



Humanitarian cash transfers: cost, value for money and economic impact

Background note for the
High Level Panel on Humanitarian Cash Transfers

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Whether cash, vouchers or in-kind assistance are provided as humanitarian relief it is important to understand the cost efficiency of different transfer modalities, their comparative effectiveness in meeting defined objectives and the impact on local economies and markets. Whether or not cash responses are appropriate, efficient and effective depends on context and will vary over time as markets recover following disasters. Where appropriate, evidence suggests that cash can be an efficient and effective part of humanitarian response with positive multiplier effects on local markets.

Cost, efficiency and value for money

The question of how much it costs to assist a person with humanitarian aid is a simple question that is surprisingly difficult to answer, even when looking at a single organisation's humanitarian response. It is challenging to get the 'full cost' of humanitarian assistance – meaning all of the costs of purchased (or donated) relief commodities, transport, staff salaries and other expenses (Cabot Venton et al., 2015). Aid agencies usually do not record costs by activity or disaggregate the costs of an intervention

based on the resources that it provides (cash, vouchers or in-kind). International humanitarian assistance is also often channelled through different intermediaries with complicated contracting arrangements. For example, UN agencies that receive funding from governments often channel assistance through multiple international NGOs, which may contract local partners. Each entity has overhead costs, which can be as high as 25%. Different sources of funding may cover different costs. Tracing the 'humanitarian dollar' from its donation by a person or a government to the ultimate beneficiary is therefore a very difficult task.

Data on the comparative cost of cash transfers, vouchers and in-kind aid comes primarily from research that set out to make comparisons and evaluations that made them after an intervention. These focus almost exclusively on food assistance. They find that it is usually cheaper to deliver cash than food aid and that the difference can be large (e.g. with food costing double or triple the cost to

deliver) (Hoddinott et al., 2013; Gentilini, 2014).¹ Where aid agencies can buy food in bulk at less cost than recipients purchase it in local markets, the cost difference between cash and food will narrow, though the efficiency of cash will improve as agencies become more experienced and implement cash interventions at a larger scale (ibid; Cabot Venton et al., 2015). Food aid procured internationally (i.e. in the United States) adds cost and a few months' time for shipping (Lentz, Passarelli, and Barrett, 2013). In 2007, the US government estimated that transportation and business costs accounted for 65% of emergency food aid expenditures (US GAO, 2007).

Vouchers must be spent in certain shops and often on certain goods with implications for efficiency. Limiting the number of retailers (compared to cash, which can be spent anywhere) reduces competition and increases risk of price increases by vendors. In a humanitarian voucher programme in Lebanon, it is estimated that almost \$1 million each month was 'lost' in 2014 due to higher prices by some vendors (Pongracz, 2015). There have been too few comparisons between cash and voucher programmes to draw conclusions on delivery costs which vary depending on the systems used.

The efficiency of food aid and vouchers is further reduced if people sell them at a loss to purchase what they need most. In Iraq, up to 70% of Syrian refugees sold significant portions of food aid (REACH, 2014), although studies in some other contexts have found limited or no sales of food aid (Hoddinott et al., 2013). In Lebanon, surveys done in three different periods of 2014 found that 7% to 55% of households reported cashing in some of their food vouchers to cover other needs (Pongracz, 2015).

When cash and vouchers are provided there is scope to work with local markets and traders to drive efficiencies in the supply chain for the key goods that people are purchasing. WFP is starting to do this in the Syria crisis response and estimates that there is scope for savings of up to 30 to 40% through improving supply chain efficiency.

The efficiency of cash compared to in-kind aid increases when one considers what it would cost for

in-kind aid to replicate cash assistance (i.e. what humanitarian agencies would pay to provide similarly diverse goods and services that people purchase with cash) rather than the cost of cash assistance to replicate in-kind aid (i.e. what people would pay in the local market for the same items that an aid agency would give them) (Cabot Venton, et al., 2015). Aid agencies cannot easily provide the precise equivalent of cash through in-kind approaches given the diversity of goods and services purchased and ones that lack in-kind equivalents, such as debt repayment, land rental and savings. In settings where a large proportion of a cash grant goes to only a few commodities, such as staple foods, it would make much less of a difference to the cost analysis whether the starting point of the comparison was cash or in-kind assistance (ibid).

