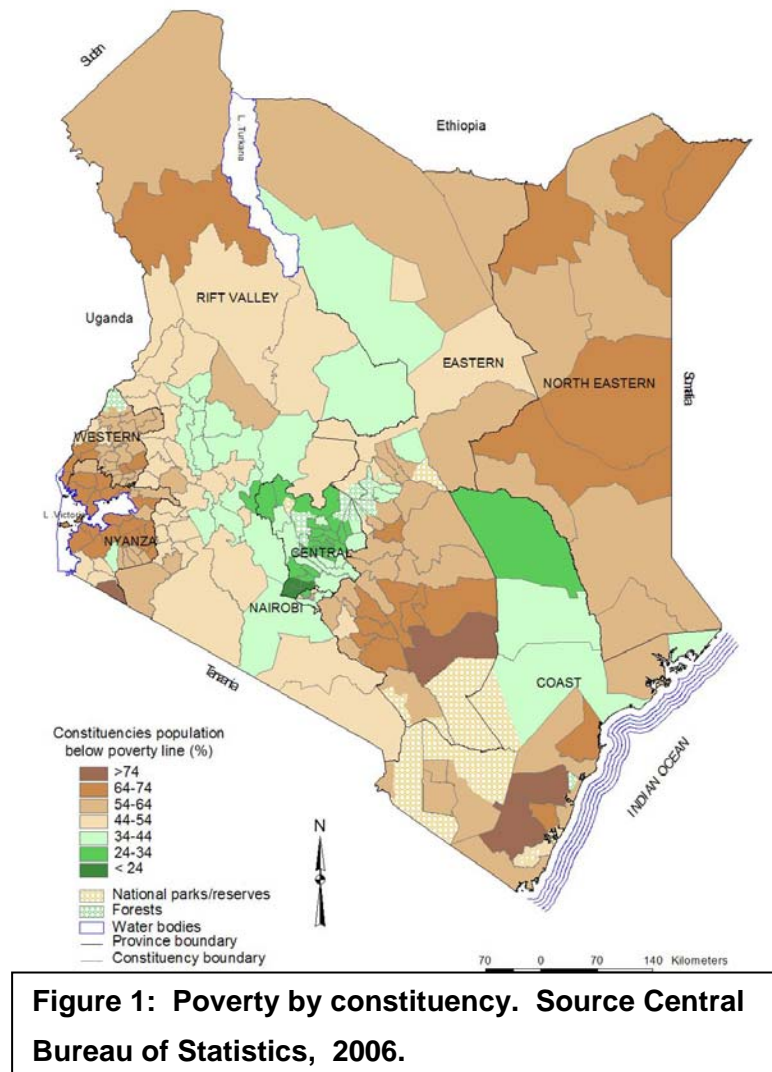
Regarding imposing conditionalities in Africa, some argue that the Latin American and Caribbean experience cannot directly serve as a blueprint for low-income African countries²⁷. In part the argument cites supply-side constraints, especially in health and education infrastructures. Supply-side deficits are especially significant in rural areas with poor access to services, the transport infrastructure is deficient, basic drugs and other material resources are in short supply and levels of teacher and health personnel absenteeism are high. Additionally, Schubert & Slater (2006) argue that implementation capacity constraints, cost-benefit considerations and differences in socio-cultural and political conditions have to be carefully considered. For example, investing in and upgrading the accessibility and quality of schools and clinics in many areas may be an essential prerequisite prior to making it compulsory for poor people to use these services in order to access cash transfers. The literature however does not reveal any cash transfer programme in the world where significant numbers of qualifying families have been penalized for not using a service due to lack of availability. For example the Bolsa Escola programme in Brazil does not actively apply the official education conditionality.²⁸ In Kenya we have heard the argument that it is difficult for the government to argue against conditionalities such as requiring a birth certificate or requiring participation in primary education since Kenyan law stipulates that these are legal requirements. So a key issue is how the conditional elements are applied and what the cost of the application is.

A key consideration with respect to conditions versus no conditions is the extra cost of maintaining a management information system that requires a large amount of data in the first instance to help decide whether a family is eligible or not, and then to monitor compliance with any conditionalities that the authorities wish to implement. The case against conditionalities is that the extra cost of the management information system is not worth it. Savings from forgoing the system could be disbursed to more poor people. The case for the management information systems is that they improve the efficiency of targeting and improve the uptake of social services to such an extent, that it is worth maintaining them. For example, information from enrolment in phase two of the Kenya programme reveals that forty per cent of families listed by the children's area advisory committee in phase one of the three step enrolment process, do not meet the criteria for inclusion.

²⁷ Schubert, B. & Slater, R. (2006). Social Cash Transfers in Low-Income African Countries: Conditional or Unconditional? *Development Policy Review*, 2006, 24 (5): 571-578

²⁸ Da Silva and Silva, The scholarship family program: a national programme to universalise income transfer to all poor families in Brazil (ref?).

Problem Identification



Kenya is a country of 34 million people, around half of whom are under eighteen. Fifteen million Kenyans are defined as ultra poor, meaning living below a poverty line of US\$ 1 per day. After a period of stagnation in the late 1990s, the economy is once again relatively robust, growing at a pace faster than population growth. However, the proportion of Kenyans living in poverty has not been declining and indeed in absolute terms has been increasing. A report by the Centre for International Poverty Research (CIPR)²⁹ estimated the proportion of Kenyan children living in absolute poverty as 19.8% of urban and 73.7% of rural children. A poverty analysis carried out by the Central Bureau of Statistics³⁰ reported increasing geographic and socio-demographic disparities, with rural poverty ranging from 16% to 84% (see figure one). Kenya's Poverty Reduction Strategy Paper³¹ identifies the main correlates of poverty in Kenya as: location (rural versus urban), household

size, level of educational attainment of household head, sex of household head (female headed households are poorer), type of agricultural output (subsistence farmers versus cash crop farmers), and ownership or livestock and of selected durable farm tools. To this must be added, the debilitating and far-reaching effect of HIV and AIDS. 6.2% of Kenyan adults are infected (1.15 million people), and an estimated 120,000 children are infected.

