



Tajikistan

Assessment of feasibility of cash/voucher options

Conducted in October 2008



Assessment of feasibility of cash/voucher/voucher options in Tajikistan

Table of contents

1.0 Executive Summary	3
2.0 Background.....	3
2.1 Context.....	4
2.2 Key Areas for Cash/ Voucher Programming.....	4
2.3 Conclusion Banking Sector	5
2.4 Tax issue	6
2.6 Market ability to respond to increased purchasing power	6
2.7 Market Conclusion.....	6
3.0 Comparison between cost of delivering food rations and cash/voucher equivalent	7
3.1 Comparison conclusions	8
4.0 Anticipated programmes areas.....	8
4.1 Programme conclusions.....	9
4.2 Next steps.....	9
Annexe 1 - People Met	10

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1.0 Executive Summary

The findings of the Tajikistan feasibility study clearly indicate that **possibilities for cash/voucher/voucher¹ programming do exist** as the main prerequisites such as financial institutions for delivery, functioning markets and reasonable donor interest for moving in that direction are in place.

There is, however, **limited experience in-country** on how to run cash/voucher/voucher programmes both internally in WFP and among the NGOs and some investment would be needed in order to ensure that necessary capacity is built before full scale implementation.

There is a significant **difference in price per beneficiary** between cash/voucher/voucher and food based programmes. With the current price levels and delivery costs, it will cost WFP US\$ 1.75 more per beneficiary per month to deliver a cash/voucher equivalent². With a price difference in favour of continuing food distributions the added value of cash/voucher programmes needs to be highlighted and it is therefore, recommended that cash/vouchers are only used in programmes with clear livelihood objectives as studies have shown that cash/vouchers are a more cost effective way of achieving these objectives compared with food based livelihood programmes.

Furthermore, one way of reducing the cost of the cash/voucher transfer programmes would be to have focus group discussions to decide the feasible amount of transfer. The assumption being that due to the higher flexibility of cash/voucher compared with food aid, beneficiaries would opt for a lesser value in cash/voucher than with food.

Finally, as indicated in several places in the report, the political **implementation environment can be considered challenging** and it will require that technical expertise is made available when tendering for banking services in order to ensure that safeguards are established from the onset of the planning process.

2.0 Background

Based on recent assessment reports (rural and urban food security assessments, regional market study, TLSS, etc.) WFP Tajikistan decided that there was a need for further analysis of this information with a focus on finding out if cash/vouchers and voucher programming would be a feasible option as part of the WFP response strategy in the country.

Terms of reference for the feasibility study were drafted and are attached for further reference.

¹ Cash/voucher is used throughout the report bearing in mind that emphasis has been given to cash based programmes due to the context where people are used to handle cash. Vouchers could be used instead of cash but it would only add to the cost of the programme and therefore not considered in depth in report.

² By cash equivalent it is understood that the beneficiary will be given cash which will enable him/her to purchase the WFP food ration at the local market

2.1 Context

Based on existing secondary data and information collected during interviews with the various stakeholders, it is evident that there is very limited in-country experience with cash/voucher programming. Only three NGOs (Save the Children/Mercy Corp/Care) have implemented cash/voucher programmes and they were of very limited scale and duration. However, some lessons can be learned with regards to organisation of transfers and information campaigns to be put in place prior and during implementation.

In spite of the very little experience with cash/voucher programming among both the humanitarian and development partners, several of the **donor representatives questioned the relevance of food aid** and expressed a higher preference for cash/voucher programmes. It did seem, however, that they were more political statements against food aid in general than based on the country specific context.

Another issue, which is very relevant when studying possibilities for introducing cash/voucher programming, is besides WFP's own limited internal capacities the number of partners with the necessary capacity. The number of NGOs with experience in cash/voucher programming is very limited as mentioned above and when taking into account **that WFP is not yet in a position to implement on its own this would be a limiting factor when trying to design these new programmes.**

It should also be noted that Tajikistan is considered to have a **challenging political implementation environment** with high levels of reported corruption at all levels of government. Any society where corruption is widespread is an operational challenge for aid agencies and special measures will have to be taken to safeguard assets. This becomes even more important with cash/voucher programming and some additional safeguards will have to be put in place when compared with food based programmes as cash/vouchers often attract more attention and are far more fungible.

