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Managing the fiduciary risk associated with social cash transfer programmes

Introduction

This note is to help DFID staff manage the fiduciary risk associated with social cash transfer programmes such as universal social pensions and regular cash transfers to poor households. It is for those involved in designing, managing and supporting cash transfer programmes. The note is consistent with, and complements, existing DFID guidance on managing fiduciary risk.¹ It does not set out new policy, but provides more detail and guidance on the particular risks associated with cash transfers.

This guidance has been produced by the Equity and Rights Team in consultation with the Financial Accountability and Anti-Corruption Team (FACT). **For further information, please contact the Equity and Rights Team, or FACT.**

Why this guidance is needed

There is growing interest in the use of social transfers, including cash transfers, as a policy instrument. The Social Protection team published a practice paper on social transfers in October 2005² (social transfers include both cash and non-cash benefits such as food or vouchers, although **this guidance focuses specifically on cash transfers**). The Development Committee recognised that cash transfer programmes might present particular fiduciary risks and requested additional guidance on managing those risks.

Social benefit programmes around the world are vulnerable to error and fraud. For example, in the UK, it is estimated that around £3.3 billion or about 3% of the total value of benefit payments is lost through customer error, official error and fraud in roughly equal measure each year. There are notable cases in developing countries where programmes have failed due to inadequate controls (e.g. Mozambique cash payments to war-displaced urban destitute households, known as GAPVU). It is therefore important to assess and mitigate the fiduciary risks associated with cash transfer programmes supported by DFID.

¹ *Managing Fiduciary Risk When Providing Direct Budget Support*, March 2002
How to Note: Managing Fiduciary Risk when providing Poverty Reduction Budget Support, September 2004
Additional Guidance: *When to perform Fiduciary Risk Assessments and Annual Statements of Progress*, June 2005
Additional Guidance: *Managing the Risk of Corruption*, June 2005

² *Social transfers and chronic poverty: emerging evidence and the challenge ahead*, DFID, October 2005

Purpose of this guidance

DFID's Accounting Officer is accountable to Parliament for the way in which funds under his/her control are used, whether aid is distributed through:

- general poverty reduction budget support (PRBS, provided to national or sub-national government), managed through partner governments' systems;
- earmarked poverty reduction budget support (provided to a sector or specific programme), managed wholly or principally through partner governments' systems, but where the use of DFID's funds cannot be tracked to the level of goods and services;
- non-PRBS financial aid – which can be tracked to the level of the goods and services it purchases and thus identified independently of other resources in the government's budget;
- programmes or projects managed wholly or principally outside partner governments' systems; or
- technical assistance.

This note addresses the specific fiduciary risks associated with cash transfer programmes whatever their source of funding. The objective is to enable an understanding and evaluation of risks that are specific to cash transfer programmes and to provide guidance on mitigating them.

Key messages

The key messages of this guidance are:

- cash transfer programmes have inherent fiduciary risk, which can be mitigated most effectively at the design phase of programmes;
- the greatest risk of loss from error or fraud through cash transfer programmes arises from complexity in the eligibility criteria and operations;
- no standard design for cash transfer programmes will mitigate all risks, but programmes should be designed to be as simple as they can be, while still meeting their objectives (there may be a trade-off between the simplicity of a programme and how well it targets the poorest);
- controls to mitigate fiduciary risk have a cost, both to the administration of the scheme, and sometimes to beneficiaries. There is therefore a balance to be struck in ensuring effective control while meeting policy objectives;
- appropriate monitoring and evaluation of programmes will help to identify any failure in controls; and
- separate fiduciary risk assessments are mandatory for all cash transfer programmes provided from general or earmarked budget support, and should be carried out periodically over the lifetime of a programme.

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Social cash transfer programmes

What they include

Social cash transfers are regular and predictable cash transfers to vulnerable sections of the population (e.g. the elderly, disabled, orphans or vulnerable children) or to the poorest households. They include old-age pensions, disability pensions or grants, child support grants and household allowances. They exclude humanitarian programmes that use cash transfers. Many social cash transfer programmes are unconditional, with eligibility determined through a range of criteria and means testing. Others, however, in particular payments to households with children, might be conditional on attendance at school or at health clinics. Other schemes provide cash to the unemployed in exchange for work on public works programmes.

Scale of expenditure

DFID currently contributes more than £150 million to programmes containing a social cash transfer element, the largest being the Productive Safety Nets Programme in Ethiopia, to which DFID is committed to contributing £70 million over three years through earmarked budget support. However, DFID spending on social cash transfers could increase significantly, in line with the growing interest in this area.