²⁹ Centre for International Poverty research (2003). The Distribution of Child Poverty in the Developing World.

³⁰ Central Bureau of Statistics, Government of Kenya, Geographic Dimension of Well being in Kenya: A Constituency Level Profile, Volume II, 2006

³¹ Government of Kenya (2004). Investment Programme for the Economic Recovery Strategy for Wealth and Employment Creation, 2003-2007.

Social transfers from the state to the very poorest are already a major feature of Kenya's State spending. The CBS report cited above noted the Government of Kenya's emphasis on the constituency as a primary unit for the allocation and disbursement of funds directly to communities, with several mechanisms now operating at this level, including Constituency Development Funds, School Bursary Funds, and Local Authority Transfer Funds. The poverty of orphans and vulnerable children became the subject of debate in the course of the parliamentary elections towards the end of 2002, with many parliamentary candidates pledging to allocate more resources to this group if elected. Approximately half of those elected, including many cabinet members and senior opposition figures signed this pledge. Commitment and action has been forthcoming since, with the endorsement of the pre-pilot project, and backing for a continuation led by the children's department in the Ministry of Home Affairs with encouragement from the Minister for Home Affairs, who is also the Vice President of the Republic.

Allocations to what the state defines as core poverty programmes in the GoK budget were US\$390 million, US\$637.5 million, and US\$1.18 billion in the financial years 2002/3 to 2006/07 respectively. In the 2005/06 financial year the allocation represented 4.9 per cent of GNP and total expenditures by government amounted to 27 per cent of GNP. This trend shows that the current NARC government, which came into power in 2003, has been substantively increasing the allocations to poverty programmes.³²

Among the poor one can identify three types of ultra poor people in Kenya:

The first group comprises the poorest people living in arid areas where the economy revolves around pastoralism, who, for various reasons do not own an economically viable number of animals, and who do not have any other economic assets.

The second group of ultra poor comprises people who were otherwise poor anyway but who have been affected by HIV and AIDS to the point whereby the economically active members of the household are either ailing due to HIV/AIDS or have died, leaving the older generation if they are still alive looking after orphans. Again the numbers are not clear and will remain so until the 2009 census. In terms of geographic location this category can be found all over Kenya but especially where poverty was greater anyway and where HIV/AIDS has hit particularly hard:

- Nyanza and Western provinces, especially those living close to Lake Victoria.
- Among communities living close to the Trans-African highway from Mombasa, through Nairobi and Nakuru to the border of Uganda
- Among poor communities living in urban slums around cities and large towns where transient populations of migrant labourers live.
- Migrant labourers working in large agricultural businesses such as Tea plantations and pineapple farms.

Among destitute former pastoralists living on the outskirts of small market towns in northern Kenya where HIV/AIDS prevalence is rising.

³² There are problems of absorption, however - approximately 40 per cent of the core poverty budget is routinely not disbursed by the end of the fiscal year.

The third group, which overlaps with both groups one and two comprise people living in otherwise poor households who do not have able bodied people of working age that can at least go out and look for daily jobs. Again the numbers in this group are not clear and will remain so until the 2009 census.

The numbers in the first category are not clear but form a subsection of the 2 million plus people who are regularly given free food hand outs as part of humanitarian drought relief programmes in arid districts funded by USA food surpluses, and the purchasing of food surplus mainly in Western Kenya with Kenyan tax payers' money and cash grants notably from bilateral European aid programmes.

Neither the second group nor the third currently enjoys support through a coherent programme of national scope with effective government oversight, although there are a large number of programmes aimed at providing in-kind support for the second group through a myriad of funding sources the most notable of which is the U.S. government PEPFAR programme. Social support for the growing numbers of orphans is being extended by relatives, often the grandparents. Also private sector orphanages have sprung up to provide care and support, a trend which is of great concern to the state because the quality of the service provided is often poor, the source of funding for the institutions often tenuous, and the state does not have the capacity to provide proper oversight of the many unregistered service providers. Indeed, recently the state has made it clear that unregistered orphanages are illegal institutions. In terms of numbers of orphans, there are thought to be over two million orphans in Kenya now, half of whom are orphans due to HIV/AIDS, with numbers growing to more than 2.5 million by 2010 with up to 700,000 of these having lost both parents.

There are several arguments in favour of the state scaling-up a cash transfer programme aimed at the poorest children in Kenya:

Efficiency of resource delivery relative to existing programme delivery modes. Evidence from other countries shows that it is possible for large scale cash transfer programmes that have moved beyond start-up and expansion phases to reach efficiency levels of 90 per cent or more (e.g. the Mexico programme) once they are operating at scale. This contrasts with the inherent inefficiencies of the existing programme delivery mode. Moving food commodities is expensive in terms of transport and storage costs to the point where the overhead can be in the region of 40 per cent of total costs (it is difficult to pin a clear figure on this since there are different ways of putting a value on the food). Contracting private sector civil society organizations to purchase commodities and deliver them to targeted households is also not as efficient as a well run cash transfer programme. Figures do not exist for Kenya but one can hazard a guess that operational costs run at between 30-60 per cent of total budgets.

The medium-term future particularly of programmes that rely to the extent that is the case in Kenya on food hand outs is murky given the continuing pressure on rich countries through World Trade Organisation led negotiations to further reduce subsidies for agricultural products.

The responsibility that the state has for developing a comprehensive social protection system with a clear source of funding at least stretching out into the medium term.

The right for people to decide for themselves what their households need if the state is going to make a resource transfer to them through the mechanism of delivering cash straight into the household economy.

