

Annex D: Literature Review - Value for Money of Cash Transfers in Emergencies

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Key Messages

- While there is no shortage of general decision-making tools related to cash transfers in emergencies, specific guidance on analysing the Value for Money (VfM) of cash transfers in emergencies is lacking.
- Research and evaluation from humanitarian settings show that it can be very difficult to obtain accurate, comparable cost data. For VfM there is the added challenge of comparing outcomes since the expenditure patterns and benefits of cash are not easily compared with in-kind assistance – beyond narrow measures like food consumption indicators. Benefits such as preference, flexibility and timeliness are not easily quantified.
- Cash, when compared to in-kind approaches, consistently emerges as more efficient *to deliver* in the studies and evaluations reviewed. Nearly all comparisons were between cash and food aid. The overall cost-efficiency of cash versus food aid depends on local prices compared to the cost of aid agencies providing food. There is evident efficiency potential for cash as a multisector tool, since aid agencies cannot easily replicate the uses of cash by recipients ‘across sectors’ through in-kind assistance.
- With the exception of a small number of evaluations and studies that consider the cost of cash and food aid in improving specific food consumption indicators, cost-effectiveness is rarely ‘calculated’. Where it is, the most efficient approach is not necessarily the most cost-effective. Rigorous evidence on efficiency and cost-effectiveness might appear meagre given the number of cash transfer interventions, but the requirements for robust comparisons are high.
- When considering ways to maximise VfM, factors that influence the efficiency of cash transfers are the scale, size / frequency / duration of transfers, the delivery mechanism and whether cash substitutes for in-kind aid or adds another layer of assistance. These concern ‘how’ assistance is provided and not just ‘what’ is provided. Efficiency gains could be achieved through increasing the scale of cash programmes, substituting cash for multiple types of in-kind assistance (i.e. multisector transfers), consolidating distribution platforms and consolidating cash-based programmes.
- The main gaps identified in the review are practical tools for analysing efficiency and cost-effectiveness or VfM (*ex ante* and *ex post*), analysis on the efficiency and VfM of cash-based programming as a multisector tool and evidence on the economic impacts of interventions and multiplier effects.
- Future VfM research and guidance should consider these factors: trade-offs between analysing VfM for narrow objectives and broader ones; the potential VfM of cash as a multisector approach; conclusions on effectiveness, and therefore cost-effectiveness, might differ according to how the objective is defined; the parameters of VfM must be clearly identified (and consider benefits that are not easily quantified); the design of research should be realistic given the challenges of analysing VfM and guidance must consider that decisions are made with imperfect information.

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Acronyms

| | |
|-------|---|
| 4Ps | Pantawid Pamilyang Pilipino Program |
| ACF | Action Contre la Faim |
| ALNAP | Active Learning Network for Accountability and Performance in Humanitarian Action |
| CaLP | Cash Learning Partnership |
| DFID | Department for International Development |
| DSWD | Department of Social Welfare and Development |
| FFV | Fresh Food Voucher |
| IFPRI | International Food Policy Research Institute |
| LRP | Local and regional procurement |
| NVS | Nutrient Value Score |
| PSNP | Productive Safety Net Programme |
| TCTR | Total cost-transfer ratio |
| UNHCR | Office of the United Nations High Commissioner for Refugees |
| VfM | Value for Money |
| WFP | World Food Programme |

Introduction

1. Cash transfers are increasingly provided as assistance to people affected by disaster and crisis. Studies and evaluations have firmly established that cash can be an appropriate alternative or complement to in-kind assistance.¹ The response of the Department for International Development (DFID) to its Humanitarian Emergency Response Review confirmed the need to consider and invest in an increased use of cash transfers in emergencies.
2. Whilst some evidence exists on the Value for Money (VfM) of emergency transfers, it tends to be specific to certain countries or projects. Data has not routinely been documented or consolidated to determine useful cost metrics or cost drivers. To address this gap and inform its policy refresh, DFID will generate evidence on the VfM of cash transfers in emergencies, in different emergency contexts, which will lead to the development of DFID guidance.
3. This literature review will provide an overview of existing evidence to inform the design and methodology of the VfM study. It asks ‘what is the evidence on the cost-efficiency and VfM of emergency cash transfers?’ The objectives of this literature review are to 1) analyse existing evidence on the cost-efficiency and VfM / cost-effectiveness for emergency cash transfers, including comparisons between cash, vouchers and in-kind multi-sectoral assistance as feasible; and 2) identify trends, gaps in evidence and critical questions for understanding the VfM of emergency cash transfers.
4. The review uses the following definitions. ‘Cost-efficiency’ is the relationship between inputs and outputs of an intervention. ‘Cost-effectiveness’ is the relative cost of achieving a desired outcome.² The National Audit Office defines VfM as being ‘the optimal use of resources to achieve intended outcomes’.³
5. Studies and evaluations were located through a review of all resources on the Cash Learning Partnership website and ALNAP evaluation library (using the search terms ‘cash’, ‘cash transfers’ and ‘vouchers’), and a review of resources cited in previous studies and reviews of cash transfer programming. Studies and papers on specific subjects not related to cost-efficiency and effectiveness (e.g. gender, protection, coordination, market assessments, toolkits) were not reviewed, nor was evidence from community grants, business recovery, livestock destocking and cash for work programmes. Given the large number of resources identified (160+) and the time available, the review focuses on studies and evaluations that drew efficiency and cost-effectiveness comparisons with other forms of assistance directly or indirectly.
6. There are several limitations to this review. Experience with cash and vouchers is increasing rapidly but not consistently documented; grey literature like monitoring data, proposals and meeting notes are often not shared publically or easily located. ‘Value for Money’ is a relatively new framing driven in no small part by UK government policy; evaluations and research on cash transfer programming tend to approach these issues through the lenses of efficiency and cost-effectiveness rather than VfM. The paper does not attempt to generate new primary data or undertake new calculations / analysis of existing data; it is a rapid review of existing evidence rather than a detailed analysis of it.
7. For consistency, this paper employs the terminology in the resources reviewed (e.g. cost-efficiency and cost-effectiveness), while also recognising that VfM is a potentially broader concept. The paper does not organise the findings according to the ‘3Es’ of economy, efficiency

¹ See for example, Harvey (2007); Harvey and Bailey (2011)

² These are used in Ryckembusch et al. (2013) and are commonly accepted understandings of cost-efficiency and cost-effectiveness.

³ DFID, 2011

and effectiveness because ‘economy’ is not distinguished from ‘efficiency’ in the resources reviewed, and the paper does not analyse evidence on the effectiveness of cash transfers where the resources did not also consider the cost of achieving the outcomes, as this would be incredibly broad.⁴

8. The paper is structured as follows. Following this introduction, guidance on analysis for efficiency and cost-effectiveness are reviewed. The next section provides an overview of evidence of the efficiency and cost-effectiveness of cash transfer programmes. The final section offers conclusions and issues to consider for future VfM research.

Guidance on analysing efficiency and cost-effectiveness of cash transfers

9. There is little guidance specific to cost-efficiency and cost-effectiveness analysis of humanitarian cash transfer programmes. The guidance that does exist concerns mainly *ex ante* analysis, since it is meant to assist decision-makers in determining whether a cash programme is the most appropriate response. Most guidance on cash transfer programming provides a range of factors that should be considered when deciding whether cash is appropriate, including predicted effectiveness, efficiency, markets, preference and risk.

