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**Executive Board  
Second Regular Session**

**Rome, 27–30 October 2008**

## **POLICY ISSUES**

### **Agenda item 4**

*For consideration*

**E**

Distribution: GENERAL  
**WFP/EB.2/2008/4-B**  
25 September 2008  
ORIGINAL: ENGLISH

## **VOUCHERS AND CASH TRANSFERS AS FOOD ASSISTANCE INSTRUMENTS: OPPORTUNITIES AND CHALLENGES**

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## NOTE TO THE EXECUTIVE BOARD

**This document is submitted to the Executive Board for consideration.**

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal points indicated below, preferably well in advance of the Board's meeting.

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## EXECUTIVE SUMMARY

Food assistance refers to the set of instruments used to address the food needs of vulnerable people. The instruments generally include in-kind food, vouchers and cash transfers. While food transfers represent WFP's traditional form of food assistance, this document shows how vouchers and cash transfers could be used by WFP as complements or alternatives to food transfer programmes.

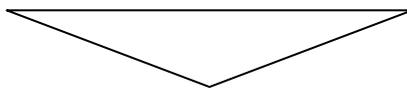
In line with the Strategic Plan 2008–2011, vouchers and cash transfers will allow WFP to better adapt its toolbox to context and meet identified needs in a more flexible and appropriate manner. Under appropriate circumstances, the use of vouchers and cash transfers will harness WFP's potential to provide assistance in ways that further strengthen local markets, enhance the productivity of small farmers and empower beneficiaries.

Vouchers and cash transfers present both opportunities and limitations that need to be carefully weighed on a context-specific basis. Ensuring appropriate partnerships is crucial for effective and efficient implementation. Governments would be vital partners for using vouchers and cash transfers; the instruments should be conceived and implemented in line with national priorities, policy processes and programmes to address hunger.

WFP's comparative advantages in the use of these instruments include: i) unparalleled field presence, outreach and capacity to implement large-scale programmes, particularly in remote and risky environments; ii) extensive experience working with partners, including governments, United Nations agencies and a large number of non-governmental organizations, the majority of which are national non-governmental organizations and community-based organizations; iii) comprehensive analytical capacity with regard to vulnerability, needs and market assessments at the national, regional, community and household levels; iv) the capacity to identify the appropriateness and feasibility of voucher and cash transfer programmes in both lower- and higher-capacity contexts; v) significant synergies with WFP's existing programming platform for the design, implementation and evaluation of food transfer programmes; vi) multi-year and ongoing practical implementation experience with vouchers and cash transfers; and vii) the potential to consistently provide voucher, cash transfer and food transfer programmes according to local circumstances, and to flexibly switch their use as circumstances change over time.

Vouchers and cash transfers could be used in the context of all five Strategic Objectives, although their relevance and applicability across objectives varies considerably. A wider use of vouchers and cash transfers has implications in terms of capacities and programming. In all contexts, needs assessments should inform the most appropriate way to provide food assistance, whether in the form of food transfers, vouchers or cash transfers.

## DRAFT DECISION\*



The Board takes note of “Vouchers and Cash Transfers as Food Assistance Instruments: Opportunities and Challenges” (WFP/EB.2/2008/4-B).

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\* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document (document WFP/EB.2/2008/15) issued at the end of the session.



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## RATIONALE FOR THE POLICY

1. Vouchers and cash transfers represent two distinct forms of food assistance.<sup>1</sup> Cash transfer programmes provide people with money, while vouchers include the provision of coupons to purchase a fixed quantity of food (commodity-based vouchers) or food for a fixed monetary value (value-based vouchers) in selected stores. While programme objectives, design and operational arrangements might be slightly different, they share a similar market-based approach under which beneficiaries are provided with *purchasing power* to access food.
2. In recent years, there has been growing interest and practice in the use of vouchers and cash transfers.<sup>2</sup> Such interest is fuelled by the fact that markets in developing countries function better than they used to, food systems are more integrated, the pace of urbanization is accelerating and basic financial services are increasingly diffused, including in rural areas.<sup>3</sup> Moreover, high international food prices have also increased interest in the use of vouchers and cash transfers under certain circumstances. Such developments are important for international assistance, as they often offer the opportunity to use innovative ways to support food-insecure people.
3. Understanding and assessing context-specific factors and circumstances is key for identifying the most appropriate food assistance instrument or combination of instruments. WFP has been a leading actor in producing high-quality analyses and assessments for informing appropriate transfer-selection processes.<sup>4</sup> Moreover, WFP has started developing capacities and gathering practical experience on the implementation of vouchers and cash transfers on a pilot basis.
4. The progress made on the analytical and operational aspects of vouchers and cash transfers, however, has not been entirely reflected and formalized in a policy discipline. This document is meant to fill that gap by setting out WFP's policy framework on the use of vouchers and cash transfers and showing how such instruments fit into its strategic framework.
5. A wider use of those instruments would allow WFP to respond more flexibly and appropriately to context-specific situations, and WFP is well-positioned to include vouchers and cash transfers as part of its toolbox. The participation of Executive Board members in weighing the opportunities, limitations and implications laid out in this document will help WFP to refine its policy concerning these tools.

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<sup>1</sup> Food assistance is defined as the set of instruments for addressing the food needs of vulnerable people. Food assistance can take the form of in-kind food transfers, vouchers and cash transfers.

<sup>2</sup> Gentilini, U. 2007. "Cash and Food Transfers: A Primer". WFP Occasional Paper No.18, Rome; and Harvey, P. 2007. "Cash-Based Responses in Emergencies". Humanitarian Policy Group Report No. 24. London, Overseas Development Institute (ODI).

<sup>3</sup> McCullough, E., Pingali, P. and Stamoulis, K., eds. 2008. *The Transformation of Agri-Food Systems: Globalization, Supply Chains and Smallholder Farmers*. London, Earthscan.