The current state of the cash transfer programme for vulnerable children in Kenya is that the Ministry of Home Affairs with support from UNICEF and with additional funding from Sida has been supporting a first phase with 500 households in three very different locations (Garissa, an arid district; Kwale, a poor coastal district; and three areas in the slums of Nairobi) since the beginning of 2004 as a first step towards building up a cadre of people in Kenya that understand operational requirements and who will understand what is required to start scaling up the programme. Based on the experience gained in this first phase a second phase is starting that will enroll 10,000 children by the end of 2007 and 30,000 by the end of 2008 through a combination of Kenyan tax revenue funding, and support from DfID, Sida, World Bank and UNICEF; funding is secure for this second phase expansion. The medium term target is to find the resources required to expand the programme to 300,000 by the end of 2010 and in the course of this expansion determine what the ultimate scale of the programme should be. Roughly speaking around \$50 million needs to be found per year to fund a programme for 300,000 of the most vulnerable children in Kenya.

There are a number of questions that need to be answered in order to determine what the ultimate size of a scaled-up programme could be in Kenya. These questions include: How large does the programme need to be in order to significantly reduce the numbers of ultra poor in Kenya? Since the numbers of ultra poor are not known a useful starting point is to consider those who are defined as poor and then see to what extent such a programme might be affordable. The second problem to consider is what the effect on poverty would be of different approaches to the total value of the transfer and different approaches to targeting? Thirdly, how much would it cost to scale-up the pilot programme to the point where it would have a significant effect, and can this be financed primarily from the Kenyan tax base?

3. Methodology and data

We employ both qualitative and quantitative analytical techniques to test the hypothesis that a large scale cash transfer programme could reduce poverty, would be affordable and feasible, and could be delivered according to the principles of a human rights approach. A literature review of cash transfer programmes summarises existing knowledge and experience. To estimate the effect on poverty of a cash transfer programme in Kenya, we perform a simulation exercise. To estimate what it would cost to expand the pilot programme, we present an expansion plan based on a rationale for the value of the transfer and assumptions about national and international support. To assess the feasibility of supporting this expansion, primarily from the tax base, we review and analyse public expenditure. Finally, to assess lessons learned about a rights based approach to implementation, we present the findings from our interviews with recipients, non-recipients and duty bearers involved in cash transfers in three African countries.

Our data come from both secondary and primary sources. We use the most recently available (1997) Kenya Household Welfare Survey³³, the Government of Kenya budget for 2005-6, and information collected from interviews and focus group interviews in Kenya, Malawi and Jamaica.

4. Problem analysis and findings

The current situation for Kenya is that funding is assured for a programme that will scale-up to somewhere between 30,000 and 50,000 households? by the end of 2008, depending on the size of the transfer, through a combination of funding from Kenyan taxpayers, DfID, Sida, UNICEF and the World Bank. The Ministry of Home Affairs gives a target figure of 300,000 most vulnerable children enrolled in the programme by 2010. The rationale for this target is the following:

- Such a programme is sufficiently large to result in the economies of scale that will reduce overall administrative costs to between 10-20 per cent, with a target of 10 percent.
- A key element of the programme design is that it is focusing on the poorest households that are not enjoying support through one of the myriad civil society managed in-kind programmes, often funded through international aid.
- A well run programme of that scale will encourage international aid partners to switch from the current dominant model of support for poor households ... in-kind supplies delivered to households by civil society organizations under contract ... to a larger cash transfer programme for more than 300,000 children.
- Reaching 300,000 children is estimated to cost in the region of \$50 million, a figure which the steering committee for the programme feels is within reach through a combination of reallocations within the Kenyan budget and through international and domestic support if phase two of the programme through its evaluation can demonstrate efficiency and effectiveness.

The issue analysed in this section of the paper looks at what scale of resources would be required to scale the programme up beyond 300,000 children to the sort of scale that could have a major impact on poverty levels in Kenya and hence help Kenya move towards achievement of MDG1.

The official poverty line in Kenya is based on the last Welfare Monitoring Survey (WMS) which was carried out in 1997. A review of the poverty lines in Kenya confirms what communities and households were telling the programme managers. The following table presents the 2005 poverty lines 1 and 2 for urban and rural areas. Poverty lines are based on one adult needs per month. PL1 refers to the Food Poverty Line. PL2 refers to the Food and Basic Goods Poverty Line.

The poverty line was calculated on the basis of mean rural and urban costs for both food and basic goods¹. In much of the current literature the 1997 poverty line is cited, (KShs 1,239 per

capita per month in rural areas calculated on the basis of basic food and non food needs), however, this is problematic in terms of an analysis of recent and current social protection interventions, and does not take account of significant inflation since 1997. It also does not take account of decreased cost related to Free Primary Education (FPE) and increased costs related to user fees for health services. Using the Consumer Price Index (CPI) it is possible to inflate this poverty line to 2005 values, see table 2.

Table 1: Adjusted Poverty Line, 1997 to 2005

Year		1997	1998	1999	2000	2001	2002	2003	2004	2005*
CPI 1997/8 =100)		100	106.5	112.7	123.9	131	133.6	146.7	163.7	179.8
		KSh	KSh	KSh	KSh	KSh	KSh	KSh	KSh	KSh
Rural	Food	927	987	1,045	1,149	1,214	1,239	1,360	1,518	1,667
	Food and basic goods	1,239	1,320	1,396	1,535	1,623	1,655	1,818	2,028	2,228
Urban	Food	1,254	1,336	1,413	1,554	1,643	1,675	1,840	2,053	2,255
	Food and basic goods	2,648	2,820	2,984	3,281	3,469	3,538	3,885	4,335	4,761

Source: McCord based on CPI Index from Economic Survey 2003, 2004 and 2005 and KIPPRA 2005. * Provisional

We simulate the welfare impact of a cash transfer programme in Kenya using household survey data from 1997, the latest available micro level data with national coverage. The welfare indicator is per adult equivalent consumption expenditure, and the poverty line is the official Kenya region-specific poverty line from 1997 (Kenyan Shillings 1239 and Kenya Shillings 2648 for rural and urban areas respectively) which gives a poverty rate of 65% based on the survey data.³⁴ We calculate the poverty headcount (H), poverty gap (PG) and squared poverty gap (SPG) as our welfare measures for each of the scenarios described below. We expect the programme to have the biggest impact on indicators that are more sensitive to the welfare of the ultra poor (our target group), which in this case are PG and SPG, and to perhaps have no impact at all on H if the depth and severity of poverty are high, as they are in Kenya.

