



CAN CASH TRANSFERS PROMOTE FOOD SECURITY IN THE CONTEXT OF VOLATILE COMMODITY PRICES?

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Benjamin Magen and Cynthia Donovan
Food Security Research Group,
Michigan State University



Context

- Use for an emergency resulting in food insecurity
- Desire to promote longer term food security while responding to short term needs
- Increasing recognition of need for flexibility in responses to crises (food, cash, assets, tied vouchers, etc.)



Issues to consider

- Benefits of cash transfers vs food aid in addressing food crises
- Key design elements of effectively targeted and implemented cash transfer program
- Additional design elements in an inflationary environment
- Potential for cash transfers to cause inflation
- Remaining unanswered questions surrounding cash transfers



A general definition of cash transfers

- “Cash transfers” can come in the form of cash, vouchers, or money orders (also called cash subsidies, income transfers)
- Cash Transfers may be conditional or unconditional
 - Conditional transfers entail tying receipt of funds to a specific household action, such as retaining girls in school (motivating a desired outcome)
 - Unconditional cash transfers are given to selected households without requirements for other action



A general definition of cash transfers

Focus of this talk:

- Unconditional cash transfers
 - Identified beneficiaries can then improve household welfare, based on their own priorities (purchase food, fund health care, pay off debts, make productive investments, etc.)



When should they be considered? *

1. When the key problem is not supply of food, but rather ability of households to purchase food
2. Those most affected are net buyers of food
3. Any increase in demand can be met by the markets without causing significant inflation
4. Cash is a useful instrument in obtaining food
5. Administrative and financial systems function well, so cash can be distributed without extensive fraud or theft and violence

* For a practical approach, see the decision tree of Maxwell, Lentz and Barrett




Program examples

- Mozambique *Gabinete de Apoio à População Vulnerável* (GAPVU)
68,985 beneficiaries (1995 figures)
 - Monthly transfers adjusted by household size (\$2.65 – 12.33)
 - Transfers distributed to households without members of working age, as well as :
 - Households with malnourished children, pregnant women, the elderly or physically disabled
 - Households earning less than \$3.53 per person per month.




Program examples

- Concern Worldwide's Dowa Emergency Cash Transfer (DECT) program in Malawi
 - 11,000 households
 - Monthly transfers adjusted by household size (\$2.66 – 26.64)
 - Targeting by ranking of households by village members and public debate of household status
 - Cash distributed using smart cards
 - Distribution amount revised each month due to price increases
 - Ran from April 2006 to December 2007 in reaction to uncharacteristically low food production



Benefits to cash transfers: Evidence from empirical research

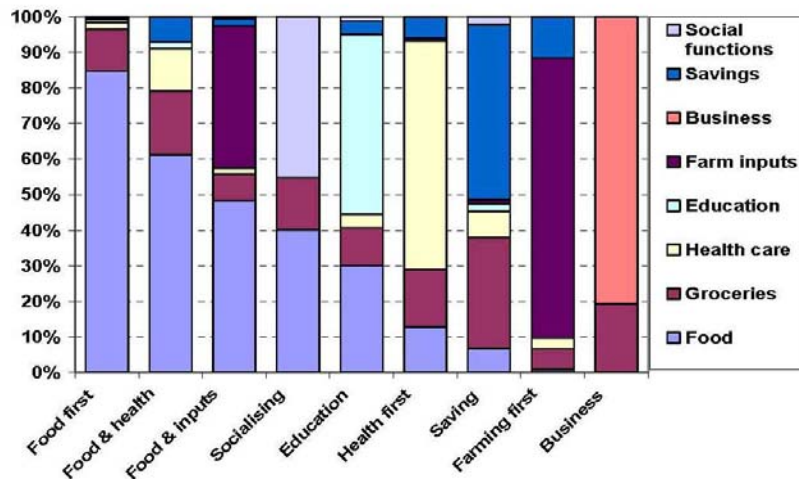
- Food security benefits (compared to w/o food)
 - Can address the same needs as food
 - increased consumption levels from prior to transfer (DECT)
 - Preferable for beneficiaries
 - In Malawi, cash transfer participants noted food aid recipients selling food for cash (DECT)
 - Recipients have own priorities (Zambia Kalomo Pilot Scheme)
 - In Ethiopia, transaction costs for recipients decreased (Meket pilot project)
 - Transporting food, waiting for deliveries



