

# Cash-based Responses in Emergencies

**Paul Harvey**

## **1 Introduction**

Assistance to people in emergencies can sometimes be appropriately provided in the form of cash, enabling people to decide for themselves what they most need and to buy it in local markets. The debate around the appropriate use of cash in emergencies has often been framed, as it is here, as one between cash and food. It is important to remember that cash is not just an alternative to food aid but to all forms of in-kind assistance. However, as food aid often dominates humanitarian responses, deciding when cash is appropriate as an alternative or complement to food aid is clearly important.

Recent years have seen a rapid growth in the use of cash-based responses in emergencies. Governments in Thailand, India, Sri Lanka and Indonesia provided cash support in response to the Indian Ocean tsunami in 2004, and the Pakistan government provided substantial cash assistance to households affected by the Kashmir earthquake of 2005. Aid agencies have included cash as an alternative to food aid, to enable people to rebuild houses or find temporary shelter, as well as large-scale cash-for-work and cash grants to enable people to rebuild their livelihoods (Adams and Winahyu 2006; Harvey 2007).

## **2 When is cash appropriate?**

Typically, questions around cash are presented in terms of its supposed advantages and disadvantages as against commodity approaches. We argue that this is unhelpful: it often presents theoretical drawbacks to cash which may not be borne out in practice, and it tends to suggest that advantages and disadvantages are fixed, rather than context-specific.

### **2.1 Economics**

Any kind of resource transfer will impact on markets and local economies. A central question around cash

transfers is how effectively markets will be able to respond to an injection of cash. Put simply, will people be able to buy what they need at reasonable prices? There is certainly a need for caution in assuming that this will be the case. Markets in developing countries are often weak and poorly integrated, and may be particularly constrained or disrupted in conflicts and during natural disasters. This requires a capacity to analyse markets at local, national and regional levels, both in the assessment process and in ongoing monitoring (Adams and Harvey 2006).

### **2.2 Nutrition**

One of the arguments sometimes put forward for food aid is that it is likely to have a greater nutritional impact, so is more appropriate if a project has explicitly nutritional objectives. This might be possible, for instance, if food aid is fortified to address particular vitamin or mineral deficiencies. But there is also evidence that cash can be as effective as food aid in supporting nutrition. An evaluation of the World Food Programme's (WFP) cash transfer pilot project in Sri Lanka found that 'a switch from food to cash benefits was not likely to affect consumption significantly' (Sharma 2006). Where cash is more cost-effective than food aid, the slightly greater marginal propensity to consume food aid may be outweighed by the greater cost-effectiveness of cash.

### **2.3 Implementation**

Agencies are often reluctant to consider cash-based responses because of a perception that they may be more vulnerable to corrupt diversion, looting or theft. Assessing whether cash can be delivered safely by agencies, and spent safely by recipients, is key and there are clear concerns about giving people cash in the context of conflict. Evidence from cash and voucher projects suggests that ways can be found to

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**Box 1 Key issues in comparing cash and in-kind assistance**

**Cost-effectiveness:** cash programmes are likely to have lower transport and logistics costs. However, there may be other costs, for instance for additional finance staff. Whether a cash grant is more cost-effective will depend on the price of goods in local markets compared with the price an aid agency would have to pay to deliver the same goods.

**Security risks:** the attractiveness of cash may create risks both for staff transporting cash and for recipients. Conversely, cash may be less visible than in-kind aid, and there may be ways of distributing it that reduce security risks.

**Corruption and diversion risks:** cash may be more attractive than in-kind assistance, and so may be particularly vulnerable to being captured by elites. It may also be more prone to diversion, particularly where corruption is high, and to seizure by armed groups in conflicts. On the other hand, it may be possible to deliver cash more securely than in-kind aid, and the risks of diversion or looting during procurement and transport may be avoided.

**'Anti-social use':** cash can be used to buy anything. Some of the cash received may be used for anti-social purposes, such as buying alcohol. Equally, though, in-kind assistance can be sold and used anti-socially.

**Gender:** concerns that cash may disadvantage women because they have less say in how it is spent than with in-kind assistance have largely not been realised. Where cash is specifically targeted at women, it sometimes gives them greater voice within the household. The gender-specific impacts of cash need to be assessed on a case-by-case basis.

**Choice, flexibility and dignity:** cash allows recipients to decide what they should spend the money on. This allows people to choose what they most need, and for this to vary from person to person. Greater choice may help to foster dignity in the receipt of assistance.

**Market impacts:** any kind of resource transfer will affect markets and local economies. In deciding whether to provide cash or in-kind assistance, these effects need to be assessed. The main risk of cash transfers is that they will cause or contribute to inflation in the prices of key goods. On the other hand, cash transfers are likely to have positive impacts on local economies through multiplier effects, and are less likely than in-kind transfers to discourage local trade or production.

**Consumption/nutrition:** food aid can be fortified to address micronutrient deficiencies. Cash may promote dietary diversity by enabling people to buy a wider range of foodstuffs.

**Targeting:** because cash is attractive to everybody, it may be more difficult to target, as even the wealthy will want to be included. In practice, targeting cash projects does not seem to be more problematic than targeting in-kind assistance.

**Skills and capacity:** implementing cash projects requires different skills and capacities. Logistics are often simpler, but there may be a need for additional finance capacity. Assessments and monitoring need to include analysis of markets. Both cash and in-kind assistance still require a focus on targeting, registration, robust distribution systems and transparency and accountability.

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deliver and distribute cash safely even in conflict environments; in some situations, cash has been less prone to diversion than in-kind alternatives.

Corruption and security risks associated with cash should perhaps most helpfully be viewed as different, rather than necessarily greater or smaller,

than those associated with in-kind transfers. Some key risks associated with in-kind distributions relating to the transport and storage of bulky commodities do not apply in the same way to cash transfers. The use of banks and other financial institutions potentially reduces the security and corruption risks associated with cash transfers. Where banks do not exist, aid agencies have been able to use a variety of innovative delivery mechanisms, including mobile banking services, sub-contracted security companies and remittance and money transfer companies (Ali *et al.* 2005).

#### 2.4 Politics and attitudes

Given the arguments in favour of cash-based responses, why have agencies remained so reluctant to use cash? The structure of the humanitarian system seems to inhibit consideration of cash and voucher responses. In the UN system, cash-based approaches are almost completely absent, perhaps because the dominant operational agency (WFP) provides food aid. This is part of a wider debate about the dominance of food aid in current humanitarian responses, and the extent to which this is due to the continued tying of aid to food surpluses in donor countries. There are, however, recent signs of movement in this respect, with WFP piloting cash-based responses in a number of countries. The reluctance to consider cash is also related to the underlying attitudes and assumptions that humanitarian aid practitioners have towards the people that they are trying to help. There is a sense in which cash is threatening. Partly, this is about a loss of control; giving people money involves a transfer of choice from the agency to the affected population.

#### References

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More prosaically, aid agencies still sometimes lack the skills and expertise to implement cash approaches. The number of people with experience of cash projects is expanding as the number of cash responses increases and people learn on the job. Manuals and guidelines are also starting to be developed (Creti and Jaspars 2006; Rauch and Scheurer 2003). There is, however, a need to guard against creating 'cash experts', and to avoid over-complicating what should be the fundamentally simple task of giving people money. Cash should not be seen as a sector in its own right, but as a mechanism that needs to be considered across all sectors of humanitarian response.

#### 3 Conclusion

The growing importance of cash-based responses in emergencies has potentially far-reaching consequences for the management and delivery of humanitarian relief. It is likely that cash-based programming will continue to grow, probably at the expense of in-kind mechanisms in some contexts. That the WFP have started to consider the possible use of cash in pilot projects in a number of countries is hugely welcome, but food aid still too often continues to be the default response without sufficient consideration of alternatives, and is continued long after it ceases to be appropriate. Humanitarian actors, including the WFP, need to develop the skills to assess whether cash-based responses are appropriate, and to implement them when they are.

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