³⁴ The poverty line of KShs 1,239 per capita per month in rural areas was calculated on the basis of basic food and non food needs, however, this does not take account of inflation since 1997. Using the Consumer Price Index it is possible to inflate this poverty line to 2005 values, which gives rural poverty lines of KShs 1,667 and KShs 2,228 (food, and food together with basic goods respectively) and the urban equivalents are KShs 2,255 and KShs 4,761 respectively. However, the need to project based on 1997 data will not be required in the near future when the results of the Kenya Integrated Household Budget Survey (KIHBS), implemented in 2005/6 will be published, providing improved estimates of the current incidence of income poverty. These data will be supported by findings from the Fourth Kenya Participatory Poverty Assessment (PPA-IV), also implemented during 2006, using the same sample and offering a community based perception of poverty, based on asset ownership. Two poverty lines will result from the implementation of these two surveys, one based on consumption, the other based on communities' perceptions of poverty. Until the publication of these new data, the authors elected to use the 1997 figures without adjustment, to facilitate comparisons with other economic analysis using the 1997 data, and eventually with analyses using the new data.

Our baseline scenario is the current situation of no cash transfer programme. For the simulated scenarios, we use one of the value distributions for the monthly transfers to households that have been proposed in discussions between the Government of Kenya and several international partners, including the World Bank, DfID, UNICEF and economists based at the University of Cape Town (Table 1).

Table 2: Simulated cash transfer amount in Kenya shillings using two options based on numbers of vulnerable children in a sample of 1019 households in four districts

No. of vulnerable children per Household	Per cent of total children in the sampled households	Monthly payment, option one in Kenya shillings		Monthly payment, option two	
1	7	500		1,000	
2	15	1,000		1,500	
3 or more	23	1,500		2,000	
4 or more	55	2,000		2,000	
Total costs to the state per month for the 1019 sampled households			1,369,5000		1,707,000

A number of considerations were taken into account in the setting of these figures. First of all, the amount distributed in phase one of the programme (KSh 500) was regarded by the local children's advisory council members and senior management at Ministry of Home Affairs as too small to make much of a difference in the lives of the persons receiving the grant. On the other hand, as a rule-of-thumb the total sum of transfers to households should not exceed the national average per capita income which in the case of Kenya in 2006 was about KSh 2,800. The origins of the sliding scale and upper limit was based on a desire to allow more numbers of households in total to be enrolled in the programme for a given budget and to discourage the setting up of mini foster homes with a view to attracting qualification for larger cash transfers.

At the time of writing serious consideration is being given to carrying on with the transfer of 500 Ksh for the first child, 750 for the second and 1,000 for three or more so that a larger number of households can be enrolled in the scheme thereby increasing horizontal reach of the programme. Information from the enrolment procedures that are underway are that relatively few households will only have one eligible child and hence the transfer per household would only rarely be the lowest sum of 500 Ksh per month. Table two shows how much would be disbursed using two different payment regimes depending on the numbers of children in the household. A key finding from the data which comes from work in four districts shows that less than ten per cent of households have only one child. The regime with a larger disbursement of cash to households with less children turns out not to be much more expensive than the more frugal regime.

A key element of this discussion revolves around the major administrative cost which is the cost of each individual bank transfer. In Kenya, at least in the first instance this will be effected through warrants that can be cashed at specific Post Offices. The agreement reached between the

Post Office and the Ministry of Home Affairs is for a charge of 65 Ksh per transfer, and since transfers will occur only once every two months the overhead cost is not considered too high even if a household is only receiving 500 Ksh.

The first simulation then replicates the three tiered transfer values proposed in Table 1, but deflated to 1997 since expenditures in the survey are measured in units of 1997 KSh. This transfer is given to all households in the bottom 10% of the welfare distribution who have at least one child age 18 or under.

The second scenario involves raising the transfer value by 50% for each category of household (e.g. to KSh1500, 2250 and 3000 respectively) and continuing to select only the poorest 10% of households. The third scenario involves providing the original transfer level[s] (KShs 500) to an expanded group of households—those in the bottom 25% of the welfare distribution, rather than limiting it to the bottom 10%.

Table 2 presents the results of these simulations. Baseline levels of poverty are shown in the first row, and subsequent rows in the top panel show simulated poverty outcomes for each scenario. The bottom panel is perhaps the easiest to interpret—it shows the percentage change (decline) in each indicator from its baseline value. Scenario one leads to no reduction in the poverty headcount (H) as is expected in a country with very high overall poverty, but it does reduce the two measures that are more sensitive to ultra-poverty - PG and SPG, by 5 and 11.5% respectively. The largest impacts are found among rural households (5 and 13% respectively), while the smallest impacts (virtually none) are found among urban households—this is because there are very few urban households in the bottom 10% of the 1997 national distribution of welfare. Region specific welfare rankings, which selected 10% of the poorest in each region, would lead to a larger impact on urban welfare, but this would imply some ‘richer’ urban households receiving benefits while some ‘poorer’ rural households remained excluded. The distribution of the target population across the nation is a major policy issue if the programme is scaled up.