Defining fiduciary risk

Fiduciary risk is defined by DFID as the risk that funds:

- are not used for their intended purposes;
- do not achieve value for money; or
- are not properly accounted for.

It is a measure of uncertainty about whether requirements for good fiduciary management will be met. It involves an assessment of the likelihood of failure and the potential impact of such failure.

Fiduciary risk is not just the risk of fraud or corruption taking place, but includes risks such as funds being diverted into another area of government spending; programmes being poorly designed, so that, for example, transfers do not reach their intended targets; mistakes being made by applicants or administrators; and the existence of poor financial management systems.

Managing fiduciary risk

Social cash transfer programmes are generally made up of a high volume of low-value payments and as a result have inherent fiduciary risk. The management of fiduciary risk has two key elements, which are addressed here in turn:

- (1) assessing and recording the risks; and
- (2) mitigating the risks.

(1) Assessing the fiduciary risk for social cash transfer programmes

DFID has a standard approach to assessing the fiduciary risk associated with general and earmarked budget support (although this approach is currently under review).³ All PRBS submissions contain a **mandatory** section on fiduciary risk assessment (FRA). This applies to both **general budget support** (provided to national or sub-national government) and **earmarked budget support** (provided to a sector or specific programme). This is because both types of budget support rely on government disbursement and accounting systems.

The main elements of a **fiduciary risk assessment** are:

- a thorough evaluation of partner government public financial management and accountability (PFMA) systems and associated risks, including an evaluation of the risk of corruption;
- an assessment of whether there is a credible programme to improve; and
- recording the FRA as part of the decision-making process.

This enables a view to be formed about the environment in which funds will be used and fiduciary risk managed. A judgment can then be made as to whether the potential developmental benefits justify the risks. The FRAs are then subject to a central support and scrutiny process.

When to perform separate fiduciary risk assessments of social cash transfer programmes

A separate fiduciary risk assessment is **mandatory** for **all proposals for earmarked, sector or programme budget support for social cash transfer programmes**.

Cash transfer programmes provided out of general budget support will not normally be subject to a separate FRA, as one will be performed for the whole of the general budget support. However, it might be appropriate to undertake a separate FRA of a programme or programmes provided from general budget support in certain circumstances. Advice should be sought from the FACT team in Policy Division on a case-by-case basis, but factors to consider include:

- whether the relative value of cash transfer programmes represents a material proportion of total government spending;
- whether the value of cash transfer programmes is increasing significantly; and
- whether there is a record of significant loss from, or failure in, the cash transfer programme.

³ *Managing Fiduciary Risk When Providing Direct Budget Support*, March 2002

How to Note: *Managing Fiduciary Risk when providing Poverty Reduction Budget Support*, September 2004

Additional Guidance: *When to perform Fiduciary Risk Assessments and Annual Statements of Progress*, June 2005

Additional Guidance: *Managing the Risk of Corruption*, June 2005

For multi-year programmes, the FRA is normally re-performed every three years, with shorter Annual Statements of Progress each year, focusing on key risks identified in the original FRA. However, if there is a major change in circumstances or a negative trend in overall PFMA performance, a full new FRA must be carried out. To date, there has been one assessment of a programme with a significant cash transfer element: the Productive Safety Nets Programme in Ethiopia (see box below).

Aid can also be provided to partner governments in the form of non-Budget Support Financial Aid (see Blue Book B10 and paragraphs 22 and 23 of the Additional Guidance to the How to Note, June 2005) to meet the costs of specified projects or programmes of expenditure. Although not mandatory, a FRA can also be useful for understanding the risks associated with this type of support. But it is important to keep the level of assessment proportionate. Additional FRAs of one part of a partner government's budget should only be undertaken in exceptional circumstances and preferably together with the government and other donors.

Programmes managed by donors and agencies

Where social cash transfer programmes are managed by donors and agencies, there should be reliable controls over the release of funds and accounting for expenditure, although control of the operation of the programme on the ground (establishing eligibility, processing applications and making payments to beneficiaries) may by necessity fall to other organisations. In setting up these programmes, donors and agencies should jointly review the principal controls in place to ensure that they are sufficient to minimise fiduciary risk.

Assessing fiduciary risk: the Productive Safety Nets Programme, Ethiopia

The Productive Safety Nets Programme in Ethiopia, to which DFID has committed £70 million over a three-year period, began early in 2005. This programme succeeded a Food Security Programme, replacing emergency food aid with a wider strategy for achieving food security. It combines social transfers with work programmes and is aimed at over 8 million people.