Benefits to cash transfers: Evidence from empirical research

- General income and expenditure benefits
 - Beneficiaries can address multiple needs
 - Paying health bills, Debt repayment (Somalia)
 - Cash transfers may allow wage earners to have more stable working situation
 - Wage earners stay within the region to work rather than migrate (Save the Children UK, Ethiopia)
 - Beneficiaries are less likely to seek out casual employment (DECT Malawi)


Figure 6 Spending strategies of FACT beneficiaries in Malawi, 2006



Source: Devereux *et al.* (2006a: 34)

Benefits to cash transfers: Evidence from empirical research

- Indirect economic benefits
 - Reliability for farmers and shop owners
 - Debt repayment may go to the merchants, who can restock and continue operations
 - Multiplier effects for non-participants, especially small scale farmers (DECT Malawi)
 - Countries that import most food may see fewer multiplier effects
 - Transfers stimulate markets:
 - Beneficiaries purchase food and other goods
 - Beneficiaries stimulate labor market through farm investment (Zambia Pilot Program)



Benefits to cash transfers: Evidence from empirical research

- Program Costs
 - Cash transfers less costly to administer (Save the Children UK, Ethiopia; Meket Livelihood Project)
 - Vast cost savings w/ transfers when food aid imported
 - 39-46% cheaper in Ethiopia (Save the Children UK)
 - Cost \$15 to deliver \$1 of food in the Democratic Republic of Congo (Save the Children UK)
 - Transport costs of food eliminated with transfers
 - Some studies have found food aid to be less costly



Targeting

- Targeting Inclusion errors
 - Desirability of cash increases incentives for fraud
 - Elites may capture benefits (India and Bangladesh)
- Targeting Exclusion errors
 - Price changes may cause nonparticipant household to become food insecure yet remain ineligible
 - Targeting may exclude larger households since total income (or other indicator) may appear be higher



Capacity issues

- Do existing financial institutions have the capacity to distribute the cash transfers?
 - In Malawi, smart cards for participants (DECT)
 - Money withdrawn from bank branch, or received at pay point
 - In Zambia, savings accounts set up (Kalomo pilot scheme)
- If not, other methods available
 - Vouchers a possibility
 - In Zambia, distributed by program staff (Oxfam)
 - In Lesotho, women given phones and minutes. (RHVP)
 - Could sell airtime to village



Capacity issues

- Are there enough trained staff in place to handle the distribution of cash?
 - Often staff personnel have no experience w/ cash transfer programming
 - Programs in Zambia and Malawi held back from expansion by inexperience
 - Mozambique: serious problems with GAPVU program
 - Insufficient budget for administrative staff
 - Expansion led to corruption within the program
 - Staff perceptions important
 - May be uneasy providing cash instead of commodities



Information and communication strategies

- It is important to educate beneficiaries on the amounts and frequency of transfers
 - Prevents leakages and corruption
 - In Mozambique, only 7% of beneficiaries knew the amount they were owed (GAPVU)
 - Prevents over reliance on transfers
- Communication with traders is important
 - They can pre-position food to avoid limited supplies
- Communicating with communities can help prevent social tension due to the exclusion of some members of the community



Other issues

- Frequency of distributions dictated by several factors:
 - capacity constraints (GAPVU)
 - the distance of beneficiaries from financial institutions or distribution points (DECT Malawi)
- Cash transfer programs should promote long term development goals
 - They can help support income generating or capital building activities
 - Fewer positive externalities when majority of food is imported (Oxfam Malawi)



