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Cash and Food Transfers: A Primer

Ugo Gentilini



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Ugo Gentilini*

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* The author works with WFP's Social Protection and Livelihoods Service (PDPS), Policy, Strategy and Programme Support Division, Rome.

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1. INTRODUCTION

Interest in cash transfers as a food security instrument has grown remarkably (as is made clear by simply glancing through the references presented at the end of this paper). In 2006 alone, around 50 new cash papers were presented and three major events organized, including the Overseas Development Institute (ODI) *Cash and emergency relief conference*, the World Bank *Third international conference on conditional cash transfers* and the *Regional workshop on cash transfer activities in southern Africa*, co-hosted by the Southern African Regional Poverty Network (SARPN), the Regional Hunger and Vulnerability Programme (RHVP) and Oxfam GB.

While cash transfers certainly have an important role to play in addressing food insecurity, there is an ongoing debate on whether they are more appropriate in a given context than, for example, food transfers. Unresolved questions remain as to whether cash and food transfers are alternative or complementary options, whether they are different in qualitative terms and under which conditions the alternatives work best.

The “cash versus food” discussion goes back to the 1970s.¹ Since then, a number of factors have fed into the debate, making it quite controversial and complicated. According to Devereux (2006: 11), “the ‘cash versus food’ debate has become unnecessarily polarized, even acrimonious. It is also spurious and misdirected.” Some of these factors include World Trade Organization (WTO) negotiations on agricultural policy disciplines and their exemptions, greater interconnection between markets, studies on the costs

of transoceanic food aid deliveries, enhanced flexibility in donor budgets, and greater availability and accessibility of research studies on the topic.

The discussion over cash transfers is also linked to the design of longer-term social protection strategies. Cash is increasingly becoming the central plank of some donor social policy, as shown by examples from Ethiopia, Kenya, Zambia and Malawi (DFID, 2005; Harvey, 2005).

The objective of this paper is to unpack the various aspects of the “cash versus food” debate, to map out where the controversies lie and to demonstrate the need for a more pragmatic, balanced and context-specific approach. A key message is that appropriateness cannot be predetermined since programme objectives, the economics of food consumption, market analysis, costs effectiveness and efficiency, capacity requirements and beneficiary preferences all play a role in determining the most appropriate option or combinations of options.

This paper is organized in such a way as to confront all these issues. Section 2 presents the economics of food and cash transfers. Section 3 identifies the key determinants in optimal transfer selection. Section 4 highlights recent developments in combining cash and food within institutionalized social protection systems. Conclusions and future challenges are presented in Section 5. A resource toolkit including selected bibliography, websites and materials for quick reference complements the paper and is presented at the end.

2. THE ECONOMICS OF CASH AND FOOD TRANSFERS

This section lays out the theoretical background on transfer selection and tests it against empirical studies undertaken over the years.

2.1 Theoretical foundations

Two principal strands of economic analysis have contributed to work on the impact of in-kind and cash transfers on food consumption. The first strand builds on Engel’s work which, based on observed regularities in household spending, introduced a simple, but fundamental, “law” of food consumption: the poorer the family, the greater the proportion of its total expenditure that must be devoted to the provision of food.

The second strand is based on neoclassical consumer theory. Households are considered as economic units guided by preferences, constrained by available resources and continuously engaged in a process of choosing among alternative possibilities in order to maximize total utility. The work by Southworth (1945) in particular has been so influential in this area that Senauer and Young (1986) defined it as “universally accepted as the conceptual basis for explaining the relation between food stamps and food spending”.

Neoclassical microeconomic models predict that individuals would spend the same amount of additional resources on food whether resources come from in-kind or cash transfers. A standard exception would be if an in-kind transfer were greater than the amount the

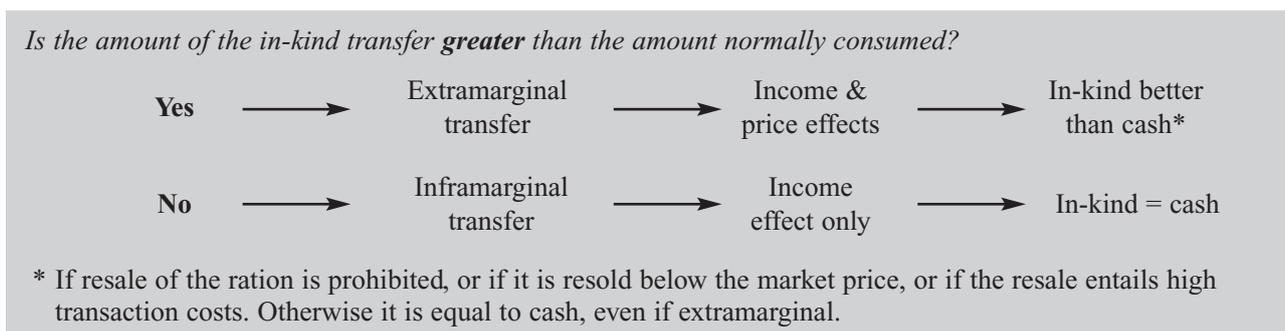
recipient household would have consumed without the transfer (Alderman, 2002; Ahmed, 1993). Such transfer is called extramarginal; conversely, a transfer in-kind or cash for an amount less than the normal food expenditure is said to be inframarginal.

When transfers are inframarginal they trigger an “income effect”, that is, they increase households budgets. In this case, in-kind and cash transfers are economically equivalent for consumers (Castaneda, 2000). On the other hand, when in-kind transfers are extramarginal they not only trigger an income effect but also a “price effect”, which makes them qualitatively different (see Figure 1). Such a transfer induces greater food consumption than would have been the case otherwise, and the effect is equal to a price reduction for that good.

However, the “price effect” will take place only if the resale of rations is effectively prohibited, takes place below the market price or entails high transaction costs (Sharma, 2006; Ahmed and Shams, 1994). Both food and cash transfers increase household resources, but a food transfer is extramarginal if it is greater than a household’s normal consumption of that food; the household would consume less of the commodity if the transfers were in the form of cash.

In-kind payments are often used as a means for modifying or influencing the behaviour of recipients, and the degree of influence hinges on whether the assistance is extra-marginal or not. A fair share of the cash and food debate focuses on this principle of

Figure 1. Economics of Cash and Food Transfers



whether public action should “guide” households towards some desirable outcome or leave it to households to decide how to use the income transfer. In the words of Thurow (1974: 193), “at the heart of the economist’s love affair with cash transfers is the doctrine of absolute consumer sovereignty. Everyone is his own best judge of what should be done to maximize his own utility.” Neoclassical economists believe that in-kind transfers lower recipients’ utility because of the lack of fungibility, which gives them less freedom to choose (see Annex).

But choice also hinges on the availability and accessibility of information. Amartya Sen would perhaps argue that there is real freedom only when people are aware and rightly informed about their choices. For example, in examining the role of nutrition education programmes in Malawi, the World Bank noted that “while very cost-effective in improving child health, [such programmes] are rarely demanded by communities, as they may not be aware that their young children are deficient in micronutrients and suffer from anaemia” (World Bank, 2006). Similarly, Migotto et al. (2006) showed how households may not be conscious of their limited kilocalorie consumption as compared to international standards for measuring malnutrition.

It is also argued that societies as a whole may value a minimum level of consumption of certain goods (Alderman, 2002). The general population may have a different view of inequity in the consumption of, say, food, than of overall inequity (Deaton, 1992). Such goods are sometimes termed “merit goods” and are given extra weight in economic calculations (Tobin, 1970). Clearly, this is related to the “externality” argument that will be introduced shortly since it implies that, at one level, individuals derive satisfaction from the fact that other individuals are consuming certain goods (de Janvry and Sadoulet, 2004). From this perspective the dilemma is not whether in-kind transfers influence household behaviour; the influence is *intentional*.²

The core question is whether cash and food are mere alternatives or if there are distinctive factors that make

them to some extent special. Transfer selection revolves around two basic issues. One is a matter of principle, whether the intended “distortion” is a good or a bad outcome. Here, much depends upon programme objectives, in light of which programme effectiveness and efficiency should ultimately be assessed (Watkins, 2003; Rogers and Coates, 2002). The second issue is the whole set of technical conditions (markets, delivery mechanisms, etc.) that should be carefully assessed to identify the optimal transfer or combination of transfers in a given context. [These technical conditions are explored more closely in Section 3.]