The overall pattern of impact is the same across the different scenarios. Scenario two naturally further decreases the poverty gap, but still with little effect in the urban areas, and of course at a higher overall cost. However the expansion of the target group (simulation 3) has a much larger overall impact on poverty (PG and SPG) than raising the transfer level while maintaining the target population constant (simulation 2). This result is not a given, and will vary from country to country depending on the distribution of welfare among the very poorest, although the ideal comparison is to make these two alternative programmes budget neutral and then compare welfare outcome, since the third scenario is significantly more costly (see last column of table) which is why it has a larger impact on poverty.

The fourth scenario performs exactly this simulation—it expands coverage with the same (original) level of transfer until roughly US\$231m have been spent, which is the same amount of money that is spent in scenario 2 (which raises the transfer amount but only targets the bottom 10%). The results show that these two alternative (but budget neutral) programmes will have an almost identical impact on the depth and severity of poverty, although SPG declines by a little more among households with children under scenario 4. Essentially these two programmes

involve spreading a lower amount among more households or giving more money to a smaller group of households. From a political and human rights (equity) point of view clearly scenario 4 (spreading money among more households) is preferred; from a social welfare perspective this scenario leaves the population no worse off, and possibly slightly better off (due to improved SPG among households with children).

The last column of Table 2 shows the total annual cost of each of the three scenarios (including 25% administrative costs), inflated to 2006 KSh and then converted to US\$. The cost estimate for a scaled up programme that delivers cash to poor households with a child under age 19 is between US\$154 and US\$372 million. More refined targeting criteria may reduce this cost, for example, if only poor households with a child defined as orphaned or vulnerable were selected, this could reduce the overall cost by about two thirds. For example, if we assume that only about a third of poor Kenyan households meet the criteria for inclusion in the programme then our simulated cost for scenario one is about US\$51 million and for scenario three, US\$124 million. Obviously, the exact cost will depend on number of eligible households.

The main findings from this simulation exercise are:

1. A well targeted transfer at the monetary level currently being proposed for the pilot programme in Kenya will have a significant impact on PG and SPG, especially in rural Kenya where most of the poorest of the poor reside.
2. The minimum (scenario one) simulated cost of a programme targeting the poorest 10 per cent of households is around US\$51 million per year.
3. Comparing the two (budget neutral) options of expanding coverage at the same transfer level (simulation 3) or increasing the transfer level among the same group of cash recipients (simulation 2) indicates no significant difference in impact on the depth (PG) and severity (SPG) of poverty, although the alternative of spreading out benefits over more households may be more attractive from a political and human rights perspective.
4. The comparison (simulation 2 versus 4) fixes the budget based on raising the transfer level by 50%. A different assumption may lead to a different result in terms of raising

ⁱ McCord, A. Overview of Social Protection Systems in Kenya. Draft GoK/UNICEF 2004-08 country programme working paper.

Table 3: Simulated poverty impact on associated costs of a cash transfer programme in Kenya

Model	All Kenya				Rural				Urban				Hhlds w kids<=18				Cost (2006 US\$)
	H	PG	SPG	H	H	PG	SPG	H	H	PG	SPG	H	H	PG	SPG		
0. Baseline	0.645	0.266	0.139	0.654	0.273	0.143	0.589	0.223	0.116	0.470	0.169	0.080					
1. Bottom 10% target	0.645	0.254	0.123	0.654	0.259	0.125	0.589	0.223	0.116	0.470	0.163	0.073				154,221,599	
2. Raise transfer amount	0.645	0.247	0.117	0.654	0.251	0.117	0.589	0.223	0.116	0.470	0.160	0.071				231,436,878	
3. Expand to bottom 25%	0.645	0.235	0.105	0.654	0.238	0.104	0.589	0.222	0.114	0.470	0.152	0.062				371,620,595	
4. Expand to bottom 15%	0.645	0.247	0.116	0.654	0.251	0.117	0.589	0.223	0.115	0.470	0.159	0.069				231,400,000	
Percentage decline from baseline scenario																	
1. Bottom 10% target	0.00	4.72	11.52	0.00	5.34	13.00	0.00	0.07	0.23	0.00	3.37	8.75					
2. Raise transfer amount	0.00	7.09	16.34	0.00	8.01	18.44	0.00	0.11	0.34	0.00	5.04	12.26					
3. Expand to bottom 25%	0.00	11.62	24.49	0.00	13.05	27.42	0.00	0.76	2.25	0.00	10.10	22.39					
4. Expand to bottom 15%	0.00	7.13	16.53	0.00	8.03	18.58	0.00	0.31	0.94	0.00	5.59	13.77					

See text for additional details of simulations. The last column shows annual (simulated) costs including 25% administrative costs. H=headcount; PG=poverty gap; SPG=squared poverty gap.

1. Current cash transfer amount delivered to all households with children in the bottom 10% of the welfare distribution.
2. Transfer amount raised by 50% and given to poorest 10%.
3. Original transfer amount given to poorest 25%.
4. Coverage with the original transfer amount expanded until spending just reaches the level in scenario 2.

overall social welfare, depending on the exact form of the welfare distribution at the lower end; this will need to be analyzed more rigorously if the programme is scaled up.

5. A further key issue for scale up will be the geographical distribution of cash recipients. The poorest of the poor are in the rural areas, but the urban poor are an important (and politically key) constituency that needs attention. What is the potential impact of a cash transfer to the poor in urban slums in Nairobi, for example, on the current crime rates, which are universally acknowledged to be one of the major dampers on domestic and foreign investment in the Kenyan economy. The distribution of the programme budget across regions should ideally reflect the distribution of the poor in order to maximise increased attainment of human rights and social welfare goals.