<sup>4</sup> Such efforts also include draft guidelines on "Assessing Feasibility and Appropriateness of Cash/Voucher Responses to Chronic Food Insecurity in Southern Africa" produced under WFP's Special Initiative for Cash and Voucher Programming in Southern Africa.



## EXPECTED OUTCOME AND IMPACT

6. The use of vouchers and cash transfers by WFP is expected to yield a number of outcomes and impacts at the level of beneficiaries, countries and WFP as an organization. At the beneficiary level, people would benefit from receiving food assistance in ways and forms suited to meeting their context-specific needs; it can help increase people's capacity to manage risks, enhance their livelihoods and improve their nutritional status.
7. A greater use of vouchers and cash transfers will empower food-insecure people by allowing them to make choices and prioritize their needs. Evidence has shown overwhelmingly that cash transfers are used primarily to purchase food, often high-quality food such as meat and dairy products.<sup>5</sup>
8. The use of vouchers and cash transfers often also reduces the costs to people (for example in transportation and time) of physically collecting bulky items at distribution sites. Their use can also increase market activities, hence creating new livelihood opportunities for the poor.<sup>6</sup>
9. Country-level outcomes and impact include an enhancement in coherence and alignment of WFP interventions with national strategic priorities, policy processes and programmes for food security and nutrition, education, social protection and poverty reduction. The use of vouchers and cash transfers creates new opportunities to hand over activities to partners and governments as beneficiaries improve their livelihoods and capacities are built.
10. The deployment of diversified food assistance instruments, including vouchers, cash and food transfers, enhances WFP's ability to tailor its toolbox to specific contexts, meeting identified needs in a more timely and flexible fashion. Such an approach is fully in line with WFP's strategic framework and reinforces WFP's ability to pursue its Strategic Objectives more effectively and efficiently.

## WFP, VOUCHERS AND CASH TRANSFERS

11. This section lays out WFP experience with vouchers and cash transfers, identifies the main opportunities and limitations that those instruments present and shows WFP's comparative advantages in using vouchers and cash transfers more widely.

### Experience

12. Over the decades, WFP has developed capacities and experience with vouchers and cash transfers. While there is evidence on WFP's experience with vouchers and cash transfers as far back as the 1980s,<sup>7</sup> in more recent years interest and practice in the use of such instruments has grown exponentially. Part of this interest was generated by WFP's

<sup>5</sup> Sharma, M. 2006. "An Assessment of the Effects of the Cash Transfer Pilot Project on Household Consumption Patterns in Tsunami-Affected Areas of Sri Lanka". Report for WFP by the International Food Policy Research Institute (IFPRI), Washington DC.

<sup>6</sup> Davies, S. and Davey, J. 2008. A regional multiplier approach to estimating the impact of cash transfers on the market: The case of cash transfers in rural Malawi. *Development Policy Review*, 26(1): 91–111; Ahmed, A., Quisumbing, A. and Hoddinott, J. 2007. "Comparing cash and food transfers to the ultra-poor in Bangladesh". Report for WFP by IFPRI, Washington DC.

<sup>7</sup> For example, see WFP documents "Project Jamaica 3344: Food Entitlement Programme" (1988); "Assessment of the Food Stamps System" (Islamabad, 2004); and "Cash in Emergencies and Transition: Technical Meeting Report" (2006).



progress in needs and market assessments. Assessments are now based on broader food security analyses – as opposed to narrower food aid needs assessments – and include recommendations on non-food-transfer instruments as appropriate. For instance, the use of vouchers and/or cash transfers was recommended in about one-third of the 115 needs assessments conducted in 2006–2008.<sup>8</sup>

13. Interest in vouchers and cash was also expressed by a number of donors and resulted in the implementation of voucher and cash transfer pilot projects in various countries (see Table 1).

<b>Country</b>	<b>Project</b>	<b>Duration (start–end date)</b>	<b>Number of beneficiaries (total)</b>
Bangladesh	cash grant	5 months (May–Sept 2006)	3 100
Bangladesh	cash for work	3 months (July–Sept 2008)	16 000
Georgia	combined food and cash for work	4 months (Jan– April 2006)	4 600
Georgia	cash for work	1 year (Aug 2007–Aug 2008)	7 000
Malawi	cash for work	6 months (June–Nov 2005)	16 600
Myanmar	cash grant	2 weeks (May/June 2008)	49 490
Nepal	combined food and cash for work	1 year (Aug 2007–Aug 2008)	31 000
Pakistan	vouchers (value-based)	14 years (1994–to date)	47 500/year
Sri Lanka	cash grant	3 months (Nov 2005–Jan 2006)	12 000

14. In order to provide consistent and comprehensive guidance to vouchers and cash transfer projects, in 2007 WFP issued a directive on “The Use of Cash Transfers to Beneficiaries in WFP Operations: Interim Guidance for Pilot Projects”.<sup>9</sup> The directive guided WFP’s approach on vouchers and cash transfers and was instrumental in moving from anecdotal experiences to the establishment of a systematic learning process on the matter. This process has also included publications, presentations and participation in a number of international events.<sup>10</sup>
15. Lessons emerging from WFP voucher and cash transfer pilots, and from international experience more generally, suggest that vouchers and cash transfers bring a number of opportunities for innovations, but also significant risks and limitations. This suggests the need for a balanced, evidence-based and context-specific approach.

<sup>8</sup> WFP. 2008. “Response Analysis 2006/08: Practice to Date”. Food Security Analysis Service (OMXF), Desk Review (Part I). Rome.

<sup>9</sup> Directive OD2007/001-PD2007/001, 15 May 2007.

<sup>10</sup> Including for example the ODI conference on Cash and Vouchers in Emergency (2006), the World Bank Third Conference on Conditional Cash Transfers (2006), the Regional Workshop on Cash Transfer Activities in Southern Africa, hosted by Oxfam and the Regional Hunger and Vulnerability Programme (RHVP) (2006), the FAO conference on Conditional Cash Transfers for Eradicating Hunger and Chronic Child Malnutrition (2007), and the United Kingdom’s Department for International Development (DFID) workshop on Cash Transfers and HIV/AIDS (2007).