Ex-ante efficiency and cost-effectiveness analysis

10. *Omega Value*. As of 2013, the ‘omega value’ was being adopted by the World Food Programme (WFP) as an *ex ante* way of analysing the comparative cost-effectiveness of food aid, vouchers and cash by comparing the nutritional value⁵ of different food baskets and the cost of providing them (see Figure 1).⁶ Lentz et al. describe it as an ‘innovative approach to understanding the often implicit nutritional trade-offs across cash, vouchers, local and regional purchase, and transoceanic food aid’.⁷ While described as a cost-effectiveness comparison, it is arguably a cost-efficiency one, as it looks at the costs of delivering nutrients and cannot predict the outcomes that would result for those receiving the assistance.
11. Nutritional information can be readily identified for food aid and commodity vouchers (where the food items that households receive are fixed) because the food baskets are known. Using the omega value for comparisons with cash transfers are problematic. Ryckembusch et al. note that:

The omega value could be applied to cash transfers, but to do so would require fairly detailed knowledge of household expenditure patterns and specifically the marginal increase in purchase of different foods with increases in income. In most cases, it is hard to

⁴ The DFID *Guidance on Measuring and Maximising Value for Money in Social Transfer Programmes* identifies three levels of VfM analysis, corresponding to the ‘3Es’ of economy, efficiency and effectiveness. *Economy* relates to the price at which inputs are purchased. *Efficiency* relates to how well inputs are converted to the output of interest, which are the transfers delivered to beneficiaries. Cost-efficiency analysis spans both economy and efficiency, focussing on the relationship between the costs of a social transfer programme and the value of the transfers delivered to beneficiaries. *Effectiveness* relates to how well outputs are converted to outcomes and impacts. Cost-effectiveness analysis measures the cost of achieving intended programme outcomes and impacts, and can compare the costs of alternative ways of producing the same or similar benefits. Cost-benefit analysis is wider-ranging, quantifying in monetary terms as many of the economic costs and benefits of a programme as feasible, including items for which the market does not provide a satisfactory measure of economic value (White et al., 2013).

⁵ The nutrient value is determined via a Nutrient Value Score. The Nutrient Value Score (NVS) compares the nutrient value of two or more food baskets delivered using different modalities. Programs such as NUTVAL can be used to determine the micro- and macronutrient content of a selected product and hence also of an overall food basket using the nutrient content of selected foods (micro- and macronutrients per 100 g edible portion) (Ryckembusch et al., 2013).

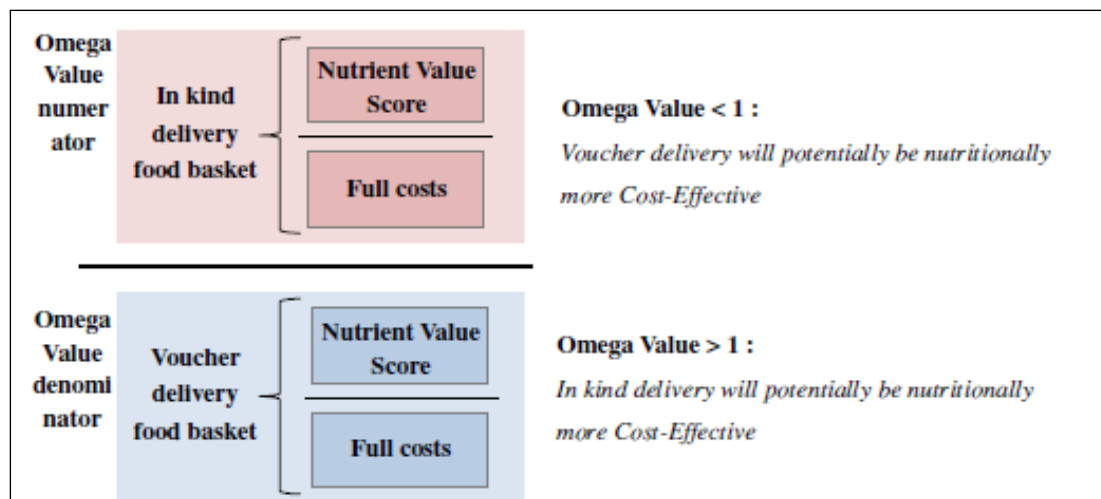
⁶ Ryckembusch et al., 2013

⁷ Lentz et al., 2013

predict what percentage of additional income will be spent on food. It is even more difficult to estimate food item-specific income elasticities. Furthermore, both will likely vary by location and over time.⁸

12. While this review did not identify calculations of the omega value, WFP indicated that it has used the calculation in some contexts.⁹

Figure 1: Omega value



13. *Alpha value.* The ‘alpha value’ was previously used by WFP for making cost comparisons between cash, vouchers, food aid and local procurement. It includes the costs of the food and its shipping, transport and storage compared to the local cost of food. It does not include the operational costs incurred by cooperating partners, such as hiring trucks to distribute food or paying bank transfer fees for cash transfers. The alpha value is calculated by dividing 1) the local market prices of the same or similar food item out of the WFP food basket (or of the entire food basket) by 2) the overall costs of the food to WFP (free-on-board food costs + ocean freight & insurance + internal transport, storage and handling).
14. *Somalia Food Security Cluster Guidance.* The Somalia Food Security Cluster developed a three-page *Guidance Note for Transfer Modality Comparative Cost Analysis*. It provides a basic tool (‘Quick Calculation Tool’) for undertaking a cost-efficiency comparison of different transfers (e.g. cash, food aid), which must be completed by agencies applying for funding in Somalia through the Consolidated Appeal Process and the Common Humanitarian Fund. It emphasises that low cost-efficiency does not mean that an approach is the most cost-effective, noting that ‘value for money is not only about minimizing costs, it is about maximizing the impact of every dollar spent to ensure that programming is as effective as possible’. It does not provide specific guidance on cost-effectiveness and directs readers to the *Cash Transfer Programming Good Practice Review*, *DFID’s Approach to Value for Money*, *Cash-Based Responses in Emergencies*, and the Ryckembusch et al. article on the Omega Value. With the exception of the last resource, none of the others provide specific frameworks for analysing cost-effectiveness.
15. *General guidance on cash transfer programming.* The *Cash Transfer Programming Good Practice Review* states that few agencies have attempted to compare the cost-efficiency of different options at the planning stage and points out some of the challenges, including accurately projecting the transport and distribution costs of in-kind approaches with the administration

⁸ Ryckembusch et al., 2013

⁹ Ryckembusch, pers. comm.

costs of cash transfers, exchange rate fluctuations, inflation and shifts in price. As one type of programming might be less cost-efficient but more cost-effective, cost-effectiveness should be considered, but no specific framework for such analysis is provided. Rather the review states that, as long as agencies are explicit about the assumptions that they make, analysis on cost-effectiveness should be useful, even if it has its limitations.¹⁰

16. Gaps in *ex ante* cost-effectiveness analysis are not specific to cash transfers and apply more generally to response analysis. Maxwell notes that, while many agencies mention cost-effectiveness as an important criterion in determining responses, few had good examples of how to factor it into decision-making, especially in a context of fluctuating local and global prices.¹¹

Evaluation guidance

17. The *Evaluating Humanitarian Assistance Programmes in Complex Emergencies Good Practice Review* identifies several difficulties involved in obtaining data on costs:

i) Many agencies do not record their expenditure by activity or beneficiary group, particularly those working on multi-sectoral relief programmes. Their accounts are primarily produced for auditing requirements, and do not allow for detailed cost-effectiveness analysis of projects; ii) where expenditure is classified by activity, no standard classifications are used, so the same project can be recorded in different ways by the NGO, UN agency and donor involved... iii) the value of aid-in-kind is measured in a number of different ways; iv) complex sub-contracting arrangements are sometimes entered into between and amongst bilateral agencies, UN organisations and NGO partners...[making] it difficult to trace the flow of funds, let alone work out end-use of resources; v) there is no standard way of dealing with the issue of overheads. Each relief operation is unique to the circumstances in which it takes place. Cost-effectiveness analysis of one particular relief activity or operation will, therefore, tend to produce information that is highly context-specific.¹²

18. In addition to the challenge of cost calculations, ALNAP's *Guidance on Evaluating Humanitarian Action* cautions that a monetary value cannot be placed on human life and suffering.¹³ While recognising the weaknesses of cost calculations, it suggests that 'per unit' (e.g. cost per person served) can be compared across organisations, though this might require asking them for more detailed information on costs.

