

**Working paper: Lessons learned from the 2004 Indian Ocean tsunami**

# CASH TRANSFERS IN EMERGENCIES

**A review drawing upon the tsunami and  
other experiences**

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This paper reflects the opinions of the author and not necessarily those of UNICEF.

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# Contents

<b>Abbreviations</b>	<b>7</b>
<b>Executive summary</b>	<b>8</b>
<b>1 Introduction</b>	<b>11</b>
1.1 Background	11
1.2 Why consider cash transfers? Why now?	11
1.3 Scope and objectives	12
<b>2 Overview</b>	<b>14</b>
2.1 Features of cash transfers	14
2.2 Using cash vs. in-kind aid in emergencies	15
<b>3 Global experience: A sampling of cash interventions</b>	<b>17</b>
<b>4 Positive impact on children</b>	<b>21</b>
4.1 Measuring impact on children	21
4.2 Benefits from the flexibility of cash	22
4.3 Cash transfers and poverty reduction	22
4.4 Evidence across social sectors	23
<b>5 The reluctance to use cash, and why it's not all that bad</b>	<b>26</b>
5.1 Increased security risks	26
5.2 Misuse and corruption	27
5.3 Risks with targeting cash transfers	28
5.4 Disadvantage to women	29
5.5 Dependency and crowding out	30
5.6 Risk of inflation and distortion in the local labour market	32

<b>6</b>	<b>Why cash transfers have gained currency in recent times</b>	<b>33</b>
6.1	Presence of functioning local markets and infrastructure	33
6.2	Re-thinking food aid policy and practice	33
6.3	Addressing food insecurity through cash transfers and social services	35
6.4	Cost effectiveness: Cash transfers vs. in-kind aid	35
6.5	Increasing focus on social protection	37
<b>7</b>	<b>UN agencies: Experience and perspectives</b>	<b>39</b>
7.1	Growing interest among UN agencies	39
7.2	UNICEF: Practical experience with cash transfers	40
7.3	Transition and sustainability	41
<b>8</b>	<b>Conclusion</b>	<b>43</b>
8.1	Why UNICEF should consider supporting cash in emergencies	43
8.2	Going forward	43
	<b>References</b>	<b>45</b>

# Abbreviations

ADBI	Asian Development Bank Institute
CC	Children's Centre
CCT	Conditional cash transfer
CHIP	Childhood Poverty Research and Policy Centre
DFID	Department for International Development (UK)
FAO	Food and Agriculture Organization
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit GmbH
IDS	Institute of Development Studies, Sussex
IFPRI	International Food Policy Research Institute
KDP	Kecamatan Development Program
NGO	Non-government organization
ODI	Overseas Development Institute
OFDA	U.S. Office of Foreign Disaster Assistance
OVC	Orphans and other vulnerable children
SCUK	Save the Children UK
SDC	Swiss Agency for Development and Cooperation
SIDA	Swedish International Development Cooperation Agency
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WB	World Bank
WFP	World Food Programme

# Executive summary

## Background to cash transfers

Cash transfers involve providing cash or vouchers directly to households, as opposed to providing a service or a commodity. In public social protection programmes, cash transfers have long been used to complement household income in times of adversity or exposure to shock, or to address social and economic vulnerabilities. Cash transfers have also been provided as a part of emergency response, and increasingly so in recent years. In the tsunami-affected areas, governments, non-government organizations, donors and UN agencies, including UNICEF, supported a variety of cash transfer programmes.

## Rationale for this review

A key reason to provide cash instead of in-kind aid is that cash allows households flexibility in deciding their spending needs. This can have positive results for children through its impact on nutrition, health and education, among other areas. Cash can also help generate local market activity and restart livelihoods. It can be constructive for gender relations and equality. Cash is a more empowering and dignified form of support than in-kind aid, and under appropriate conditions, it can be more cost-effective.

Given the benefits of cash transfers, the international community is increasingly paying attention to cash interventions in emergencies. For instance, a World Food Programme (WFP) pilot tested a cash transfer activity alongside its food aid facility in tsunami-affected Sri Lanka; Oxfam has written a manual on how to implement cash transfers in emergencies; the Swiss Agency for Development and Cooperation (SDC) implemented cash projects in eight countries between 1999 and 2004 and has an advisory unit called 'Project Cash' that focuses solely on cash-based responses; The UK Department for International Development (DFID) has helped Brazil to share lessons on conditional cash transfers with several African countries; and the World Bank (WB) provided US\$35 million towards cash grants to tsunami-affected households in Sri Lanka. These examples reflect an interest in the advantages of cash transfers in contemporary contexts.

Overall, the recent experience is encouraging, yet the impact and modalities of cash transfers in emergencies need to be better understood and analysed. This paper draws upon the tsunami experience, as well as documented examples of cash interventions from other contexts, both emergency and development situations. The methodology includes field visits and interviews with a range of organizations that have been directly involved in delivering cash interventions.

## Perceived risks of cash transfers, and recent evidence to the contrary

Cash transfers have often been under-utilized in emergencies. Some of the criticisms against cash transfers are that they are difficult to deliver and monitor since cash presents a security risk and is susceptible to theft, corruption and misuse; that cash can be disadvantageous to women, who may not have control over household spending; that the transfer can create dependency among beneficiaries and diminish other (informal and formal) forms of social protection; and that injections of cash can cause inflation and distort local markets for labour and goods. But implementing organizations are confronting these concerns, finding solutions to mitigate the risks, and have observed that the risks are not as pronounced as they are perceived to be.

For instance, many of the security risks associated with cash also apply to in-kind aid distribution, in particular food distribution. That is, food can also be looted during delivery, distribution and retention by the recipient. In some cases, where local banks or money transfer systems are functional, cash may be the more secure alternative (Creti & Jaspars, 2006).

Another concern is that of misuse. However, studies show that beneficiaries largely spend cash on buying food, household items, school uniforms and books, agricultural inputs, etc. A study of cash programmes in 15 African countries found little evidence to support the assumption that cash is misspent, but rather that individuals and households make careful and strategic decisions about how to use the additional income (SCUK, HelpAge International & IDS, 2005).

Yet another concern is that cash is disadvantageous to women. However, evidence shows that targeting cash to women can enhance their negotiating position in household decision-making. Improving women's ability to earn and control income can improve their status in the household and the community, even if temporarily. In cash-for-work projects in Orissa, India, in 2000 and in Sri Lanka in 2005 (post-tsunami), women did the work usually associated with men and were paid equal wages even though the norm was a lower wage rate for women. Cash transfers targeted to women can also benefit children. Studies from Brazil and South Africa showed that when a woman received an old age pension, the impact on nutrition and school enrolment among co-resident children was stronger, particularly for girls (Barrientos & DeJong, 2004).

### Reasons for the emerging interest in cash in emergencies

One reason that cash transfers have been viable in recent years is that in many low-income countries, market mechanisms are now active and resilient. Financial, transport and communications infrastructure have improved. In such situations, the problem is that people are unable to buy food and other goods, not that items are unavailable (Creti & Jaspars, 2006).

Recent trends in re-thinking food aid policy and practice have prompted greater attention to cash as a more effective form of assistance, both in terms of cost and impact in recipient countries. In particular, the tsunami-affected areas offered favourable conditions for cash transfers. Firstly, there were functioning markets and infrastructure not far from the affected areas. Secondly, the tsunami-affected countries were largely self-sufficient in food before and after the tsunami.

Moreover, the interest in cash transfers has been fuelled by positive experiences with development-oriented cash programmes in Latin America and sub-Saharan Africa.

### The perspective from UNICEF and other UN agencies

In general, UN agency mandates and accountabilities preclude giving cash directly to households. UNICEF does not support cash interventions as a standard part of its emergency response. However, UNICEF has been involved in cash programmes in Kenya and in Aceh, Indonesia. UNICEF staff who contributed to this review had mostly positive comments about the benefits of cash transfers; a few stated concerns about the associated risks. Overall, there was a call for clarity and guidelines on UNICEF's role and procedures for supporting cash transfers, for sharing experiences across offices and for building relevant skills and capacity.

The Food and Agriculture Organization (FAO) and WFP appear to face similar constraints of mandates and fiduciary responsibilities with respect to cash transfers. Yet, both agencies have said that they could leverage their existing logistics and delivery systems to facilitate cash transfers. Notably, WFP has run cash programmes alongside its food aid programmes, including in tsunami-affected areas in Sri Lanka.

### The imperative for UNICEF to support cash transfers in emergencies

*The evidence of positive impact on children:* While there is a recognized need for more rigorous analysis and evaluation of cash transfers, particularly in emergencies, the available evidence of impact on children is encouraging. Cash transfer programmes around the world have yielded positive outcomes for children with respect to health, education, HIV/AIDS and poverty reduction.

*The emerging policy dialogue on social protection:* Globally, donor support and government interest in social protection is growing. There is a recognized need to strengthen social protection in low and middle income countries given the effects of globalization, unequal economic growth, poverty and disparity, HIV/AIDS, and the currently weak or stagnating social protection systems in many of these countries. Children face similar risks as adults, but also additional ones due to their age and dependency. This has implications for UNICEF's role: One, that existing objectives and modalities of cash programmes, and definitions of social protection more broadly, need to be viewed from a child's perspective. Cash transfers need to be designed so that they account for children's specific vulnerabilities. Two, cash programmes that are targeted to adults need to be examined for their impact and effectiveness in providing social protection to children.

## How: Technical and financial support and advocacy

### *Analysis and advocacy:*

- Analysis of impact on children: Gather evidence and analyse cash programmes to better understand and articulate their impact on children.
- Advocacy on the use of emergency funds: Advocate for the need for flexibility in the use of emergency funds so that they can be applied towards cash programmes, where appropriate.
- Advocacy for national policy response: Advocate for greater attention to cash transfers in social protection policies and public budgets; highlight the perspective of children, i.e. their specific vulnerabilities. Emphasize the potential for short- and long-term results for children, and the link between cash assistance and poverty reduction.
- Partnerships: Collaborate with organizations and agencies who are actively engaged in dialogue, research and implementation of cash transfers in emergencies.

### *Technical and financial support to cash transfers in emergencies:*

- Establish procedures and produce guidelines: Apply a needs assessment methodology to examine the appropriateness and feasibility of delivering cash. Develop guidelines on the relevant procedures with respect to both programme and operations functions.
- Develop capacity of UNICEF staff and government counterparts: Familiarize practitioners with cash transfers objectives and modalities, e.g. when is cash appropriate, how to set up a cash transfer activity, what are the risks and mitigating measures, etc.
- Pilot test methods: Work with governments to run pilot projects to assess the applicability of cash transfers, targeting methods, systems of delivering cash, monitoring methods, cost-effectiveness and impact on children.

# 1 Introduction

## 1.1 Background

Cash transfers involve providing cash or vouchers directly to households, as opposed to providing a service or a commodity. Cash interventions have been supported and implemented by governments, non-government organizations (NGOs), donors and UN agencies, including UNICEF, in both emergency situations and in a development context.

There is a history of cash transfers in social protection programmes around the world. In many countries, cash transfers are a regular form of assistance to complement household income in times of adversity or exposure to shock, such as loss of livelihood, old age or disability, or to address social and economic vulnerabilities. Examples of cash transfers include child support grants, pensions for the elderly and unemployment benefits.

Providing cash as a part of emergency response is not a new idea: in India, cash has been a part of public relief measures under India's Famine Codes, which were first drafted in 1880<sup>1</sup>; cash transfers were used by the British colonial administration during the 1948 famine in the Sudan; and UNICEF was involved in delivering cash transfers in Ethiopia in 1985.

In recent years, there have been an increasing number of success stories of cash interventions in both development and emergency contexts:

- *In poverty reduction and development policy:* Experience from Mexico and Brazil shows that a conditional cash transfer “not only creates an immediate decline in poverty among recipients if the transfer is larger than the cost of the condition, but it also induces a gain in the educational, health, and nutritional achievements of beneficiaries’ children, thus potentially helping reduce future poverty levels” (de Janvry & Sadoulet, 2005, p. 1). In Africa, cash transfers have gained support as a response to poverty, food insecurity and HIV/AIDS. Given the insufficient public resources for social protection, over-stretched coping capacities of families and communities, and a disfavour of institutionalized food aid, governments and donors are “shifting in favour of meeting ‘predictable hunger’ with predictable cash transfers” (SCUK, HelpAge International & IDS, 2005, p. v).
- *In emergencies:* The experience is growing and beginning to inform humanitarian policy and emergency response. For instance, Oxfam has written a manual on how to implement cash transfers in emergencies; SDC implemented cash projects in eight countries between 1999 and 2004 and has an advisory unit called ‘Project Cash’ that focuses solely on cash-based responses; DFID has helped Brazil to share lessons on conditional cash transfers with several African countries; and the WB provided US\$35 million towards cash grants to tsunami-affected households in Sri Lanka. UNICEF, UNDP and WFP were each involved in cash programmes in the tsunami-affected areas. These initiatives reflect the strong interest in the advantages of cash transfers.