Policy options: Affordability, feasibility, cost comparisons of universal compared to a targeted scheme and potential for scale-up

The findings from the literature review and from the simulation exercise indicate that a cash transfer programme will reduce the poverty gap in Kenya if implemented at adequate scale. There are several options that could be chosen. To inform decisions about those options, it is important to look at some cost comparisons, financial affordability, and political feasibility. The simulation analysis found that giving a monthly cash transfer of KSh 1000-2000 to the poorest 25% of households with at least one child under age 19, would cost US\$ 372 million dollars per year, while refining the targeting to the poorest 10% of households with at least one vulnerable child, would cost US\$ 154 million per year. Thus narrow rather than broad-based targeting is more affordable. There is a budget neutral choice between aiming for reaching more eligible households, with a smaller monthly transfer, or aiming for fewer households with slightly larger transfers. In order to consider these options more carefully, we need to address the question of how affordable and feasible they are.

The costs of the programme, taking a range of delivery costs (between 10% and 40%) are estimated below this time looking at 300,000, 500,000 and 750,000 beneficiaries respectively, with the payment scale outlined in Table 1 and with a variety of overhead costs since in reality while the target is a programme for 300,000 children by 2010 with an overhead of 10 per cent, we cannot be absolutely sure that the overheads will not turn out to be more. The results are shown in Table 4 as a percentage of GDP and government spending allocations.

Table 4: Estimated total cost of grant with delivery costs between 10% and 25%

Del.	Total Cost for 300,000 OVC				Total Cost for 500,000 OVC				Total Cost for 750,000 OVC			
	(US\$ mn)	(KShs bn)	% of gvt expenditure	% of GDP	(US\$ mn)	(KShs bn)	% of gvt expenditure	% of GDP	(US\$ mn)	(KShs bn)	% of gvt expenditure	% of GDP
10	37.4	2.8	0.80%	0.18%	62.3	4.7	1.34%	0.31%	93.5	7	1.99%	0.46%
15	39.1	2.9	0.83%	0.19%	65.1	4.9	1.40%	0.32%	97.7	7.3	2.08%	0.48%
25	42.5	3.2	0.91%	0.21%	70.8	5.3	1.51%	0.35%	106.2	8	2.28%	0.52%

* GDP 2005 KShs 1,536 bn & total expenditure KShs 351 bn (2005/6 budget) (RoK 2006)

The total cost of the grant and delivery for 300,000 OVCs is likely to be within the range of KShs 2.8 to KShs 3.6 billion (US\$37 million to US\$48 million) depending on the cost of delivery which includes the cost of transfers and the costs of targeting, and any other support to the households by social workers that might include monitoring and enforcement of conditionalities, costs that are being looked at in phase two through a case reference design.

To consider the costs of the programme within the broader context of social protection needs, Table 5 sets out approximate costings if the programme were implemented universally for all children under 15 (13.5 million children) and alternatively for 700,000 children in terms of share of total government expenditure and GDP.

Table 5: The Cost of Universal Grant Distribution

	10% delivery cost			15% delivery cost			25% delivery cost		
	Total Cost (KShs bn)	% Gvt Exp	% GDP	Total Cost (KShs bn)	% Gvt Exp	% GDP	Total Cost (KShs bn)	% Gvt Exp	% GDP
700,000 children	6.53	1.9	0.4	6.77	1.9	0.4	7.47	2.1	0.50
All children < 15, (13,500,000)	126.00	35.9	8.2	130.50	37.2	8.5	144.00	41.0	9.4

From the preceding tables it is clear that while distributing the grant to 300,000 vulnerable children is estimated to cost a minimum of KShs 2.8 billion per annum, 0.8% of total government expenditure, if the programme were extended to become a universal transfer to all children up to the age of 14 (13.5m children), the total bill would be between KShs 126 and 144 billion, and consume between 36 to 41% of all government spending. If extended more modestly to 700,000 children the bill would be approximately KShs 6.5 -7.47 billion.

Clearly the adoption of the CT-OVC on a universal scale (if all eligible children made claims) would not be feasible since it would entail a fiscal allocation equal to the whole current education and health budgets combined. To make it affordable the state would have to make it sufficiently difficult to obtain the grant for relatively well-off families to find it too onerous to make their claim. This is the strategy adopted in European countries, for example, Germany, that have maintained universal grants for many years. Probably the greatest argument against a universal grant is that large areas of Kenya are very remote indeed, and this is where some of the poorest Kenyan's live. It is difficult to see how a system could be devised in the short-term through which these remote families could be served.

A CT-OVC for 300,000 seems to be eminently affordable, with a total cost of KShs 2.8 and 3.6 billion (US\$37 to 48 million), which is equal to approximately 1% of government spending. In aggregate this sum is relatively small, and it could be argued that marginal reallocations, or savings from other sectors, could enable such a budget to be met from the fiscus, however, it is important to note that the extension of the programme to 300,000 beneficiaries only represents the provision of a transfer to 2% of all children in the country, or approximately 4% of those

estimated to be living below the poverty line, so this instrument would result in low horizontal efficiency, in terms of the proportion of all the poor covered by the programme. This would be improved by increasing the numbers to, say 700,000, costing KShs 6.5 billion; still a relatively modest figure when compared to, for example the total health budget, (itself well below the Abuja target for African health budgets in terms of proportion of overall budget) of KShs. 30 billion.

An analysis of the annual per capita cost of the programme using the payment schedule in table six gives an estimated average per capita annual cost of 10,667 (US\$ 142)³⁵ by comparison the per capita health expenditure per capita health is US\$6.2 and the per capita spending required to achieve basic health provision of US\$ 25 per annum (NHSSP II)³⁶. This indicates that while the total cost of a package to support 300,000 may be affordable, the relative allocation per beneficiary is high raising concerns regarding equity. However, since the grant is aimed at being a kind of top-up for the entire household, and the households in the scheme are the ultra poor, the numbers of beneficiaries per grant should be multiplied by six since there are an average of six persons per household in Kenya.