## Opportunities

16. *Complementarity.* The appropriateness of vouchers, cash or food transfers hinges on a number of factors, including the robustness of markets and implementation capacities (see Section on Policy Framework, below). Such instruments are not necessarily mutually exclusive. The variety of market conditions and capacities, even within a country, suggests possible complementarities, as for example demonstrated by the Ethiopian Productive Safety-Net Programme (PSNP).<sup>11</sup> In addition, differences in food availability and prices at different times of the year (for example, the lean period as opposed to post-harvest) suggest that vouchers, cash and food transfers could be combined seasonally.
17. Vouchers, cash and food transfers also share some common programming features. They can all pursue similar objectives (especially vouchers and food transfers); they all use similar methodologies for needs and market assessments; they adopt the same targeting criteria (although cash programmes tend to be more prone to inclusion errors); they are all supported by contingency plans (although mostly food-based); and they all employ similar tools for evaluations. In addition, food transfer programmes use ration cards, which are similar to voucher coupons.<sup>12</sup>
18. *Harnessing WFP's potential in transition situations.* The use of vouchers and cash transfers would put WFP, together with partners, in a stronger position to help, translating post-emergency assistance into developmental outcomes. In transition situations, vouchers and cash transfers often offer the opportunity to promote livelihoods and create the conditions for pathways out of poverty.
19. *Improved cost-efficiency.* In a context of high food prices and high transport costs, the provision of vouchers and cash transfers may be a way for WFP to mobilize assistance more cost-efficiently when international food prices (combined with transport costs) are higher than national and local prices. On the implementation side, vouchers and cash transfers are often more cost-efficient than food transfer programmes – but only when local capacity exists and markets function adequately.
20. *Faster response time.* Vouchers and cash transfers could be mobilized and distributed rapidly as a resource to meet identified needs.
21. *Social protection.* Transfers, whether in the form of vouchers, cash or food transfers, are not a panacea for addressing the causes of food insecurity. They need to be integrated into broader national plans, including into strategies and policies for social protection.<sup>13</sup> Depending on national capacities, new opportunities may emerge for supporting government-led social protection programmes (which often tend to be based on vouchers and cash), especially in their early stages.<sup>14</sup>

<sup>11</sup> The PSNP provides cash and food transfers to 8.3 million food-insecure households. Food transfers are provided to those beneficiaries (about 4 million people) living in contexts where markets function poorly and implementation capacities are lower. Conversely, cash transfers are provided where markets function and capacities are higher. Adjustments are made over time to reflect changing conditions in markets and capacities.

<sup>12</sup> The use of both ration cards and vouchers, for example, could be revised according to new delivery opportunities that technology may offer in certain contexts (Devereux, S. 2008. "Innovations in the Design and Delivery of Social Transfers: Lessons Learned from Malawi". Institute of Development Studies, Brighton).

<sup>13</sup> "Social protection" can be defined as a national system of institutionalized and permanent policies and programmes to reduce risks, poverty and food insecurity, and may include for example safety net transfers and insurance schemes (see "WFP and Food-Based Safety Nets: Concepts, Experiences and Future Programming Opportunities". WFP/EB.3/2004/4-A).

<sup>14</sup> See the section in this document "Strategic Objective Five: Strengthen the capacities of countries to reduce hunger, including through hand-over strategies and local purchase".



22. *Programming in urban areas.* Urban areas are generally characterized by well-functioning markets and higher capacities for vouchers and cash transfers than remote rural areas. This offers a new range of opportunities to reinvigorate WFP's programming in urban areas, and technical guidance materials on the matter have been produced recently.<sup>15</sup> This is particularly relevant given that urban poverty is likely to be a growing phenomenon as a result of high food prices and rapid urbanization in developing countries.<sup>16</sup> The use of vouchers and cash transfers in urban areas has received further attention in the context of WFP's response to high food prices.<sup>17</sup>

## Limitations

23. *Short-term, small-scale experience.* In general, most voucher and cash transfer programmes have been tested on a small-scale and short-term basis, especially in emergencies. There is limited experience on scaling up voucher and cash transfer programmes in case of an emergency, particularly in low-capacity contexts. With the exception of Ethiopia, evidence on larger-scale voucher and cash transfer programmes mostly comes from higher-capacity countries (where they could be financed domestically),<sup>18</sup> and lessons should be viewed in context and interpreted accordingly.
24. *Limited capacity.* Capacities for effective and efficient voucher and cash transfer programming need to be strengthened, especially with regard to market analysis, financial delivery mechanisms and monitoring and evaluation systems. This applies to governments in low-capacity contexts, international partners (including WFP), and non-governmental organizations (NGOs). For instance, only a small number of WFP staff members have experience with voucher and cash transfer programmes. Establishing financial and institutional modalities for voucher and cash transfer delivery requires time and investments. Very few partners have experience in scaling up voucher and cash transfer programmes quickly, and it is important to carefully assess partners' capacities. However, WFP has started developing operational guidance materials, some of which are already at an advanced stage of development (see section on Programming, below).
25. *Emergency response.* In low-capacity contexts, the use of vouchers and cash transfers is unlikely to be the appropriate response in the *immediate aftermath* of an emergency.<sup>19</sup>
26. *Risks for beneficiaries.* The use of vouchers and cash transfers implies potential risks. If vouchers and cash transfers were implemented where and when markets do not work adequately, beneficiaries would bear the risk of supply failures that may mean not finding food at affordable prices, or any food at all. In such cases, vouchers and cash could even generate additional inflationary effects. Also, if adequate implementation capacities are not in place, the distribution of vouchers and cash transfers increases security risks for both beneficiaries and staff.