19. In guidance on evaluating the choice of food transfers (i.e. cash, vouchers or food aid), Levine and Bailey advise that an *ex post* judgement on whether the optimal type of transfer was used depends on which issues (e.g. cost, effectiveness, impacts, risk) are given most weight, and that there is no formula that determines how these criteria should be weighed against one another. When concluding whether the optimal type of transfer was used, they stress that balance is needed between two issues: 1) the need to be cost-effective in meeting objectives, and 2) the need to assess the value of impacts in relation to the needs of people affected by or vulnerable to crisis, beyond a narrow focus on the specific objectives of a project. The justification is that the objectives may leave out important issues related to people's lives, (including gender, risk, markets, livelihoods, dignity). It is advised that cost-effectiveness be approached as a discussion, and not as a simple calculation.¹⁴

¹⁰ Bailey and Harvey, 2011

¹¹ Maxwell et al., 2013

¹² Hallam, 1998

¹³ Buchanan-Smith and Cosgrave, 2013

¹⁴ Levine and Bailey, 2013

Guidance on measuring and maximising VfM of social transfers

20. The resource that offers that most detailed approach and guidance to analysing VfM is DFID's *Guidance on Measuring and Maximising Value for Money in Social Transfer Programmes*.¹⁵ It stresses that all costs of an intervention should be considered – the transfer, administrative costs (e.g. set-up, training, targeting, enrolment, delivery, management, management information systems and monitoring evaluation, with apportionment of staff time where possible) and private costs (e.g. costs to recipients).¹⁶
21. For cost-efficiency analysis, the VfM guidance recommends using both the 'total cost-transfer ratio' (TCTR) and 'unit cost'. The TCTR is the total dollar cost (administrative + transfer value) of the programme divided by the transfer value. This indicates the cost of providing \$1 of assistance to the beneficiary. The unit cost is the total programme cost per registered direct recipient (i.e. per household) or the total cost per package of support delivered (which may be in cash or in-kind) per period.
22. The VfM guidance echoes limitations of cost-efficiency analysis noted elsewhere, mainly that such analysis does not consider that a more expensive programme might be more effective, whereas cost-effectiveness analysis 'gets to the heart' of VfM and allows rational choice between programme options based on relative cost of achieving desired (and quantifiable) outcomes. The guidance notes that cost-effectiveness analysis leaves out impacts that cannot be measured, unless a credible and measurable proxy indicator can be identified. It stresses that there is a need for realism about what can be measured with confidence, particularly given the increased data and analytical requirements compared to efficiency analysis.
23. The VfM guidance looks to cost-benefit analysis as a more complete exercise that quantifies in monetary terms as many of the costs and benefits as feasible, including ones for which the market does not provide a suitable measure of economic value. Recent examples of cost-benefit analysis for DFID-supported social transfer programmes found that key issues are the choice of how to estimate benefits and that a number of assumptions need to be made in simulating projected cost and benefit. The question of how to measure benefits is explored in more detail in DFID's guidance on evaluating social transfer programmes.¹⁷
24. Several aspects of the DFID VfM guidance are relevant to future work carried out by DFID: the emphasis given on *maximising* VfM, the challenge of assigning values to outcomes that are not easily quantified, the importance of not confining analysis only to results that are most easily measured, and recognition that the type of transfer is only one of a range of factors that can influence effectiveness (others are transfer level, duration and frequency, targeting, conditionality, implementation systems – registration, payment, management and accountability systems).¹⁸ With the exception of conditionality, all of these are equally relevant to humanitarian programmes.

Evidence on the efficiency and cost-effectiveness of cash transfer programmes

Types of evidence on the efficiency and cost-effectiveness of cash transfers

25. There are three main types of comparative evidence on efficiency and cost-effectiveness – controlled research using randomised approaches to compare different aid modalities, non-randomised pilots that provide different types of assistance and directly compare them and ex

¹⁵ As of June 2014 DFID was developing a humanitarian VfM toolkit, which was not considered in this literature review.

¹⁶ White et al., 2013

¹⁷ Dissanayake et al., 2012

¹⁸ White et al., 2013

post comparisons between different approaches not implemented side by side. There are also numerous (150+) evaluations / studies of cash and voucher programme that do not make comparisons with alternative approaches. Cost-efficiency and cost-effectiveness imply that different approaches are being compared. With the exception of a comparison between cash and vouchers in DRC for multisector assistance, comparisons are among cash, vouchers and food aid. This is likely because cash was pioneered as an alternative to food aid and increasing access to food continues to be a common objective of cash transfer programmes, even though the expenditures made by recipients span the different sectors by which aid is organised.

26. *Randomised, direct comparison.* Six 'comparative' studies were designed and implemented according to a randomised design, whereby households are randomly assigned to different groups (e.g. cash, vouchers, food aid). This methodology is widely considered the gold standard for evidence because differences in outcomes can be attributed to the different interventions. However, randomised studies and evaluations involve significant time and resources; the results are not necessarily applicable to other contexts. Any variations in how assistance is provided (e.g. timing) may affect the results, and most of the studies do not consider the total cost of the intervention (transfer cost + support costs). Four were part of a multi-country study undertaken by the International Food Policy Research Institute (IFPRI) for WFP to compare the efficiency and effectiveness of cash, vouchers and food aid.¹⁹ IFPRI / WFP research in Malawi and Sri Lanka and Tufts University / Concern Worldwide research in DRC also used randomised study designs.²⁰
27. *Direct comparisons.* Other pilots were designed to implement and compare different types of transfers of the same value. While they used less rigorous methodologies than the above studies, aid agencies did engage research institutions and think tanks.²¹ These studies were done in complex settings with limited resources. Confounding variables (e.g. differences in how transfers are provided, differences in the characteristics of households receiving assistance) may affect the ability to compare directly the impacts of transfers. Four studies and evaluations fell into this category.²²
28. *Indirect comparisons.* Some interventions providing cash and vouchers were not designed for the purpose of comparison, but studies and evaluations drew comparisons or conclusions on their relative efficiency based on data and information from other interventions in the same context. There are important weaknesses to these comparisons as they often do not compare 'like for like'. The type of transfer provided is only one variable that might influence outcomes; other variables include differences in how programmes were designed and implemented (e.g. transfer value, transfer frequency, time of year implemented, quality of implementation), factors external to the programme (e.g. prices) and differences in the characteristics of beneficiary households.²³
30. *No comparison.* Numerous evaluations of interventions providing cash and vouchers provide analysis and judgement on their efficiency and effectiveness without making a comparison with an alternative approach. Others attempt comparisons but find that the lack of data and

¹⁹ Hidrobo et al. 2012 (Ecuador); Hoddinott et al., 2014 (Niger) ; Schwab et al., 2013 (Uganda); Gilligan et al., 2013 (Yemen)

²⁰ Audsley et al., 2011 (Malawi) ; Sandström and Tchatchua, 2010; Sharma, 2006 (Sri Lanka); Aker, 2012 (DR Congo)

²¹ The Institute of Development Studies, Oxford Policy Management and the Overseas Development Institute (ODI)

²² Devereux and Jere, 2008; Devereux and Mhlanga, 2008; Kardan et al., 2010 ; Roman, 2010.

²³ These studies include Hedlund et al., 2013; Hedlund, 2012; Otter and Cortez, 2011; Creti, 2011; Prout et al., 2010; Devereux et al., 2007; Savage and Umar, 2006; Dietz, 2005; Brandsetter, 2004

discrepancies between interventions are too problematic.²⁴ This review focuses on the first three types of resources, though it does highlight issues raised by reports in this category and general trends.

Cost calculation methods

31. Studies calculate efficiency in various ways, but broadly speaking they look at the cost of the transfer (for food aid, this considers the expenses of procuring it) and / or the cost of delivering it (such as transaction fees, storage, transport – and in many instances staff time). The latter is referred to in studies and guidance as ‘support’, ‘operational’, ‘delivery’ and ‘administrative’ costs; terminology across resources is not consistent. The most problematic costs to calculate accurately are the ‘full cost’ of an in-kind transfer (including procurement, transport, etc.) and staffing and other costs that tend to be shared across multiple programmes. Other studies and evaluations consider the total cost of the intervention per beneficiary.
32. The methodologies of the IFPRI / WFP studies in Ecuador, Yemen and Uganda for cost calculation consider the marginal cost of implementing each modality. Once all common costs of programme implementation are accounted for – planning costs, targeting, sensitization, etc. – these are the additional costs incurred to deliver transfers in the form of food, cash or vouchers.²⁵ The IFPRI / WFP Malawi study considers the alpha value – the ratio of the market cost of transfers (cash, food and cash + food) to the cost for WFP to provide that transfer.²⁶
33. The DR Congo cash and voucher comparison done by Tufts University and Concern Worldwide is the only randomised study that considers the total cost of the intervention – the transfer plus the implementation costs. The study did not face the task of costing in-kind assistance because the value of the voucher was the exact same as the cash transfer. Pilots in Swaziland (Save the Children) and Zimbabwe (Concern Worldwide) also used the total cost of cash transfers and food aid. The WFP pilot in Sri Lanka considered the cost of the transfers and implementation costs except for staff costs.²⁷