Dealing with inflation and volatile prices

- Need to account for inflation and volatile prices
 - Inflation reduces the purchasing power of transfers
 - When transfer amounts did not rise with inflation, they lost worth
 - Moz.: From 33% of minimum wage → 5%
 - Transfers last for shorter period than intended (DECT Malawi)
 - Plays a part in cost-effectiveness of cash transfers
 - Projects may be more expensive than food aid in part with high inflation (Oxfam in Zambia)
 - High food prices make cash transfers more costly than food aid (DECT Malawi)




Dealing with inflation and volatile prices

- Link transfers to a market measure or exchange rate
 - DECT Malawi indexed transfer amounts to local maize prices
 - Cover a % of food requirements, moves with price (Kenya pilot program)
 - Beneficiaries should be educated on the basis for transfer amounts and manipulation
- Hyperinflation?
 - Zimbabwe: Rapid disbursements followed by rapid household spending: Effective?



Dealing with inflation and volatile prices

- Initial program design should address inflation
 - Forecast prices
 - Early Malawi programs did not track prices, so had no contingency plan for inflation
- Transfer frequency
 - Frequent transfers make it easier to quickly adjust for inflation
 - Adjusting distribution schedules to fight inflation should rarely happen
 - Can confuse beneficiaries
 - Schedule should account for inflation



Do cash transfer programs exert inflationary pressure?

- Evidence on the effect of cash transfer programs on prices is inconclusive
 - Little evidence of large price increases due to cash transfers
 - Of the programs surveyed (GAPVU, DECT, etc.), none found significant inflation due to program
- When supply is available, the market should be able to effectively respond to demand without severe inflation
- Communication with traders can help ensure that food is stocked accordingly
 - May also help stimulate constant availability of food

Unanswered questions

- What are the views of civil servants, politicians, and aid organizations, in countries where cash transfer programs are being proposed ?
- How do household and beneficiary preferences for cash transfer programming change with gender/role in the household?
- What is the impact of cash transfer programs on the long term food security of program participants?
- What is the impact of urban cash transfer programs on rural producers and consumer?
- Are we confident of the existing empirical results?
 - Much of what we know about the impacts of cash transfer programs thus far is based on internal project monitoring.

Key Resources

- Malawi DECT program
 - Devereux, Stephen, Catherine Mthinda, Fergus Power, Patrick Sakala, and Abigail Suka. 2007. *An Evaluation of Concern Worldwide's Dowa Emergency Cash Transfer Project (DECT) in Malawi, 2006/07*. Dublin, Ireland: Concern Worldwide. [http://www.concern.net/documents/362/DECT 2007 - Final Evaluation Report \[July-07\] aa.pdf](http://www.concern.net/documents/362/DECT%2007%20-%20Final%20Evaluation%20Report%20%5BJuly-07%5D%20aa.pdf)
- Ethiopia Productive Safety Nets Program
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 - Standing, Guy. 2008. *How Cash Transfers Boost Work and Economic Security*. Department of Economic and Social Affairs Working Paper No. 58. New York: United Nations. Available at <http://ideas.repec.org/p/une/wpaper/58.html>
- The Kalomo Pilot Social Cash Transfer Scheme in Zambia
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Key Resources

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 - Levine, S., & Chastre, C. (2004). Missing the Point: An Analysis of Food Security Interventions in the Great Lakes. *HPN Network Paper numer 47*. Humanitarian Policy Group.
- Kenya Pilot Project
 - Brewin, Mike. 2008. *Evaluation of Concern Kenya's Kerio Valley Cash Transfer Pilot (KVCTP)*. Dublin, Ireland: Concern Worldwide. Available at <http://www.concern.net/documents/1244/KenyaCashTansferPilot-EvaluationReport-July08.pdf>



For further information:

- Magen, B., Donovan, C., & Kelly, V. (2009). Can Cash Transfers Promote Food Security in the Context of Volatile Commodity Prices? A Review of Empirical Evidence. *MSU International Development Working Paper No. 97*
- <http://www.aec.msu.edu/fs2/papers/idwp96.pdf>

Thank You

Contacts:

- Ben Magen: magenben@msu.edu
- Cynthia Donovan: donovanc@anr.msu.edu