## 1.2 Why consider cash transfers? Why now?

### 1.2.1 The positive impact and manageable risks of providing cash in emergencies

A key reason to provide cash instead of in-kind aid is that cash allows households flexibility in deciding their spending needs. This can have positive results for children through its impact on nutrition, health and education. Cash can also help generate local market activity and restart livelihoods. It is often a more empowering and dignified form of support. There is evidence that it can give women more decision-making power over resources. Moreover, current trends in re-thinking food aid policy and practice have prompted more attention towards cash as a more effective form of assistance.

<sup>1</sup> The Indian Famine Codes identify early warning indicators of crisis such as crop failure, food price rises, sales of land and distress migration in order to trigger public interventions. These include employment creation (i.e. employment guarantee schemes) and food distribution (Harvey, 2005).

So far, cash has often been under-utilized in emergencies, partly due to concerns about corruption, insecurity and difficulties with design and monitoring of cash interventions. There are also concerns that cash can introduce inflation and distort local markets. But implementing agencies and organizations are confronting these concerns and finding solutions to mitigate the risks. They have observed that the risks are not as severe as they are perceived to be.

Another constraint that is cited is that the standard operations and accountabilities of UN agencies are not geared to provide cash transfers to households. However, several UN agencies have implemented cash programmes in appropriate contexts. In the tsunami recovery operations, UNICEF supported a cash activity that reached 1,700 children in Aceh, Indonesia, and a WFP pilot tested a cash programme alongside its food aid programme in Sri Lanka.

The results are encouraging, but they point to future avenues of work. Cash transfers need to be better understood. Their benefits need to be substantively explored, the design and risk mitigation issues further resolved, and capacity and awareness further developed.

### 1.2.2 Favourable conditions for cash transfers in the tsunami-affected areas

Experience from the tsunami has brought further attention to the benefits of cash and has raised the capacity to deliver cash transfers among the humanitarian community. This experience is important because conditions in the tsunami-affected areas were amenable to deliver cash. That is, there were functioning markets and infrastructure not far from the damaged areas, and the affected countries were largely self-sufficient in food before and after the disaster. It shows what can be achieved when cash programmes are implemented under appropriate circumstances.

The tsunami experience strongly indicated interest from a range of actors. Going forward, it offers opportunities to consider how cash transfers can be further applied in emergency response and what role they can play in national social policies.

### 1.2.3 The growing interest in strengthening social protection systems

Cash transfers are a critical instrument in social protection, and there is currently a surge of interest in social protection. Practitioners and scholars are attempting to redefine the conventional idea of social welfare, and to forge an approach that captures the kinds of vulnerabilities and shocks that households are likely to face in a contemporary context, i.e. a context characterized by economic and social transition.

The interest in social protection has been prompted by a number of factors: the difficulties with economic transition in Central and Eastern European countries; the financial crisis in East Asia in the mid-1990s; the lack of coverage and weak social protection systems in Asia and sub-Saharan Africa, particularly in the context of HIV/AIDS; the stagnating social protection coverage in Latin America; and the lingering impacts of structural adjustment policies of the 1980s, which increased the size of the informal economy.

Another driving force is globalization<sup>2</sup>, which can effectively strengthen the public demand for social protection and at the same time undermine the capacity of governments to deliver it (Barrientos & de Jong, 2004). This is coupled with the demographic challenges of aging and changing family structures in many parts of the world. As a result, “a wider set of providers, instruments and programmes is needed to meet the increased demand for social protection” (p. 9).

These trends are compelling. They place cash transfers at centre stage as a crucial social policy option to support vulnerable children and households.

## 1.3 Scope and objectives

### 1.3.1 Objectives and intended audience

This report aims to provide UNICEF staff and partners an understanding of the role that cash transfers can play in emergencies. It has the following objectives:

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<sup>2</sup> Globalization can increase variability in income, deepen disparities and increase the size of the informal sector of the economy.

- To describe how cash transfers have been used in recent years, particularly in tsunami-affected areas, and to present the experiences of a range of organizations, including UNICEF.
- To highlight some of the reasons that cash has been under-utilized in emergencies and the ways in which the risks can be mitigated.
- To highlight the impact that cash transfers can have, particularly for children.
- To explain the recent interest in social protection.
- To draw the link between cash transfers in emergencies and long-term development.

This report does not describe how to design, implement or monitor a cash programme, or how to assess market conditions, food security or other needs during emergencies. It does provide references for where this information may be found.

### 1.3.2 Scope

- *Focus on cash grants and cash-for-work:* This review focuses on conditional and unconditional cash grants and cash-for-work programmes. It does not examine loan or credit programmes, such as micro-credit loans, which are not grants and have to be repaid. It does not examine vouchers, which may present an alternative to cash when cash is inappropriate or difficult to deliver<sup>3</sup>.
- *Tsunami plus other experience:* While this review focuses on the tsunami experience, it draws upon examples of cash interventions from both emergency and development situations.
- *UNICEF plus other experience:* The review examines initiatives supported by UN agencies, NGOs, donors and governments. The examples are chosen to represent the variety of contexts in which cash transfers have been implemented and the range of implementing actors. The examples also illustrate the wide-ranging impact on children and the connection between cash transfers and long-term development policy. The review is not intended to be an exhaustive compilation of cash programmes, but rather aims to illustrate their wide scope and impact.

### 1.3.3 Methodology

The methodology consists of a literature review, field visits to tsunami-affected areas in Indonesia, interviews with staff from UNICEF and the agencies, organizations and government counterparts who have been involved with cash interventions. It draws substantially on recent documentation and analyses of cash programmes, particularly from the tsunami<sup>4</sup>.

### 1.3.4 How this report is organized

Section 2 gives an overview of cash transfers, and outlines the types of interventions considered in this review. Section 3 provides examples of cash interventions through the years, which illustrate their impacts and the situations in which they have been used. For UNICEF, a key reason for supporting cash transfers is the outcomes that they can have for children, as presented in Section 4. This section also links cash transfers, poverty reduction and long term development. Section 5 describes the reluctance so far towards implementing cash transfers. It highlights recent experience which shows that these concerns are not as severe as they are perceived to be and that the risks can be managed. Section 6 highlights the reasons behind the interest in cash assistance in recent years. Section 7 presents perspectives from UN agencies and UNICEF's practical experience. Section 8 concludes with suggestions for UNICEF on going forward.

<sup>3</sup> As Harvey (2005) describes, vouchers are sometimes used instead of cash due to factors such as donor constraints, security concerns with the use of cash, or market weaknesses. There is a debate on the merits of using cash versus vouchers. There are contentions, for example, on the effect of vouchers on the quality of commodities or services that beneficiaries consume and for the competition among the suppliers selected under the voucher programme. Vouchers require more regulation and planning to set up. They can be stigmatizing. These factors, among others, are part of a long-standing debate. They are not taken up for discussion in this report. See the Oxfam guide (Creti & Jaspars, 2006), chapter 5, for more on using vouchers in emergencies.

<sup>4</sup> In recent years, a number of NGOs and research institutes have documented and analysed cash interventions in emergencies. For example, the cash learning project led by the Overseas Development Institute (ODI), which began in April 2005, aims to promote good practice in cash and voucher responses in emergency response, and investigates the options, mechanisms and resources required. The practical guide by Oxfam aims to support the implementation of cash programmes in emergencies. It is based on the experience of Oxfam Great Britain over 2000 to 2005 in a variety of disaster contexts (Creti & Jaspars, 2006).

## 2 Overview

### 2.1 Features of cash transfers

#### 2.1.1 Objectives

The objective of a cash transfer is to complement the income of vulnerable households and to facilitate certain types of household investment or consumption. As Barrientos & DeJong (2004) described, cash transfer programmes may aim to:

- Reduce or prevent poverty among households with children, and ensure parity amongst households with and without children;
- Encourage household investment in children. In the case of separated, unaccompanied or orphaned children, support the integration of children into their caregiver's household;
- Facilitate education, health, and nutrition outcomes for children and women;
- Facilitate and encourage the employment of women; and
- Raise gender equality by supporting investment in girls and by targeting transfers to women, thus enhancing the bargaining power of women within the household.

#### 2.1.2 Conditionality

Depending on their objective, cash transfers can be provided to households either with or without attached conditions, or in exchange for labour.

- *Unconditional cash grants*: Cash given without conditions on its use and without the exchange of labour or services in return. The objective is typically to complement household income so that the household can meet essential consumption needs.
- *Conditional cash grants*: Cash given with specified rules on how it may be utilized, or with required conditions that the beneficiary has to fulfil in order to continue to be eligible under the programme. For example, conditional cash grants can be structured so that the household continues to receive the grant only as long as children in the household attend school. Labour services are not required to be provided in exchange. Conditional grants aim to provide economic support, and concurrently to achieve other outcomes, such as outcomes in health, education or nutrition of the household members, or to enable the household to purchase essential items such as material for housing construction or assets for livelihood recovery (e.g. seeds and tools).
- *Cash-for-work*: Cash given in return for labour provided, with no conditions attached to its use. The labour can be in the form of participation in public works programmes, which may be specially created to help generate employment in economically depressed areas. In emergencies, it can be provided in labour-intensive operations, such as cleaning up debris after the tsunami, which are of limited duration and specific to the emergency.

#### 2.1.3 Eligibility, duration and amount

Cash transfers can be distinguished by the eligibility criteria that determine who can receive the benefits and by the duration and amount of the transfer.

- *Targeting* involves selecting beneficiaries based on the objectives of the programme. It aims to identify those who are deemed most in need of the assistance when aid is in limited supply. The choice of targeting mechanism will depend on the available data, institutional capacity and cost of identifying beneficiaries.

Some options, such as means-testing, rely on high quality and large amounts of data, and might be expensive and untenable immediately following an emergency<sup>5</sup>. Community-based targeting uses community structures and participation to identify eligible members according to agreed criteria. In self-targeting, recipients determine their own participation, such as in cash-for-work programmes. In geographical targeting, transfers are provided to everyone living in areas where there is a high incidence of poverty.

Alternatively, targeting can be based on a specific category of vulnerability, e.g. separated or orphaned children. In the immediate aftermath of the tsunami, everyone had the same requirements: food, shelter, clothing, etc. In such cases, eligibility criteria are more likely to be based on vulnerability rather than strictly on income level.

- **Duration:** Cash transfers may be provided either as a one-off payment or in instalments over time as a predictable source of income. This can be either for a short term to address immediate needs, as in an emergency, or long term to help lift the household out of poverty.
- **Amount:** The amount of the transfer can be decided according to an absolute or relative measure of support. For instance, where the objective is to reduce childhood poverty, three types of cash transfers can be used: “a uniform benefit, paid for every child in the household; an 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 level” (Barrientos & DeJong, 2004, p.2). Each type of transfer achieves a different result. While uniform benefits can help reduce overall numbers of the poor, the other more targeted benefits can have a stronger impact on the poverty gap, i.e. the depth of poverty.

## 2.2 Using cash vs. in-kind aid in emergencies

### 2.2.1 Entitlement theory

The rationale for cash interventions is implicitly based on entitlement theory and its application to the study of famine. Entitlement theory focuses on the process of famine rather than its outcome. It proposes that famines result not from a lack of food in a region, but rather when people lose their entitlements, i.e. their means of acquiring food (Khogali & Thakar, 2001).

People can lose their entitlements, which is known as entitlement failure, in two ways. A ‘pull’ failure implies the loss of the means or lack of income to purchase food, which results in a loss of demand. The inability of the market to respond, either due to lack of food supply or due to traders cornering the market, is known as a ‘response’ failure, and it results in a lowering of supply.