Findings on efficiency

34. A trend across the randomised studies was that cash was cheaper to deliver compared to food aid (and vouchers, in the case of Ecuador and DRC). In other words, aid agencies paid less to deliver cash to recipients compared to delivering food aid or vouchers worth the same amount. While this finding is specific to food aid, there is little reason to think that it would vary for in-kind aid like seeds, non-food items kits and shelter materials.
35. The extent to which cash was cheaper differed considerably across the studies. In Ecuador, the food transfer was 280 percent more expensive than cash owing to the cost of transporting the food to the distribution sites, renting of storage facilities and repackaging bulk items for distribution.²⁸ In Yemen, food aid cost double to deliver compared to cash. Distribution costs in Uganda and Niger were respectively 21 and 15.4 percent higher for food relative to the cash payments.²⁹ That cash was cheaper to deliver than in-kind assistance was also true for the Save the Children pilot in Swaziland, where food aid cost one-third more to deliver, and for Concern

²⁴ For example Cole, 2006; Kelaheer and Dollery, 2008; Brewin, 2008

²⁵ Hidrobo et al., 2012

²⁶ Audsley et al., 2010

²⁷ Sandström et al., 2010

²⁸ Hidrobo et al., 2012

²⁹ The staffing costs associated with food aid were likely under estimated. Cash was a new modality for the office and start-up activities (e.g. re-verification, security) required costly labour and human resources, while analogous activities for the food modality had been incurred long before the study period and did not appear in project financial records (Gilligan et al., 2013)

Worldwide's pilot in Zimbabwe, where the cost of providing food aid was more than double that of cash (a combined cash / food package slightly less than double the cost of cash).

36. In all of the above instances, the costs of the transfers themselves (cash, food aid) were assumed to be equal. While for cash and vouchers this cost (i.e. the value of the transfer) was identical, the calculation does not take into account that the cost of the food aid to an aid agency might have been more expensive or cheaper than the cost of goods on local markets. If the food costs an aid agency more to procure compared to local prices, the efficiency of cash approaches would be even greater. If not, food could emerge as more efficient. Whether or not a transfer is cheaper depends on whether an aid agency, for reasons of economy of scale and access to goods at global prices, can procure goods more cheaply than the local market can provide them, while factoring in associated costs like transport and storage, contamination and wastage.
37. The WFP pilot in Malawi only looked at the cost of transfers (cash, food aid, cash + food) and did not consider delivery costs. It found that the food ration procured by WFP was cheaper than the local equivalent because local markets were not well integrated with international markets and international medium-run maize prices had risen more gradually than their Malawi equivalents.³⁰ An evaluation in Swaziland found that, while implementation costs were lower, the bulk savings incurred with purchasing food aid compared to its cost on the local market meant that it was probably more efficient than cash.³¹ As food prices change, so will the efficiency of transfers; an Oxfam project in Malawi found that cash had an efficiency advantage at the start of a project when food prices were lower, but when subsidised food supplies dwindled and import shortages drove up prices, the advantage was likely lost.³² Issues with making comparisons between in-kind aid and cash equivalents are discussed below (in 'factors influencing cost and efficiency').
38. An Action Contre la Faim (ACF) Fresh Food Voucher (FFV) evaluation in Bolivia found that the FFV was 15 percent less expensive to deliver than food aid, even where market access was limited and significant transport costs were incurred by beneficiaries.³³ Reviews of WFP-supported FFV programming found that FFV was less efficient than food aid in Gaza and the West Bank.³⁴ In a meta-evaluation of ACF's FFV programming, Hedlund finds that the cost-efficiency of the FFV programmes is difficult to conclude given that fresh food baskets are different from in-kind food baskets for which comparable cost data is available.³⁵
39. There are few direct comparisons between cash and vouchers. In the two instances where they were compared in randomised studies, vouchers were less efficient because they required more time (e.g. staff time required for selecting vendors, negotiating contracts, voucher reconciliation and payment).³⁶ In the WFP intervention in Ecuador, staff costs accounted for nearly 90 percent of implementation costs.³⁷
40. Most evaluations and research on cash transfers are of small scale interventions. The first large-scale provision of emergency cash transfers by international aid agencies occurred in Somalia in response to the 2011 famine. An evaluation of cash and commodity vouchers funded via UNICEF examined the interventions of nine international NGOs working with eight national partners.

³⁰ Audsley et al., 2010

³¹ Devereux and Jere, 2008

³² Savage and Umar, 2006

³³ Cortes and Otter, 2011; Hedlund, 2012

³⁴ Creti, 2011

³⁵ Hedlund, 2012

³⁶ Aker, 2013; Hidrobo et al, 2012

³⁷ Hidrobo et al., 2012

Collectively they transferred more than \$91m to 195,000 households (approximately 1.4m people).³⁸ To analyse efficiency, the evaluation compared the cash and vouchers budgets from seven of the NGOs with in-kind food aid using data on the expenditures for WFP emergency programme in 2011.³⁹ The analysis found that an *average 85 percent of the [cash and voucher] budgets was transferred to beneficiaries....This was a clear cost savings over in-kind assistance, where the amount of budget transferred to beneficiaries was 35 percent.*⁴⁰

41. Evaluations and studies note the following challenges for cost calculations – getting accurate cost data, different accounting procedures across organisations, teasing out costs (e.g. staff, administration) specific to one intervention and the lack of comparability between cash and in-kind programmes.⁴¹

Factors influencing cost and efficiency

42. Several factors affect the cost of a cash transfer programme and its efficiency compared to other modalities. The main costs (in order of their importance) are the transfer itself, staffing and expenses associated with the delivery mechanism. Factors that influence efficiency are scale, the size of the transfer and additional time requirements associated with the programme (e.g. intensive monitoring) compared to programmes using in-kind aid. It should be noted that numerous factors influence the overall efficiency of an intervention – including timeliness and the quality of targeting and programme implementation – which are unrelated to the type of transfer provided.⁴²
43. *Transfer value and local prices.* The transfer is the single largest cost of a cash transfer programme. In the case of comparisons with food aid, the efficiency of the transfer depends heavily on local food prices compared to global prices. While it did not examine cash transfers, a study on local and regional procurement (LRP) of food aid (compared to food aid originating in the US) offers some insights. It found that the efficiency of LRP varied considerably by country and commodity; local procurement of unprocessed grains and pulses appeared to result in significant cost savings, while the local procurement of processed commodities (e.g. vegetable oil) may not.⁴³
44. Comparisons of food aid and cash do not capture that recipients do not buy exactly what aid agencies would have given them. In the case of cooking oil, beneficiaries would probably opt for locally produced, less expensive oil compared to food rations. Similarly, an evaluation of a Concern Worldwide pilot in Zimbabwe found the food aid ration to be cheaper than the local cash equivalent, but this calculation was heavily influenced by inclusion of beans in the ration – which were not in high demand or supply. If the comparison had been done with a source of protein more commonly available in local markets, the ration would have been more expensive.⁴⁴ A reasonable hypothesis is that rations with goods that are imported or not widely available locally often will be ‘more efficient’ than cash to purchase the same items, however, they are unlikely to correspond to dietary preferences and are potentially more expensive than local substitutes (this does not mean that appropriate food aid might not be more efficient

³⁸ Seven of the INGOs participated in the Cash Voucher Monitoring Group (CVMG) – an independent joint monitoring programme supported by the Humanitarian Policy Group at ODI.

³⁹ It should be kept in mind that this is a comparison done of different programmes implemented in different areas and that many variables could affect cost.

⁴⁰ Hedlund et al., 2013

⁴¹ See for example, Haver et al., 2008; Devereux and Mhlanga, 2008; Devereux et al., 2007; Harvey, 2007; Savage and Umar, 2006

⁴² See Cabot-Venton et al., 2013, for analysis on the economics of early response

⁴³ Lentz et al., 2013

⁴⁴ Kardan et al., 2010

compared to cash to food purchased locally, but that efficiency calculations of food aid should consider local substitutes of similar nutritional value).