<sup>15</sup> WFP. 2008. "Technical Guidance Sheet: Urban Food Security and Nutrition Assessments". Rome; WFP. 2008. "Developing and Strengthening Guidance on Urban Targeting Through a Systematization of Best Practices". OMXF, Rome.

<sup>16</sup> Ravallion, M., Chen, S. and Sangraula, P. 2007. "New Evidence on the Urbanization of Global Poverty". Policy Research Working Paper No. 4199. Washington DC, World Bank.

<sup>17</sup> For example, WFP is planning to use vouchers in two cities in Burkina Faso, Ouagadougou and Bobo-Dioulasso.

<sup>18</sup> Including programmes in South Africa and Latin America, such as the Progreso/Oportunidades programme in Mexico and Brazil's *Bolsa Escolar*.

<sup>19</sup> A challenge for the future is to understand the appropriate moment at which to combine or switch from one type of transfer to another (see also the sections on Strategic Objective 1 and Capacities, below).



27. *Corruption.* A wider use of vouchers and cash transfers may increase the risk of fraud and corruption. However, such risks hinge on the level of transparency in reporting, and in financial and accounting procedures, rather than on the type of transfers per se. Risks could be minimized by using innovative delivery mechanisms, and by partnering with experienced institutions and organizations.<sup>20</sup>

### Comparative Advantages

28. The opportunities and limitations outlined above suggest that WFP's seven key comparative advantages in the use of vouchers and cash transfers can be summarized as:
- unparalleled field presence, outreach and capacity to implement large-scale programmes, particularly in remote and risky environments;
  - extensive experience working with partners, including governments, United Nations agencies, and a large number of NGOs (currently more than 2,800), the majority of which are national NGOs and community-based organizations;
  - comprehensive analytical capacity with regards to vulnerability, needs and market assessments at the national, regional, community and household levels;
  - the capacity to identify the appropriateness and feasibility of voucher and cash transfer programmes in both lower- and higher-capacity contexts;
  - significant synergies with the existing WFP programming platform for assessment, design, implementation and evaluation of food transfer programmes;
  - multi-year and ongoing practical implementation experience with vouchers and cash transfers; and
  - the potential to consistently provide vouchers, cash and food transfer programmes according to local circumstances, and to flexibly switch their use as circumstances change over time.
29. Such strengths make WFP particularly well-positioned for a gradually wider use of vouchers and cash transfers as appropriate, both as complements and alternatives to food transfer programmes, in order to pursue its five Strategic Objectives in the most effective, efficient and sustainable manner.

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## POLICY FRAMEWORK

30. This section provides a framework for the use of vouchers and cash transfers in WFP's operations, identifies partnership options and sets out the linkages with each Strategic Objective.

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<sup>20</sup> WFP recently issued new procedures and guidelines on the accounting and reporting of transactions when implementing partners distribute cash rather than food to beneficiaries (WFP. 2008. "Accounting Procedures on the Use of Cash Transfers to Beneficiaries in WFP Operations". Finance Procedures No.FP2008/005. Rome). See also footnote 12.



## Overarching Approach

31. This is the first WFP policy document to explicitly regulate the use of vouchers and cash transfers. But a number of other policies have, over the years, gradually laid the foundations for a corporate policy on the matter: a long process of internal policy incubation has generated the approach laid out in this document.
32. WFP's policy papers on enabling development (1999), gender (2002), urban food insecurity (2002), livelihoods in emergencies (2003), strengthening emergency needs assessments (2004), safety nets (2004), transition from relief to development (2004), economic analysis (2006), food procurement (2006) and disaster preparedness and mitigation (2007) all contributed to shaping WFP's approach to vouchers and cash transfers as laid out in this document.
33. WFP's proposed policy on vouchers and cash transfers is context-specific and evidence-based. Often, the appropriateness of a particular transfer (that is, whether to use vouchers, cash transfers, food transfers or combinations thereof) cannot be predetermined and should consider a number of factors, including programme objectives, market functioning, implementation capacities, cost efficiency and beneficiary preferences.<sup>21</sup> Such factors should be continuously assessed, monitored and evaluated in order to institutionalize lessons learned and translate them into future programming improvements.
34. *Programme objectives.* Beneficiaries are often in the best position to know what their most urgent and important needs are.<sup>22</sup> Allowing them to make their own choices empowers beneficiaries and is an important comparative advantage of cash transfers, and to some extent of a value-based vouchers programme. However, the effectiveness of a given intervention should be evaluated against the objectives it pursues. There are a variety of legitimate needs that households could meet with cash (including purchase of agricultural inputs, repayment of loans and restocking of livestock) that could, however, jeopardize specific nutrition-related objectives.<sup>23</sup>
35. *Markets.* In an increasingly globalized world, food-insecure people often lack financial resources to purchase commodities that are readily available and supplied by the commercial sector, and sometimes also by governments. In general, markets are driven by commercial considerations that do not necessarily match humanitarian needs, responding instead to demand and profit incentives. In such contexts, vouchers and cash transfers provide beneficiaries with the purchasing power to access food commodities, and hence let them participate as consumers and express their choices in existing markets.<sup>24</sup>
36. Conversely, in situations of poorly functioning markets, vouchers and cash transfers may not be the appropriate instruments for providing access to food, due to structural constraints or temporary disruptions in the food supply system. In such situations, vouchers and cash transfers would likely have beneficiaries bear the risk of supply failures and may generate or exacerbate inflationary effects. Therefore, the provision of food transfers

<sup>21</sup> Gentilini, U. 2007. "Cash and Food Transfers: A Primer". WFP Occasional Paper No.18, Rome.

<sup>22</sup> Yet, sometimes women beneficiaries may not be aware of weaning practices or correct dietary diversity during pregnancy and nursing. This calls for linking the provision of transfers with training designed to increase knowledge and awareness on such issues as part of integrated nutritional programmes.