Food aid can help to address the ‘response’ failure by ensuring that people can still consume food when it is in short supply. Cash transfers can help to address the ‘pull’ failure by giving people the means to purchase food. The added benefit of cash is that it allows recipients to make their own consumption decisions and it stimulates local markets. When a household receives cash, its spending power increases. This boosts the local economy, since traders are encouraged to step up to fulfil the demand, which in turn facilitates the supply and distribution of food from other regions to the affected area. It may further stimulate the production of food. Thus, both food and cash interventions together can help avert famine.<sup>6</sup>

### 2.2.2 Appropriate conditions for cash interventions

The criteria for the appropriateness of food aid, as mentioned in the *Sphere Minimum Standards or Disaster Response* (2004), indicate that general food distribution might not be appropriate when: “adequate supplies of food are available in the area (and the need is to address obstacles to access), and a localized lack of food availability can be addressed by the support of market systems” (p. 121).

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<sup>5</sup> Means-testing examines income or assets or a combination of both in order to determine eligibility.

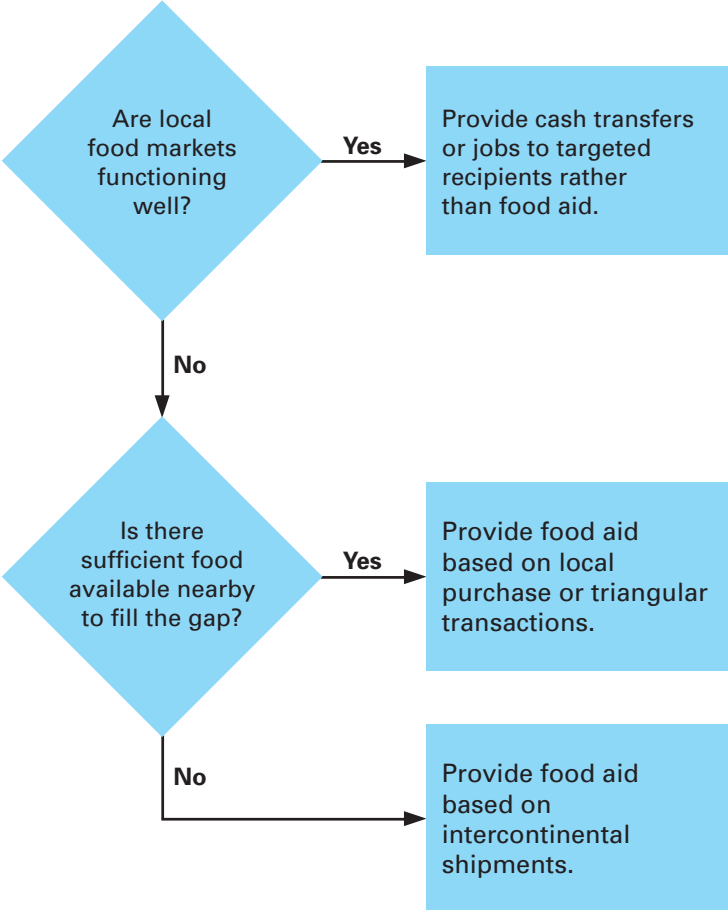
<sup>6</sup> Notable experience in this respect is with public employment guarantee schemes in the Maharashtra drought in Western India in 1970–73 (Dev, 1995).

The tsunami offered favourable conditions for delivering cash assistance.

- Firstly, while assets and livelihoods were destroyed and local markets collapsed in the tsunami-affected areas, outside the affected areas, infrastructure and supply chains were functional. The disaster mainly affected the coast, without major damage to inland transport and market infrastructures. In a relatively short period, goods could be delivered from nearby regions to the tsunami-affected areas.
- Secondly, the tsunami-affected countries were largely self-sufficient in food before and after the tsunami. The tsunami damaged coastal crops, yet in both Sri Lanka and Indonesia, most of the total agricultural production was unaffected by the disaster (Oxfam, 2005b).

With local markets being more developed and resilient in many parts of the world, there has been increasing use of livelihoods approaches in food security assessments and practitioners are finding ways to mitigate the risks associated with delivering cash (Harvey, 2005). Organizations concerned with food security, including WFP, have begun to take cash interventions more seriously. Figure 1 below illustrates a decision tree for using cash versus food aid.

**Figure 1: Decision tree for usage and procurement of food aid**



Source: Barrett & Maxwell, 2004.

### 3 Global experience: A sampling of cash interventions

The following tables present a sample of cash interventions from the tsunami and other experience, in both development and emergency contexts. For more details, please see the Annex.

**Table 1a: A sample of cash interventions – UN agencies**

UN agencies			
Organization	Year	Description of cash programme	Scope: Number of people reached, amount of transfer
UNHCR	1990–1992	Repatriation grant to refugees returning to Afghanistan from Pakistan.	One-time grant of US\$100 to each refugee. Also provided a 300 kg bag of wheat.
UNICEF	2004–2005	Pre-pilot cash transfer project for orphans and vulnerable children affected by HIV/AIDS in Kenya.	500 households in three districts received K Sh. 500 (approx. US\$6.50) per child per month for one year.
UNDP	2005	Cash-for-work project in the first six to eight months of the tsunami; involved clearing debris and rubble.	Total cost of the project was US\$14 million. It reached 46,000 households (Approx. US\$300 per household, including project admin costs).
WFP	2005	Cash transfer pilot project which targets approx. 4 per cent of beneficiaries in WFP's Vulnerable Group Feeding target group in tsunami-affected districts in Sri Lanka.	12,000 people (i.e. 3,300 households) in three districts. The amount of cash was based on the local market value of food rations per capita per week, i.e. equivalent to US\$1.50, disbursed over Nov. 2005 to Feb. 2006.
UNICEF	2005	Support to two government schemes to deliver education grants to tsunami-affected children in Sri Lanka.	The schemes provide between US\$2.50 and US\$5 per child per month. The grants (total US\$22,500) will support 65 children for five years each.
UNICEF	2006	Cash transfers for tsunami-affected separated and orphaned children in Aceh, Indonesia.	1,300 caregivers (1700 children) received Rp. 400,000 (approx. US\$44) per child per month for three months.

**Table 1b: A sample of cash interventions – Donors**

Donors			
Organization	Year	Description of cash programme	Scope: Number of people reached, amount of transfer
USAID	2000	Funding for a cash grants project in Mozambique, following floods.	Cash of 1,500,000 meticaís (approx. US\$92) each to over 100,000 flood-affected rural families.
USAID/Office of Foreign Disaster Assistance	2003	Funded four pilot cash initiatives in Ethiopia, which were implemented by SCUK, CARE and other NGOs.	433,920 beneficiaries received cash-for-seed and other cash transfers (average of US\$10 each). OFDA committed over US\$4.4 million to the projects.
German government and GTZ	2003	Financial and technical support to a cash transfer pilot project in Kalomo district, Zambia. Objective was to reduce extreme poverty and hunger, focus on households headed by older people and households caring for OVC.	The pilot project reached 1,027 households with a population of 3,856 persons over two years. Households receive ZMK 30,000 (US\$7.5) in cash, plus a bonus of ZMK 10,000 (US\$2) if the household has children.
SDC	2005	One-off cash payment to host families who had hosted two or more IDPs in their own house for three months in Aceh, Indonesia.	Covered 11 sub-districts in Aceh. Retroactive payment of Rp. 900,000 (approx. US\$98) each to 7,239 eligible host families. Total programme cost was US\$ 750,000.
DFID	2006	Commissioned two studies on gender and empowerment for the Bolsa Familia cash programme, Brazil, and is promoting knowledge sharing between Brazil and African countries.	Technical support on evaluation and knowledge sharing of social transfer programmes.

**Table 1c: A sample of cash interventions – Government**

Government			
Organization	Year	Description of cash programme	Scope: Number of people reached, amount of transfer
Government of Zimbabwe	Begun in 1988	The government-run Public Assistance Programme includes a cash grant for the chronically poor, aims to support vulnerable households and orphans and other vulnerable children (OVC). Recipients receive medical card, school and exam fees; in urban areas, assistance with rent and utilities.	Different amounts for adults/ children, rural/urban areas. In 1998, about 20,000 received the Maintenance Allowance; 2,600 received education fees. In 1999, monthly allowance was Z\$100 per adult and Z\$60 per child. In current economic environment, cash transfer is effectively eaten away by inflation.
Government of Mozambique	Begun in 1997	Government-funded and -run “Food Subsidy Programme” that provides a monthly cash transfer to recipient households. The Programme is not a subsidy at all, but rather a cash transfer intended to be used by poor households to buy food.	Amount depends on the household size: Mzm 70,000 (US\$3) per month for a one-person household and max. of Mzm 140,000 (US\$6) for households of five or more. Currently reaches 69,000 household heads (i.e. 160,000 people). Target groups: people unable to work and unable to satisfy their subsistence needs (based on old age, chronic sickness, disability, etc., also malnourished pregnant women).
Government of Mexico	‘Progresa’ begun 1997, renamed ‘Oportunidades’ in 2002	Government-run conditional cash transfer to support poor households with children in rural areas.	Subsidies of up to US\$75 per household per month, conditional on children attending school, and mothers and infants attending health care facilities. Reached 2.6 million or 40 per cent of rural households in 2002.
Government of Brazil	Begun in 2003	The Bolsa Familia programme is a conditional cash transfer scheme for poor households.	Monthly cash allowance to households on the condition that children are enrolled in primary school and receive vaccination and mothers-to-be receive prenatal care. Aims to reach 11.2 million families by end-2006.
Government of Indonesia	2005	Department of Social Welfare cash allowance programme for purchase of non-staple foods to supplement food relief.	Tsunami-affected households (internally displaced persons living in barracks, those who have returned to their original villages and live in tents/other structures, and host families) received Rph 3,000 per day per person (approx. US\$10 per month).
Government of Sri Lanka	2005	Cash grant and cash and food rations as part of an assistance package to tsunami-affected households.	Monthly grant of Rs. 5,000 (US\$50) to all identified households for two months. Rs. 375 (US\$3.75) cash and food ration to 880,000 households by mid-2005.

**Table 1d: A sample of cash interventions – NGOs**

NGOs			
Organization	Year	Description of cash programme	Scope: Number of people reached, amount of transfer
Oxfam	2001	Cash-for-work projects in West Bangladesh.	Provided 10,000 beneficiaries with 30 days' employment each. The government min. wage was used to set the level of payment. Over 80 per cent of the participants were women.
Oxfam	2005	Cash-for-work projects in tsunami-affected areas in Indonesia for clearing debris, building bridges, repairing roads, cleaning wells.	Reached over 62,000 people.
SCUK	2005	Cash-for-work project in Aceh. The work involved clearing debris and rehabilitation and restoration of public assets and natural resources.	Provided over 18,000 short-term jobs, targeted towards single parents with children; able grandparents; families looking after vulnerable children; families with no other income option. Children under 18 years were allowed to work only in cases where they desperately needed money, only for two or three hours and received the full rate.
Mercy Corps	2005	Cash-for-work project to support clean-up and reconstruction activities in Aceh, Indonesia.	Employed nearly 18,000 participants. Provided over US\$4.5 million in direct payments over seven months.

**Table 1e: A sample of cash interventions – World Bank**

World Bank			
Organization	Year	Description of cash programme	Scope: Number of people reached, amount of transfer
World Bank support to the Government of Indonesia	Begun in 1998	The Kecamatan Development Program (KDP) is a government-led community development programme/social fund. Aims to alleviate poverty and strengthen local government, governance and community institutions.	WB provided three-year block grants of approx. Rp. 500 million–1.5 billion (approx. US\$50,000–US\$150,000) to all communities in a sub-district. In tsunami-affected areas, 25 per cent of KDP assistance is in the form of a social fund.
World Bank	2005	Financial support to a government-run cash grant scheme for tsunami-affected households in Sri Lanka.	First instalment of housing grants of Rs. 50,000 (about US\$500) and two instalments of livelihood cash grants of Rs. 5,000 (about US\$50). Bank funding has allowed for these livelihood cash grants to help some 200,000 tsunami-affected families for up to four months. The WB disbursed approx. US\$34 million towards the livelihoods support scheme.

## 4 Positive impact on children

### 4.1 Measuring impact on children

#### 4.1.1 How do children benefit from cash transfers?

Household expenditures can reach children in several ways (SCUK, HelpAge International & IDS, 2005). Firstly, household income can be spent directly on children, such as on education and health. Secondly, income can be spent on the household as a whole in order to satisfy basic consumption necessities such as food, fuel, water and shelter. Thirdly, expenditures can be made towards enabling or productive purposes, such as investment in livelihoods, which go beyond basic consumption needs, and which can indirectly benefit children.