45. A similar argument can be made for cash as an alternative to assistance in other sectors – that those receiving cash might opt for alternative, less expensive solutions than those provided by aid agencies. For example, in Haiti, transitional shelters dominated the shelter response in the year following the 2010 earthquake, even though cash for repairing homes and to enable local construction would have been a fraction of the cost (but raised issues related to risk and liability that discouraged aid agencies from supporting a wider range of solutions).⁴⁵
46. Food aid has been the starting point for nearly all of the documented cost comparisons between cash and in-kind aid. This is reasonable in situations where meeting food needs is the most relevant objective, but households use cash transfers to access a much wider range of goods and services than aid agencies can deliver.⁴⁶ The idea of aid agencies providing assistance in-kind that corresponded to the ways cash is used (e.g. food, household goods, education, debt repayment, livelihoods, rent) would be so costly and impractical that it is never seriously considered. Haver et al. raise this in the evaluation of a UNHCR cash transfer programme in Burundi:

In some contexts, particularly during droughts or other emergencies, cash is used primarily as a substitute for food. In these cases it is possible to compare the costs incurred to the agency delivering the items to those incurred by the beneficiaries using cash. However, in Burundi, the cash was specifically designed to allow people to purchase a range of goods. Given the incredible range and diversity of items purchased, including difficult-to-distribute goods like land, it is clear that it would have likely been impossible for an aid agency to deliver the same items, and certainly impossible to do so in the proportion required (or desired) for each individual. The nimbleness of cash is one of its central advantages.⁴⁷

47. *Staff time.* Staff time was typically the second largest cost in the interventions. It increases when delivery mechanisms involve more staff time (e.g. paper vouchers, manual cash distribution). Vouchers appear to result in more staff time requirements than cash transfers.⁴⁸ Even when both use similar electronic systems, vouchers require additional efforts to contract and pay multiple vendors (compared to working with a single bank, mobile phone company or other cash delivery agent).
48. *Delivery mechanism.* The expenses associated with the delivery mechanism (e.g. smart cards, ATM cards, mobile, manual distribution) affect total costs. In reviewing different transfer mechanisms, Harvey et al. sought out to provide efficiency ‘benchmarks’, but the documentation available did not provide sufficient financial details to enable this to take place.⁴⁹ It is apparent that the most efficient approaches will vary from context to context. Compared to manual transfers (e.g. paper vouchers, cash in envelopes) some electronic transfer schemes incur a higher cost at start-up but have reduced costs for disbursement later, mainly if several transfers are provided.⁵⁰ A CaLP study on the efficiency and cost-effectiveness of cash transfers concluded that evidence does not suggest that e-transfers are systematically cheaper than manual transfers. However, the efficiency benefits of electronic transfers presumably are most apparent in larger-scale responses, and six of the seven CaLP case studies had less than 3,000

⁴⁵ Levine et al., 2012

⁴⁶ Harvey, 2007

⁴⁷ Haver et al., 2008

⁴⁸ Hidrobo et al., 2012; Aker, 2012

⁴⁹ Harvey et al., 2010

⁵⁰ O'Brien et al., 2013; Hermon Duc, 2012; Creti, 2014

beneficiaries.⁵¹ Hedlund expresses doubt that the paper voucher systems used in ACF's FFV programming could be done efficiently at scale.⁵²

49. *Start-up costs / new systems.* Where new systems (related to delivery, accounting, etc.) are required, so is investment. At the corporate level WFP has developed an electronic voucher system that can be used in its programming. Save the Children's switch to bar-coded vouchers in the Dadaab camps in Kenya required up-front costs, but enabled the agency to process up to five times more vouchers per week, ultimately decreasing costs associated with the programme (Hedlund, 2012; USAID, 2011). Account opening fees for a cash transfer programme in DRC represented nearly half of the operational costs – an expense that subsequent activities through these accounts would not incur if they were continued.⁵³
50. Drivers of cost can vary between transfers and the type of delivery mechanism used. In Ecuador, the cost of printing vouchers was minimal; whereas the production of debit cards was the main operational cost of the cash transfer. By contrast, the vouchers had higher costs related to staffing (staffing costs for the cash transfer were approximately one-third of those for the voucher programme). The largest costs for food aid were associated with storage and transport.⁵⁴
51. *Cost to recipients.* Different transfers also result in different costs to recipients. Costs to recipients were considered in most of the randomised studies and pilots but were not incorporated in the calculation of cost-efficiency. The cost depends entirely on how much travel and effort are required by recipients to retrieve, transport and spend transfers, which is a function of the programme design as much as it is the type of transfer used.
52. *Scale.* In the early days of cash transfer programming (the period of a few years following the 2004 Indian Ocean tsunami) small scale interventions and pilots were very common. While cash and vouchers are now accepted as appropriate forms of assistance and increasingly provided to larger numbers of households, they are still rarely implemented at the same scale as in-kind assistance. This is slowly changing.⁵⁵ Recent examples of larger scale cash and voucher programmes are in Somalia, Philippines and Lebanon.
53. *Substituting for in-kind assistance or adding another layer.* Cash transfers can substitute for multiple types of in-kind assistance. The efficiencies of cash are minimised when they entail the creation of new delivery system that adds to, rather than replacing, systems for delivering in-kind assistance. In Lebanon, aid agencies provided cash assistance for winterisation (cash was provided instead of in-kind assistance like stoves and fuel). They ran parallel in-kind distribution systems, which caused confusion amongst refugees, overburdened field staff, and negated the normally positive efficiency gains of providing cash.⁵⁶ While cash perhaps was more efficient than providing fuel, it might also be used to replace other forms of in-kind assistance in that context, rather than adding a new layer of assistance.
54. Some projects have provided cash in combination with food aid to test the effectiveness of this approach or because of concerns about inflation. The randomised pilot implemented by WFP in Malawi provided three types of transfers – cash, food and a cash + food transfer. Cash was the

⁵¹ The seventh case study had approximately 12,500 beneficiaries.

⁵² Hedlund, 2012

⁵³ Aker, 2012

⁵⁴ Hidrobo et al., 2012

⁵⁵ This is a general observation; this paper does not review the number of households reached through different interventions.

⁵⁶ Danish Refugee Council Lebanon, 2014

most and food was the least cost-effective at improving food security indicators; the mixed transfer fell in the middle.⁵⁷ A Concern Worldwide project in Zimbabwe also compared these three types of transfers, and found that the cash + food transfers had greater operational costs than cash alone, but were still cheaper to deliver than food aid.⁵⁸

55. *Consolidation of systems and programming.* Where multiple aid agencies are providing cash in the same context, they can consolidate their programming to a degree by using common distribution platforms, through consortia and theoretically by reducing the number of aid agencies involved if another one can reach the same recipients. A 'lessons learned' report on cash programming in Lebanon noted that aid agencies providing cash and coordinating through the Cash Working Group were moving towards joint monitoring systems and even looking to potentially merge cash interventions. Coordination and common systems do come at a cost in terms of the time and resources involved. In response to the Somalia famine, the closer coordination of NGOs through consortia involved an independent monitoring system. The merging of programmes to a smaller number of aid agencies, if feasible, might result in substantial efficiency gains.
56. Aid agencies can work through common delivery platforms for providing cash to increase efficiency. Again in Lebanon, a large number of ATM cards have been distributed to provide winterisation assistance from ECHO and UNHCR; the lessons learned paper recommends that the ATM platform be accessible to all interested agencies so that they can work through cards already in circulation.⁵⁹ One NGO (DRC) was already facilitating access to the platform so that each aid agency did not have to independently set up its own system.⁶⁰ WFP is also providing e-vouchers to a large number of refugees in Lebanon. Combining all of the cash and voucher assistance onto one card would be efficient in theory but the barriers of working across UN agency accounting procedures would be very high.
57. Similarly, aid agencies could 'piggy back' on existing government programmes that provide cash for social protection or disaster response. This approach was used in Philippines (see below). In Pakistan, some donors directly funded the government of Pakistan to provide emergency cash transfers; some efforts by aid agencies to use the WATAN card platform were complicated by the government's insistence that they were the only actor who could deliver unconditional cash transfers.⁶¹
58. *Competition / collusion.* Promoting competition between the suppliers in voucher programmes can reduce the likelihood of price collusion (in voucher programmes in both Bolivia and Pakistan, competition resulted in traders providing special services and discounts).⁶² Three evaluations of voucher programmes employing 'fairs' (i.e. temporary markets created by aid agencies) found that prices in the fairs were higher than in local markets, resulting from limited competition and the costs businesses incur to participate.⁶³ Cash transfers typically do not face this issue since recipients can spend money at any trader.
59. *Trading in vouchers.* Efficiency is reduced when voucher recipients unofficially exchange them for cash at a loss. In DRC, Aker found that voucher recipients reported that they could exchange

⁵⁷ Delivery costs were not considered; presumably the cash + food transfer incurred the delivery costs of both modalities.