<sup>23</sup> Rogers, B. and Coates, J. 2002. "Food-Based Safety Nets and Related Programs". Food Policy and Applied Nutrition Discussion Paper No. 12. Medford, MA, Tufts University.

<sup>24</sup> However, the concept of "functioning" markets should also be treated with caution. Sometimes, even in contexts of available food and markets that work well, traders may deliberately enact speculative practices to increase profits (e.g. through strategic storage or delay in food delivery). In the case of vouchers, the establishment of contractual agreements with beneficiaries' counterparts (retailers) can limit such practices.



would be a more appropriate response in contexts of poorly functioning markets.<sup>25</sup> Understanding the capacity, potential and limitations of markets is of utmost importance for selection of the appropriate response.<sup>26</sup>

37. *Implementation capacity.* 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 marginalized contexts.
38. *Cost efficiency.* The implementation of vouchers and cash is generally more cost-efficient than food transfers 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 transfer programmes, as shown for example by recent emergency projects in Malawi and Zambia.<sup>27</sup> Care needs to be taken when making cost comparisons to ensure that all costs, including those associated with set-up, monitoring and administration, are taken into account.
39. *Beneficiary preference.* The use of participatory approaches is a crucial feature of WFP's programming, and is essential to ensuring the empowerment and involvement of communities for the design, implementation and monitoring of programmes. While it is difficult to generalize people's preferences for certain transfers, some general patterns can be discerned. The preference for cash, vouchers or food transfers tends to vary by location, season and/or gender. Households living far from markets tend to prefer food transfers, while those living close to markets prefer vouchers and cash transfers. There are indications that people prefer food transfers during the lean season due to higher food prices, while cash is often preferred around the harvest period. Gender also matters, as women often tend to prefer vouchers and food transfers, which they are more likely to control, while men often prefer cash transfers.<sup>28</sup>
40. *Gender.* Indeed, gender considerations need to be carefully considered in vouchers and cash transfer programming. Those transfers could be important tools to empower women and contribute to gender mainstreaming, in line with the Enhanced Commitments to Women. Lessons from experience in several countries show that empowering women is critical for improving household food and nutrition security, and that the impact of vouchers and cash transfers could be enhanced by considering gender issues in programme design.<sup>29</sup>

<sup>25</sup> It should not be assumed, however, that food transfers are always supplied regularly and effectively; pipeline breaks sometimes hinder the timely supply of food transfers to beneficiaries.

<sup>26</sup> See, for example, WFP. 2007. "Malawi Assessment of Appropriateness and Feasibility of Cash Response Options". Rome.

<sup>27</sup> Harvey, P. and Savage, K. 2006. "No Small Change. Oxfam GB Malawi and Zambia Emergency Cash-Transfer Programme: A Synthesis of Key Learning". London, ODI.

<sup>28</sup> Devereux, S. 2006. "Cash Transfers and Social Protection". Paper presented at the Southern Africa Poverty Review Network (SAPRN) Regional Workshop on Cash Transfer Activities in Southern Africa, 9-10 October 2006, Johannesburg.

<sup>29</sup> Slater, R. and Mphale, M. 2008. "Cash Transfers, Gender and Generational Relations: Evidence from a Pilot Project in Lesotho". Overseas Development Institute. London; Schady, N. and Rosero, J. 2007. "Are Cash Transfers Made to Women Spent Like Other Sources of Income?" World Bank, Policy Research Working Paper No. 4282. Washington DC.



41. Based on all these factors, Table 2 presents a summary of pros and cons of commodity-based vouchers, value-based vouchers and cash transfers.

<b>TABLE 2: PROS AND CONS OF VOUCHERS AND CASH TRANSFERS</b>		
<b>Instrument</b>	<b>Pros</b>	<b>Cons</b>
Vouchers (commodity-based)	<p>Designed for food security and nutrition-related objectives</p> <p>Shield beneficiaries from inflation</p> <p>Expand local food markets (including through contractual agreements with suppliers)</p> <p>Allow verifiable information on household expenditures (data from retailer, presence of serial number on coupons)</p>	<p>Require working markets and financial capacities</p> <p>Expose beneficiaries to risk of supply failures (availability of food on the market is a prerequisite)</p> <p>Involve process for supplier selection</p> <p>Provide limited choice for beneficiaries</p>
Vouchers (value-based)	<p>Designed for food security and nutrition-related objectives</p> <p>Provide choice to beneficiaries (although restricted to goods in selected shops)</p> <p>Expand local food markets (including through contractual agreements with suppliers)</p> <p>Allow verifiable information on household expenditures (data from retailer, presence of serial number on coupons)</p>	<p>Require working markets and financial capacities</p> <p>Expose beneficiaries to risk of supply failures (availability of food on the market is a prerequisite)</p> <p>Involve process for supplier selection</p> <p>Are eroded by inflation</p>
Cash transfers	<p>Provide full choice to beneficiaries (on where, what and when to buy)</p> <p>Expand local food markets (but no contractual agreement with suppliers)</p> <p>Do not involve a process for supplier selection</p> <p>Are highly cost-efficient in delivery and distribution</p>	<p>Require working markets and financial capacities</p> <p>Expose beneficiaries to risk of supply failures (availability of food on the market is a prerequisite)</p> <p>Compromise food security and nutrition-related objectives</p> <p>Provide less-verifiable information on household expenditures (no coupons and contractual involvement of retailers)</p> <p>Are eroded by inflation</p>

### Linkages with Strategic Objectives

42. The use of vouchers and cash transfers is fully in line with WFP's strategic principles, especially fostering evidence-based innovations and promoting demand-driven approaches.<sup>30</sup> In principle, vouchers and cash transfers could be used in the context of all five Strategic Objectives, although their relevance across objectives vary considerably.