A scheme does not have to target children in order to reach them or to have positive impacts on their well-being. Programmes which target groups such as older people or poor households can also have positive impacts on children. In these programmes, two important defining factors are: the duration of the cash transfer and the child's access to the cash transfer through a caregiver, i.e. the adult beneficiary. From the perspective of a child, "what is important is the outcome – whether their families or carers feel they can afford to care for them, whether they can go to school, get medicines and treatment when ill, and whether their needs are prioritized or relegated behind the needs of other children and older household members" (SCUK, HelpAge International & IDS, 2005, p. 26).

The sub-sections below describe the impact on children of conditional and unconditional cash transfer programmes. In general, more data on intra-household allocations and household decision-making is required.

#### 4.1.2 Impact of conditional cash transfers

The distinguishing feature of a conditional cash transfer (CCT) is that it imposes "a behavioural condition on transfer recipients. The condition typically sets minimum requirements on beneficiaries' attention to the education, health, and nutrition of their children" (de Janvry & Sadoulet, 2005, p. 1). Thus, a conditional cash transfer can potentially deliver a double impact. It can create an immediate decline in poverty among recipients if the transfer is larger than the cost of the condition. Moreover, it can support the education, health and nutrition of children in the household, which can potentially help to reduce future poverty levels. Table 2 in Section 4.4 illustrates the impact of some CCT programmes in Latin America.

CCTs rely on the existence of health facilities and schools within reasonable distance and access to beneficiaries. Impact is measured in terms of beneficiaries' use of these facilities, i.e. to what extent children attend available schools, or women visit maternal health clinics, etc. CCTs thus involve significant data collection, monitoring and administration. In very low-income countries, the quality and delivery of social services are often poor, and could be further compromised in emergencies. The potential for conditionality to work effectively under these circumstances is weak, and the impact of a CCT should be observed in this context.

### 4.1.3 Impact of unconditional cash transfers

Reviews of unconditional cash transfer programmes report that their impact on children has typically been under-studied<sup>7</sup>. Some data has been collected, for example from the Zambia pilot project, which was targeted at households headed by older people and households caring for OVC, and from the Kenya pre-pilot cash assistance scheme<sup>8</sup>, which aimed to strengthen the capacity of families to protect and care for OVC. The results from these programmes record changes in nutritional status, school enrolment and other indicators directly relevant to children.

Reviews of unconditional cash transfers in emergencies, such as cash-for-work programmes in tsunami-affected areas, by definition do not aim to record how the recipients spent the cash. Nonetheless, the results of these programmes do show that the household is better able to meet basic consumption needs.

## 4.2 Benefits from the flexibility of cash

A cash transfer allows a household to make spending decisions according to its specific circumstances, and to address the diverse needs of children in the household. This flexibility has benefits for children. UNICEF's cash transfer activity in Aceh illustrates the advantages of this flexibility. The monthly cash transfer was meant to benefit children separated or orphaned due to the tsunami. The cash could be spent either specifically for that child or towards general household expenditures that would indirectly benefit the child. While most caregivers spent it on food, clothing and education, in some cases, depending on the child's age and the income level of household, both caregivers and children preferred to invest the money in other ways, such as to save the money for fees for entrance exams for secondary school, to buy a bicycle that could be shared with other children in the household, or to buy fishing tools (in the case of a 17-year-old boy). The transfer helped to address the circumstances of each child and each household.

Allowing variation in consumption can improve the quality of results. Harvey (2005) observes:

- Cash allows people to **gain access to a wider range of foodstuffs**, which can provide a more nutritionally balanced diet. Food aid may restrict the diet to fewer items.
- Cash can allow people to **purchase local items**, which may better suit their needs than the items selected and procured from elsewhere by aid agencies<sup>9</sup>.

In addition to the quantifiable benefits, cash can also enhance a sense of **empowerment and dignity** among recipients. For example, cash-for-work projects implemented in the tsunami-affected areas had additional psychosocial benefits as people went back to destroyed villages, "to mourn, to take stock and to think. The physical activity was welcomed, particularly as work was focused on cleaning up villages" (DFID, 2005, p. 15). For women who receive cash transfers, the cash in hand can mean more control over focusing on their spending priorities.

## 4.3 Cash transfers and poverty reduction

Cash transfers can be applied to tackle childhood poverty in several ways: through a uniform benefit, paid for every child in the household; an income supplement, which pays a fraction of the difference between household income and the poverty line; and a minimum guaranteed income, which supplements income up to a given level.

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<sup>7</sup> For instance, the study *Making cash count* (SCUK et al, 2005), which involves a comparative review of unconditional cash transfers in 15 countries of east and southern Africa, finds that there are several knowledge gaps and not enough collection of systematic and detailed data on children.

<sup>8</sup> In the Kenya pre-pilot project, conditionality turned out to be a desired feature of the programme. Community representatives suggested and agreed amongst themselves to adopt conditions related to school attendance for children of school-going age; immunization; and the acquisition of birth certificates. These conditions are to be incorporated in the pilot phase of the scheme.

<sup>9</sup> For example, following floods in Mozambique in 1999–2000, recipients spent some of the cash transfer on construction materials, notably traditional, local materials.

The impact of the cash transfer on poverty reduction will depend on the amount of the transfer, and how it is targeted, which will depend on the policy objectives and the available resources. The design decision will need to be weighed against the broader political support for uniform and universal benefits (Barrientos & DeJong, 2004).

- *Universal vs. targeted benefits:* An income supplement or a minimum guaranteed income transfer, which delivers a benefit that is below the poverty line, is more likely to be effective in reducing the poverty gap than is a benefit given uniformly to everyone<sup>10</sup>. On the other hand, a uniform benefit will be more likely to reduce overall numbers below the poverty line, i.e. the poverty headcount, but it is also likely to cost more than a targeted benefit.
- *Targeting the middle poor vs. the poorest:* Where cash transfers are given to the 'poorest of the poor', i.e. those who require external assistance simply to survive, they fulfil a social welfare function (SCUK, HelpAge International & IDS, 2005). Where cash transfers are given to the 'middle poor', i.e. "those who are working, or able to work, but need support to raise their consumption to a minimum level, or to stabilize their incomes against shocks...cash transfers are often invested, and can contribute directly to economic growth and poverty reduction" (SCUK, HelpAge International & IDS, p. 29). For example, the guarantee of a minimum level of income can allow poor households to undertake more lucrative and possibly more risky productive activities, such as planting certain varieties of crop versus others.

### Cash transfers address the severity of poverty

It is important to note that while cash transfers do raise incomes directly, this is often not enough to lift people above the poverty line, though it can help reduce the severity of their poverty<sup>11</sup>. Experience from Zambia confirms this perspective. The pilot cash transfer scheme in Zambia provides a monthly cash sum of ZMK 30,000 (US\$7.5). This is the equivalent of the average price of a 50kg bag of maize, and translates to a second meal for the household if the entire cash transfer is spent on maize. The transfer does not lift the households out of poverty, but rather assists in their survival. It lifts them from critical to moderate poverty (Schubert, 2004).

A broader concept of social protection would have both short- and long-term roles in poverty reduction, and would help people to conserve and accumulate assets and transform their socio-economic relationships (Barrientos, Hulme & Moore, 2006). As part of such an approach, cash transfers would need to be appropriately designed and funded and complemented with social services.

## 4.4 Evidence across social sectors

The following sampling of evidence in Table 2 is mostly from conditional cash transfers and pensions in development contexts. It is based on examples from the DIFD practice paper on social transfers and chronic poverty (DFID, 2006) and other examples.

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<sup>10</sup> The poverty gap ratio is the mean distance separating the population from the poverty line (with the non-poor being given a distance of zero), expressed as a percentage of the poverty line. In other words, the poverty gap ratio measures the degree to which the mean income of the poor differs from the established poverty line (i.e. the depth of poverty). Distributionally sensitive measures, such as the squared poverty gap index, capture differences in income levels among the poor (i.e. the severity of poverty).

<sup>11</sup> Large-scale national programmes such as social pensions in South Africa are exceptions; they are estimated to reduce the number below the poverty line by five per cent (SCUK et al, 2005).

**Table 2: Impact of cash transfers on children**

Country	Type of programme	Impact
<b>Income poverty</b>		
South Africa	Pension	Income of the poorest 5 per cent of the population increased by 50 per cent. Overall, the social security system reduced the “destitution gap” by 45 per cent.
Mexico	Progresa – conditional cash transfer	Reduced the poverty gap among beneficiaries by 36 per cent between 1997 and 1999.
Mozambique	Urban cash transfer	Increased household incomes in poor towns by up to 40 per cent.
Nicaragua	Red de Proteccion conditional cash transfer	Decreased the percentage of beneficiaries living in extreme poverty by one-third (15 percentage points) to 30 per cent.
<b>Food security</b>		
Mexico	Progresa – conditional cash transfer	70 per cent of participating households have shown improved nutritional status. Strong impact on stunted growth in children: The growth rate among children aged 12–36 months increased by one centimetre a child a year.
South Africa	Pension	Having a recipient of the social pension in a household has been correlated with a three-to-four-centimetre increase in height among children.
Nicaragua	Red de Proteccion conditional cash transfer	Beneficiary households consumed more nutrient-dense foods including fruit and vegetables, and more frequent purchases of beans and rice; better-off households introduced occasional meat.
<b>Education</b>		
Bangladesh	Cash for Education programme	Resulted in a 20–30 per cent increase in school enrolment among beneficiaries, who are likely to stay in school up to two years longer than other children
Nicaragua	Red de Proteccion conditional cash transfer	Brought about a 23 per cent increase in school attendance for the target population between 2000 and 2003.
Brazil	Pension	Helped increase school attendance, especially among 12–14-year-old girls.
Namibia	Pension	Significant portion of the pension is spent on children’s education. Older people contribute to the household budget; many are the primary carers for children.

**Table 2: Impact of cash transfers on children (continued)**

Country	Type of programme	Impact
<b>Health</b>		
Namibia	Pension	Pensioners spend approximately 13 per cent of the cash they receive on health care for themselves but, in many cases, their pensions also cover spending on health for the entire household
Mexico	Progresa – conditional cash transfer	12 per cent reduction in ill health among beneficiaries up to five years old and 19 per cent fewer days of illness among adults.
Nicaragua	Red de Proteccion conditional cash transfer	The transfer is conditional on attending clinics for vaccinations; timely immunization among recipient children aged between 12 and 23 months increased by 18 per cent
<b>HIV/AIDS</b>		
Kenya	Cash transfers to OVC	OVC will be more able to access and benefit from both education and health services. Improved nutrition helps the effectiveness of anti-retroviral drugs.

## 5 The reluctance to use cash, and why it's not all that bad

While there is substantial experience with cash transfers, popular views on using cash in emergencies are mixed. Food and in-kind aid have been more often applied, and on a wider scale. Some of the criticisms against cash are that:

- It is difficult to deliver and monitor since it presents a security risk, and is susceptible to theft, corruption and misuse;
- It can be disadvantageous to women, who may not have control over household spending;
- It can create dependency among beneficiaries and diminish other (informal and formal) channels of social protection; and
- It can distort the local economy and labour market by introducing inflation in prices and abruptly raising wages.

Recent experience shows that these factors are not as pronounced as they are thought to be, that there are ways to minimize the risks and that the effectiveness of cash transfers may well outweigh the risks. Oxfam concludes, after five years of field experience and six evaluations of cash programmes, that many of the perceived risks are not borne out in practice (Creti & Jaspars, 2006)<sup>12</sup>. In several cases, the risks with providing cash transfers are not greatly different from the risks with providing in-kind aid, as this Section illustrates.

### 5.1 Increased security risks

Cash is assumed to be more vulnerable to theft than food, particularly in an environment of heightened insecurity, violence or conflict. The concern is that staff who implement cash programmes and the recipients of cash transfers may be exposed to increased level of threat. However, as noted in the Oxfam guide (Creti & Jaspars, 2006), food may not be as easy to loot as cash, but food convoys are visible and easy to attack. Cash deliveries are less easy to see.

Many of the security risks associated with cash distribution also apply to in-kind distribution. In fact, in some cases, where local banks or money transfer systems are functional, cash may be the more secure alternative. “Any possible risks should be balanced against the benefits of providing cash, such as responding quickly, allowing choice, and stimulating the economy” (Creti & Jaspars, 2006, p. 24).

While the type of emergency and the local circumstances will determine whether cash interventions are feasible, examples show that there are ways to deliver cash safely even in conflict environments (Harvey, 2005). In Afghanistan and Somalia, the local *hawala* (money transfer) system was used to distribute cash; in Ethiopia, SCUK sought insurance coverage against losses in transporting cash to projects in areas where there were no banks. The Oxfam guide (Creti & Jaspars, 2006) and the ODI discussion paper (Harvey, 2005) noted a number of additional ways to minimize risk at various stages of the cash transfer<sup>13</sup>.

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<sup>12</sup> The Oxfam guide (Creti & Jaspars, 2006) says that many risks associated with cash interventions also apply to in-kind commodity distribution. It addresses the perceived fears with cash interventions in a concise table, in a question and answer format, on pages 12–14.

<sup>13</sup> See pages 25 and 43 of the Oxfam guide; Chapter 6 of the ODI discussion paper.

## 5.2 Misuse and corruption

### 5.2.1 Misuse

The concern with misuse of the cash transfer is that the cash could be spent on non-essential items, such as alcohol or cigarettes. However, studies show that beneficiaries largely spend on buying food, household provisions, school uniforms and books, agricultural inputs, loan repayments and other priority items. The authors of *Making cash count* (SCUK, HelpAge International & IDS, 2005) examined cash transfer programmes in 15 African countries. The study found that there is little empirical evidence to support the assumption that cash is misspent on non-essential items. “Individuals and households appear to make careful and strategic decisions about how to use this additional income for the best interests of the household...” (p. 27).

Other assessments seem to confirm this view:

- The review of a pre-pilot cash transfer project led by the Government of Kenya and UNICEF found that the funds were spent mainly on items such as school uniforms, textbooks, food and cooking oil, and there was little leakage of the cash.
- In UNICEF’s cash assistance project in Aceh, most households spent the cash on basic needs such as school fees, food and healthcare expenses.
- In USAID’s cash grant project in Mozambique, recipients of the cash transfers mostly used the money on basic consumption, and spent it locally.

The risk of misuse exists for commodities as well as for cash. Food, construction materials, clothing, etc. can be sold and converted to cash. Practitioners believe that giving people cash instead of a commodity does not necessarily increase the likelihood that the aid will be misused. In its guide on cash transfers, Oxfam (Creti & Jaspars, 2006) stated its belief that, “stopping cash distributions will not stop people buying non-essential commodities” (p. 13). While people are unlikely to report misuse on standard reporting formats, this is true as much for cash as it is for commodities.

### 5.2.2 Monitoring the use and misuse of cash

The extent of monitoring that is required will depend on the objectives of the cash programme, since any ‘misuse’ of the cash has to be estimated in the context of its intended or expected use, by, or on behalf of, its intended beneficiaries. Unconditional cash transfers will not require as rigorous monitoring as will, for example, a conditional transfer targeted to children, where the cash is provided to the caregiver of the child in order to be spent towards the child’s wellbeing.

The latter reflects the case in UNICEF’s cash assistance activity in Aceh, which required considerable follow-up conducted by teams of social workers who had to be trained in the mechanics of the cash transfer as well as the importance and methods of monitoring its use at the household level. Each social worker had to fill a detailed monitoring sheet based on interviews and house-visits to beneficiary households and submit the sheets every two weeks. The monitoring sheets recorded information on how much of the monthly transfer was spent and on what items. The monitoring format allowed for flexibility in recording and explaining ‘other’ expenditure which did not fit into the prescribed categories of spending.

Another example of strong monitoring procedures is in the pilot cash transfer scheme in Zambia, which includes both an internal and external monitoring system. The external monitoring and evaluation system collected quantitative data on the impact of the scheme with regard to the changes in the number of meals consumed, the nutritional status of children, school attendance and the health, the self-esteem and social position of different categories of household members differentiated by gender (Schubert, 2005b). Under the internal monitoring system, the District Social Welfare Officer, along with three staff, supervised the delivery of the transfers through the bank and pay points, and provided monthly internal monitoring reports on the performance of the scheme to the provincial and national level Public Social Assistance Scheme<sup>14</sup>.

### 5.2.3 Corruption

While corruption can seriously undermine the success of a cash transfer programme, the evidence suggests that the risks of corruption are no greater than with in-kind aid. In both cases, delivery systems have to be made robust and management capacity has to be strong. This implies adequate attention towards training and institution building (SCUK, HelpAge International & IDS, 2005).

In order to ensure that the flow of cash is transparent, recipients have to be informed about the size of their entitlement. This makes it “more difficult for implementing agencies and staff to siphon off funds...Furthermore, leakage appears to be reduced where the poor are aware of their rights and are able to access information for monitoring the performance of schemes” (DFID, 2005, p. 31).

The emphasis on management and transparency is illustrated in the pre-pilot cash transfer programme for OVC in Kenya. According to the UNICEF Kenya country office, which supported the programme, there was little evidence of corruption. Caregivers were aware of the amount of money they were to have received and confirmed that they received it. Recognizing that leakage is still a probability, the planning team for the upcoming pilot phase is examining options for the disbursement of the funds, such as through the Kenya Post Office, to ensure that it is as transparent and rapid as possible (UNICEF, 2006).

Harvey (2005) noted that technological advances may provide options for minimizing corruption in all types of distributions, including cash. For example: UNHCR has used iris-recognition technology in monitoring repatriation from Afghanistan to Pakistan, 2002–2003, in order to reduce the risk of people claiming multiple grants; in South Africa, biometric identification is used to accompany withdrawals from cash dispensing machines; in Bam, Iran, the government set up bank accounts for recipients and transferred cash directly into them.

## 5.3 Risks with targeting cash transfers

Targeting involves identifying a group of beneficiaries according to specified selection criteria. This can potentially be divisive within communities for any kind of assistance, whether in-kind or cash. The concern with cash transfers is that cash is of value to everyone, across income levels, particularly following an emergency, and that the divisiveness may be heightened in a situation of political or social insecurity.

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<sup>14</sup> The targeting and approval process is done entirely through the Public Welfare Assistance Scheme structures. This system existed prior to the cash transfer pilot project, and is a hierarchical framework of voluntary committees. The Community Welfare Assistance Committees (CWACs) operate at the village-level and are responsible for an area covering 200 to 400 households. The members of the CWACs are elected or approved by the community. Directly above the CWACs are the Area Coordinating Committees (ACCs). The ACCs coordinate between five and ten CWACs and are, in turn, coordinated by the District Welfare Assistance Committee (DWAC). Each CWAC receives one day of preparatory training. This training is based on the Manual of Operations and is conducted by the District Social Welfare Officer. The CWACs, the ACCs and the DWAC work on a voluntary basis and are responsible for counselling the beneficiaries and effectively targeting the transfers.

Another concern with targeting is that targeting is prone to error, though this applies equally for non-cash transfers. Mis-specification in the selection criteria<sup>15</sup> may lead to errors of inclusion, where people who are not the most vulnerable receive benefits, or to errors of exclusion, where people who should be counted as eligible are left out. Identifying the target group could be constrained by a lack of data, technical expertise or institutional capacity, which may not be readily available following an emergency.

Targeting may inadvertently provide incentives for people to “become” eligible for the benefit. For instance, when the benefits are targeted to households or caregivers who have children living with them, one risk is that this can cause households to take in more children in an attempt to secure more income from the scheme (SCUK, HelpAge International & IDS, 2005). Another risk is the capture of benefits by the elite.

*Mitigating the risks and errors:* As in targeting for in-kind aid, mitigating these risks requires management oversight and robust selection criteria.

- Beneficiaries should be clearly identified, with participation and agreement of the community as appropriate, and should be registered. Implementing partners and local authorities should understand the programme and the criteria for targeting. Oxfam uses a community-based approach similar to that used when targeting food aid, where communities are involved in selecting beneficiaries and managing the programme.
- An alternative targeting method is self-targeting, where wages are set slightly under the minimum wage (in the case of cash for work), or targeting on the basis of clearly identifiable criteria, such as ‘*destruction of house*’ (Creti & Jaspars, 2006).
- Targeting should not rely on purely technocratic or economic parameters, but rather use criteria that are in step with local culture and norms and use methods that are participatory (Oxfam, 2005b).

A DFID practice paper (2005) noted that “there is a wide range of targeting mechanisms that have been used in different countries and many could be adapted to other situations. But, all targeting mechanisms are potentially flawed and benefits are often captured by those not eligible to receive them” (p. 3). What is important is to make targeting mechanisms transparent and to put in place systems of redress and accountability.

## 5.4 Disadvantage to women

### 5.4.1 Cash transfers can empower women

A common concern about giving cash to households is that women might be vulnerable within the household, and have less control over cash than over food or other commodities. There is a fear that if women receive the cash transfer, this could cause family disputes or domestic violence, and the money may not be spent on basic household needs.

However, there is evidence to the contrary. Cash transfers can empower women by enhancing their decision-making position in the household. Household structure and arrangements as well as social and cultural norms influence how households allocate resources internally<sup>16</sup>. As Barrientos and DeJong (2004) described, in a ‘collective’ household model, household decisions are arrived at as a result of a bargaining process between its individual members. Each member is assumed to have different interests, preferences and power, and “the strength of negotiating positions arises partly from the income which members contribute to the household. In this case, the impact of cash transfers will depend on who receives the benefit, because it will strengthen their individual bargaining position” (p. 15).

<sup>15</sup> There are several ways to set selection criteria for a cash transfer programme (DFID, 2005). ‘Means-testing’ examines income or assets or a combination of both; it relies on high quality and large amounts of data, and might be expensive in many developing countries and possibly untenable immediately following an emergency. Alternatively, targeting can be based on categories of vulnerability, such as age or disability. Beneficiaries may be selected according to geographic location, through community participation, or through self-targeting, as for cash-for-work projects.

<sup>16</sup> While there can be great variation in household arrangements, it is useful to consider two models of household decision-making models: ‘unitary’ and ‘collective’. In the ‘unitary’ model, the entire household is assumed to hold a common set of objectives, and its members do not engage in bargaining. In the unitary model, each member has the same preferences, and cash transfers targeted to women will produce the same outcomes as those targeted to others in the household. However, studies show that household decisions are influenced by the identity of the income source (Barrientos & DeJong, 2004).

Experience shows that cash transfers targeted at women may have equalizing impacts on bargaining power within the household (Barrientos & DeJong, 2004). Improving women's ability to earn and control income can help to improve their status both in the household and in the community, as the following examples illustrate (Harvey, 2005):

- Ethiopia, 2001: In a cash programme run by Save the Children, both men and women reported discussing how they spent the cash with their spouse. Women were recognized as more knowledgeable on food and better bargainers.
- Orissa, India, 1999–2000: A cash-for-work programme demonstrated that women could do work normally associated with men. This encouraged women to demand equal wages for equal work after the intervention, and an evaluation concluded that women's status had improved, although perhaps only temporarily.

Cash-for-work programmes in the tsunami-affected areas also offered women more equal earning power. In Sri Lanka, international NGOs implemented cash-for-work programmes that involved activities such as clearing rubble and rebuilding transitional shelters. The same daily wage rate was offered for both men and women. This rate was close to the average daily wage rate that prevailed for men, but it was higher than the usual wage rate for women (Jayasuriya et al, 2005).

#### 5.4.2 Cash transfers targeted to women can benefit children, particularly girls

Cash transfers targeted at women can have a stronger overall impact on development indicators, particularly on girls. For instance, studies from Brazil and South Africa report that when a woman received old age pension, the impact on nutritional status and school enrolments among co-resident children was stronger, particularly for girls (Barrientos & DeJong, 2004).

The World Development Report 2006 (WB, 2006) described recent econometric work which confirms that consumption patterns in a household are affected by an increase in a woman's relative worth and fallback options<sup>17</sup>. In the UK, when child support payments were made directly to mothers, expenditures on children's clothing tended to rise. In Bangladesh and South Africa, when women brought more assets into the marriage, household expenditures on children's education increased.

### 5.5 Dependency and crowding out

#### 5.5.1 Dependency

Another concern, particularly when cash transfers are phased over a long term, is that providing cash might create 'dependency' by discouraging the recipient from seeking a livelihood independently. However, in low-income countries, cash transfers typically provide only a minor fraction of a household's consumption needs. While the cash assistance can help reduce the severity of poverty and help households survive livelihoods shocks, it cannot, on its own, lift people out of poverty. In emergencies, given the short-term nature of the cash programme and its objective to help the household meet immediate basic needs, it is unlikely that the cash transfer will create dependency.

The study *Making cash count* (SCUK, HelpAge International & IDS, 2005) noted two design features of cash programmes which minimize the risk that the cash transfers will induce dependency. Firstly, "most programmes selectively target groups who are vulnerable precisely because they are economically inactive and unable to work. Secondly, in most programmes the value of the cash transfer is too small to meet all of the household's basic consumption needs. Available evidence suggests that even tiny amounts of cash are divided among many people apart from the primary beneficiary, and these other people are usually dependants themselves (such as pensioners' grandchildren)" (p. 34).

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<sup>17</sup> The World Bank (2006) describes the fallback option for the spouse as being her options/opportunities in the event of divorce, which would depend on laws of inheritance, property and divorce.

Thus, the cash transfer is not enough to sustain the household; its earning members still have an incentive to work. Evidence from the following cash programmes confirms this view.

- *Zambia*: The Zambia pilot cash transfer scheme provides eligible households US\$6 per month, and US\$8 for households with children. This sum is the equivalent of the average price of a 50-kg bag of maize. According to FAO, the poorest 10 per cent of rural households in one of the pilot districts consume on average one meal a day. If the households spend their entire cash transfer on maize, they will be able to have a second meal a day. Thus, the transfer is not sufficient to improve consumption substantially; it only reduces the poverty level from severe to moderate (Schubert, 2005b).

Schubert (2005b) further cited studies which say that, “there is no evidence to suggest that social cash transfer programs in developing countries ... reduce the incentive to work. On the contrary, they can (and in most cases do) help recipients to help themselves. In the Zambian pilot, 28 per cent of the transfers are spent on investments and the scheme has stopped the practice of selling assets for food” (p. 10).

- *Mexico*: The DFID (2005) discussion paper confirmed that, “there is little evidence that social transfers detract from growth by creating dependency and encouraging people to work less. In Mexico, for example, there has been no reduction in labour-force participation rates as a result of entering the Progresá programme. In fact, social transfers may well promote employment by helping people meet essential costs such as travelling to work. Many chronically poor households, of course, are unable to participate in productive activities and social transfers are one way of ensuring they benefit from national growth” (p. 17).

An unpublished study (Gertler, Martinez & Rubio, 2005) of Mexico’s Oportunidades programme tests the hypothesis that contrary to becoming dependent on cash assistance, beneficiary families in developing countries may invest part of their cash transfer in productive enterprises that boost their income-generating ability and consequently raise living standards permanently.

### 5.5.2 Crowding out

The risk of ‘crowding out’ refers to the concern that if governments, NGOs and donors provide cash directly to households, this might ‘crowd out’ or diminish the existing informal and traditional support systems. In other words, “a type of dependency effect could occur when the beneficiary comes to depend on the cash transfer, in the sense that they lose their previous sources of (informal) support. If the transfer programme is withdrawn, and the beneficiary fails to re-establish a relationship with their previous benefactor, he or she might be left worse off than before” (SCUK, HelpAge International & IDS, 2005, p. 34).

This concern is not new in the context of social protection policy. However, as noted in a Plan International briefing paper (Thomas, 2005), given the low level of formal social protection available in many developing low-income countries, it is unlikely that informal protection mechanisms would be crowded out. Moreover, in emergencies, when the entire community, across-the-board, has been affected by a crisis such as the tsunami, both informal community-based support systems and government capacity are weakened simultaneously. If the people who are providing private transfers are poor themselves, then “the injection of cash provides additional support to both poor givers and poor receivers” (SCUK, HelpAge International & IDS, p.34).

Far from ‘crowding out’ government efforts, technical assistance and financial support can help develop and strengthen government capacity to institutionalize the delivery of social protection solutions. In development contexts, experience in a range of countries, including Brazil, Zambia and Indonesia, shows that training and building capacity of local government staff is a critical component of the programme.

## 5.6 Risk of inflation and distortion in the local labour market

### 5.6.1 Impact on inflation

A potential outcome of injecting cash into the local economy is an increase in prices of goods. The cash transfer can cause a marked and sudden increase in the demand for goods, with the result that traders are encouraged to charge higher prices. This can hurt both beneficiaries and non-beneficiaries of cash transfers. Beneficiaries will get less for their money and non-recipients of the cash transfer will be worse off since they are faced with higher prices and no change in their income. In-kind alternatives do not cause inflation, though they may distort the market in other ways; for instance, food aid may depress the price of food, thus hurting local producers<sup>18</sup>.

Price rises could have an overall positive impact by helping to stimulate the production and flow of goods through the market mechanism (Harvey, 2005). Cash incomes give vulnerable households greater purchasing power. Even if the cash transfer leads to a price increase, it allows households to consume more food. In part, this increase in food is met through increased flows of food (i.e. existing stocks) from other regions and perhaps an increase in the production of food (i.e. new stocks) in the short run.

The key point is that inflation is not unequivocally a negative effect, and that under the right market conditions, the risk of inflation is low.

### 5.6.2 Impact on the local labour market

Cash-for-work can distort local labour markets by abruptly affecting the supply of labour. This could happen when the wage rates in a cash-for-work programme are higher than the local norm, which presents an incentive for people to participate in the programme and leaves less labour available for other jobs at the existing (lower) wage rate.

However, cash-for-work programmes usually run for a short period, and any distortion is likely to be quickly corrected. In the process, they can stimulate a range of positive outcomes. For instance, in the immediate aftermath of the tsunami, cash-for-work programmes helped achieve several outcomes, apart from giving people a quick and temporary source of income:

- They mobilized people to make the tsunami-affected areas habitable
- They encouraged people to return to their villages
- They paid women and men equal wages, which was not the norm locally.

Moreover, there are simple ways to mitigate the risk of labour market distortions. In the tsunami-affected areas, for example, “some NGOs limited the number of days people could work, and others suspended the entire project during important agricultural periods” (Adams, 2006).

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<sup>18</sup> Harvey (2005) presents a list of studies which address the comparison between food aid and cash transfer in economic terms. Food aid may lower prices for food. This could potentially have a positive impact on poor people who have to purchase food, but a negative impact on farmers who rely on selling it. There is substantial literature and much debate on whether or not food has disincentive effects on local markets and agriculture.

## 6 Why cash transfers have gained currency in recent times

Besides the manageability of their risks and evidence of their effectiveness, there are overarching trends that are motivating an interest in cash transfers in both emergency response and social protection policy. This section highlights some of the key trends.

### 6.1 Presence of functioning local markets and infrastructure

In many low-income countries, market mechanisms are active and resilient, including at the community level. Infrastructure and technology for transport, communications and financial transactions have improved. As Creti & Jaspars (2006) described, “Nowadays almost everyone lives in a cash economy: people earn wages, sell goods and services, and buy what they need with cash ... In many emergencies, the problem is that people are unable to buy food and other basic goods, not that such items are unavailable. If markets are still functioning, emergency-affected populations can be supported to buy the commodities that they need on the market” (p. 6).

The tsunami-affected areas offered favourable conditions for delivering cash assistance, as the following points highlight:

- There were functioning markets and infrastructure close to the affected areas. In and around the affected areas, people’s assets and livelihoods were destroyed and local markets collapsed. However, outside the affected areas, infrastructure and supply chains were functional. In a relatively short period, goods could be delivered from nearby regions to the tsunami-affected areas. For instance, in Sri Lanka, the disaster mainly affected the coast, without major damage to inland transport and market infrastructures (Oxfam, April 2005b). Market infrastructures were more seriously affected in Aceh, Indonesia, but new markets and businesses were rapidly established in a number of places<sup>19</sup>.
- The affected countries were largely self-sufficient in food before and after the tsunami. The tsunami damaged coastal crops, yet in both Sri Lanka and Indonesia, a majority of the production was unaffected by the disaster (Oxfam, 2005b). Sri Lanka’s harvest, as of March 2005, was expected to meet a large proportion of its needs. As of April 2005, Indonesia had large stocks of rice left over from 2004.

Moreover, cash transfers can have further knock-on effects in the local economy, stimulating both production and consumption of goods and services<sup>20</sup>.

### 6.2 Re-thinking food aid policy and practice

The current interest in cash interventions is partly driven by a re-thinking of how and when food aid should be applied<sup>21</sup>. The concerns with food aid refer to its relatively slow speed and high cost of delivery and its appropriateness to local conditions, as described below.

<sup>19</sup> CARE International studied the viability of implementing a cash intervention in Aceh, Indonesia (Adams et al, 2005). The study considered two points: (1) Under what conditions should direct food delivery should be replaced with market-based approaches, i.e. cash and/or vouchers? (2) Have these conditions been met in Aceh? The study concluded that a market-based mechanism seemed workable in many areas visited, i.e. food was available at stable prices in the markets; transportation infrastructure was adequate, and the operating environment was sufficiently safe and secure.

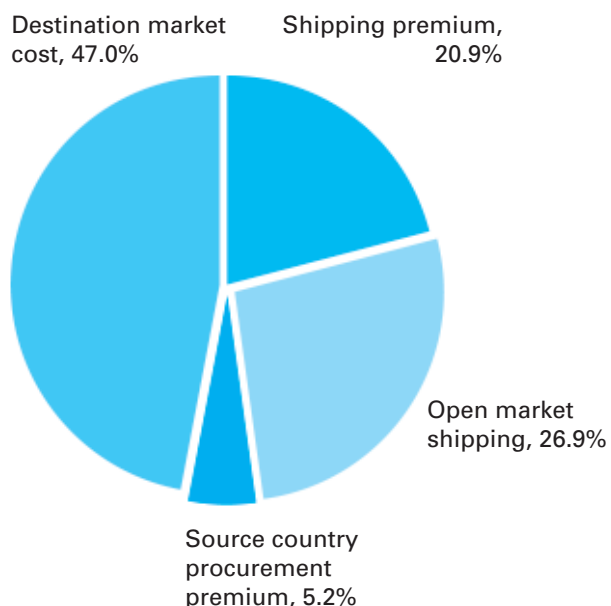
<sup>20</sup> There is an emerging interest to examine the knock-on effects of cash in the local economy. For example, ODI is undertaking research on cash transfers and their role in social protection that includes a study of the relationship between social transfers and productive investment in the local economy. More analysis has to be done in this area.

<sup>21</sup> Oxfam (2005a) described three types of food aid: (1) Programme food aid, which may be sold or donated to the recipient country. Virtually all programme food aid is ‘monetized’, i.e. sold in recipient country markets to generate cash. (2) Project food aid, which is donated to support specific activities, often related to agricultural or economic development, nutrition and food security. The projects are typically administered by NGOs or the WFP. (3) Emergency food aid, which is given free in emergencies.

### 6.2.1 Food aid delivery can be expensive and slow

Shipping food across oceans is expensive and slow, particularly when food aid is procured far away from its distribution points (Barrett & Maxwell, 2004). The figure below shows the breakdown of cost of delivered food aid. The US is the world's largest food donor, supplying about half of the world's total food aid (Oxfam, 2005a).

Figure 2: Costs of delivered food aid in the recipient country



Source: Barrett & Maxwell, 2004

Each dollar appropriated for food aid in the recipient country generates an average of less than 50 cents of food. The most sizable cost is for shipping. Food aid from the US is made more costly by subsidies of 75 per cent or more to freight lines<sup>22</sup>. Moreover, it takes more than five months, on average, for US emergency shipments to reach their destination. This clearly causes delays and can cost lives, particularly in the initial period of an emergency. **Only about 10 per cent of global food aid is procured in developing countries.** When it is, it is typically at a lower cost and greater timeliness in deliveries.

### 6.2.2 Food aid can hamper local economic recovery

Barrett and Maxwell (2004) observed that food aid is ideally suited to address “acute food insecurity in humanitarian emergencies that are underpinned by both an outright shortage of food and the failure of markets to respond to demand stimuli (e.g., through cash from unconditional transfers or public employment schemes)” (p. 56). Outside of these conditions, food aid can be disruptive. Current practices in providing food aid can create adverse side-effects that can hamper economic recovery (Oxfam, 2005a), as discussed below:

- *By displacing exports from other countries:* Food aid can reduce domestic production of food in the recipient country and damage the livelihoods of poor farmers. It can displace exports from other countries into the recipient country. For example, in 2002–2003, food aid donors over-reacted to a food deficit in Malawi, causing a decline in cereal prices and hurting local producers. In 2000, Guyanese rice exports to Jamaica were displaced by US food aid which suddenly doubled following a bumper crop in the US.

<sup>22</sup> This is 60 per cent more than it costs European donors that commonly procure food closer to ultimate distribution points and significantly more than the Canadians pay to ship food from North America without big subsidies to the maritime industry (Barrett & Maxwell, 2004).

- *Through monetization:* When food aid is ‘monetized’, the food is sold onto local markets in recipient countries in order to generate cash, which can then be put to other development uses. The risk is that the sale of food in the recipient country can lower prices locally, and displace or discourage local farmers’ production, thus reducing their income.
- *By arriving late:* If the late arrival of food aid coincides with the harvest period, it may “depress local food prices, and consequently lower incomes of farmers and farm workers. If WFP implements its plan to distribute food to the affected populations for the next three to six months, such distributions may also suppress local demand for food, an effect that may be compounded by the present lack of cash. This would have a negative impact on the restoration of local trade and business. Besides farming activities, intermediary jobs in trade and transport could be affected by limited business, low food prices, and reduced incomes” (Oxfam, 2005b, p. 3).

### 6.3 Addressing food insecurity through cash transfers and social services

Barrett (2002) writes that, “sometimes what the poor most need to insure their food security is not food – or at least not the type of food being provided through local food aid distribution – but rather health care, clothing, shelter or other essential goods and services” (p. 11). According to USAID’s Office of Food for Peace, distributing food by itself is of limited use in reducing food insecurity. “Food needs to be combined with other non-food (cash and in-kind) resources – another key approach – to insure that it has an impact beyond just feeding people. This is true even in the case of emergencies when food alone, in the absence of potable water and health and sanitation, for example, may not be sufficient to save lives” (USAID, 2005, p. 4). Cash transfers have to be complemented with investments in social services.

Recent strategic plans of major food aid organizations reflect these ideas<sup>23</sup>:

- The four-year strategic plan of WFP for 2004–2007
- The draft strategic plan for 2006–2010 of USAID’s Office of Food for Peace, which noted that food aid needs to be combined with non-food resources, including cash (USAID, 2005).
- A study commissioned by the OECD in 2005, which concluded that providing cash rather than in-kind food aid was more cost effective, timely, and less disruptive to local economies, and that food aid was preferable only in acute crises with no practical alternatives to shipping food into a country (Fleshman, 2006).

Barrett and Maxwell (2004) have also noted that food aid often has the desired nutrition and health effects when it is part of a complete package of assistance. For young children in particular, food security is not only about the quantity of food purchased, but also about the quality of the diet, including the variety of foods consumed.

### 6.4 Cost effectiveness: Cash transfers vs. in-kind aid

Section 6.2 examined the costs of procuring and shipping food aid to the recipient country. This section compares the administrative costs of delivering in-kind and cash assistance to households.

<sup>23</sup> Barrett and Maxwell (2004) suggest several policy and operational changes to help make this happen. Among them are to focus food aid on emergencies and to make the response quicker and more flexible, to improve the targeting of food aid, to use food aid only where appropriate and to consider alternate forms of assistance, including cash transfers.

### 6.4.1 Categories of administrative costs

The categories of administrative costs are the same for both cash and in-kind aid, but they play out differently in each case. For the implementing agencies, the cost of physical transportation to the beneficiaries is lower for cash than for commodities. On the other hand, cash transfers could require setting up bank accounts and carrying out banking transactions, which involve banking fees<sup>24</sup>. In areas where there are no banks, cash would have to be physically carried and distributed, which could imply higher security costs. The skills and training as well as numbers of staff required for administration, monitoring, record-keeping, etc., will depend on the type of assistance provided. With in-kind aid, recipients might incur the cost of transporting the items to their homes. With cash, recipients may incur the cost of access to and use of banks.

### 6.4.2 The challenges of comparing cost effectiveness: The fungibility premium of cash

The cost effectiveness of in-kind versus cash aid can be compared by estimating how much it would cost to deliver a given package of in-kind aid, against delivering an equivalent sum of cash. For instance, the in-kind aid package could be constructed to achieve a certain nutritional impact, so the equivalent cash amount would reflect how much money a household would need in order for it to achieve the same nutritional objective.

However, directly comparing costs between in-kind and cash aid can be challenging. One reason is that beneficiaries may not respond to cash and in-kind aid the same way, even when both are supplied in their “equivalent” amounts. For example, cash payments equivalent to food-for-work wages may be obtained by calculating the “white wheat equivalents” of cash payments<sup>25</sup>. Using this measure, Barrett & Clay (2003) estimated the labour supply for food-for-work programmes in Ethiopia if the payment was made in cash and if it was made in kind. Their study showed that the supply of labour was greater for cash rather than in-kind payment.

The study revealed that cash carried a premium because it was fungible, i.e. it could be spent flexibly. It also implied that for a given budget, it would be possible to employ more families if the payment is in cash rather than in kind, since more families would be willing to supply labour if they were to be paid in cash. Hence, ostensibly the cost of providing cash assistance was lower than in-kind assistance.

It should be noted that the premium attached to cash over food could be the result of other underlying factors. For example, errors with targeting may skew the results. There may be an error of “inclusion”, i.e. that the target population includes those who are not the most vulnerable. Such beneficiaries may have other means of accessing food, and can afford to spend the cash on non-food items.

### 6.4.3 In general, cash transfers appear to have reasonably low administrative costs

Projects funded by donors and NGOs are usually fully costed, so it is fairly easy to calculate the total costs and unit costs per beneficiary. Calculating administrative costs for projects funded by governments is less straightforward, since their personnel and administration costs are usually incorporated into normal government functions (SCUK, HelpAge International & IDS, 2005). Nonetheless, a very rough estimate based on the documents reviewed for this report would place administrative costs at approximately 15 per cent of total costs, as the following examples illustrate:

- SDC’s experience with cash interventions shows that “cash projects with a budget of over US\$1 million require around 15 per cent of the budget for all overhead and implementation costs, including consultants, expatriates, local staff and office costs. Larger budgets and target groups reduce the percentage of overhead costs” (Harvey, 2005).
- Zambia’s Pilot Social Cash Transfer Scheme reaches 1,027 households and pays US\$90 per household as a direct transfer plus US\$18 for administrative costs, which amounts to 17 per cent of total costs. Capacity development, monitoring and evaluation would add US\$24–36 per household, for a total cost of US\$144 per household (SCUK, HelpAge International & IDS, 2005).

<sup>24</sup> The ADBI, in its assessment of tsunami operations in Sri Lanka, found that “since bank accounts have been opened for the cash grant transfer, the system is extremely cost effective compared to the high transactions costs of many other tsunami livelihood projects which often incur as much as 30 per cent administrative overhead costs” (Jayasuriya et al, 2005, p. 23).

<sup>25</sup> This can be done using local producer and retail prices for net food sellers and net food buyers, respectively, so as to capture households’ marginal value of the wheat.

- Aheeyar (2006) describes the costs involved in delivering cash transfers through local partner organizations in tsunami-affected areas in Sri Lanka. The cost to the aid agency includes staffing, transportation, bank withdrawal charges and stationary and communication. All these costs “can amount to more than 10 per cent of the total cash transfer” (p. 22). Training and capacity building would be additional.

## 6.5 Increasing focus on social protection

### 6.5.1 The motivation: Recent trends in economic and social development

In recent years, in developing countries, and particularly in transition and emerging economies, there has been a surge of interest in social protection systems from both governments and the development community. Economic transition in Central and Eastern Europe, the financial crisis in East Asia in the mid-1990s, the inadequate social protection systems in Asia and in sub-Saharan Africa and stagnating coverage in Latin America, coupled with demographic challenges and changing family structures, are among the factors that have prompted this interest. A key driving force is globalization, which can increase variability in income, deepen disparities and increase the size of the informal sector of the economy. As a result, “a wider set of providers, instruments and programmes is needed to meet the increased demand for social protection” (Barrientos & de Jong, 2004, p. 9).

The conventional idea of social welfare is being redefined, with an attempt to capture the kinds of vulnerabilities and shocks that poor households are likely to face today. The term ‘social protection’ is used and applied differently by organizations such as the World Bank (2003) and the ILO (2001 and 2005), and by practitioners and academics (Devereux & Sabates-Wheeler, 2004<sup>26</sup>; Barrientos, Hulme and Moore, 2006). Despite the debate on the role and definition of social protection, it is a critical policy issue across countries, as the following sub-sections illustrate.

### 6.5.2 East Asia: Growth coupled with inequality

Over the last 15 years, the East Asia and Pacific (EAP) region has registered high economic growth and an overall reduction of poverty, coupled with a rise in inequality.<sup>26</sup> The current challenges differ greatly across countries. The World Bank (2005c) noted that in most EAP countries, “governments have traditionally played a very limited role in implementing direct public interventions on social protection. Their primary contribution has been to create an environment for growth and to invest in health and education.” So far, people have relied on informal mechanisms such as family and community ties. In countries with socialist traditions, governments still play a role in providing social protection.

However, both traditional and socialist approaches are currently under strain. Although the immediate effects of the financial crisis of the 1990s have receded, vulnerability levels remain high. Moreover, households face risks due to globalization, economic structural change, urbanization, and demographic shifts. The increasing exposure to risks and vulnerabilities is leading to a greater demand for social protection and social policy reform. The experience of the tsunami highlighted the weaknesses of existing social protection schemes in some countries.

### 6.5.3 Latin America: Recent success with conditional cash transfers

In Latin America, the past few years have seen the emergence of conditional transfer programmes, which use cash transfers together with conditioning rules. The cash transfers help to alleviate the effects of poverty in the short term, while the conditionality, such as sending children to school or health clinics, helps to improve nutrition, health, education, and other social development goals in the long term (ECLAC, 2006).

Conditional cash transfer schemes in Mexico and Brazil are pioneering initiatives in this regard. There are now efforts to use these cases to inform social protection programmes in other parts of the world, such as DFID’s support to fostering dialogue and exchange between the governments of Brazil and various African countries (DFID, 2006b).

<sup>26</sup> In its regional overview, the World Bank (2005c) reported that the average economic growth rate has risen from 5.57 per cent in 1990 to 8.8 per cent in 2004. At the same time, 50 per cent of people were living on less than two dollars a day in 1999 on average, compared to 34 per cent in 2004.

#### 6.5.4 Sub-Saharan Africa: Scaling up social protection and reducing poverty

In sub-Saharan Africa, in government strategies as well as in donor-led efforts such as the UK Commission for Africa, establishing and expanding social cash transfer programmes is increasingly a matter of priority (Schubert, 2005b). At a workshop<sup>27</sup> on social protection held in Zambia in March 2006, participants discussed the reviews of poverty conducted over recent years, which recognize that large numbers of very poor people, including older people and children, in sub-Saharan Africa are trapped in long-term, intergenerational poverty. The objective of the workshop was to examine the case for scaling up basic social protection in Africa and to explore new ways to tackle poverty, reduce inequality and stimulate growth, with a human rights-based approach. It specially focused on the viability and impact of cash transfers.

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<sup>27</sup> In March 2006, a three-day workshop on social protection held in Zambia brought together ministers and senior officials from 12 African countries together with donors, UN agencies, civil society representatives and NGOs.

# 7 UN agencies: Experience and perspectives

## 7.1 Growing interest among UN agencies

UN agencies in general have not considered direct cash transfers as a standard option in their emergency operations. For instance, the Core Commitments for Children in Emergencies (UNICEF, 2005b), which outlines areas of activity for UNICEF's initial response in the protection and security of children and women, does not explicitly include cash transfers.

The factors that are typically cited as constraints are: the risks associated with delivering cash; the mandates and accountabilities of UN agencies; their operations and reporting requirements; and the experience and capacity of their staff to deliver cash interventions.

However, these perceptions are breaking down as new evidence comes to light and experience grows. It is notable that in the tsunami-affected areas, WFP, UNDP and UNICEF were each involved in cash transfer activities.

The constraints are proving to be manageable, as discussed below:

- *The risks associated with delivering cash.* These include the risks mentioned above in Section 5, i.e. insecurity, corruption, targeting, etc., due to which cash transfers are perceived as being risky and difficult to manage. As the examples in this review illustrate, these perceptions are changing: cash transfers can be delivered securely and effectively, and are often subject to the same risks as in-kind aid (see Sections 5 and 6).
- *Mandates and accountabilities.* Auditors need to see tangible and verifiable results. Direct cash transfers, which the beneficiaries might be able to spend at their discretion, may not be viewed favourably by external parties to which UNICEF is accountable. However, donors are have demonstrated a strong interest in cash programmes, in light of their potential for wide-ranging impact and cost effectiveness (See Sections 6 and 7).
- *Operations and reporting requirements.* There are concerns that when households are directly given cash, the transfer cannot be accounted for or monitored. However, these concerns can be addressed. In order to verify that the beneficiary has received the assistance, an 'official' record such as a bank account transaction receipt can serve the purpose. Monitoring checks and evaluation would follow as for other regular activities<sup>28</sup>. For reporting purposes, the objective of the cash transfer, which is to allow the household to decide how to spend the cash (with or without conditions), should be clarified both internally and externally. While this may place new demands on programme and operations staff, and require clarifications with donor and auditors, yet it has been done successfully in a range of contexts (See Section 7.2 for examples from UNICEF).
- *The experience and capacity of staff.* Implementing a cash intervention requires specific capacities: an understanding of the risks and ways to manage them, a familiarity with microeconomic effects such as household decision-making and knowledge of the local markets for labour and goods. Within the humanitarian community, the experience with managing cash transfers has so far been limited, but it is growing and is set to increase further. The strategic plans of major agencies involved in food aid and food security, such as WFP and USAID, emphasize greater attention to cash transfers. Agencies have also begun to compile their experience in manuals and share them in discussion networks. See Oxfam (Creti & Jaspars, 2006; Oxfam 2005a, 2005b), ODI (Harvey, 2005; Adams et al, 2005), DFID (2005, 2006a, 2006b), GTZ (Schubert, 2005b), WFP (2006a), USAID (2005).

<sup>28</sup> In UNICEF's cash assistance activity in Aceh, monitoring sheets filled in bi-weekly by social workers, who paid visits to recipient households, indicated the use of the cash per beneficiary. These sheets were used as part of the documentation for the liquidation process. UNICEF had to train and build capacity of the social workers from NGOs and local government staff.

## The perspective from UNICEF country offices

UNICEF offices successfully supported cash transfer programmes in the tsunami-affected areas, notably in Aceh, Indonesia. Most UNICEF staff who contributed to this review were positive towards cash transfers, and cited its logic and effectiveness, while others were more concerned about the associated risks. In discussing cash in emergencies, as well as in social protection more broadly, staff have called for clarity and guidelines on UNICEF's role, sharing experiences across offices and building the relevant skills and capacity.

## The perspective from other UN agencies: WFP and FAO

While this review does not examine the operations and reporting procedures of other UN agencies, observations from FAO and WFP reveal that they cite similar constraints as above. The issue of UN agency mandates and capacity with respect to cash interventions arose during a conference organized by the ODI in January 2006<sup>29</sup>.

WFP said that they did not have the operational or management set-up to deliver cash transfers. However, what WFP could do is provide logistics support, assist in larger distribution networks and leverage its food delivery systems. But it could not take on cash as a separate activity. FAO echoed this point and added that a major issue for the UN is the fiduciary issue. The UN faces a degree of accountability to donors that perhaps NGOs do not face.

It is notable that WFP has run several cash assistance programmes alongside its food aid programmes, such as in tsunami-affected areas in Sri Lanka. WFP is revising its emergency needs assessment methodologies, and in the future it could consider non-food responses to food insecurity more explicitly (Harvey, 2005). A policy issue under consideration at WFP is the role and application of economic analysis in the organization. According to a WFP discussion note, among the reasons for undertaking economic analysis is that at the operational level, economic analysis can help to analyse the relative advantages of cash versus food assistance programmes (WFP, 2006b).

## 7.2 UNICEF: Practical experience with cash transfers

In practical operational terms, some UNICEF country offices report little difficulty and others report challenges, as the examples below illustrate. One reason for this variance is the different contexts in which they operate: post-tsunami in Indonesia vs. the circumstances of HIV/AIDS in sub-Saharan Africa. Another reason is the capacity of local government institutions. However, in terms of outcomes, the activities have delivered results for children, and offices have found avenues for either scaling up or transitioning out into other types of assistance.

The examples below note how UNICEF offices in Indonesia, Sri Lanka, Thailand and Kenya handled the operational side of cash transfer activities.

### UNICEF Kenya

The UNICEF Kenya country office reported that they had no trouble supporting the activity. The office sends funds to the government treasury, the treasury sends it to the ministry that manages the programme, and the ministry sends it to their district officials who draw the money out of a bank. An alternate system is being considered as part of a scaling-up plan, whereby the funds would flow from the treasury to the post office, and the post office would transfer the funds into the local bank accounts of the beneficiaries (there are over 270 post office outlets in Kenya). District social workers and children's officers are responsible for monitoring the use of the cash.

### UNICEF Aceh, Indonesia

In Aceh, the local government institutions were not equipped to handle the logistics and monitoring of a cash transfer scheme. The UNICEF office there found no clear organizational guidelines on supporting a direct cash transfer scheme in an emergency context. UNICEF had to invest in building systems within government and training public officials and NGOs to engage in this activity.

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<sup>29</sup> ODI conference on cash transfers in emergencies, January 2006, held in London. The website has proceedings from the conference, including presentations and records of discussion sessions. <http://www.odi.org.uk/hpg/cashconference.html>

The funds flowed from UNICEF to the local Department for Social Affairs, which made a one-time transfer to the bank account of each Children's Centre<sup>30</sup>. The CC then transferred cash into the individual accounts of the caregivers each month for three months.

To manage the risks, UNICEF organized sessions to familiarize both the social workers and the beneficiaries with the project, i.e. its objectives, principles, process, authorized expenditures, etc. Caregivers were asked to maintain a log of expenses incurred, and the social workers accounted for these expenses bi-monthly in a prescribed monitoring sheet, based on their visits to beneficiaries. This sheet was part of the liquidation documents. UNICEF organized weekly coordination meetings with the implementing partners to exchange views on problems and constraints and to measure progress.

### UNICEF Sri Lanka and Thailand

In Sri Lanka and Thailand, the method of funding post-tsunami cash transfer activities was straightforward. In both cases, UNICEF transferred money to the local government authorities who then distributed it to eligible children or households. This process was reportedly not a problem for UNICEF operations in either the Sri Lanka or Thailand country office. However, it was done on a small scale and was not a significant part of UNICEF's tsunami response in either country.

## 7.3 Transition and sustainability

The requirements of households change as the emergency situation moves into the recovery phase. Cash transfers need to be provided for an appropriately long term and followed up with other measures. The examples below show how UNICEF-supported cash activities are being made sustainable.

### UNICEF Kenya: Moving from the pre-pilot to pilot phase

The initial cash transfer activity was a short-term pre-pilot project which reached OVC in 500 households in three districts (UNICEF, 2006). Going forward, a large-scale pilot project is to be implemented over 2006 to 2008, and is expected to reach over 36,000 OVC in seven districts by the end of 2008, at a cost of US\$7.3 million per year<sup>31</sup>. The UNICEF Kenya office highlights several potential avenues for ensuring the sustainability of the scheme:

- The pilot phase is expected to be supported by funds from SIDA and DFID through UNICEF. Other donors, including the World Bank, have expressed their support.
- The government has committed resources in the 2005–2006 budget. The government has also indicated that an increasing amount of tax revenue will be allocated to OVC issues as an inter-ministerial priority, including to the cash transfer programme.
- Given the high levels of support for OVC projects across the board amongst donors, pooled funding could be another option. Such precedents exist in Kenya, e.g. the education SWAP.
- While the Global Fund has not supported the initiative in 2004–2005, it has since stated its concern for OVC and could be a potential source of funding.

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<sup>30</sup> UNICEF supported the establishment of Children's Centres (CCs) across tsunami-affected areas in Aceh. The CCs were originally set up to respond to the emergency, and were safe play areas and centres for conducting the registration, tracing and reunification of separated children. The CCs are managed by local NGOs and the local government authorities, namely the Department of Social Affairs. One important risk-mitigating factor was that the beneficiaries were already known to UNICEF and the implementing partners, who had had direct contact with the concerned children and their caregivers during the post-tsunami tracing and reunification activities.

<sup>31</sup> 36,000 OVC in seven districts is the equivalent of 15 per cent of OVC in these districts. Currently, the Government of Kenya is also providing cash transfers to 5,000 households with OVC in ten additional districts, using treasury allocations. This is not a part of the pilot project, but will inform the operational evaluation.

### **UNICEF Aceh, Indonesia: Moving into livelihoods support**

A degree of sustainability will be ensured by transitioning from direct cash transfers targeted to children to income (livelihood) support for the most vulnerable households (UNICEF, 2005a). The cash transfer project represented a transitional phase to fill the gap between a situation of survival to a more regular, normalized situation. The upcoming second phase will include livelihood support activities developed by more specialized agencies and funded by UNICEF. The Christian Children's Fund, an international NGO, will implement the activity.

# 8 Conclusion

## 8.1 Why UNICEF should consider supporting cash in emergencies

Two factors make it imperative for UNICEF to seriously consider supporting cash in emergencies:

- The evidence of positive impact on children; and
- The emerging policy dialogue on social protection.

### 8.1.1 The essential rationale to support cash transfers: Positive impact on children

As Section 4 illustrates, the impact of cash transfers in achieving outcomes in health, nutrition, education, HIV/AIDS and poverty reduction is encouraging. Short-term cash transfers can potentially have enduring effects. Targeted cash transfers can empower beneficiaries, promote gender equality and enhance women's decision-making power in the household. By addressing vulnerabilities and complementing livelihoods immediately following an emergency, cash transfers can help households recover, giving them with greater control over meeting their specific needs. The circulation of cash can help generate local economic activity. These effects can have both direct and indirect impacts on children.

### 8.1.2 Emerging policy dialogue on social protection: The need to focus on children

Across the development community and within UNICEF<sup>32</sup>, social protection is emerging as an important and critical new area of work. With respect to social and economic vulnerability, children face similar risks as do adults, but also additional ones, due to their age and dependency. Like adults, children have a right to benefit from social security and other social safeguards of their well being.

The objectives and modalities of cash programmes need to be viewed from a child's perspective. This implies that:

- Cash transfers need to be designed so that they account for children's vulnerabilities; and
- Cash transfer programmes that are targeted to adults need to be examined for their impact and effectiveness in providing social protection to children.

Thus, a critical part of UNICEF's strategic response would be to promote attention to children in cash transfers in social protection programmes and in emergency response.

## 8.2 Going forward

### 8.2.1 Analysis and evidence-based advocacy

Entry points and suggested ways to proceed:

- *Analysis of impact on children.* Gather evidence and analyse cash programmes to better understand their impact on children. Examine the impact of benefits targeted to children and of universal benefits, and of conditional and unconditional cash programmes. Partner with agencies and organizations that are studying these topics.
- *Advocacy on cash transfers in emergencies.* Engage in the ongoing policy dialogue on the use of cash transfers in emergencies, bringing in the perspective of children's rights. Advocate on the application of emergency funds towards cash transfers, where appropriate, and for conducting needs assessments to consider cash-based responses.

<sup>32</sup> A working group on social protection was just recently formed at UNICEF, New York. The working group comprises UNICEF staff from the areas of economic and social policy, child protection, HIV/AIDS and early childhood development.

- *Advocacy for national policy response and social protection more broadly.* Advocate for greater attention towards cash transfers in social protection programmes. Determine how policies can be designed and funded, and highlight their capacity to reduce child poverty and improve development.
- *Partnerships for analysis and advocacy and for internal capacity building:* Partners have skills and experience with targeting, managing, monitoring and evaluating cash transfers, from which UNICEF can benefit.

### 8.2.2 Practical support to cash transfers in emergencies

Entry points and suggested ways to proceed:

- *Establish procedures and produce guidelines:* Develop and apply a needs assessment methodology for cash transfers. Develop guidelines so that cash transfer activities can be smoothly incorporated into UNICEF's operations and reporting requirements.
- *Develop capacity of UNICEF staff and government counterparts:* Familiarize UNICEF staff, with the aims and modalities of cash transfers in emergencies, i.e. when is it appropriate, how to set it up, the risks and mitigating measures, etc. Provide technical support and build capacity of national and local level government. Draw upon existing material from the humanitarian and development community.
- *Pilot test methods:* Work with governments and partners to run pilot projects to assess targeting methods, systems of delivering cash, monitoring methods, cost-effectiveness and impact on children. This is also a way to jointly develop capacity with partners.

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