Before committing to the earmarked PRBS funding for the programme, DFID Ethiopia undertook a fiduciary risk assessment which was submitted in January 2005. Although funds were to be channelled through a special bank account outside the central exchequer, government institutions at federal, regional and district level were to be responsible for implementing the programme. In particular, the mainstream government accounting and reporting systems were to be used.

The FRA for the programme drew heavily on DFID Ethiopia's fiduciary risk assessment for PRBS, submitted just two months before, but also drew evidence from assessments of the financial reporting systems in the forerunning Food Security Programme, about which there were concerns. The risks posed by the Productive Safety Nets Programme were assessed as being higher (between medium and high) than those for general PRBS (between low and medium risk).

As well as inherent weaknesses in the overall PFMA systems, the programme contained additional risks due to capacity constraints at district level, uncertainty about the way in which the special funding channels would operate and a lack of clarity about the level at which some of the controls would operate. Although the Federal Government of Ethiopia was perceived as having a credible strategic plan for public sector capacity building, the programme depended on PFMA systems at district level, which were stretched due to a significant move towards decentralisation.

A short-term action plan was drawn up to address the specific fiduciary risks to the delivery of the Productive Safety Nets Programme, while continuing to work towards strategic PFMA reform. The systems for the disbursement of funds and for maintaining transaction and financial management records were all specified in detail, together with the training to operate them. Budgeting, reporting and audit arrangements were also enhanced.

(2) Mitigating fiduciary risk

(a) Mitigating fiduciary risk by improving the design of cash transfer programmes

The most effective way of mitigating fiduciary risk is to choose appropriate features and controls at the design stage. Social cash transfer programmes have inherent fiduciary risk – especially where programmes are being scaled up quickly. The design of programme systems therefore requires appropriate steps at all stages, which are addressed in turn:

- regulatory and institutional framework;
- targeting method;

- processing applications;
- making payments;
- managing the caseload; and
- accounting for expenditure.

It is only possible to give a quick overview of the design stages in this note. For more detailed guidance on the design of social cash transfer programmes see *Managing Social Transfers: A Guide to Management Arrangements for Social Transfers in the Form of Cash* (available at Equity and Rights Team inSight page).

It is not possible to eliminate all risk, even in a developed-country environment. As mentioned, in the UK, it is estimated that around 3% of the value of transfers is lost to customer error, official error and fraud in roughly equal measure each year. But **the programme must be credible, and opportunities for misuse and/or error minimised**, from the point of view of both donors and the wider population. It is particularly important that the administrative regime for programmes is as impartial, equitable and transparent as possible.

To process applications accurately and to avoid undue delays in making payments, **a significant proportion of the budget for the programme must be devoted to administration** – generally 5-15% for programmes worldwide (the proportion is around 6% in the UK). Costs may have to be greater than 15% where programmes are starting up. Also, the stricter the targeting, the higher the administrative costs are likely to be. In addition, the smaller the country, the lower the benefit or the fewer the number of eligible beneficiaries, the higher the percentage for administration – since much of the expenditure is for the fixed costs of designing and building effective systems. Technical assistance from donors may be required to build capacity for effective management, monitoring and delivery of social cash transfer programmes. The GAPVU programme in Mozambique, which provided cash transfers to destitute households displaced by war, is an example of where things can go wrong if there is insufficient investment in building effective systems. After functioning well for a number of years the programme had its administration budget reduced and capped at the lower end of the scale, at 7%, and as a result of this and of the complexity of the programme, it failed in its objectives – less than a third of transfers went to the poor – and was eventually reformed.

Much will depend on the existing capacity to administer the programme, and it is important not to overburden implementing agencies, such as local authorities. It is likely that investment will be needed in administrative capacity, including staff training, as is happening in Ethiopia, where cash transfers in the new Productive Safety Nets Programme often make up two-thirds of local authority budgets.

Regulatory and institutional framework

A **legislative framework** is important to ensure funds are provided to programmes, which then operate to generally agreed rules. These rules can be supplemented by **additional rules** on how programmes will be operated. For example, the Oportunidades programme in Mexico, giving cash transfers to poor families in exchange for children attending school and families attending health clinics, is

supported by annually approved operational rules that detail how the programme works on the ground.