Cost alone means little and must be compared against what assistance achieves. This is referred to as cost-effectiveness or value for money. Given the wide range of humanitarian contexts and possible outcomes of assistance, and the difficulty of assigning monetary values to benefits like flexibility and preference, it is not possible to make sweeping statements on cost-effectiveness. The cost effectiveness of different transfers may depend on the outcomes being considered – for example household well-being or the calories they consume (Hoddinott et al., 2013). Most studies have found cash to be more cost-effective than food aid at improving diet quality (Bailey, 2013).

Where cash does offer unique value for money benefits is as a flexible tool to improve household welfare and to meet needs according to people's own choices. From an economic theory standpoint, households put money towards the uses that provide them with the greatest marginal utility – meaning the largest gains from increasing consumption of a good or service (Cabot Venton et al., 2015). In other words, they put it towards what matters most given their available options. Multiple needs of households can be met through a single cash grant (e.g. to access food, household items, pay rent) which could reduce the need for separate interventions designed to meet each need (while recognising that certain aspects of humanitarian response cannot be replaced with cash, such as technical assistance or shelter, protection, etc.).

Many of the factors related to cost and effectiveness are as much about *how* transfers are provided as they are about *which* transfers are provided.

¹ A four-country study found cash to cost \$2.89 - \$3.24 per transfer to deliver while food transfers ranged from \$6.41-\$11.46 (Margolies and Hoddinott, 2014).

Different delivery approaches will result in different costs for aid agencies and recipients: more intensely monitored programmes will have higher staff costs; smaller-scale programmes will be less efficient than larger-scale ones; and programmes with smaller and more frequent transfers may be less efficient than ones with larger, less frequent transfers. Interventions that are well targeted, designed and implemented will be more effective than those that are not.

For cash transfers, there may be scope to make savings where agencies work through common payment systems, reducing individual costs. However, using common payment systems is not necessarily more efficient if one aid agency manages the process and charges a fee – in fact this could increase costs. The greatest efficiency gains arguably would be realised by working through a smaller number of aid agencies and through government systems, rather than coordinating a large number of smaller cash interventions that do similar things (Cabot Venton et al., 2015).

Economic impacts

International humanitarian responses impact local economies. Aid agencies pay for offices, hire staff and distribute resources in the form of money, vouchers and in-kind assistance. The nature and scale of the economic impact depends on the type and amount of resources injected, market structure and other factors such as timing. For interventions providing cash transfers, markets that are well integrated can easily respond to increased demand. When markets are unstructured, damaged or supply constrained, the impact can be negative for consumers through higher prices and lower availability.

In-kind resources increase the supply of commodities, which can temporarily depress prices if they flood markets and have a negative impact on production and trade. Reduced prices are a common result of food distributions and imported food aid can affect local production negatively. Evidence suggests that damaging effects are most likely to take place when food aid arrives or is bought at the wrong time, when food distributions are not well targeted, and when the local market is poorly integrated with national, regional and global markets (Barrett, 2006).

There is much evidence that humanitarian cash responses to date have not caused inflation. In

response to the 2011 Somalia famine, cash and vouchers totalling \$110 million did not increase food prices, which actually lowered due to decreasing global prices (Hedlund et al., 2013). No inflationary effects were found in Pakistan after \$400 million was provided following flooding in 2010. Not all markets will respond to increased demand. In northern Uganda a cash programme resulted in temporary local inflation of livestock prices because of high transaction costs, poor infrastructure and incomplete information on regional markets (Creti, 2010). At the same time, the amounts being provided by aid agencies may be relatively small compared to other channels of cash flowing in and out of local economies – such as remittance flows.