⇒ *Strategic Objective 1: Save lives and protect livelihoods in emergencies*

43. Ensuring that beneficiaries have immediate access to food is the most critical challenge in times of crises. Emergency needs assessments should inform the most appropriate way to meet that challenge.
44. Natural disasters tend to hit the poorest and most vulnerable countries more frequently and severely. In such cases, markets are often too weak, volatile and disrupted to supply

<sup>30</sup> See "WFP Strategic Plan (2008–2011)" (WFP/EB.A/2008/5-A/1/Rev.1)



commodities regularly, affordably and safely, in the immediate aftermath of the shock. In such circumstances, the provision of general and targeted food commodities tends to be the most effective instrument to save lives. Food transfer programmes can be scaled up quickly even in low-capacity and insecure contexts, reaching people at risk of death and starvation even in contexts of poorly functioning markets.

45. The use of vouchers and cash transfers could be considered in contexts where markets and implementation capacities have not been affected by natural disasters,<sup>31</sup> or in later stages of an emergency, if and when markets have recovered and implementation capacities are in place, and in conjunction with food transfer programmes whenever possible. Needs, markets and capacities should be continuously monitored and assessed to inform the combination of transfers, or a switch from one form to another.
46. In the case of complex emergencies, such as in Darfur or Somalia, security risks for both beneficiaries and staff pose significant limits to the use of vouchers and cash transfers, especially when implemented on a large scale. In such environments, the use of vouchers and cash should be considered only once appropriate markets and implementation conditions are ensured and security is re-established.<sup>32</sup>

⇒ *Strategic Objective 2: Prevent acute hunger and invest in disaster preparedness and mitigation measures*

47. In certain contexts, disasters are to some extent recurrent and predictable, offering the opportunity to link responses to one disaster with measures to prevent the occurrence and mitigate the impact of the next one. That window of opportunity has provided for the surge of a new generation of social protection strategies in developing countries, which include both risk insurance instruments and transfers in the form of food, cash and vouchers.
48. Social protection strategies are designed to reduce levels of risks and vulnerabilities, encourage the preservation of assets and build pathways out of poverty by providing more predictable and multi-year support to people in need, as opposed to short-term relief.<sup>33</sup> Such support includes the longer-term takeover of programmes by national capacities and hand-over of processes to governments.<sup>34</sup>
49. Most of the social protection programmes in higher-capacity countries<sup>35</sup> are largely voucher and cash-based. Those instruments can be used to reduce households' exposure to risks and support them to better manage risks, including those of climate change, through

<sup>31</sup> The response to the Indian Ocean tsunami provided valuable experience in working with cash transfers assistance because the disaster itself "... did not destroy nearby markets and production infrastructure" (Maxwell, D. 2007. *Global Factors Shaping the Future of Food Aid: the Implications for WFP. Disasters*, 31(S1): 25–39, p. 31). However, the very unique nature of such an emergency calls for caution in generalizing those lessons to all emergencies, as they usually deeply affect markets and infrastructures.

<sup>32</sup> The French NGO *Action Contre la Faim* (ACF) piloted small-scale voucher programmes in Darfur in 2007/08. Those programmes were conceived as complements to WFP food transfers and covered milling costs incurred by beneficiaries (ACF. 2007. "Impact Analysis of the Vouchers for Milling Programme in South and North Darfur". Paris). WFP is exploring the appropriateness and feasibility of using milling vouchers in Darfur where adequate security, food markets and implementation capacities can be ensured.

<sup>33</sup> Countries include, for example, Ethiopia, Kenya, Malawi and Zambia. See also Devereux, S. and Sabates-Wheeler, R., eds. 2007. *Debating Social Protection. Institute of Development Studies (IDS) Bulletin*, 38(3): 1–7.

<sup>34</sup> The effectiveness of social protection strategies, however, depends on national capacities, flexibility in addressing emergencies and linkages with other food security programmes.

<sup>35</sup> National capacities are here generally defined as the institutional, financial and technical ability of a country to adequately provide assistance to people in need.



such strategies as asset creation and livelihood diversification. Vouchers and cash transfers can also be integrated into insurance schemes, including those that address weather-based risk.<sup>36</sup>

⇒ *Strategic Objective 3: Restore and rebuild lives and livelihoods in post-conflict, post-disaster or transition situations*

50. Not all emergencies are predictable, nor are all emergencies likely to be followed by another one. In general, assistance in post-emergency and transition situations is targeted, innovative and aims to support development. Appropriate use of vouchers and cash transfers in recovery and transition contexts can help reactivate socio-economic relationships at the local level, enable people to invest in livelihood opportunities and support the resumed functioning of markets.
51. In post-conflict situations, fragile security and instability limit the scope of using cash transfers. Targeted vouchers could be used in contexts where services have been reactivated, such as in urban areas. The use of vouchers and cash transfers can also be considered to favour the re-establishment of refugees' livelihoods, as long as conditions in the areas of return or relocation allow for proper implementation.
52. Recovery situations offer the opportunity to tailor programmes more directly to the causes of food insecurity. For example, many small farmers in eastern and southern Africa depend on degraded lands in marginalized environments. WFP's experience shows that technical partnerships are a key ingredient for improving farmers' livelihoods through high-quality natural resource management programmes.<sup>37</sup> Such initiatives could be further supported with the use of vouchers and cash transfers as a component of asset-creation programmes, as long as food markets and capacities are in place.<sup>38</sup>

⇒ *Strategic Objective 4: Reduce chronic hunger and undernutrition*

53. Experiences from higher-capacity contexts show that cash transfers linked to the attendance of health centres and schools (conditional cash transfers) have helped reduce long-term undernutrition and improve various indicators of human development.<sup>39</sup> Evaluations, however, show that the implementation of conditional cash transfers requires high administrative capacities, which for the moment has limited their implementation in lower-capacity countries.<sup>40</sup> In the latter contexts, cash transfers have often been provided unconditionally, that is, in isolation from the provision of other services. In other words, in some low-capacity contexts cash has been simply handed out to needy people.
54. Evidence from the use by households of unconditional cash transfers shows an increase in expenditures for food and in some cases a diversification in diets, although impact on long-term nutrition is very limited. Vouchers and food transfer programmes have been shown to be more effective than unconditional cash transfers in pursuing specific

<sup>36</sup> This could include pay-outs in the form of vouchers or cash transfers from risk insurance schemes.