Donor funding for programmes should be harmonised, as far as possible, with national government budgeting and planning processes, to help with forward planning and to increase the predictability of funding flows. Financial management requirements from donors should work **in harmony with existing government institutions** and, where these are weak, should support the process of reform (or at least not work against it, which is a risk if parallel systems are constructed).

The **choice of managing institution** is important. Ideally it should have the capacity to administer the programme, combined with sufficient political clout and commitment to win resources for social cash transfers. Bolsa Familia is a conditional cash transfer programme in Brazil that is managed by the Ministry of Social Development – which is headed by a cabinet minister and has good links with the Ministries of Education and Health – with responsibility for administering the programme on the ground decentralised to local authorities.

Targeting method

The choice of targeting method should **balance the need to minimise fiduciary risk with the need to focus on particularly vulnerable groups in the population**.

Targeting inevitably increases the risk of transfers reaching those that are not eligible. There are several possible targeting methods, each with strengths and weaknesses. Individuals or households can be targeted by income (or asset) level, usually by interviewing the applicant, known as **means testing**. Verifying information on income or assets is expensive, for both the beneficiary and government. For example, in South Africa, initial take-up of the Child Support Grant was only 10% of eligible households because of the burden of providing evidence (the rules were later relaxed and take-up improved dramatically). But failure to verify income also carries costs, as the programme is vulnerable to a substantial under-reporting of incomes.

An alternative is **proxy means testing** using more easily observed indicators in survey data associated with poverty, such as the nature of the household dwelling. Proxy means testing is by definition likely to be less accurate than verified means testing and also relies on a high administrative capacity. Chile pioneered proxy means testing in 1980 with its Ficha CAS programme, and Colombia and Mexico subsequently adopted the technique for programmes involving public works and conditional cash transfers. Various forms of proxy means tests operate in programmes or pilots throughout Latin America and in countries such as Egypt, Indonesia, Russia, Sri Lanka, Turkey, the West Bank and Gaza, and Zimbabwe.

Categorical targeting means targeting groups in the population more likely than others to be in poverty, such as children or older people. Information gathering is easier and cheaper, though gathering documentary evidence of age will still be costly in poorer countries. Targeting older people through a universal non-contributory pension is an important social transfer instrument in many developing countries. The main disadvantage of universal categorical targeting is that overall costs are likely to be higher. But there may be important advantages, such as political acceptability among the non-poor, and also practical feasibility. Categorically targeted transfers such as pensions can be means tested, as in South Africa and Brazil. But as with

means testing more generally, in lower capacity environments such programmes may be difficult and expensive to administer.

Geographical targeting determines eligibility by area of residence. Social transfer programmes frequently restrict their scope to areas with the highest concentration of poverty. A key advantage of geographical targeting is its simplicity, which can be especially important in acute emergencies, but, used alone, it tends to generate large errors of both exclusion and inclusion (depending on the level of disaggregation used). Programmes such as Brazil's Bolsa Familia conditional cash transfer programme combine geographical targeting with means testing. Unconditional transfer programmes are less likely to use geographical targeting.

Self-targeting programmes discourage participation by the non-poor, by imposing conditions such as a work requirement and paying the transfer at a very low level. Both methods have been used in public works programmes, but wages have been too low in many programmes to allow households to protect their household assets and to have a lasting impact on poverty. In addition the work requirement excludes labour-poor households, and may favour less-poor, larger families.

Community-based targeting is a relatively new targeting method that is as yet unproven in long-term large-scale social protection programmes. It uses community representatives with local information to identify eligible individuals. The main risks are that local elites deviate from targeting guidelines, and the selection process can cause social tension and resentment. Ethiopia's experience with community targeting yielded positive and negative results varying from region to region – depending on the socio-economic and cultural circumstances of each locality. Evidence from Bangladesh suggests that the average impact is to improve targeting to the poor – but with a great degree of variability across communities.

For more detailed guidance on targeting see Chapter 3 of *Managing Social Transfers: A Guide to Management Arrangements for Social Transfers in the Form of Cash* (available at Equity and Rights Team inSight page).

Processing applications

Verifying eligibility of beneficiaries as accurately as possible is essential to minimise fiduciary risk from deliberate fraud, or errors on the side of either applicants or the authority administering the programme. The more demanding the application process and the higher the transaction costs for applicants, the lower the risk is likely to be. But **a balance must be struck between minimising fiduciary risk and meeting the policy objectives of the programme**. For example, a programme that requires the poor to travel long distances to undergo an onerous application procedure may exclude some groups and undermine the original objective of reducing poverty.