2.2 Empirical evidence

A number of studies on comparative marginal propensity to consume food (MPCf) out of food and cash transfers suggest that the poor tend to have higher MPCf as a result of food transfers than equivalent cash transfers. The MPCf quantifies how much of an additional unit of income is spent on food. The MPCf is a special case of elasticity that focuses on the effects of consumption of a particular good (food) triggered by changes in household income happening “at the margin” (i.e. following the provision of one additional unit of income).

“It’s easy to exaggerate the difference in fungibility between cash and food. The empirical literature tells us there’s definitely a difference, although there remains great dispute as to WHY such differences persist.”

Christopher B. Barrett
(personal communication, 2006)

Such studies are done mostly in development contexts and suggest that the poor tend to consume more food when provided with food rather than cash (Ahmed, 2005; Del Ninno and Dorosh, 2002; Pinstrup-Andersen, 1988). However, the bulk of the cash vs food microeconomic evidence builds upon the United States national food assistance programmes, especially food stamps. While important lessons can be drawn from this rich literature, caution is also needed in interpreting the results given the highly developed administrative

setting in which programmes were implemented, the delivery modalities and the nature of the transfers.

Box. 1.

THE US FOOD STAMPS PROGRAMME

Fraker (1990) showed that an additional dollar of food stamps increased food consumption by 17 to 47 percent, as opposed to a 5 to 13 percent range induced by cash. The effect on nutrient availability was also roughly from 2 to 7 times larger for food coupons than cash. Similarly, Fraker, Martini and Ohls (1995) showed that the switch from food stamps to cash transfers triggered a reduction in food expenditures of between 18 and 28 percent.

The evidence from the United States food stamps programme shows that stamps are often more effective than equivalent cash transfers in pursuing food consumption objectives (Box 1).³ Economists refer to this phenomenon as the “cash-out puzzle”. In general, the magnitude of the cash puzzle in the United States food stamps programmes seems quite large and, as claimed by Barrett (2002: 54), “Virtually every study finds food stamps increase household nutrient availability at 2 to 10 times the rate of a like value of cash income.”⁴

The reasons behind the cash puzzle and other “anomalies” in the neoclassical economic theory are not fully understood (Thaler, 1990). Fraker (1990) suggests that households make decisions concerning resources over time, and not necessarily within a rigid period (as assumed by neoclassical theories).⁵ Another factor may be the transaction costs involved in converting food to cash (Rogers and Coates, 2002).

It is also important to recall that in the case of food aid a whole basket of food is sometimes provided to beneficiaries, and households may have a different MPCf for each food commodity. Therefore if food aid is sold by beneficiaries it does not necessarily mean that food was unnecessary (as if households had low MPCf), but rather that a single commodity may be sold or exchanged to satisfy other non-food needs or to balance, diversify and complement the diet with other

foods (Pingali and Khwaja, 2004; Webb and Rogers, 2003). In a number of refugee camps, for example, the sale of food aid has been documented to be “a sign of distress rather than excess” (Reed and Habicht, 1998).

Empirical findings also indicate that how resources are allocated within the household matters significantly. While standard theory assumes that households behave as single agents and express a single set of preferences, evidence now shows that household decisions are often the result of an interaction between individual members with different preferences and endowments, especially with regard to management of food (Edirisinghe, 1998). Gender and intra-household resource control and allocation are important factors in shaping aggregate household food consumption levels (Haddad, Alderman and Hoddinott, 1997).

The multidimensional nature of malnutrition and the non-linear link between food consumption and nutrition make it difficult to attribute a nutritional outcome to one single tool, whether food or cash. Moreover, much depends on how nutrition is measured and whether the transfer is conditional or not. For example, recent evidence shows that people tend to use cash to diversify and increase the quality of their diets (e.g. buying more meat and eggs and less cereals) – i.e. “eating less but better” – and sometimes cash has been shown to trigger higher kilocalories availability at the household level than food aid does (Sharma, 2006).

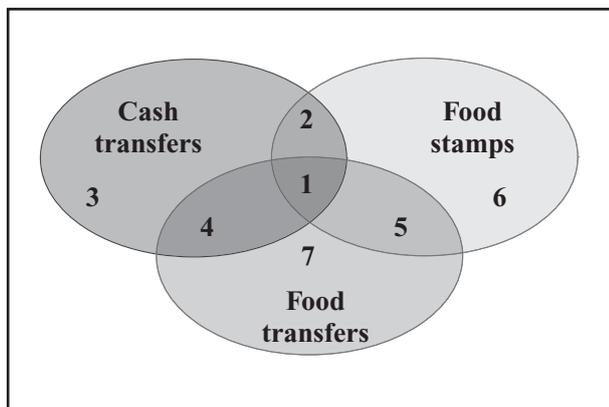
But if we exclude Latin America and South Africa, the effects of food aid on health and nutrition (e.g. on neuroathyism and vitamin and mineral deficiencies) seem to be greater, and better documented, than those of cash. Children in food aid-receiving communities in rural Ethiopia were shown to tend to grow almost 2 cm more than non-receiving communities (Yamano, Alderman and Christiaensen, 2005). Similar findings are reported in other studies (Sharma, 2005; Dercon and Krishnan, 2004; Getahun *et al.*, 2003; Quisumbing, 2003). While there is emerging evidence on short-term nutritional effect of cash, relatively little is documented about its longer-term health and nutrition effects, especially in Africa.

3. KEY DETERMINANTS IN SELECTING CASH AND FOOD TRANSFERS

The previous section presented theory and evidence on the economic underpinnings of cash and food transfers. Recent experiences in designing cash and food programmes show that transfer selection should be based on comprehensive assessments of local circumstances, in both development and emergency contexts (see Table 1).

Food transfers, cash transfers and vouchers/stamps have both shared and unique features, as illustrated in Figure 2. Area 1 highlights an important common element of all three transfers: transfer selection should be the end result of a thorough process that includes a clear definition of programme objectives, careful analysis of market conditions and sound assessment of local capacities. Area 2 indicates that both cash and stamps require the private sector to be involved (more or less directly) in the programme,⁶ something that food transfers do not necessarily entail. Cash transfers have the peculiarity of providing free choice over the items to be purchased (Area 3).

Figure 2. Mapping the Linkages



If food transfers are inframarginal, then cash and food transfers are equivalent from the microeconomic perspective (Area 4); stamps and food transfers are both tied to the provisioning of food (Area 5); food stamps need retailers to undertake some extra administrative work, although remunerated (Area 6); food transfers put food directly in the hands of beneficiaries without intermediate entitlements such as banknotes (Area 7).

The following sections look at a number of factors that need to be taken into account in selecting the appropriate response or responses, including programme objectives, market conditions, transfer effectiveness and efficiency, level of administrative capacity, robustness of delivery mechanisms and beneficiary preferences.

3.1 Defining programme objectives

It is important that programme objectives be stated up front in order to better assess effectiveness and efficiency. In fact, by definition, effectiveness means achieving programme *objectives*. For example, the comparative impact of cash and food transfers on food consumption and nutrition need only be assessed if transfers were intended to pursue food consumption and nutrition objectives. If the objective of a cash transfer is simply to increase purchasing power, then such transfers may or may not meet “desirable” outcomes (such as cash being spent on essentials or investments) but *de facto* they are *always* effective.