Another issue that is the subject of much discussion in Kenya today is whether the country can afford free secondary education. There are various estimates for what the average cost per capita of this measure is. One measure is that this would cost a minimum of 23,000 KShs per capita (US\$ 320), and the construction of many more secondary schools. The total bill for free secondary education is estimated to be in the region of 20 billion KShs per year. All in all, this analysis tips the argument in favour of a payment schedule for the second phase of the cash transfer programme that starts off with Kshs. 500 per child to encourage as much horizontal spread as possible.

The cost per capita of the cash transfer programme also highlights the importance of targeting. Since the per capita costs are quite high compared to per capita allocations of key services such as health care, the service providers must be able to show that the targeting is reasonably efficient at targeting the poorest with few inclusion errors of the not so poor.

The targeting design for phase two of the Kenya programme has grown out of lessons learned from the first phase. First, districts are selected based on the capability of government to expand the programme. Here there is tremendous pressure to expand that has to be balanced against Ministry of Home Affairs capacity and budget availability. First districts are selected, and then within the district the poorest locations are selected by committee decision. Within the locations a committee is formed, they are told what the budget allocation is for the location and hence approximately how many households can be enrolled in the scheme. A survey is carried out to determine which are the ultra poor households based on a combination of community knowledge and objective criteria such as the quality of building. Extra weight is given to households with no able bodied persons, with disabled children, with foster children and so on. In a second stage data are entered into a management information system to check on the criteria and to rank the

³⁵ Estimated on the basis of the total cost at 25% delivery cost divided by the number of beneficiaries

³⁶ The NHSSP II estimates total cost for progressive realisation of KEPH as US\$25.8 in 2005/6 and US\$35.2 in 2009/2010.

households. The ranked list is then discussed in a community meeting to make a final determination on which households will be enrolled in the scheme.

Kenya is a state with a relatively well functioning taxation system. Tax revenues increased by fifteen per cent in the 2003-04 period and by 2005/06 over 5 billion US dollars were collected in taxes. A review of the 2006/07 budget outlook paper reveals that GDP is predicted to grow at a rate of 5.1 % in 2006/07 with an increase to 5.5% in the following years. The inflation rate in Kenya over the last five years has not gone beyond 10 per cent showing good macro economic control and indicating that the target rate of 3.5% inflation during 2006/07 is feasible. The international reserve is rising and government revenue is now almost 22% of GDP with the fiscal deficit down to only 2.4% of GDP. Essentially this is a picture of a stable and growing economy with a reasonably solid level of taxation.

In addition to resources from taxes, the Government of Kenya receives approx 10% of government expenditure (McCord p75) from Overseas Development Assistance???, relatively modest compared to the rest of east Africa. UNICEF, the World Bank, Dfid and SIDA are interested in participating in a GOK-led cash transfer programme, through both financial and technical contributions. In sum, through tax revenues, possible expansion of the money supply and pledged overseas development assistance, financial resources to spend on the cash transfer programme, to reduce poverty and particularly to benefit children identified as being vulnerable, are available.

Experience shows that potential availability of funding is not enough to ensure the successful introduction of cash transfers as a national programme; this also requires a favourable political and social climate, with proponents who will advocate for the necessary share of the budget. The increased acceptability in Kenya for a national cash transfer programme is detailed in Appendix 1. Clearly, progress has to be made in all areas detailed in the annex between 2007 and 2010 if the target of 300,000 children budgeted for are to be reached.

While there is always room for more and the role of the UN in promoting more discussion should not be underestimated the cash transfer policy option has seen a lot of light in Kenya. The subtleties of the policy option are well understood by many key decision makers. Staff in the Ministry of Finance and the Ministry of Planning understand the financial implications of the programme and what the potential trade-offs are. Systems are now in place to enable Ministry of Home Affairs to track disbursements and verify eligibility, so that the system is run transparently and fairly. What will be built over the next two years is the capacity to implement efficiently and at a growing scale with initial support from international partners.

The Ministry of Home Affairs has prepared a plan for gradual expansion of the number of recipients from 500 in 2006 to something in the region of 100,000 in 2009, starting in three districts and reaching 34 districts by 2009. A full scale national programme would involve 74 districts (Table six).

Table 6: Kenyan cash transfer programme expansion plan

PHASE	GOK supported by UNICEF, Sida, Dfid, and World Bank	Funded through Kenyan taxes	TOTALS
1	Period: 2004-2006	Period: 2004-2006	Period: 2004-2006
	Districts: 3	Districts: 10	Districts: 13
	Cash recipients: 500	Cash recipients: 5,000	Cash recipients: 5,500
2	Period: 2006-2007	Period: 2006-2007	Period: 2006-2007
	Districts: 7	Districts: 10	Districts: 17
	Cash recipients: 8,000	Cash recipients: 2,500	Cash recipients: 10,500
3	Period: 2007-2008	Period: 2007-2008	Period: 2007-2008
	Districts: 7	Districts: 10	Districts: 17
	Cash recipients: 10,000-30,000	Cash recipients: 10,000-30,000	Cash recipients: 30,000-50,000
4	Period: 2008-2009	Period: 2008-2009	Period: 2008-2009
	Districts: 17	Districts: 17	Districts: 34
	Cash recipients: 50,000	Cash recipients: 50,000	Cash recipients: 100,000
FULL SCALE PROGRAMME		Period: 2009-2015	
		Districts: 74	
		Cash recipients: 300,000	

Thus it is clear that the economic, political and social climate in Kenya is favourable to a programme that could prove its effectiveness in reducing the poverty gap, especially for the poorest most vulnerable households.