Verification systems should use formal and informal mechanisms that are appropriate to local circumstances, and reflect factors such as levels of literacy. Developed countries such as the UK can ask for documentation such as passports and birth certificates to establish identity and age, and tax records to establish eligibility. These will be widely unavailable in developing countries, though advanced technology can still be used, as it is in South Africa, where pensioners' identities are

confirmed using biometric data. In poorer countries, alternatives may have to be found, based on available resources. In Nepal, verification of age for the pension can be made with a horoscope, a document which most citizens have and which contains accurate dates of birth. In Lesotho, pensioners can register with supporting evidence from community leaders or doctors, who may not have a precise birth date but can offer anecdotal evidence such as “this person was born in the year of the famine”. Social transfer programmes offer an opportunity to encourage birth registration.

Applications need to be processed as accurately as possible to reduce fiduciary risk but this should be balanced against the need to process applications in a timely manner. **Delays in processing can lead to late delivery of transfers, with the potential for individual circumstances to change before payments are made.** To take two examples, some pension applications in South Africa have taken up to a year to process, while at the other extreme, in Mexico, applications for Oportunidades are completed in applicants’ homes and processed within a week.

Making payments

Programmes require secure payment systems. Both administrators and beneficiaries need adequate personal security and, as with processing claims, the identity of payees needs to be verified using appropriate levels of technology and documentation. The Lesotho pension programme uses police and security forces personnel to provide security when cash payments are made. More advanced technology can also be used to increase the security of the disbursement. For example, in South Africa, pension payments are made using mobile ATMs on pension vehicles.

Where possible, **non-cash payments should be made into bank or post office accounts**, as happens in Mexico and Brazil. This reduces the risk from cash being handled at different points in the process. Clearly it will not be possible in, for example, rural Zambia, where the Kalomo cash transfers pilot relies on cash being distributed to local head teachers for further disbursement. It is important that onward disbursement is regularly monitored in such circumstances and appropriate security is provided. Social transfer programmes can provide an opportunity to encourage the development of local financial institutions.

Payments should also be made regularly and promptly. For many poor and vulnerable households, timely payments will be critical to their wellbeing. The management of the flow of funds is important. Pension programmes in South Africa, Nepal and Lesotho have suffered payment delays through inadequate fund flow management.

Governments need to ensure that programmes are sustainable by **forecasting take-up and ensuring adequate funds are available to make payments.** Donors can help by harmonising aid flows with government budgeting and planning processes, which will allow increased forward planning and increased predictability of funding flows. In 2006, the transfer of funds to the Government of Ethiopia for the Productive Safety Nets Programme was unhelpfully delayed as a result of the need to meet donors’ own financial reporting requirements.

Managing the caseload

Programmes should be subject to **periodic case reviews** to ensure beneficiaries remain eligible for the programme. Potential mechanisms are random checks and re-interviewing, automated checks for inconsistencies and other problems, and making comparisons with external databases. In South Africa, a recent comparison of social grant beneficiaries against the national public service employment records uncovered significant fraud. In Colombia, automated checks provide lists of duplications and inconsistencies. Clearly the capacity to carry out these cross checks will vary by country, and there may be a need to invest in, for example, technological infrastructure and for donors to provide appropriate technical assistance.

Further detail on processing applications, making payments and managing the caseload is available from Chapter 6 of *Managing Social Transfers: A Guide to Management Arrangements for Social Transfers in the Form of Cash* (available at Equity and Rights Team inSight page).

Accounting for expenditure

Effective control relies on **adequate accountability to beneficiaries, the wider population and to government**. Good accountability can have positive political benefits – for example, if fraud is dealt with and reported in the press, governments can demonstrate that corruption is being addressed and can maintain or build support for the programme as a result.

Both **programme and administration expenditure need to be controlled and accounted for** through effective budgeting, financial and budgetary controls and procedures, and effective monitoring. Often cash transfer programmes depend on a transfer of government funds to a local institution such as a bank or school. After this has taken place, there should be a reconciliation of the transfer to actual payments made to beneficiaries to identify any mistakes and abuse.

National accounts audited by an **effective audit institution** provide assurance that monies have been properly spent and recorded. If existing national standards for auditing are weak, DFID and other donors should consider whether they can contribute to developing capacity in this area. Audit institutions which undertake value-for-money reviews of programmes can also provide additional assurance about the way in which they operate. The Brazilian Court of Audit undertakes and publishes evaluations of social benefit and social welfare programmes.