Humanitarian interventions that transfer resources increase economic transactions, setting in motion income multipliers in the local economy. Most of the evidence on the multipliers of cash transfers is from social cash transfer programmes in sub-Saharan Africa. The multipliers estimated range from 1.5 to 2.5, meaning that an injection of cash of \$1 million would generate additional income of \$1.5 million to \$2.5 million for the local economy.² There are some multiplier estimates from humanitarian contexts, such as from rural Zimbabwe with 2.59 for cash, compared to only 1.67 for food (Concern Worldwide, 2011). This means cash would create 55% more additional income than food aid.

Whether cash, vouchers or in-kind aid is provided determines the distribution of economic benefits. Cash can be spent anywhere. Compared to in-kind and vouchers, its benefits will be spread across the widest variety of businesses and services (as food is a common purchase, the first round multiplier effects are likely to go to local traders and producers that have surplus stock to sell). Cash and vouchers programmes can result in job creation if businesses expand their activities to address the demand, as was the case with WFP voucher programmes in Jordan and Lebanon (WFP, 2014). For food aid procured locally, the magnitude of the multiplier effect could theoretically be the same as for cash and vouchers, but benefits are concentrated among those supplying the food, which are often large wholesalers outside the local economy. US food aid benefits the US agricultural and shipping sectors.

² www.fao.org/economic/ptop/publications/reports/en

Cash interventions may have other positive economic impacts. They can increase liquidity and enable recipients to repay debts and re-enter credit markets. The Citizens Damage Compensation Programme in Pakistan, for example, helped the microfinance sector recover when it was struggling to manage the impact of the floods due to non-repayment of loans (OPM, 2013). Evidence from programmes aimed at poverty reduction suggests that larger grants to support livelihoods may increase future income. Cash grants to unemployed youths in northern Uganda (equal to twice their annual income) resulted in most recipients increasing their annual earnings by at least 40% (Blattman, Fiala and Martinez, 2013).

There is ample room for scaling up cash where markets can respond. How much cash can be increased and the economic impacts it will have will depend on the market context, how people will spend their additional income and whether some sectors (e.g. housing) would be able to respond if demand significantly increased. However, concerns that larger cash interventions will cause inflation have been out of step with evidence to date from Somalia, Pakistan, Philippines and the USA (where more than \$6 billion was distributed following hurricanes Rita and Katrina).

There is a danger of focusing on the ‘what’ of cash transfers rather than the ‘how’ of their design and implementation, which should be based on a sound understanding of local markets, as well as consideration of how they can be most effectively combined with other forms of assistance. This is not just about what markets supply and can absorb. While it is tempting to see markets as neutral forces, most humanitarian aid is in fragile and insecure contexts, where there is weak rule of law, endemic corruption, abject poverty and groups who wield significant power. Humanitarian aid does not operate outside of these dynamics and must be based on a sound understanding of who benefits.

The big picture

Evidence on the cost and economic impacts of humanitarian cash transfers matters. Humanitarian assistance should not undermine local markets and disadvantage people who depend on them. More efficient and less costly interventions mean humanitarian resources can help more people. Humanitarian interventions that provide money could become even more efficient with economies

of scale and if humanitarian actors utilise less costly payment systems and establish working relationships that result in more efficient payments, whether through preparedness or initial investments in settings prone to disasters.

The evidence shows that in every situation in which cash has been used at large scale thus far markets have responded. This does not mean that they always will, but it is important to weigh this evidence against concerns about inflation, and even more important that the humanitarian system has the skills and capacity to understand markets with a much greater degree of sophistication. Evidence also shows that cash is an efficient form of aid. This should be harnessed as a way to reach more people (and not as impetus to reduce humanitarian funding, which is insufficient to cover needs).

An implicit assumption in analysis to date on efficiency and economic impact is that humanitarian actors will provide cash in the same ways that they have provided in-kind aid – with agencies having individual agreements with companies to deliver assistance and coordinating with one another and often competing with each other for scarce resources. This is a limited view. As it becomes more widely accepted that money can be used as a flexible form of relief to address basic needs, there may be opportunities for much greater efficiency gains through larger programmes with fewer aid agencies (using cash to meet a wide range of household needs), using common service providers, leveraging the volume of transactions, and working through government social safety nets.

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