<sup>37</sup> WFP. 2003. "Evaluation of Managing Environmental Resources to Enable Transitions to More Sustainable Livelihoods (MERET)". Addis Ababa.

<sup>38</sup> For instance, WFP's guidelines for public and community works recommend the use of cash wages in combination with food wages whenever possible and appropriate (*WFP Programme Guidance Manual*, 2002, revised 2004).

<sup>39</sup> Sridhar, D. and Duffield, A. 2006. "A Review of the Impact of Cash Transfer Programmes on Child Nutritional Status and Some Implications for Save the Children UK". London, Save the Children UK.

<sup>40</sup> Schubert, B. and Slater, R. 2006. Social Cash Transfers in Low-Income African Countries: Conditional or Unconditional? *Development Policy Review*, 24(5): 571–578.



nutritional objectives.<sup>41</sup> One possible reason for such findings is the greater control that women generally have over food and vouchers as opposed to cash resources, leading to higher nutritional effects at the household level; and cash may have been used for meeting needs that are not related to nutrition. Moreover, food transfer programmes provide high-quality and fortified foods, which may not be readily available through markets.

55. These considerations suggest that the provision of unconditional cash transfers in low-capacity contexts should be considered a less effective nutritional intervention than food transfer and vouchers. Part of the reason relates to the inherent justification for providing cash (i.e. providing choice – hence, expectations that it be used solely for nutrition may not be fully justified), while another part are more substantive, as argued in this document’s section on “Overarching Approach”.
56. As part of school feeding programmes, take-home rations are often provided as an incentive for households to send children to school. Such rations directly support the household, as opposed to on-site feeding programmes, which reach children directly. The use of vouchers and cash transfers could be considered as tools to provide incentives to food-insecure households to increase children school attendance, should markets and capacities be in place for appropriate implementation.<sup>42</sup>

⇒ *Strategic Objective 5: Strengthen the capacities of countries to reduce hunger, including through hand-over strategies and local purchase*

57. National capacities to address hunger and vulnerability represent a major factor in shaping WFP’s overall approach and toolbox composition in a given context and at a given time. As national capacities increase, markets and food systems usually also perform better, and the balance between assistance in food and in cash could shift towards the latter.<sup>43</sup> The purchasing power created by vouchers and cash might also support the sustainable development of markets, enhance access of farmers to them and increase income-generating possibilities for low-income farmers and the local economy. Indeed, activities related to vouchers and cash transfers (such as market analysis) could be used to strengthen countries’ capacities and foster linkages with WFP programmes such as local procurement of food.
58. This suggests that hand-over to governments of WFP programmes in those contexts could be favoured by the use of vouchers and cash transfers, especially as part of national social protection systems. However, the stage of development of those systems varies considerably from one context to another, offering opportunities for WFP to support governments in contexts where capacities are lower. When national capacities grow, more and different types of partnerships are available and the need for operational assistance decreases, offering opportunities to tailor WFP’s toolbox differently (for example through more technical support and policy advice as opposed to operational implementation).

<sup>41</sup> Barrett, C. 2002. “Food Security and Food Assistance Programs”. In B. Gardner and G. Rausser, eds. *Handbook of Agricultural Economics*. Amsterdam, Elsevier.

<sup>42</sup> Adato, M. and Bassett, L. 2007. “What is the Potential of Cash Transfers to Strengthen Families Affected by HIV and AIDS? A Review of the Evidence on Impacts and Key Policy Debates”. Washington DC, IFPRI (p. 124).

<sup>43</sup> WFP. 2004. “WFP and Food-Based Safety Nets: Concepts, Experiences and Future Programming Opportunities” (WFP/EB.3/2004/4-A).



## IMPLICATIONS

59. A wider use of vouchers and cash transfers has implications in terms of programme design, capacities and partnerships. Here we identify key issues to *gradually* engage more widely in voucher and cash transfer programming.

### Programming

60. *Develop guidance materials on vouchers and cash transfers.* Operational guidance materials are required to implement programmes effectively and efficiently. While some of the existing guidance could be adapted for voucher and cash transfer programming, specific manuals are required for their design, implementation and evaluation.<sup>44</sup>
61. *Linking assessments, programming and evaluation of vouchers and cash transfers.* Programming mechanisms should also be identified for ensuring that key findings on transfer appropriateness from both WFP ex-ante assessments and ex-post evaluations are translated into programme design improvements as appropriate. In this regard, initiatives are underway to strengthen WFP's capacity to better link assessments and programme responses.<sup>45</sup>
62. *Identify the appropriate context-specific transfer combination.* In some cases, combinations of vouchers, cash and food transfers are an appropriate intervention. Guidance is required on designing the optimal context-specific mix of transfers.
63. *Develop and update guidance on related topics.* The use of vouchers and cash transfers in some areas implies the update or development of guidance materials on related issues, including for example guidance on engagement in social protection strategies, programming in urban areas and public and community works.

### Capacities

64. *Strengthen needs assessments in transition and development contexts.* The use of the most appropriate transfer, or combinations of transfers, should be based on sound needs assessments. WFP's significant efforts to increase its capacity to undertake needs assessments have been widely acknowledged. The use of vouchers and cash transfers is likely to be particularly relevant in transition and development contexts, and WFP assessments should analyse the feasibility and appropriateness of vouchers and cash in those situations. Needs assessments are nearly always conducted jointly with partners, including governments, NGOs and other United Nations agencies. Their experience and capacities are important inputs into the recommendations on response options.
65. *Strengthen market analysis capacities and the linkages with information systems on food procurement and contingency plans.* Understanding and assessing markets is of utmost importance for effective vouchers, cash and food transfer programming. The use of vouchers and cash transfers will require strengthening market analysis capacities to inform: i) the appropriateness and feasibility of such transfers; ii) the establishment of monitoring

<sup>44</sup> Based on implementation experience, WFP has already produced operational guidance and procedures on the delivery of cash transfers to beneficiaries. This guidance addresses budgeting, partner selection, delivery procedures and reporting formats. Similar guidance for voucher programmes is currently under development (see WFP's "Guidance Note on the Delivery of Cash Transfers in Pilot Projects" (2008)).