Mistakes and instances of fraud can also be addressed by **making eligibility and processing of applications as transparent as it can be**. In Brazil, details of beneficiaries in the Bolsa Familia programme are published on the internet, for all to see. Where there is community targeting, a list of beneficiaries can be posted in a public place (though the risk of stigma needs to be weighed against the benefits of such an approach). Many countries also publicise toll-free anti-corruption telephone hotlines. Accountability can also be strengthened by providing other information publicly, such as national statistics on spending and numbers of beneficiaries, and periodic evaluations.

Criminal penalties can be used against those perpetrating fraud in social cash transfer programmes. Many developing countries have not yet taken full advantage of the potential of civil and criminal penalties, but these should be considered. South Africa's anti-corruption campaign, while not generating criminal sanctions, has recuperated significant resources through fines and reimbursements. And, Brazil is in the process of establishing a joint oversight between the Ministry of Social Development and the Attorney General.

Civil society oversight should be encouraged to hold the implementing agency to account. Civil society can advocate for beneficiaries and act as anti-corruption watchdogs. Civil society organisations in South Africa have used the national constitution to pursue the judicial oversight of the implementation of social transfers, and, in Latin America, conditional cash transfer programmes usually use an elected representative or committee to provide oversight.

In terms of accountability to beneficiaries, mistakes by the administering agency can be addressed **by an independent complaints or appeals procedure**. This is for use by applicants who feel their applications are not processed properly, their needs have not been assessed correctly, or payments have not been made on time. In the UK, the appeals procedure allows the volume of errors at different points in the decision-making process to be monitored and systems to be revised accordingly.

(b) Mitigating fiduciary risk by monitoring and evaluating programmes

Risk can also be mitigated through effective monitoring and evaluation of the operation of social cash transfer programmes. This can provide an early indication of whether the design of the programme and operational controls are working effectively. Monitoring and evaluation should be undertaken by those directly responsible for supervising and managing the programme. There may be an opportunity here for DFID and other donors to develop capacity in this area. Donors may in some circumstances seek to undertake their own monitoring and evaluation, but this should not undermine the development of capacity within partner governments. Programmes with an adjudged higher level of fiduciary risk will require more frequent and thorough monitoring and evaluation.

The information demands of effective monitoring and evaluation should be considered at the outset, when programmes are being designed. Information is likely to be required on a continuous basis throughout the life of the programme. For example, in Mexico, monthly checks are made to ensure the Oportunidades programme is meeting expected standards. The information required is likely to include, depending on the sophistication of the programme, the number of payments made over the period, the speed with which applications are processed and payments are made, the number of failed applications and reason for rejection, the details of appeals, and the overall administrative and programme (cash transfer) cost of the programme.

Where programmes are operating in **lower capacity environments**, every effort must still be made to monitor programmes effectively, to reconcile disbursements from central government or donors with payments made, and to ensure the eligible population is being reached rather than other groups. This is important to maintain the credibility of the programme.

A thorough evaluation of a programme is required from time to time, for example, after a pilot or after a full year of operation, to assess the programme's impact as well as the effectiveness of its operations. It is important, even in low-capacity environments, to consider the information needs of evaluating the impact of programmes – as opposed to the operations of programmes. In particular, it is important to consider whether a baseline survey is needed, to measure what is happening before the transfer is introduced.

Audit reviews also provide valuable information about the strength of controls in cash transfer systems. These might be undertaken by both the Supreme Audit Institution and government internal auditors. Arrangements for external audit were specified as part of the planning to address the fiduciary risks in Ethiopia's Productive Safety Nets Programme.

Conclusion

Risk is inherent in cash transfer programmes. Where a high volume of low-value payments is being distributed, there will always be some rate of error or fraud. The cost of removing this completely will be prohibitive. Fiduciary risk, therefore, needs to be assessed and managed but within the wider context of ensuring programmes meet the objectives of reducing poverty. Measures to reduce risk invariably involve a cost to the authorities or to the beneficiary.

The best way of mitigating fiduciary risks is to ensure that effective but appropriate controls are built into the programme into the design stage. It is helpful to keep the operation of the programme as simple as possible, particularly by making the criteria used to assess the eligibility of beneficiaries straightforward, while still ensuring that the basic objectives of the programme are being met (taking simplicity to its extreme would allow for no targeting of groups within the population at all).

Once in operation, programmes also need to be monitored and evaluated to provide an early indication of any failure in the controls. And the level of fiduciary risk needs to be reassessed periodically to ensure that it remains within acceptable limits.

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