Food transfers may pursue a variety of objectives. An extreme view is put forward by De Waal (1991: 79) who argued that “the objective of food allocations should not be conceptualized as feeding people, but of supporting their struggle to preserve livelihoods. Food relief to farmers is primarily an economic, not a nutritional, intervention”. On this basis, cash and food transfers may be equally effective, whereas other authors – especially in the nutritional literature – argue for the special value of “food for nutrition” (WFP, 2004; Webb, 2003a).

Efficiency requires that costs are interpreted in relation to objectives. An efficient programme is not just a cheaper one. For example, in a maternal–child health programme in Honduras, it cost 1.03 *lempiras* to deliver 1 *lempira* of income transfer in the form of a cash-like coupon, while it cost 5.69 *lempiras* to deliver the same income transfer in the form of food. However,

the cash transfer had no effect on children's calorie consumption nor on use of the health centres, while the food transfer increased both (Rogers and Coates, 2002).

3.2 Assessing markets

Food markets are the principal means through which billions of people try to assure their food security. It is therefore essential that cash and food programmes are carefully designed without distorting price signals and incentives. But markets have “no pre-assigned role of giving everyone ‘pull’ to get what they need” (Devereux, 1988: 272). For example, the private sector in Bangladesh played a fundamental role in importing food after the 1998 floods, but such availability was made accessible to the poorest only through effective public action (Dorosh, del Ninno and Shahabuddin, 2004). Markets do play an important role in addressing food insecurity, although they are not supposed to do so: the fact that hunger exists does not mean that markets are inefficient (McMillan, 2002; Ravallion, 1996).

When selecting a cash-based response, the supply side (of the goods to be purchased) is left to the private sector (traders) to meet, while the demand side is leveraged by the direct provision of cash. In contrast, food transfers put control over food directly in the hands of beneficiaries. Following severe covariate shocks, traded goods (e.g. shelter, inputs or food itself) may not be available locally and may need to be transported from other, less-affected locations.

As Figure 3 shows, traders' choices and decisions (or incentives to undertake risky spatial arbitrage) to move food and non-food products are based on rational estimations of transaction costs, which include logistical constraints and risk perception (Harvey, 2005). As noted by Omamo and Farrington (2004: 1), in Africa in particular “market imperfections are the norm, not the exception”.

Some traders may not have sufficient capacity to meet the increase in demand (boosted by cash transfers);⁷

segmented markets may send “false” price signals;⁸ or government regulations restricting food movements may make it more difficult for them to operate efficiently. There may be differences between responding to increases in pre-existing demand or to a new demand (Peppiat, Mitchell and Holzmann, 2001).⁹ More generally, the system of incentives to which traders respond may not entirely coincide with humanitarian objectives.

Figure 3. Factors Triggering Traders' Temporal Decision Framework

Logistical constraints

- Transport costs
- Costs of re-orienting distribution channels
- Inaccessibility of famine-affected villages
- Small surpluses available for traders to buy for resale

Limited rewards

- Small size of famine markets
- Short duration of famine markets
- Opportunity cost of losing regular customers elsewhere
- Illiquidity of assets offered by peasants in exchange for food

Risk and uncertainty

- Risk of being undercut by other traders
- Uncertainty due to limited information about famine markets

Traders maximize profits. In some cases, it may be more lucrative for them to delay food deliveries to certain localities as part of a normal strategy based on price fluctuations over seasons. When crises hit it may therefore be risky from a humanitarian perspective to rely on markets. By the mid-1980s the literature had identified traders' competitive or non-competitive (when traders were able to manipulate food prices) behaviours as one of the key elements in tipping the balance in favour of one option or the other (Coate, 1989; Devereux, 1988; Sen, 1985). In Ethiopia, a United Nations mission report warned that “traders delivered [food] either too late or in the majority of cases not at all, putting their financial interest over the interest of the needy population” (Rami, 2002: 4).

A complementary question to whether markets work in general is the extent to which they work *for the poor* in particular. In the words of Donovan *et al.* (2005: 7), “Markets only serve those who have effective demand – reinforced by purchasing power. [This excludes] the destitute – those who have real needs but lack the purchasing power to make their needs felt in the market.” There are a number of ways that markets can be more inclusive and work better for the poor (see Shepherd, 2004), but they go beyond the scope of this paper. A detailed review of possible market distortions also deserves a separate paper; here we merely present some general issues on the topic.

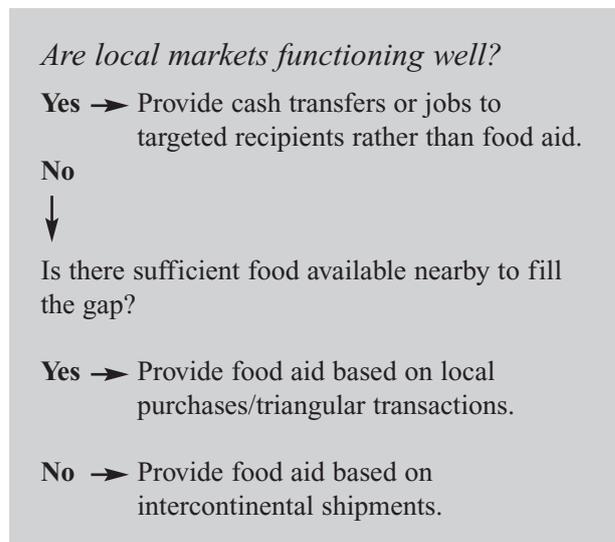
In recent years, food aid programmes have attracted a fair amount of empirical attention. In many “classic” studies undertaken during the 1970s and 1980s (e.g. by Jackson and Eade, Jean-Baptiste, Lappé and Collins), the focus was very much at the macro level, often without distinguishing between targeted and untargeted, bilateral and multilateral food aid – and moreover “supported only by unverified anecdotes rather than by detailed ethnographic or econometric research” (Barrett, 2006: 3).

Possible market distortions are due to poor programme design, whether using cash or food, rather than to the option itself. It may happen that the additional purchasing power of people who would not have otherwise bought food on the market leads to food price increases that harm those consumers not receiving cash assistance. However, this happens only in cases where food supply is inelastic, for example because of low availability or trade barriers.

Food distribution *can* lead to a market distortion if people who would normally have had the purchasing power to buy it on the market receive it directly, thus causing market demand to fall (Barrett, 2002). Again, only if supply is inelastic does this lead to a food price depression, which would harm food sellers. The classic claims that food aid necessarily depresses food prices and that cash transfers result in local inflation are not reflected substantially in results of recent investigations (Harvey, 2005).

For both cash and in-kind transfers it is also important to look at the net welfare effect induced by changes in food prices, which can affect both food producers and food buyers. Many net food sellers are poor themselves, and declining relative food prices hurt them.¹⁰ More generally, recent reviews on possible food aid distortions of market prices, food production and labour supply revealed that while simple descriptive statistics and naïve regressions appear consistent with the disincentive effects hypothesis, the supposed disincentive effects of food aid tend to vanish when controlling for household characteristics such as age, sex and education of head; land holdings; size; and location (Barrett, 2006; Abdulai, Barrett and Hoddinott, 2005). However, this does not mean that such possible negative effects do not exist; rather it means that concerns about such effects are often based on anecdotal, rather than systematic, evidence (Levinsohn and McMillan, 2005; Hoddinott, Cohen and Soledad Bos, 2004).¹¹

Figure 4. Barrett-Maxwell Decision Tree



Operational agencies seem to agree that the selection of food and/or cash should take into account whether food markets function or not, and that utmost attention should be paid to careful market monitoring and assessment (WFP, 2005). Barrett and Maxwell illustrated this point in a “Decision Tree” (see Figure 4) (2005: 202). Cash provides people with choice but it also transfers to them the risk of supply failures. Such a risk is minimized where markets work reasonably

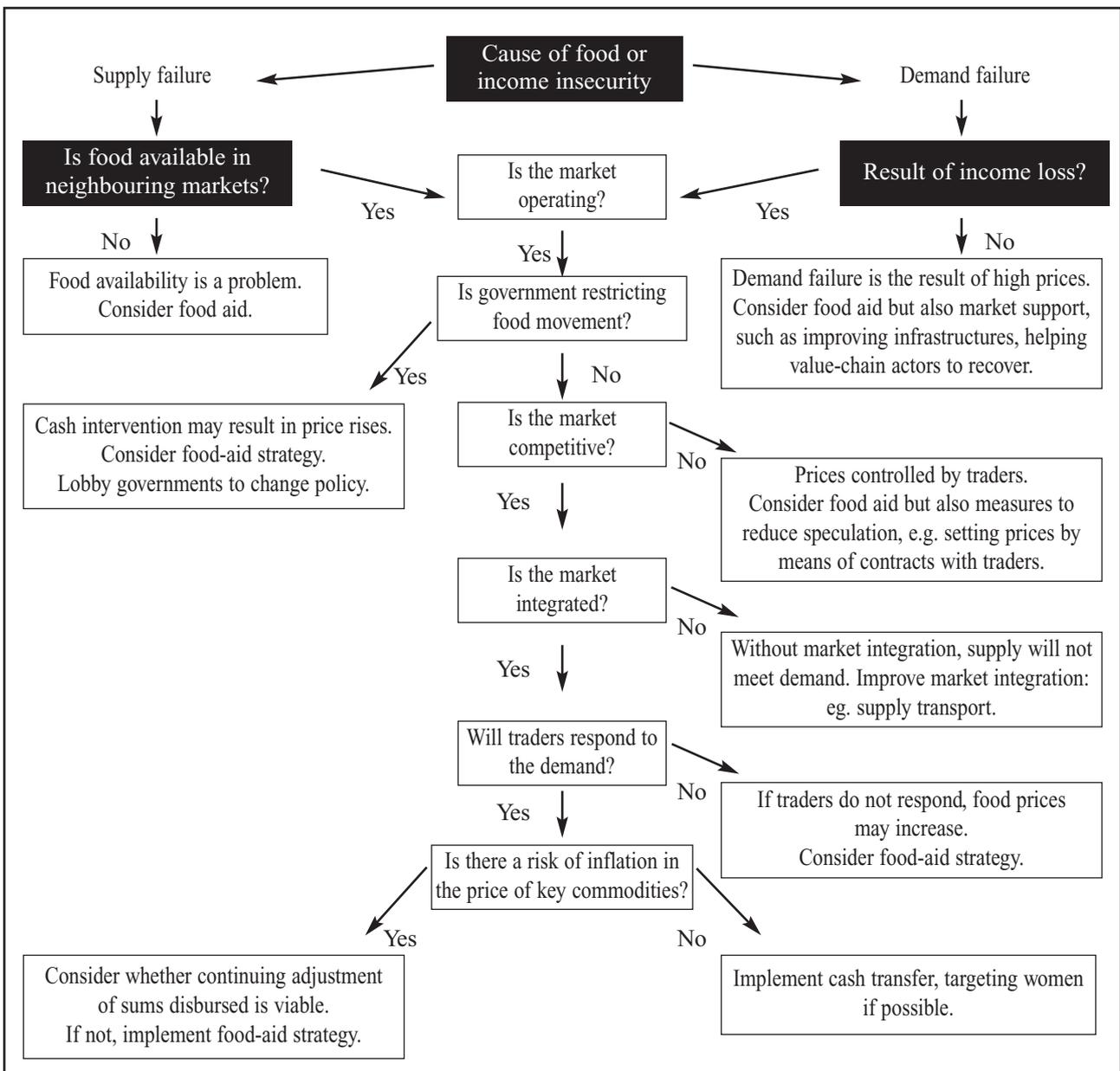
well. Food may then be more appropriate where such risk is high – i.e. where markets work poorly or are temporarily disrupted, as in the immediate aftermath of an emergency.

Creti and Jaspars (2006) drew up a sequence of questions for policy-makers to consider when deciding whether to use cash or food. The paper suggests that, on the basis of market conditions, the appropriate situation for implementing cash transfers comes only after answering “no” to five of the questions in the sequence (all of which deem food aid the most appropriate response). The questions cover market accessibility, government restrictions

on food movements, market competitiveness and integration, trader behaviours and possible inflation effects (see Figure 5).

It is important to realize that food may be an appropriate tool even if markets work reasonably well (e.g. food fortification to enhance nutrition in peri-urban Central America), or that cash may also work when markets are not strong. Perfect markets do not exist in practice, especially in the developing world. A sensible approach for assessing the feasibility of cash and food could be to identify the “degree of imperfection” of markets, rather than to use a yes/no approach against a hypothetical

Figure 5. Oxfam Decision Tree



benchmark. Whether using cash, food or a combination of both, programmes should be flexible enough to adjust to changing market circumstances (Alderman and Haque, 2006).

3.3 Cost effectiveness and efficiency

There are a number of studies that attempt to compare the costs of cash and food transfers. However, these studies often fail to acknowledge the serious limitations of the comparisons. Food is often able to reach places and people that cash does not. In the most remote areas banking systems may not be in place, and security risks may be too high for transporting and distributing cash. Comparisons can be made only under certain conditions, such as when markets allow them or where a minimum set of administrative and institutional capacities are in place. Food aid delivery is not necessarily simpler, but it is different. Food logistics is becoming more and more technology-based and sophisticated (e.g. use of satellite tracking), which strengthens the case for building cash systems on established food aid structures where possible and appropriate.

Almost all the comparative studies show that when the conditions are in place for cash delivery, transferring cash is less costly than distributing food, given the logistics and physical nature of the latter (Farrington, Harvey and Slater, 2005; Levine and Chastre, 2004). On the procurement side, costs of transoceanic food aid shipments are estimated to be approximately 40 percent higher than locally procured foods, and 33 percent more costly than procurement of food in third countries (triangular transactions) (OECD, 2005). The cost of cash transfers is usually reported to be about 50 percent of the cost of imported foods (Oxfam, 2005a).

Food aid costs are often driven up by the urgency of actions to fix desperate humanitarian situations (Webb, 2003b). Certainly, resources could be saved if interventions were better planned *ex ante*, but this is not always possible given the unpredictable nature of

an emergency and/or the aid architecture (Harvey, 2005; see paragraph 4).

There are also cases where cash seemed more cost-effective than food in the *design phase* but more costly in the *implementation phase*. For example, a recent evaluation of cash transfer programmes in Zambia showed that the dramatic appreciation of the *kwacha* and high non-cash costs of the project – which were over 30 percent of the value of the cash distributed – made cash a less cost-effective option than locally procured food aid (Harvey and Marongwe, 2006). Similar findings about the inappropriateness of cash were found in Malawi (Savage and Umar, 2006).

Cost comparisons should focus not only on transport, but include other costs, many of which are peculiar to cash transfers. Basu (1996: 92) claimed that:

“... count[ing] the transportation cost of food by government agencies as a negative feature of food relief programs as opposed to cash relief [...] is not a convincing line to take because it is not as if cash relief does not entail transportation costs. The food that gets drawn into the region as a consequence of cash relief is brought in by small private agencies and merchants and hence the transportation costs are less visible than when the Food Corporation of India sends truckloads of food into a food-shortage region, but they nonetheless exist.”

There are other aspects difficult to express in monetary terms. For example, providing cash is said to be a sign of trust and empowerment. Food is said to provide a special protection element during emergencies, in part because of the presence of aid agencies in general, and of the United Nations (WFP) in particular, that deliver it. It is important when making comparisons to bear in mind: (i) that the context is important: for example, it would be methodologically incorrect to compare a Mexican cash transfer programme with a food aid programme in Northern Ethiopia; (ii) that comparative analysis can be made only once a certain threshold is met (in terms of conditions in place); and (iii) that

costs should always be interpreted in relation to defined programme objectives.

3.4 Administrative capacity

This section lays out the main delivery mechanisms and capacity requirements for implementing cash transfers, drawn from experience across countries.

Concerns about security and corruption are important reasons for caution in adopting cash-based responses. Security risks include both the dangers for aid agency staff associated with transporting and distributing cash and the possibility that recipients will have the cash taken from them once it has been distributed. Corruption concerns centre on the risk that cash will be more prone to diversion than commodities because of its greater fungibility and appeal, and because of powerful interests within the target areas (Harvey, Slater and Farrington, 2005).

Any type of transfer of resources is difficult, and some authors claim that it is necessary to further examine the tendency to assume that cash is *a priori* more vulnerable to looting or diversion (Harvey, 2005). The main argument for this assumption is that cash is both highly portable and not necessarily as visible as large-scale commodity distributions.

Providing clear information to recipients on the size of

their entitlements helps make the process more transparent (Devereux *et al.*, 2005). Safeguards need to be put in place to ensure money is handed over to the right people. In Zambia, beneficiaries of the Kalomo cash pilot programme are required to sign cheques, while in Namibia and Mozambique, fingerprinting is used. South Africa has introduced biometric identification to accompany withdrawals from cash-dispensing machines (DFID, 2005; Schubert, 2005).

One of the arguments made by proponents of cash-based approaches is that the potentially lower overhead costs of delivering cash suggest that more resources could be allocated to monitoring and accounting. Larger-scale projects may be harder to monitor closely (than the relatively small-scale project experience reviewed here) and may be at greater risk of diversion. A cash programme that targeted war-affected and disabled people in 14 towns in Mozambique had to be closed in 1996 after facing serious problems of corruption and fraud, which were attributed in part to inadequate monitoring resulting from attempts to keep overhead costs down (Harvey, 2005; Devereux, 2002; Datt *et al.*, 1997).

Evidence from existing cash projects suggests that ways can be found to deliver and distribute cash relatively safely, even in emergency contexts. It is worth noting that some donor agencies have developed remarkable expertise in implementing cash transfers and sharing knowledge on best practices.

Table 1. Recent Examples of Cash Transfers Programmes

Actor	Country	References
CARE	Indonesia	Chuzu and Viola (2006)
GTZ	Zambia	Schubert (2005)
Oxfam	Afghanistan, Bangladesh, Kenya, Uganda, Haiti, Malawi, Zambia	Creti and Jaspars (2006), Harvey and Savage (2006), Oxfam (2005b)
Save the Children	Ethiopia	Adams and Kebede (2005)
SDC	Mongolia, Balkans, CIS countries	Rauch and Scheuer (2003)
UNICEF	Malawi	Schubert (2006a,b,c,d)
WFP	Sri Lanka, Malawi, Georgia	WFP (2006a)
Government	Central and Latin America, South Africa	Lindert <i>et al.</i> (2006), Rawlings (2005), Devereux <i>et al.</i> (2005)

Note, for example, the Swiss Development Cooperation agency's work in the Balkans, Eastern Europe and Caucasus regions (Rauch and Scheuer, 2003). Perhaps the clearest lesson emerging is the need to make creative use of existing financial mechanisms in order to deliver cash safely. For example, in Afghanistan and Somalia it was possible to distribute cash by making use of the local *hawala* (money transfer) system used for remittances (Ali, Toure and Kiewied, 2005).

In Ethiopia, Save the Children takes out insurance coverage against the risk of loss in transporting cash to projects in areas where there are no banks (Jaspars, 2006). In Bam, Iran, the government simply set up bank accounts for all recipients and transferred cash directly into them (IFRC/RCS, 2006). In the Kalomo district in Zambia, GTZ opened bank accounts for those living near the local town, while for those living more than 15 km from town payment points were set up in schools and health centres (Schubert, 2005). In other contexts, the local postal system may be an asset, as suggested by use of the postal bank system in the Republic of Ingushetia by the Swiss Agency for Development and Cooperation (SDC).

In India, Farrington *et al.* (2003) argued for greater use of existing rural banks and post offices in making pension payments. In Brazil, lottery agents have been used to process *Bolsa Familia* payments. In Namibia, sparse population densities in rural areas led to the introduction of convoys of vehicles fitted with cash-dispensing machines and protected by armed security guards (Harvey, 2005). Examples are emerging of delivery mechanisms based on advanced technology, as in Bangladesh and Colombia (Ahmed, 2005; Lafaurie and Velasquez Leiva, 2004).

Cash can be delivered in a number of ways. Three main modalities are banking systems, money transfer companies and direct delivery (Aheeyar, 2006; Ahmed, 2005; Creti and Jaspars, 2006; WFP 2006a).

Paying into bank accounts has the advantage of being safe, introducing recipients to formal bank systems and

giving recipients the means to withdraw money when it is convenient for them. Bank accounts can also be a way to promote saving; they may be safer for the recipients, who do not have to keep cash at home, and for project staff, who do not have to handle cash directly. The bank account system reduces staff workload considerably and ensures documentation and proof of payment. Banks can be contracted to provide *mobile services*, thus reducing the risk of corruption and leakage (as banks are usually considered trustworthy), and banks have their own "cash-in-transit" insurance. The disadvantages are that banks usually require some days to prepare the disbursements, and cannot always be flexible in the timing of the distribution.

In contexts where there are no formal banking systems, some relief agencies have developed innovative ways to distribute cash. These methods are based on local, traditional systems and require a good knowledge of the local context. In Somaliland, agencies have distributed cash through the local money-transfer system companies usually used for distributing remittances; the companies charged a 5 percent fee and accepted responsibility for any loss. In Haiti, Oxfam-GB made use of local shops to pay cash grants and cash-for-work wages on a fortnightly basis. In Afghanistan, Mercy Corps devised a method using the local *hawala* system to transfer the relatively large sums required to meet payroll needs in the field. Paymasters transferred the payroll cash to group leaders, who paid individual labourers, with Mercy Corps project engineers providing oversight (Jaspars, 2006).

If using local banks or money-transfer companies is not feasible, or does not appear to be the most appropriate option, then it may be necessary to plan and make the payments directly. Several aspects of making payments have to be planned in advance. Staff monitors, together with relief committees where appropriate, are responsible for supervising the identification and verification of beneficiaries during distributions, for mediating and resolving conflicts among community members and for facilitating

coordination with the community. At the end of the disbursement, a witness from the community should sign the payment sheet to verify that the payment was made (Creti and Jaspars, 2006).

Before embarking on cash transfers schemes, appropriate *ex ante* capacity assessments and building efforts should be undertaken. For example, generalized lack of administrative capacity, staff shortage and high staff turnover hindered significantly the timely distribution of cash transfers under Ethiopia's Productive Safety Net Programme (PSNP). Until recently, the selection of cash and food transfers in the PSNP was linked to a classification of *woredas* (administrative districts) into high, medium and low capacity, regardless of market considerations: high and medium capacity *woredas* received cash transfers, while low capacity *woredas* were entitled to food transfers only (Anderson, 2005). This approach limited the ability to shift smoothly from one instrument to another as market conditions required. A World Bank study showed that while the adequacy of the cash wage varied across seasons and regions, general purchasing power was eroded by long-term increases in cereal prices (Alderman, Rajkumar and Wiseman, 2006). Recent changes in PSNP policy allow *woredas* to select types of transfers based on market conditions. As of late 2006, the cash–food split was around 50–50, with several *woredas* switching from cash to food and vice versa (WFP, 2006a).

Limited implementation capacity on the ground is often a major constraint no matter which delivery mechanism is selected. GTZ (2005: 13) states:

Capacity building is a process that requires substantial commitment and time, and should be organized in a step-by-step process, starting with pilot activities that are gradually scaled up. Hasty country-wide implementation of social cash transfer programs in [least developed countries] with weak administrative structures can lead to poor performance. This, in turn, can have a negative impact on the political support and financial sustainability of such programmes.

Political commitment and good administrative capacities have been some of the key ingredients for success in Latin American cash transfer programmes such as Mexico's *Progresas/Oportunidades*, the Family Allowance Programme (PRAF) in Honduras or Nicaragua's *Red de Protección Social*. These programmes are highly institutionalized and financed domestically through a tax base, and they attach certain conditions to the provision of cash, such as attending health clinics, schools and other activities. Recent evaluations have documented their effectiveness in triggering positive impacts on health, nutrition and education (de la Briere and Rawlings, 2006; Lindert, Skoufias and Shapiro, 2006; Morley and Coady, 2003).

Transfers usually increase demand for certain goods and services, and it is important to ensure appropriate quality of the supply side of such things as physical infrastructures (schools and health clinics), personnel, etc. The supply side heavily influences programme performance, especially where conditional transfer programmes are concerned (Heinrich, 2007; Schubert and Slater, 2006).

Conditional cash transfers are the focus of most of the quantitative studies on cash, including those by the World Bank; recently its research on cash has dealt almost exclusively with conditional cash transfers in Latin America (De Janvry *et al.*, 2006a, 2006b; Lindert, Skoufias and Shapiro, 2006; Schady and Araujo, 2006; Das, Quy-Toan and Ozler, 2005; Rawlings, 2005; Soudolet *et al.*, 2004). Most programmes in these studies are domestically financed and have strong supply-side features. Caution is necessary when considering the extent to which lessons drawn from such specific contexts can be applied elsewhere. Only a small fraction of the experience with cash approaches has been tested in riskier, marginalized, chronically food-insecure rural areas; cash pilots are mostly small-scale schemes, funded by donors, with limited capacity to capture longer-term effects. Scaling up, in particular, poses considerable challenges.

Alternatives to scaling up are emerging, including

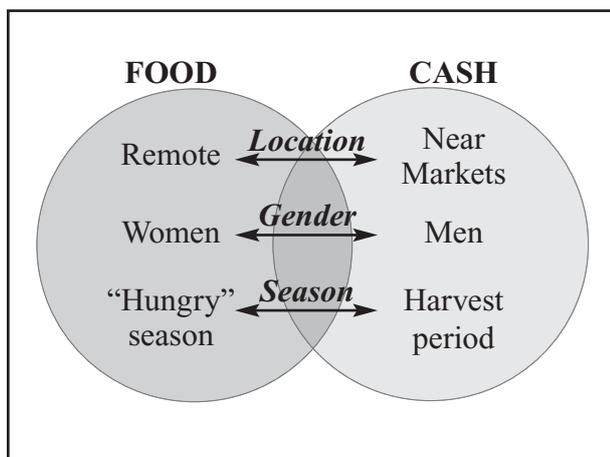
the “replication” of projects covering different areas (i.e. “scaling out”) up to a point where projects are nationally representative or have reached a critical mass (Devereux, 2006). While still to be proven empirically, replication may address the issue of how quickly cash is injected in large-scale projects; there are calls for a more gradual introduction of cash, coupled with capacity-building efforts. Replication seems to allow for more adaptation to local context than scaling up does.

These considerations should not be seen as impediments to cash transfers but rather as stimuli to foster a more pragmatic approach to designing and implementing their use as a tool. They have great potential to complement, strengthen or substitute food-based assistance as appropriate.

3.5 Beneficiary preferences

Beneficiary preferences for cash or food are too context-specific to be generalized. There are plenty of examples of beneficiaries clearly stating their preference for food over cash and vice versa. However, there is evidence that people’s preferences are disaggregated spatially, temporally and by gender (see Figure 6).

Figure 6. Beneficiaries Preferences



People living in remote areas distant from main markets tend to prefer food transfers, while proximity to markets makes it easier to spend cash on the desired

goods (Devereux, 2006). Cultural habits regarding the management of cash resources within households make women more likely to prefer food transfers (Devereux, 2002). Cash transfers are said to be more appropriate (and to generate maximum benefit) right before and during harvests; conversely, food transfers are preferred during the period when household grain stocks have been consumed or sold and grain must be purchased from the market (Adams and Kebede, 2005). These factors provide a solid argument for looking at cash and food as complementary and mutually reinforcing transfers (Balzer and Gentilini, 2006; Concern Worldwide 2006a; Devereux, Mvula and Solomon, 2006).

The rural socio-cultural context also plays an important role in shaping people’s preferences. For example, some of the poorest households interviewed in rural Georgia prefer direct food transfers because of the psychological security of having an immediate “tangible” transfer (Gentilini, Herfurth and Scheuer, 2006). However, there are no fixed rules. People in a very remote community in Ethiopia tended to prefer cash rather than food¹² (Webb and Kumar, 1995). Similarly, Gebre-Selassie and Beshah (2003) found that in Ethiopia one of the most recurrent justifications behind the preference for food was “the strength to travel from market to market”; in the case of cash, people often underlined “the advantages of price variations from market to market” (p. 41). People’s ability to take certain initiatives influenced their preference. Beneficiary preferences vary with time and place, and it is important that programmes reflect such diversity.

Yet another question is whether cash is shared within communities the way food aid is often shared (Harvey and Savage, 2006). Evidence on this is anecdotal and deserves more systematic empirical investigation. More research is needed on anthropological attitudes towards cash and food, especially in rural areas.

4. EMERGING SOCIAL PROTECTION STRATEGIES

Interest in social protection is increasing, for two sets of reasons. Firstly, while almost all developing countries already have a complex system of social programmes in place, the programmes tend to vary considerably in terms of duration, magnitude and coverage. A number of studies have argued that a “system effect” could be fostered by rationalizing, linking and coordinating existing programmes on the ground in an overall social protection framework (World Bank, 2006; WFP, 2006b; DFID, 2005). The idea is that the system effect would be greater than the sum of the single parts.

Secondly, social protection programmes need to be better coordinated, and they should be provided on a predictable and multi-year basis, especially where needs are predictable. This is considered a key step for moving away from “relief traps” (i.e. short-term programming triggering short-term results) and addressing the longer-term causes of vulnerability. In several countries, a new generation of national social protection strategies are now beginning to look like rudimentary social welfare programmes (IDS, 2006; UNDP, 2006).

What is meant today by “social protection” is a broader concept than what was referred to as “safety nets” in the 1990s. The latter were often perceived as costly policies that contributed little to sustainable food security and growth (Devereux, 2003). While trade-offs certainly exist, the tension between equity and efficiency objectives seems less acute than often perceived (Ravallion, 2003).

“Social protection” now includes both safety net transfers to cope with shocks (including food aid) and instruments to address vulnerability *before* shocks hit (such as weather and price insurance options) (Brown and Gentilini, 2006; Slater and Dana, 2006; Holzmann and Jorgensen, 2000). Social protection also pursues welfare-oriented objectives, such as the provision of social pensions and support

to the disabled, chronically sick and orphans, independently from the occurrence of shocks (Schubert and Huijbregts, 2006).

Some donors strongly advocate social protection. For example, DFID is clearly committed to “significantly increase spending on social protection in at least ten countries in Africa and Asia by 2009...[and in Africa] to double to 16 million the number of people moved from emergency relief to long term social protection programmes by 2009” (DFID, 2006: 60).

The conceptualization and design of social protection programmes should be driven by a sequential process of: institutional analysis; needs and market assessments; and thorough programme design, including selection of type of transfer (Devereux, 2006). Regardless of the choice of cash and/or food, it is important that transfers are predictable, guaranteed and nested within a coherent overall social protection strategy. A separate WFP paper looks in greater detail at the intersection of transfer selection and other social protection issues (WFP, 2006b).

Further quantitative research is needed, but *ex ante* and multi-year schemes seem to result in more development-oriented approaches to relief (Alderman and Haque, 2006; Hess and Syroka 2005; Haddad and Frankenberger, 2003). Harvey notes that “the fact that support for social protection and welfare programmes in development contexts is increasingly part of the development agenda raises the possibility of fashioning a new way of engaging with the debate on interactions between relief and development assistance” (2006: 276). Social protection may offer a framework for more harmonious transitions from relief to development approaches as appropriate.

Designing and implementing cash and food transfers under a social protection framework may have the

advantage of tailoring and combining responses according to context, while also keeping the “system view”. A number of experiences are emerging to illustrate this, including the Social Protection Strategy (Bangladesh), the Livelihoods and Social

Protection Public Investment Programme (Afghanistan), the Social Protection Policy (Malawi) and the PSNP (Ethiopia) (World Bank, 2006; WFP, 2006a; Anderson, 2005).

5. CONCLUSIONS AND WAY FORWARD

This paper has laid out key factors underpinning the choice of cash and food transfers. A central conclusion is that appropriateness cannot be predetermined. Rather, programme objectives, economic analysis, market assessments, capacity requirements and beneficiary preferences play important roles in the cash/food selection equation. Importantly, combinations of cash and food transfers should be considered more widely, especially if implemented under a national social protection programme.

Experience is accumulating in designing and implementing cash transfers, including during emergencies. At the same time, more empirical evidence now shows the important role that food transfers can play in non-emergency settings. It is important, however, to refrain from generalizations regarding both cash and food transfers. Harvey (2005) warns that we must “beware of cash evangelism”. Barrett (2006) points out that “the fact that evidence on disincentives effects of food aid is somehow anecdotal doesn’t mean that such effects don’t exist”.

A number of factors warn against drawing definitive conclusions from ongoing cash implementation efforts, including questions about the robustness of the evidence, the relief implementation perspective and possible “extra-technical” issues. These factors are summarized below.

› *Robustness of the evidence.* The studies available have not yet reached a “critical mass” from which

reliable lessons can be drawn. Cash transfers are growing in number but are still marginal compared to the magnitude of food aid operations and experience. With the exception of a few cases (e.g. WFP’s cash pilot project in Sri Lanka) cash transfers have been self-evaluated and often lack strong quantitative analysis, including household baseline information, follow-up surveys and sound panel data for market analysis. For example, a recent evaluation of Oxfam’s cash transfer schemes in Zambia and Malawi noted that “... neither country programme could confidently answer the critical questions of how much people were paying for food, and where they were buying it” (Harvey and Savage, 2006: 6).

- › *Short-term perspective.* For the most part cash transfers are implemented as pilot projects, which are short-term by definition. This limits potential behavioural change (by households and traders), making it hard to detect possible multipliers in the economy and to foster longer-term nutritional outcomes.
- › *Scaling up.* There is a possible mismatch between the evidence available, the capacity to implement and the creation of policy. Pressure is increasing to scale up small cash pilots, in some cases to the national level. Some actors have begun to advocate significant policy changes in the context of longer-term social protection strategies. But limited capacities on the ground are often a binding constraint for rapid scaling up. Capacities should be carefully assessed and

built before making any attempts to implement large-scale cash transfers.

Bearing in mind these factors, four main preliminary conclusions can be gleaned from the theory and experience on cash and food transfers.

- › *From “cash versus food” to “cash and food”.* Wide variations in programme objectives, market conditions and capacity levels in most countries suggest that cash and food can be complementary inputs rather than alternatives. Market dynamics and longer-term factors such as institutional capacities change over time. The composition of a transfer, and the balance between cash and food, should be flexible enough to adjust according to the circumstances. Differences in conditions under which cash and food most effectively promote food and nutrition security work point to considerable unexplored scope for interpreting cash and food as mutually-reinforcing, complementary transfers rather than rigid alternatives.
- › *Transfers as components of broader social protection strategies.* Cash and food transfers are only instruments, and not strategies *per se*. Such instruments should be part of coherent social protection strategies, as currently demonstrated in Ethiopia’s PSNP. Scaling up, capacity-building, exit strategies, multi-annual financing and institutionalization are all issues closely related to the design of longer-term social protection strategies.
- › *Outdated dichotomies: food in emergencies, cash in development.* Both cash and food transfers can work in both emergency and development contexts.¹³ However, cash may not be appropriate in the immediate aftermath of an emergency. More research is needed to better understand the potential of cash in different emergency settings (slow/rapid onset; natural/complex). On the other hand, subject to the principle that solutions must be context-specific, and without excluding a role

for food transfers, longer-term social protection strategies may best be served by a “cash-first principle” when conditions so allow.

- › *Cross-cutting issues.* Both cash and food transfers require a whole set of common processes, such as sound needs assessments, the monitoring of markets, emergency preparedness mechanisms and the presence of contingency plans. Design features such as the attachment of conditionalities – for example, attending health centres – and targeting modalities can also be considered cross-cutting issues.

A productive and balanced debate on cash and food transfers should be anchored to policies for addressing the root causes of food insecurity. Transfers are a crucial component of such policies, but should not substitute them. A pragmatic approach is needed in order to better understand factors generating vulnerabilities *in a given context*, to identify the most appropriate options, to ensure that conditions for effective and efficient implementation and monitoring are in place, and to embed such programmes within broader development and social protection strategies.

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CASH RESOURCE TOOLKIT

Cash transfer websites

- CPRC – Chronic Poverty Research Centre:
<http://www.chronicpoverty.org/>
- DFID: <http://www.dfid.gov.uk/>
- FAO, ESA Division: <http://www.fao.org/es/esa/>
- GTZ: <http://www.gtz.de/en/index.htm>
- IDS, Vulnerability and Poverty Reduction Team:
<http://www.ids.ac.uk/ids/pvty/index.html>
- IFPRI, Food Consumption and Nutrition Division:
<http://www.ifpri.org/divs/fcnd.htm>
- IFRC: <http://www.ifrc.org/>
- ILO, Social Protection:
<http://www.ilo.org/public/english/support/publ/bookssp.htm>
- OECD/DAC, Network on Poverty Reduction:
http://www.oecd.org/about/0,2337,en_2649_34621_1_1_1_1_1,00.html
- Oxfam:
<http://publications.oxfam.org.uk/oxfam/display.asp?isbn=0855985631>
- SC-UK:
<http://www.savethechildren.org.uk/scuk/jsp/newhome.jsp?flash=true>
- ODI, HPG-Humanitarian Policy Group:
www.odi.org.uk/hpg/Cash_vouchers.html
- SDC: <http://www.sdc.admin.ch/>
- SARPAN – Southern Africa Regional Poverty Network: <http://www.sarpn.org.za/>
- UNDP, International Poverty Centre:
<http://www.undp-povertycentre.org/>
- UNHCR: <http://www.unhcr.org/cgi-bin/texis/vtx/home>
- USAID, Poverty Frontiers:
<http://www.povertyfrontiers.org/>
- USDA, Economic Research Service:
<http://www.ers.usda.gov/>
- World Bank, Social Protection Sector:
www.worldbank.org/sp

National cash transfer programmes

- Bolsa Família (Brazil):
www.mds.gov.br/bolsafamilia
- Chile Solidario (Chile): www.chilesolidario.gov.cl
- Programa Puente (Chile): www.programapuente.cl
- Familias en Acción (Colombia)
http://www.accionsocial.gov.co/Programas/Familias_Accion/index_Familias_Accion.htm
- Food Stamps Program (United States):
<http://www.ers.usda.gov/Browse/FoodNutritionAssistance/FoodStampProgram.htm>
- Bono de Desarrollo Humano (Ecuador)
<http://www.pps.gov.ec/>
- Program for Advancement through Health and Education (PATH) (Jamaica)
http://www.npep.org.jm/Project_Description/project_description.html
- Oportunidades (formerly Progresá) (Mexico):
www.oportunidades.gob.mx
- Red de Protección Social (Nicaragua)
<http://www.mifamilia.gob.ni/web/index.asp?idPgW=44&idSbM=36&idPpW=93>
- Kalomo District pilot (Zambia):
<http://www.socialcashtransfers-zambia.org/>

Cash transfer conferences (2005-2006)

- “Regional workshop on cash transfer activities in southern Africa” (Oxfam-SARPAN-RVHP, Johannesburg, October 2006)
- “Technical meeting on cash transfers in emergencies and transitions” (WFP, Addis Ababa October 2006)
- “Cash transfers - launch and discussion of the joint special issues of Development Policy Review and Disasters” (ODI, London September 2006)
http://www.odi.org.uk/speeches/cash_transfers/index.html
- “Third international conditional cash transfers conference” (World Bank, Istanbul, June 2006)
<http://info.worldbank.org/etools/icct06/welcome.asp>

- “Tsunami cash learning project experience-sharing workshop” (ODI, Chennai, March 2006)
- “Cash and vouchers seminar” (IFRC/RCS, Geneva, May 2006)
- “Cash and emergency relief conference” (ODI, London, January 2006)
<http://www.odi.org.uk/hpg/cashconference.html>
- “Cash: a new currency for emergency interventions? Lessons from recent experience” (ODI, London, May 2005)
http://www.odi.org.uk/hpg/meetings/Cash_Meeting_Reports.pdf

Cash CDs

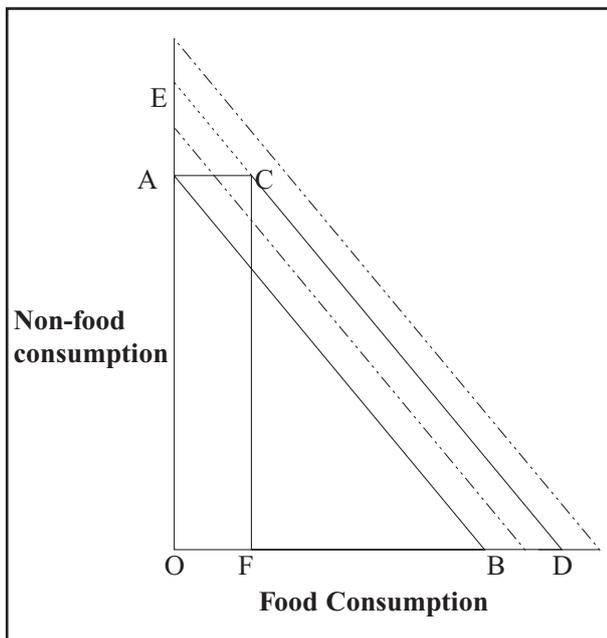
- “UNICEF Mchinji social cash transfer scheme, Malawi”
- “ODI Humanitarian Practice Network publications”
- “SDC cash e-book”
- “World Bank safety net: protecting the vulnerable”

Cash DVDs

- “SDC cash for drought victims in Moldova”
- “Third international CCT conference. Social risk mitigation project: conditional cash transfers informative videos”

Annex

This illustration draws heavily from Sharma (2006). Consider two different programmes, for example a general food distribution (GFD) and a cash transfer scheme. Standard economic theory predicts that many of the effects of the transition to the cash-based system depend on whether the GFD food ration was “infra-marginal”; that is, whether the cash-receiving households’ consumption rates were greater than the ration they received under GFD. This is explained in the figure below (Stifel and Alderman, 2003; Ahmed, 1993).



The horizontal axis measures food consumption while the vertical axis measures non-food consumption. The unbroken line AB represents the combination of food and non-food goods that a household could buy *before* GFD. GFD provides a food ration of the amount OF such that the new budget line (the line that shows the combination of food and non-food goods that the household can now purchase) becomes ACD. If the equivalent market value of the food ration was provided in cash, the budget line would have been ECD. Therefore the portion EC indicates combination of food and non-food goods that would have been available to the household after transferring to the cash-based system.

However, only households that were in some sense “forced” to consume the entire food ration under the GFD would shift their purchases, after receiving

cash, to the segment EC. Such households would be consuming at the most AC (or less, if re-selling were permitted or easily done). However, a household that consumes at any point on section CD of the budget after receiving the GFD ration, consumes more food than provided by the ration, and demonstrates by this decision that the newly available segment EC (made available by the switch to cash benefits) will not make it shift purchases to that segment when cash instead of food is received. (This is because even under the food programme, the household had the option to curtail consumption to OF, but chose not to do so.) Under the cash programme, the household would continue to consume the same combination of food and non-food goods as before.

The critical question then is: In what segment of ECD were most households under the GFD? Baseline surveys provide this information. For example, data from a WFP cash pilot in Sri Lanka indicates that, except in the case of wheat, consumption of all other foods was substantially above the ration amount (Sharma, 2006). This result implies that the switch from food to cash transfers should not affect household expenditures by much, if at all, except in the case of wheat. If this is so, we should not expect statistically significant differences in consumption of various goods between food receiving and cash receiving households (except in the case of wheat). At least this is the result that standard economic theory predicts.

Endnotes

- 1 The debate has been the subject of considerable discussion in the famine literature dating back to the 1980s – see for example Coate (1989), Dreze and Sen (1990, 1989), Devereux (1988), Bigman (1985) and Sen (1981, 1985).
- 2 This is a well-known theoretical justification for public intervention – commonly discussed, for example, in environmental economics – and happens when the benefits to society from the consumption of a good exceed benefits to the consumer. Seldom is this assumed divergence of social benefits and private returns made explicit by policy-makers (Alderman, 2002).
- 3 See among others Fraker *et al.* (1995); Fraker (1990); Blackorby and Donaldson (1988); Senauer and Young (1986).
- 4 Senauer and Young (1986: 38) concluded more cautiously that “the MPCf related to the US food stamp bonus is at least twice as large as that for cash income in every case”.
- 5 Neoclassical theory assumes the existence of a consistent time period within which households access the resources, make budgeting decisions and allocate their consumption of goods.
- 6 For example, in cash programmes it is important that traders supply goods on markets (although not by contract); in a voucher scheme retailers need to verify beneficiary data.
- 7 Assuming that cash transfers will make such purchasing power “visible”, i.e. make the demand effective.
- 8 In other words, not reflecting real scarcities. See for example von Braun, Teklu and Webb (1999).
- 9 Traders are likely to respond with caution to the creation of new markets. There are a number of costs involved in reorienting distribution channels, and these may deter some traders from supplying famine markets. Firstly, traders must switch from a sector where the demand is already known and regularized to one where it is unknown, and where the market may be new or dormant. These uncertainties increase the risk, and mean that high profits must be guaranteed. Secondly, traders will fear the artificial and temporary nature of this new market, and question whether the demand will be sustained when “normality” returns. The opportunity cost of losing regular customers may simply be too great. There is also the risk that, in markets characterized by monopolistic control exercised by a very few traders, artificially high food prices can be set, and the system exploited to the benefit of traders’ profit margins.
- 10 Episodically relative food prices increase sharply, especially where markets are (partially) segmented or noncompetitive due to frictions in the marketing chain. Market access is impeded primarily by excessive transaction costs, including the absence of good market information, hence the disproportionate concentration of the food insecure in areas with rudimentary communications, storage, banking systems (if any) and transport infrastructure (Hoddinott, Cohen and Soledad Bos, 2004).
- 11 For instance, a recent review by RHVP on the impact of food transfers on markets in southern Africa finds “either no effect or a positive effect on production [and] the conclusion seems to be that, in the absence of food aid, the decline of African agriculture might have been even more precipitous” (Maunder, 2006: 18). In other words, unfortunately, fears often prevail over evidence.
- 12 The authors reported that “in a very more remote site near the border with Kenya, the transportation of food was difficult and time-consuming, so almost 80 percent of the people preferred to get cash, which they could use to tap into nearby mountain markets that were not as strictly controlled by the police and militia” (Webb and Kumar, 1995: 214)
- 13 Note that the roles of cash and food in development heavily hinge also on the *definition* of “development”. See for example Centre for Global Development (2005).



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