<sup>45</sup> WFP. 2008. "Strengthening Decision-Making in Relief and Recovery: Improved Response Analysis Capacity". OMXF, Rome.



and evaluation systems able to inform the appropriate response;<sup>46</sup> and iii) the design of contingency plans. Linkages should be ensured with market information used for food procurement from local farmers, especially for the design of voucher programmes.<sup>47</sup>

66. *Financial management.* Initial guidance has been developed on budget formulation, resource allocation and cost configuration in pilot projects. If vouchers and cash transfers become part of WFP's standard toolbox, financial procedures need to be developed in order to ensure full transparency, accountability, and security of transactions.
67. *Assessment of partner institutions.* WFP should enhance its ability to assess the capacity of financial institutions that will potentially participate in cash transfer programmes, directly or through NGOs. Likewise, the capacity of retailers for voucher programmes should be assessed and final selection made through transparent tender procedures.
68. *Expertise, trainings and secondments.* WFP should include among its standard job profiles experts with technical background in programming of vouchers and cash transfers. Moreover, economists and finance experts could conceivably make significant contributions at all stages of voucher and cash transfer programming. In the meantime, WFP staff would benefit from technical training and exchange of staff with relevant experience from governments (such as Brazil, Indonesia and Mexico), donors, international financial institutions (such as the World Bank), research institutes (such as the International Food Policy Research Institute and the United States Department of Agriculture's Economic Research Service), NGOs and the private sector.<sup>48</sup>

## Partnerships

69. The implementation of vouchers and cash transfers through partnerships is a key ingredient for effective and efficient programming. As mentioned in previous sections, international experience in larger-scale programming is still limited, hence requiring careful assessments of capacities and possible risks. Integration with governments' vouchers and cash transfer systems should be done whenever possible and appropriate, often as part of national social protection and safety-net schemes.
70. *Governments.* Vouchers and cash transfers should be conceived and implemented in line with national priorities, strategies and policy processes. Governments are key partners in voucher and cash transfer programming, and should guide and be involved in the design, implementation and evaluation of programmes as appropriate. Given that most such programmes are run by governments, WFP could support and supplement those efforts to foster national ownership, build long-term constituencies for social protection, and facilitate hand-over strategies.

<sup>46</sup> Appropriate decision-making could be informed by, for example, price analysis. WFP regularly collects data on food prices at the sub-national level in several countries. In Afghanistan, WFP has gathered data on food prices on a monthly basis in major markets such as Kabul, Kandahar, Jalalabad, Herat, Mazar and Faizabad since 2000. In Malawi, WFP is designing a new combined cash and food transfer pilot that identifies price thresholds above which it becomes more cost-effective to deliver food rather than cash.

<sup>47</sup> Vouchers tend to be used at the "lower end" (or micro level) of the food supply chain, that is, at the retail level. Food procurement, on the other hand, involves mostly contracts with wholesalers and producers at the "upper end" (or macro/meso level).

<sup>48</sup> Some WFP staff members have attended capacity-building initiatives, including the World Bank core course on the design and implementation of effective safety nets; the training on designing and implementing social transfer programmes offered by the Economic Policy Research Institute; and Save the Children's training module on programming cash transfers.



71. *Donors.* In addition to their vital role in funding voucher and cash transfer programmes, donors could contribute to capacity-building initiatives and documenting best practices and lessons learned in voucher and cash transfer design, implementation and evaluation.
72. *United Nations system.* Partnerships with other United Nations agencies would include, for example, new collaborations with: the United Nations Children's Fund (UNICEF), which is exploring the use of unconditional cash transfers for the elderly, orphans and other vulnerable groups; the International Fund for Agricultural Development (IFAD), for linking WFP programming with microcredit projects; and the Food and Agriculture Organization of the United Nations (FAO), for fostering an integrated approach to small-farm development. New partnerships could be explored with the Office of the United Nations High Commissioner for Refugees (UNHCR), for the provision of vouchers and cash transfers to refugees.
73. *World Bank.* The use of vouchers and cash transfers could broaden the range of opportunities to work more with the World Bank. Potential areas of collaboration emerge, for example, in the context of education, social protection, market analysis, support for small farmers, vouchers in urban areas and conditional cash transfers.
74. *NGOs.* WFP's main partners would be NGOs with appropriate capacity to implement vouchers and cash transfers. In the case of cash transfer programmes, cash would be delivered to beneficiaries by NGOs through appropriate financial institutions and in line with WFP operational guidelines.
75. *Private sector.* New forms of partnership with financial institutions would be required for allowing retailers to redeem vouchers and deliver and distribute cash transfers to beneficiaries. In the case of vouchers, new partnerships with retailers would be necessary.

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## ACRONYMS USED IN THE DOCUMENT

ACF	<i>Action Contre la Faim</i>
DFID	Department for International Development (UK)
FAO	Food and Agriculture Organization of the United Nations
IDS	Institute of Development Studies
IFAD	International Fund for Agricultural Development
IFPRI	International Food Policy Research Institute
MERET	Managing Environmental Resources to Enable Transitions to More Sustainable Livelihoods
NGO	non-governmental organization
ODI	Overseas Development Institute
OMXF	Food Security Analysis Service
PSNP	Productive Safety-Net Programme
RHVP	Regional Hunger and Vulnerability Programme
SAPRN	Southern Africa Poverty Review Network
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund