

Cash transfers, vouchers and food transfers: an overview of key issues

Policy discussions on what is often referred to as the “cash versus food” debate have a longstanding history. However, such discussions have increased dramatically in the past few years, spurring public interest, new empirical studies, and implementation of innovative programmes on the ground.

The debate on ‘cash versus food’ revolves around the identification and implementation of the most suitable instrument, or set of instruments, including cash transfers, vouchers and in-kind food transfers, as a way of supporting vulnerable households in times of need. Cash transfer programmes provide people with money, while vouchers include the provision of coupons to purchase food for a fixed quantity or value in selected stores. Conversely, food transfer programmes provide people with imported or locally purchased food commodities.

The comparative advantages and limitations of each option can be interpreted in the light of five context-specific factors, including programme objectives, market conditions, implementation capacities, cost-efficiency, and beneficiaries’ preferences (Gentilini 2007).

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Programme objectives

If the objective is to increase people’s purchasing power, then economic theory suggests that cash is more appropriate as consumers’ utility increases as the result of more choice and fungibility. If the programme objective is to increase food consumption, then microeconomic theory suggests that effectiveness depends on the size of the transfer: if the in-kind food transfer is infra-marginal (i.e. transfers for an amount less than the normal food expenditure), then cash and in-kind food transfers are economically viable.

If the food transfer is extra-marginal (i.e. transfers for an amount greater than a household would have consumed without the transfer), then food is more effective than cash in pursuing food consumption objectives. It should be noted, however, that the latter hinges on three conditions, namely that the

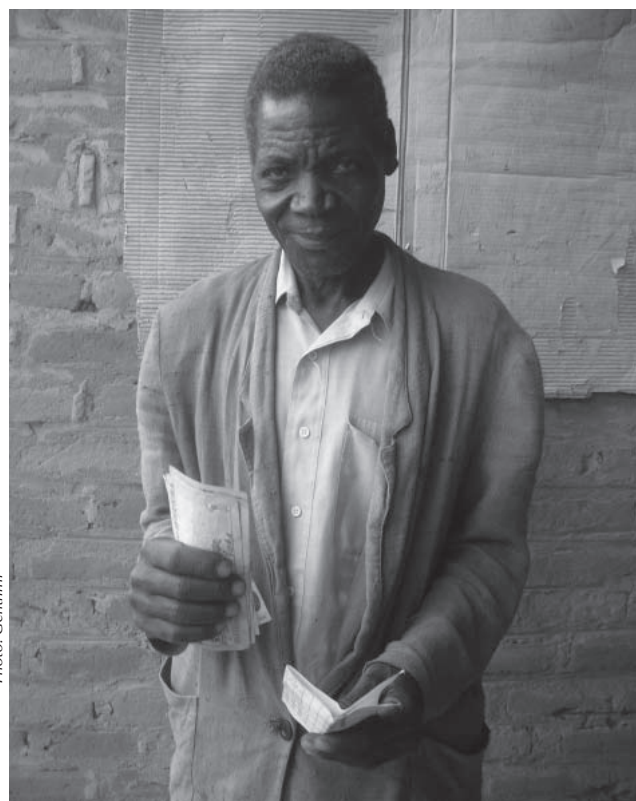
food is not re-sold on the market, or if re-sold below the market price, or if the resale entails high transaction costs.

The nutritional literature also shows that food and vouchers are generally more effective for improving nutrition as opposed to unconditional cash transfers (Barrett 2002a, Rogers and Coates 2002). While it is not our intention to elaborate on the debate on conditionality (De Brauw and Hoddinott 2008), evidence on unconditional cash transfers is often limited to expenditures on food and dietary diversity (Sharma 2006), while impact on conditional cash transfers (CCTs) mostly comes from higher-capacity countries – e.g. Brazil and Mexico – with preconditions for appropriate implementation (Schubert and Slater 2006).

However, also in the case of CCTs there is mixed impact on child nutritional status and on how these programmes impact on the micronutrient deficiencies (Lomeli, 2008). In the case of food transfers, there is more evidence on their longer-term impact, especially on child growth (Gilligan and Hoddinott, 2007; Yamano et al., 2005; Quisumbing 2003). Nevertheless, more research is needed on the comparative impact of cash and food transfers on nutrition.

The dispute on cash versus food is closely interrelated with the availability and functioning of local markets for the poor.

Photo: Gentilini



Zusammenfassung

Politische Diskussionen über das Thema „Geld oder Lebensmittel“ (cash versus food) haben eine lange Tradition. In den letzten Jahren haben sie sich jedoch spürbar verstärkt, was auch auf die steigenden Lebensmittelpreise der letzten Zeit zurückzuführen ist. Die Diskussionen drehen sich um die Suche und Umsetzung geeigneter Instrumente, die sowohl Finanzhilfen als auch Gutscheinsysteme und Lebensmittelspenden als Nothilfe für besonders benachteiligte Haushalte umfassen. Bei Programmen, die auf Finanzhilfen beruhen, erhalten die Empfänger Bargeld, während sie bei Gutscheinsystemen Berechtigungsscheine für den Kauf von Lebensmitteln in festgelegten Mengen oder zu einem festen Wert in ausgewählten Geschäften beziehen. Bei Lebensmittelprogrammen erhalten die Bedürftigen Lebensmittel oder lokal

gekaufte Agrarprodukte. Der Artikel vergleicht die Vor- und Nachteile jeder dieser Optionen und somit auch deren Eignung und Durchführbarkeit auf der Grundlage von fünf kontextabhängigen Faktoren, nämlich der Programmziele, der Marktbedingungen, der Durchführungskapazitäten, der Kosteneffizienz und der Präferenzen der Empfänger.

Resumen

Las diversas discusiones sobre las políticas que forman parte del llamado debate sobre “dinero versus alimentos” datan de un buen tiempo atrás. Tales discusiones se han incrementado dramáticamente en los últimos años, como consecuencia de la reciente alza en los precios de los alimentos. El debate gira en torno a la identificación e implementación del conjunto de instrumentos más apropiado, que incluye las transferencias en efectivo,

los cupones canjeables y las transferencias en especie (distribución de alimentos) como formas de apoyar a los hogares vulnerables en épocas de necesidad. Los programas de transferencias en efectivo proveen dinero a las personas, mientras que los cupones les otorgan la posibilidad de comprar alimentos por una determinada cantidad o valor en tiendas seleccionadas. A su vez, los programas de distribución de alimentos proporcionan a las personas pobres un número de productos alimenticios básicos importados o adquiridos localmente. El artículo analiza las ventajas y limitaciones comparativas de cada opción, y evalúa su idoneidad y factibilidad a la luz de cinco factores específicos para cada contexto: los objetivos del programa, las condiciones del mercado, las capacidades de implementación, la eficiencia de costos y las preferencias de los beneficiarios.

The role of markets

A crucial factor in shaping transfer suitability is to understand whether markets function or not. Where markets work poorly (e.g. due to structural constraints or temporary disruptions in the food supply system), food transfers may be a better response. Indeed, in this case, vouchers and cash transfers would likely let beneficiaries bear the risk of supply failures and generate or exacerbate inflationary effects. Conversely, when and where markets work better, the use of cash and vouchers may be more applicable than food transfers.

However, as discussed in the previous section, there are also cases where food may be an appropriate tool for specific objectives even where markets work reasonably well (e.g. fortified foods for therapeutic nutrition), and vouchers and cash transfers may work when markets are not functioning perfectly, too. Indeed, it is also important to gauge the distance between markets and where people live as well as the comparative distance involved in collecting food commodities from the selected distribution point.

When food is available and markets are functioning, traders may deliberately enact speculative practices to gain extra profits (e.g. through strategic storage or delay in food delivery) (Devereux and Tiba 2007). Perfect markets do not exist in practice, and a more pragmatic approach could be to identify the “degree of imperfection” of markets, rather than a yes/no approach against a hypothetical benchmark. As this report shows, the issue is further complicated by the need to understand not only how markets work in general, but also the extent to which they work for the poor in particular when they lack effective demand (Donovan et al. 2005).

In general, possible effects on the market such as multipliers or distortions often revolve more around targeting issues (i.e. the time, place and people receiving assistance) than on the type of transfer provided (Barrett 2002b). Indeed, multipliers could be created with both well-designed cash and food transfer programmes, even in emergencies or ultra-poor contexts (Davies and Davey 2008; Ahmed et al. 2007; Gilligan and Hoddinott 2007). Also, the way transfers are provided

matters, including the size, frequency and predictability of transfers. Such ‘qualitative’ aspects of programme design are expected to shape investment behaviours, and are increasingly embedded in emerging social protection strategies (Devereux et al. 2008).

Implementation capacity and cost efficiency

Adequate and accessible financial partner institutions and appropriate monitoring, reporting and control systems are essential for effective and efficient voucher and cash transfer programming. Such conditions are not always present in the most food insecure, unstable, or marginalised environment.

The implementation of vouchers and cash is generally more cost efficient than food aid when markets work well and implementation capacities are adequately developed. When those conditions are not in place, vouchers and cash transfers may be ineffective and inefficient as compared to food transfers (Harvey and Savage 2006). In the case of cash transfers, set-up costs, monitoring and administrative



Households without access to local markets prefer food transfers.

prices, while cash is often preferred around the harvest period. Gender also matters, as women often tend to prefer food which they are more likely to control, while men may prefer cash transfers (Devereux 2006).

Conclusion

The suitability of cash and food transfers cannot be predetermined since it hinges on dynamic and context-specific factors. The fact that different varieties of these factors can coexist at the country level – e.g. in some areas within a country, markets may work well, while in others they may not – entails that cash, vouchers and food transfers are not necessarily alternatives, but could rather be mutually-reinforcing and complementary instruments.

costs may be particularly high, while variable costs may be lower than those entailed by food transfers.

Beneficiary preferences

While it is difficult to generalise people's preferences over certain transfers, some general patterns could be

discerned. The preference for cash, vouchers or food aid tends to sometime vary by location, season and gender. Households living far from markets tend to prefer food transfers, while those living close prefer vouchers and cash transfers. There are indications that people prefer food transfers during the lean season due to higher food



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