⁵⁸ Kardan et al., 2010

⁵⁹ Danish Refugee Council Lebanon, 2014

⁶⁰ The amount of time and effort to take on this role was initially underestimated.

⁶¹ Bailey, 2014

⁶² Hedlund, 2012

⁶³ Bailey, 2013b; Aker, 2012

their \$20 voucher for approximately \$11.25-\$14.15 at the fair, losing between 30 and 40 percent of their value.⁶⁴ An evaluation of a similar intervention in DRC (providing non-food items through local merchants) found that approximately 28 percent of beneficiaries exchanged vouchers for cash, losing between 4 and 10 percent of the value in the exchange, in order to meet other needs (e.g. food, secondary school fees, debt repayment) and because cash was simpler than vouchers.⁶⁵ Given the large amount of food voucher programming in Lebanon, analysis on the extent to which vouchers are being traded for cash would be insightful.

Efficiency and social safety nets

60. This review does not look in depth at the use of social safety nets to provide humanitarian aid by expanding their coverage and / or increasing size of transfers. However, it is worth flagging recent experiences in the Philippines and Ethiopia. A case study by Slater and Bhuvendra (2014) looked at how the Productive Safety Net Programme (PSNP) in Ethiopia increased cash transfers in response to drought in 2011. The resource requirement for increasing the transfers was \$58,734,000 and the management / administration costs were \$4,150,000 (about 7 percent of the total budget). Support costs tended to be between 10 and 30 percent of the total budget in the humanitarian evaluations reviewed, suggesting that the use of safety nets could be a very efficient approach when they have systems in place. Resources were mobilised more quickly through the PSNP Risk Financing Mechanism compared to the humanitarian appeal.⁶⁶
61. In response to typhoon Haiyan, WFP partnered with the Philippine government Department of Social Welfare and Development (DSWD) in December 2013 to provide an additional \$30 per month to households receiving assistance through Pantawid Pamilyang Pilipino Program (4Ps) – a government conditional cash transfer scheme providing cash grants to beneficiaries provided that they comply with the set of conditions.⁶⁷ As of February 2014, more than 500,000 beneficiaries had benefited from ‘top up’ cash transfers.⁶⁸ None of the documents reviewed provided cost analysis, but the WFP / DSWD partnership presumably was an extremely efficient approach to providing cash transfers, given that new systems did not have to be put in place.
62. While topping up or using the targeting systems of social safety nets is efficient, it excludes people outside of the scheme, unless systems are in place to target and register new households, which requires resources. Examining Ethiopia’s Productive Safety Net Programme and Kenya’s Hunger Safety Net Programme, Slater and Bhuvendra found that it is easier to expand safety nets vertically (increase transfer or duration) than horizontally (add new households). Notes from a cash transfers coordination meeting in the Philippines stated that a large number of aid agencies, some working in the same municipalities, had targeted 4Ps beneficiaries, raising questions about whether those groups were the most appropriate target population in relation to the programming objectives, and whether targeting in general has been preferential and benefiting households under the 4Ps programme compared to affected households not already covered.⁶⁹
63. A finding from the DFID *Guidance on Measuring and Maximising Value for Money in Social Transfer Programmes* is very relevant for future VfM guidance and research in humanitarian settings. It finds that, where it is available, data on cost-efficiency shows wide variations between programmes, countries and even between different years for the same programmes. These variations reflect differences in programme objectives, design and implementation costs,

⁶⁴ It was not possible to determine the extent to which such trading occurred (Aker, 2012).

⁶⁵ Bailey, 2013b

⁶⁶ Slater and Bhuvendra, 2014

⁶⁷ <http://pantawid.dswd.gov.ph/>

⁶⁸ WFP, 2014

⁶⁹ Unknown (2014) Overview of partner CTP Methodology & Recommendations

including declining per unit costs as programmes scale up. They also reflect differences in transfer levels, which automatically affect cost-efficiency calculations (if two programmes have the same non-transfer costs but the transfer level is twice as high in one, then that programme will be twice as cost-efficient compared to the other).⁷⁰

Cost-effectiveness

64. The conclusion for cost-efficiency is that cash transfers usually cost less to deliver compared to in-kind aid but that the overall efficiency of the transfer depends very much on local prices and how much it would have cost aid agencies to delivery similar goods (and whether such a comparison is even meaningful for multisector assistance, given that cash is more flexible). Efficiency does not indicate the relative cost of different transfers in improving outcomes (i.e. their cost-effectiveness and VfM).
65. The main approaches to cost-effectiveness analysis reviewed were (1) calculating cost per outcome;⁷¹ (2) providing narrative analysis comparing the costs and benefits of different transfers (and not a specific calculation); (3) assigning values to different benefits (i.e. 'scoring') and then comparing the total score with the cost per beneficiary of different approaches;⁷² (4) providing a general conclusion on cost-effectiveness that does not provide comparative analysis with other possible approaches.
66. The evidence based on cost-effectiveness is composed mainly of the last type of evidence – evaluations and studies that provide a judgement on their cost-effectiveness in a very general manner and do not provide specific analysis on cost per outcomes. They usually consider the intervention as a whole (including the quality of the implementation, targeting, management, etc.). Findings on the cost-effectiveness of cash transfer programmes are generally positive.⁷³
67. Several studies and evaluations stress the challenges of comparing the cost-effectiveness of different types of transfers or attempting to calculate it. In addition to the previously discussed challenge of obtaining accurate and disaggregated cost data, cost must be analysed against the results of programmes in achieving outcomes, many of which are not easily measurable. Furthermore, the objective of the programme might not correspond to households' priorities (or not all of them).
68. The WFP / IFPRI studies in Ecuador, Uganda, Yemen and Niger all sought to compare the cost-effectiveness of cash transfers with food aid (and vouchers in the case of Ecuador). This involved a simulation of the cost of improving food consumption indicators (per capita food consumption, per capita caloric intake, household dietary diversity score, dietary diversity index and food consumption score) by 15 percent. The simulation was based on the findings on the effect of each transfer on the different indicators. Similar approaches were taken by Audley et al. in Malawi and Hedlund et al. in Somalia.

⁷⁰ White et al., 2013

⁷¹ Hidrobo et al., 2012; Schwab et al., 2013; Gilligan et al., 2013; Audsley et al., 2011; Hedlund et al., 2013 (unlike the others a comparison was made with a programme implemented by a different aid agency in different areas).

⁷² This was only used in one evaluation – Kardan et al., 2010.

⁷³ Given the time available for this review, it was not possible to tabulate all evaluation conclusions on cost-effectiveness (and consider the evidence that was used to make that conclusion) where comparisons were not made with other forms of assistance. However, in the resources reviewed, none were located that judged cash transfers to be cost ineffective, with the possible exception of some pilots that had significant start-up costs (though it is possible that such evaluations exist). The evidence base on cash transfers to date has resulted in the conclusion that cash can be an appropriate and effective response with potential efficiency gains (see Harvey and Bailey, 2011).

69. As a reminder, cash was found to be more efficient to implement in all of the studies using randomised approaches, and food aid was cheaper than the comparative cash transfer in Malawi (not including implementation costs). For cost-effectiveness, findings were not as consistent. In Uganda, where data on food aid showed no impact, cash was by default the more cost-effective (and had impressive benefits related to anaemia). In Ecuador, while cash was more efficient, vouchers were more cost-effective at improving all of the food consumption indicators. In Malawi, where food aid was more efficient, cash was more cost-effective in improving food consumption score and diet diversity. Findings were inconclusive in Yemen and the Niger study did not analyse cost-effectiveness. Table 1 summarises the efficiency and cost-effectiveness findings. The fact that one transfer might be more efficient and another more cost-effective was also found with a FFV programme in the occupied Palestinian Territories where food aid was found to be more efficient but vouchers more cost-effective given their impact on food consumption indicators and additional benefits).⁷⁴

Table 1: Findings on efficiency and cost-effectiveness (randomised studies)

| Context / programme | Transfers compared | Most efficient | Most cost-effective - Calories | Most cost-effective - FCS | Most cost-effective - diversity (HDDS or DDI) | Most cost-effective - other measures |
|---|----------------------|----------------|------------------------------------|---------------------------|---|--------------------------------------|
| Cost of delivery the transfer / programme implementation | | | | | | |
| Ecuador; IFPRI, WFP | Cash, vouchers, food | Cash | Vouchers | Vouchers | Vouchers | Cash ⁷⁵ |
| Uganda; IFPRI, WFP | Cash, food | Cash | N/A | Cash | Cash | Cash ⁷⁶ |
| Niger; IFPRI, WFP | Cash, food | Cash | Cost-effectiveness not analysed | | | |
| Yemen; IFPRI, WFP | Cash, food | Cash | Food aid baseline data compromised | | | |
| Cost of food procured via aid agency v. local market cost (Alpha value)⁷⁷ | | | | | | |
| Malawi; WFP | Cash, food, mixed | Food | N/A | Cash | Cash | |
| Full cost of assistance (cost of transfer + delivery) | | | | | | |
| Sri Lanka, WFP | Cash, food | Cash | Cost-effectiveness not analysed | | | |
| DRC Tufts / Concern | Cash, vouchers | Cash | N/A | N/A | No difference | Cash ⁷⁸ |

70. The relative cost-effectiveness of transfers varied substantially for different indicators, even ones that were all related to food consumption. In Malawi, for example, improving food consumption score with food aid cost 130 percent more than cash, but improving diet diversity

⁷⁴ Creti, 2011

⁷⁵ Cash was deemed to be the 'preferred approach' to improve household welfare because recipients preferred it and it was the least costly modality.

⁷⁶ Cash caused reductions in anaemia in children aged 54-83 months and was cheaper than food aid.

⁷⁷ This does not include the cost of delivering the cash or the food aid to the recipient.

⁷⁸ Cash was deemed to be more cost-effective than vouchers as it resulted in additional benefits compared to vouchers and was cheaper to implement; cash households were less likely to report having suffered from food insecurity since the previous harvest as compared with voucher households.

with food aid cost nearly 15 times more.⁷⁹ Table 2 shows how these costs varied in Ecuador. A theme across the IFPRI studies is that cash and vouchers tend to have different benefits for food consumption compared to food aid.⁸⁰

71. In response to the Somalia famine, the cost for cash and vouchers to achieve a 50 percent improvement in the number of beneficiaries with borderline and / or acceptable food consumption scores was between \$70 and \$110. In a food aid programme implemented in similar circumstances three years earlier, the cost was much higher (\$275). The evaluation notes that cash and vouchers were more cost-effective in areas with worse food consumption indicators at baseline.⁸¹

Table 2: Cost of improving indicators by 15 percent in Ecuador

| | Food | Cash | Voucher |
|-----------------------------------|---------|---------|---------|
| Consumption | \$10.78 | \$3.79 | \$3.81 |
| Calories | \$10.78 | \$7.58 | \$4.50 |
| Household dietary diversity score | \$28.75 | \$11.36 | \$8.25 |
| Dietary diversity index | \$15.68 | \$3.25 | \$2.91 |
| Food consumption score | \$17.25 | \$4.13 | \$3.09 |

Source: Hidrobo et al., 2012

72. The cost of improving indicators may differ greatly across different contexts. Compared the Ecuador programme, the cost of improving FCS outcomes by 15 percent was 43 times more expensive in Northern Uganda and 90 times more expensive in Yemen.⁸² This might be explained by the fact that beneficiaries in Ecuador are likely better off than those in rural Yemen and Northern Uganda and that these are vastly different contexts.

Table: Cost of improving outcomes by 15 percent – cash transfers⁸³

| Indicator | Ecuador | Uganda | Yemen |
|-----------|---------|----------|----------|
| HDDS | \$11.36 | \$145.11 | \$603.90 |
| DDI | \$3.25 | \$129.27 | \$509.34 |
| FCS | \$4.13 | \$181.39 | \$374.77 |

Source: Hidrobo et al., 2012; Schwab et al., 2013

⁷⁹ Audsley et al., 2010

⁸⁰ While the IFPRI study in Niger did not undertake analysis on the cost of achieving outcomes, it is worth signalling that food aid had a more positive impact on food consumption score than cash because households receiving food in-kind increased their consumption of pulses and oil (from the food ration), while those receiving cash increased their consumption of staple grains (the cheapest form of calories available). This is an exception to the general trend that cash and vouchers have more positive impacts on diet diversity than food aid. The Niger study did not consider calorie intake, but a reasonable hypothesis is that cash had a larger impact on this measure given the acquisition of cheap calories through staple grains. See Bailey (2013a) for a review of evidence on the impact of cash transfers on food consumption.

⁸¹ Hedlund et al., 2013

⁸² Hidrobo et al., 2012; Gilligan et al., 2013, Schwab et al., 2013

⁸³ Given the different metrics by which the outcomes were measured, IFPRI conducted simulations for each outcome. For example, the study found that cash transfers increased FCS by 6.48 points, which is an 11 percent increase. Therefore, the modality-specific cost of increasing FCS by 15 percent using cash transfers is $(15 \text{ percent} / 11 \text{ percent}) \times \$3.03 = \$4.13$. The table shows the results of these calculations for each modality for the value of per capita food consumption, per capita caloric intake, household dietary diversity score (HDDS), dietary diversity index (DDI), and FCS.

73. Not all robust studies analysing cost-effectiveness relied on calculations. The randomised study in DRC (comparing cash and vouchers) is an example of narrative analysis that does not provide a 'calculation' on cost-effectiveness:

The cash transfer program was cheaper, and more cost-effective, for both Concern Worldwide and programme recipients. The cash program cost \$11.34 per program recipient, as compared with \$14.35 per voucher recipient. In addition, despite the fact that both group of recipients had to travel...to obtain their transfer, cash transfer recipients reported feeling safer than voucher recipients, as they could conceal the cash more easily...Since the benefits in the cash group were similar to, and slightly better than, those of the voucher group, cash transfers are preferred to vouchers from a cost-effectiveness, efficiency and welfare perspective.⁸⁴

74. Kardan et al. took a different approach to calculating cost-effectiveness in Zimbabwe, assigning values to benefits expressed by beneficiaries of cash and food interventions and then dividing this by the cost of the intervention. The results are problematic because cash and food beneficiaries were biased towards the responses that they had received, but it was one of the few examples of an evaluation assigning values / scores to benefits.⁸⁵

75. The evaluation of the Somalia cash and voucher interventions found that cash and vouchers were both more cost efficient and cost-effective than food aid. It also identifies issues for VfM analysis:

The bottom line is that cash and vouchers appear to be more cost efficient and cost-effective than in-kind food aid at reducing negative coping mechanisms and achieving a minimum dietary diversity. That is not to say that in-kind food aid is always less cost-effective but where beneficiaries prioritise food purchases..., where markets can meet demand for food at a reasonable cost, where transfer costs for cash and vouchers are low, it does appear to be the case. The cost-effectiveness of cash and vouchers to achieve desired food consumption outcomes is comparable. Agencies might have been able to demonstrate greater value for money if they had more systematically measured livelihoods impacts, e.g., using a livelihood recovery scale, particularly given the size of the transfer and the duration of the programme. Value for money calculations might also change if it were possible to measure market multipliers. While placing a monetary value on beneficiary preferences and perceptions of dignity (other possible arguments for cash) will always be difficult.⁸⁶

76. For cash and voucher programming in Somalia, the evaluation identified the following issues related to calculating cost-effectiveness – deciding on appropriate food consumption outcome variables; including improved livelihoods and other non-food consumption outcomes; deciding on standard reporting, measurement, thresholds, and analysis (including sampling frame); deciding on common standards for categorising costs and determining how to combine cost and effectiveness in a meaningful and comparable unit.⁸⁷

77. The IFRPI studies highlight the challenges of generating reliable data on cost-effectiveness – even with a clearly defined set of indicators. Only two of the four recent studies – Ecuador and Uganda – made conclusions on cost-effectiveness. The Yemen study noted that cost-effectiveness data on food aid could not be provided because the baseline survey occurred after the first food distribution; the Niger study does not raise the issue of cost-effectiveness so it is

⁸⁴ Aker, 2012: 11

⁸⁵ Kardan et al., 2010

⁸⁶ Hedlund et al., 2013: 65

⁸⁷ Hedlund et al., 2013

not clear why no analysis is provided. Given the large investment in these studies (10 million Euros provided by the Spanish government), the highly qualified institution that undertook them and the strong partnership between a research institution and an aid agency, this strongly suggests the need to find a balance between seeking out 'perfect' evidence (i.e. comparable interventions, fully costed) and practical approaches that are less rigorous.

78. Most rigorous analysis on cost-effectiveness to date focuses on specific outcomes related to food consumption, but analysis on effectiveness depends entirely on the objective. When comparing cash, vouchers and food aid in Ecuador, Hidrobo et al. summarise this issue:

Choosing the winner [among cash, vouchers and food aid in Ecuador] depends on the objectives of the policymakers. If the objective of these transfers is simply to improve welfare, cash is preferable. Cash is the modality that beneficiaries are most satisfied with, and it is the cheapest means of making transfers...Cash allows for savings, which helps households smooth their food and non-food consumption. If the objective is to increase calories or dietary diversity, vouchers are the most cost-effective means of doing so, followed by cash. Although the voucher modality is the most cost-effective means of increasing caloric availability and dietary quality, it is the modality *least* preferred by beneficiaries. Thus, policymakers are faced with the trade-off of improving overall welfare or improving specific outcomes. The former gives aid recipients autonomy, while the latter restricts their choices in order to achieve specific objectives.⁸⁸

79. Cost-effectiveness comparisons focus only on recipients of assistance, but some evaluations consider impacts on local markets and traders – particularly related to vouchers as aid agencies know which traders benefited from participation in the programme, whereas cash could be spent anywhere. Voucher traders report increases in business volumes, which is unsurprising given that recipients must redeem vouchers with participating traders.⁸⁹ The lack of analysis on wider economic impacts is not surprising given that it requires specific expertise and the issue is usually outside of the scope of a humanitarian evaluation. An exception is a study on the multiplier effects of a Concern Worldwide intervention in Malawi (multiplier estimates of 2-2.45, meaning that every dollar transferred passed through an average of 2-2.45 economic agents or individuals in the local area before leaving it).⁹⁰
80. Whether referred to as indirect benefits or secondary impacts, a common theme in reviews of cash transfer programming is that there are benefits that are not easily captured and quantified. These include positive economic benefits, dignity, choice and flexibility. Nor does cost-effectiveness capture timeliness and reliability, which can be influenced by the type of transfer used. Quicker responses may save lives and reduce suffering, which is difficult to quantify. The evaluation of cash and voucher programming in Somalia found that, with the exception prepositioned food aid, no other type of intervention would have been able to reach scale so quickly.⁹¹

Conclusions and issues to consider for future VfM research

Trends, gaps and conclusions

81. While there is no shortage of general guidance on deciding when cash transfers are appropriate, there is not much specific guidance on analysing the efficiency and cost-effectiveness / VfM. A

⁸⁸ Hidrobo et al., 2012: 25

⁸⁹ See for example, Bailey, 2013b; Creti, 2011; Hedlund, 2012

⁹⁰ Davies, 2007

⁹¹ Hedlund et al., 2013

recurrent theme from literature is that these are important issues to consider but that it is difficult to do for many reasons. The most comprehensive guidance is DFID's VfM for social transfers, but for humanitarian settings, expectations should be realistic both about the ease of getting accurate, holistic cost data and more fundamentally the issue of analysing (or quantifying / assigning value to) benefits that are not easily quantified.

82. Cash, when compared to in-kind approaches, consistently emerges as more efficient *to deliver* in the studies and evaluations reviewed. When compared directly with food aid, its overall cost-efficiency also depends on local prices compared to the cost of aid agencies providing food, which cannot be generalised. The review did not locate comparisons of cash assistance as an alternative to other types of in-kind assistance, such as non-food item kits and shelter kits. Few reviews compared cash and vouchers, but staff time requirements for vouchers are higher in the examples reviewed. Any exchange of vouchers for cash will also affect the efficiency of those programmes.
83. For interventions with very specific objectives, such as those related to food access and nutrition, comparisons of 'cash versus in-kind assistance' might be relevant. However, cash v. in-kind comparisons are narrow and miss the point that many of the advantages of cash are related to its flexibility and its potential as a multisector tool. Aid agencies could not provide the precise equivalent to cash through in-kind approaches given the diversity of goods and services purchased and ones that lack equivalents, such as debt repayment, land rental and savings. Rigorous cost-effectiveness comparisons between approaches are also challenging – well-funded and well-planned IFPRI studies in Yemen and Niger did not provide conclusions on cost-effectiveness.
84. With the exception of a small number of evaluations and studies that consider the cost of improving specific food security indicators, cost-effectiveness is rarely 'calculated'. Where it is, the most efficient approach is not necessarily the most cost-effective. Evaluations tend to make broad judgements on the cost-effectiveness of the programmes based on multiple variables (e.g. benefits, effectiveness, risk), with statements on efficiency and cost-effectiveness often based on observations and analysis that either are not quantified or not compared with other possible approaches (or where comparisons are very general).
85. Rigorous evidence on efficiency and cost-effectiveness might appear meagre given the large number of cash transfer interventions, but the requirements for 'robust' comparisons are high. Moreover, numerous humanitarian evaluations on cash transfers programmes provide some analysis and judgement on the efficiency of the intervention and its effectiveness as a whole but do not compare the cash transfer with alternative approaches. Given the large number of variables that evaluators could consider in a counter-factual (e.g. what if targeting had been different), and the challenges of accurate cost data and meaningful indicators, it is not surprising that detailed analysis and costing of alternative approaches is often lacking. Interventions using cash tend to be judged as efficient and cost-effective.
86. Many of the variables related to cost are as much about *how* transfers are provided as they are about *which* transfers are provided. Different delivery approaches will result in different costs for aid agencies and recipients, more intensely monitored programmes will have higher staff costs, smaller scale programmes will be less efficient than larger scale ones, programmes with smaller and more frequent transfers may be less efficient than ones with larger, less frequent transfers. The same can be said for effectiveness – well targeted, designed and implemented interventions will be more effective than those that are not.
87. The main gaps identified in the review are practical tools for analysing efficiency and cost-effectiveness or VfM (*ex ante* and *ex post*), analysis on the efficiency and VfM of cash-based

programming as a multisector tool, evidence on the economic impacts of interventions and multiplier effects, and documentation related to recent interventions in Philippines and Lebanon.⁹²

Relevant issues for future VfM research and guidance

88. Several issues for future VfM research and guidance are raised in this review. There are trade-offs between analysing VfM for narrow objectives and broader ones (e.g. meeting basic needs across a range of sectors). Data is more comparable for the former but the latter is where the efficiency and VfM for cash transfer programming are potentially greatest. Research and guidance should consider that conclusions on effectiveness, and therefore cost-effectiveness, might differ according to how the objective is defined. It is crucial to be clear about the parameters of VfM – the costs and benefits are included – and to not neglect benefits that are not easily quantified. Issues to consider include timeliness, flexibility, preference and economic impact. Above all, the design of research should be realistic given challenges identified in this review and guidance must consider that decisions are made with imperfect information.
89. This review offers some preliminary insights for maximising VfM through the lenses of economy, effectiveness and efficiency. *Economy* could entail ensuring that agencies are not over-paying for services related to transferring money, such as fees charged by banks, money transfer agents, mobile phone companies and others involved in the delivery of cash. This was not raised as a major issue in evaluations, but there do appear to be possibilities for aid agencies to work together to get better rates through negotiation and economies of scale.
90. There are several evident entry points related to increasing the *efficiency* of programmes using cash transfers, including through increasing scale, combining duplicate distribution platforms, and potentially merging cash transfer programmes done by individual agencies (this is easier said than done and would need to take on board challenges related to mandates and the capacities of agencies, their individual accounting and programming systems, and their ability to target and monitor large numbers of recipients). In cases where cash systems are added to in-kind systems, the appropriateness of replacing the in-kind assistance could be considered. In the case of vouchers, efficiency could also consider risks related to collusion and informal exchange of vouchers for cash.

⁹² In both contexts there are cash transfer working groups and in Lebanon reviews have been done on electronic transfers and the potential set-up for provision of unconditional grants by multiple actors (Danish Refugee Council Lebanon, 2014; Avenir Analytics, 2014). Thus, data is likely available in these contexts, but no published evaluations or analysis of cost-efficiency / effectiveness were located for this review.

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