5. Conclusions and Recommendations

The Kenyan economy has low inflation, large amounts of idle capacity of manpower and agriculture. Massive distributions of mosquito nets and a switch to more effective medicines for malaria treatment are likely to be having a major effect on reducing mortality rates. HIV/AIDS prevalence rates have been in decline for the last few years and in part due to reduced incidence as well as increased death rates. Infrastructure is dilapidated leading to increasing costs of production. Bureaucratic constraints to conducting business are also formidable. Security is poor. These three factors combined mean Kenya is less competitive in terms of attracting foreign direct investment than it should be. The potential for faster economic growth closer to ten per cent per year rather than the current five per cent is clear. The economy is still predominantly agriculture based and incredibly inefficient by developing country standards.

Better efforts to help small scale farmers with cheap fertilizer and improved seeds alone will be a major boost to household incomes especially for poor people taking large numbers of households above the poverty line. This combined with fixing the major roads and reducing other constraints to efficient business including improvements in levels of security will attract the private sector investment needed that in turn will boost tax revenues and hence make cash transfer programmes for the very poorest more affordable on a wide scale.

In the short term a strong case can be made for making a start on the large macro programmes such as improving security, fixing the main highways and improving access to fertilizer through increasing borrowing, both domestic and international. There is no reason why domestic and external debts need to be lowered at this point in time at the expense of investing in capital. A case can be made that there is too much fear that an increase in money supply through government borrowing will lead to excessive inflation. A particularly strong case can be made for no effect on inflation if it is clear that the increase of supply is being channelled to the very poorest people many of whom are living in very rural areas and who will be spending their extra resources judiciously mainly in small stores for essential household items at the periphery of money flow. A judicious fiscal expansion is recommended to increase financing of MDGs and core poverty programme, especially health, safety nets and rural infrastructure.

While this optimistic scenario is feasible and would result in higher liquidity in the exchequer no-one can gaze into the crystal ball and say with certainty whether there will be more fiscal space in 2010 or not. At the end of the day politics has to play a role and a decision will have to be taken in two or three years time with regard to whether the programme can be expanded to 300,000, and then on to 700,000 or even one million and eventually perhaps onto a universal transfer for all families with children.

In the medium term the current phase two of the programme needs to prove its efficiency and to show to the considerable number of doubters that most of the resources allocated will indeed reach the intended households, that there are sufficient households for the ability of the system to manage large numbers not to be in doubt, and that those households do indeed use those resources wisely. In terms of reaching a large number of people and bearing in mind the overall per capita costs of the programme it is probably wise for the programme to continue with a starting point of 500 KShs rather than increase the per capita allocation to a starting point of 1,000 KShs.

In sum therefore to accelerate progress towards reaching the MDG goal of reducing poverty by 50 per cent we recommend:

- Bold steps by the government to take action on the large scale macro reforms required to boost economic growth.
- Expansion of credit availability for poor people including policies that reward credit institutions for expanding the reach of their credit programmes down towards poorer people.

- And for the very poorest of the poor move towards planning allocations of \$150 per year from 2010 onwards to fund an expanded cash transfer programme to reach the most vulnerable children nationwide at a scale of not less than 1,000,000 children reached per year. Some of the resources for this budget could be found by reviewing the core poverty programmes, and evaluating them in terms of their efficiency compared to the cash transfer programme at helping to improve the quality of life of the very poorest Kenyans. And since tax revenue are expanding (15 per cent in the last year alone), hard decisions in terms of cutting back on other elements of the budget are not required on a large scale to finance an expanded cash transfer programme for the families with the poorest children.

With these actions in place the country will be on track not only to reach MDG 1 but will also have made a major contribution towards reaching the rest of the MDGs and will also have shown that it is making a major effort towards taking on the responsibilities required of states that have ratified the United Nations covenant on economic and social rights.

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Annex Trends for key conditions required to scale-up cash transfers for vulnerable children in Kenya	
Criteria for success	Situation in Kenya in 2003/04
Political support	Support from: the Vice President's office and his Ministry of Home Affairs and from the ad hoc parliamentary committee on orphans, from civil society partners and international donor partners involved in reviewing applications for funds from the Global Fund for HIV/AIDS, T.B. and Malaria tempered by a culture of supplying goods and service to poor people but not cash itself.
Policy choice and inclusion in national strategic programmes for poverty reduction	In 2003 the Poverty Reduction Strategy prepared in 2000 was superseded by the Economic Strategy for Poverty Reduction and Wealth creation. Neither of these two strategies contemplated a role for direct cash transfers targeted at very poor people
Capacity to implement	A key consideration in Kenya was the extent of the banking industry and particularly the range of the Post Office with over 400 branches nationwide already disbursing pensions to over 600,000 retired civil servants. However, there was no direct state experience in disbursing cash to poor.
Capacity to target	Early experiences with a pilot programme for 500 households followed a community based targeting system based in part on the system developed for the targeting of free food hand outs in arid districts.
	Situation in 2006
	Similar to 2003 but now with a greater understanding of the challenges inherent in scaling up a programme. The Ministry of Home Affairs has been under pressure to expand the geographic scope of the programme including by parliamentarians so now the programme operates in 17 of the countries 72 districts against a 2004 plan to expand only to seven districts. The election period in 2007 gives political space to review with the electorate progress on implementing the pledges made on state actions for vulnerable children in the course of the 2003 election.
	The Ministry of Finance has allocated approximately \$0.6 million to Children's Department activities related to HIV/AIDS with goes into cash transfer programme and has made trips to observe the national scale programme in Columbia. The recent African Union request for member countries to produce a policy paper on social protection systems will be another opportunity for these issues to receive focused analysis.
	An understanding by government that managing such a programme will require a dedicated staff of approximately 70 to sustain the programme at national scale with a target of 300,000 vulnerable children reached. This will require a major retooling and upgrading of the capabilities of the children's department or the introduction of a new institution that would enable the children's department to continue focusing on improving it's ability to deliver on other elements of it's core mandate.
	Development of a computerized database now enables the children's department to double check eligibility criteria of first phase candidates selected by local level committees.

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