Some of the donor representatives interviewed had a critical attitude towards food aid whereas this was not repeated by any of the interviewed authorities at the district level where there seemed to be a **high acceptance of the role of food aid at Rayon/Jamoat level.** Furthermore, the principles behind food aid are well understood and political interference is kept to a minimum which was not necessarily the case for the three cash/voucher pilots for which NGOs had to spend considerable time explaining the modalities of their proposed interventions

2.2 Key Areas for Cash/ Voucher Programming

The key areas that need to be investigated before being able to take a qualified decision whether to introduce cash/voucher as an input modality in a given project are:

- Financial delivery structures e.g. banking Structure
- Tax Issues
- Market ability to respond to increased purchasing power

There are three major banks operating in Tajikistan with a network big enough to cover major distribution areas (Tojiksodirotbank, Amonatbank and Agro Invest Bank).

All banks apply a **similar fee structure ranging from 1 to 1.5 % of volume** and all also confirmed that only one banking day is needed from deposit to availability.

Lastly, all banks met indicated that banking fees could be negotiated but it would be unrealistic to expect that the fee will be less than one percent as this is what Ministry of Social Welfare is paying for transfer of pensions.

Normally, it cannot be expected that potential WFP beneficiaries have bank accounts so at the inception of a cash/voucher programme it would be recommendable to have **banking arrangements that would not require opening of bank accounts.**

Experience from Mercy Corp indicates that even though the rules for opening bank accounts are fairly simple and straightforward (opening form, tax letter and copy of passport) it can easily take up to four weeks before an account is opened and this was when dedicated staff were working fulltime with relative small beneficiary groups. The banks interviewed did indicate that they would be willing to assist in opening of bank accounts quickly and if planned well in advance the problems experienced by Mercy Corp might be avoided.

It seems that the most replicable model, if it is decided to use the existing banking infrastructure, could be based on the **Tajik pension system based on pension books** and money transferred through Amonatbank to branches. When the pension book and identification are presented in the bank, pension will be paid out.

It could then be decided that over time, beneficiaries should be assisted to open bank accounts as it would have some positive effects on citizenship building as opening a bank account requires a valid passport and a letter from the tax authorities which would help getting people registered with the local authorities and over time ease the access of the beneficiaries to other social services.

Alternative direct cash/voucher distributions can be arranged

Save the Children has implemented direct cash/voucher transfers in one district where a SCF representative together with a Jamoat representative distributed directly to the beneficiaries however, again to a relatively small number and only one distribution.

Different assessment of the efficiency of the banks

Various stakeholders expressed concerns about the capacity of the banks to deliver the services; however, all agreed that it would be possible to negotiate a workable agreement.

2.3 Conclusion Banking Sector

Based on the potentially higher numbers of beneficiaries in WFP Tajikistan programmes compared with the NGO programmes it is recommended that **WFP would tender for banking services** among the banks and through the tender documents stipulate that this is an humanitarian operation and that a system that would not require opening of bank accounts would initially be needed. Furthermore, **fairly specific reporting requirements will have to be part of the tender package** in order to mitigate or address the concerns expressed by the various partners/stakeholders.

The standard fee for bank transfers in Tajikistan is 1.5 % of the transferred value however, seemed possible to make an agreement of a transfer **fee of 1% of volume** as paid by the Ministry of Social Protection to Amonatbank for pension payments

2.4 Tax issue

During discussions with the NGOs a tax issue was brought to my attention with regards to implementation of cash/vouchers for work activities by NGOs.

All NGOs have been informed that distribution of cash/vouchers in connection with cash/vouchers for work activities are tax liable and the only loophole in the system is that cash/vouchers are given out on an exceptional basis using a clause in the tax laws which stipulates that people can receive a humanitarian gift without becoming tax liable. Furthermore, it is important to stress that the humanitarian gift is not related to any other activities carried out.

This tax regime would be very difficult for WFP to deal with as programmes would be of a longer duration and a one time cash/vouchers distribution to cover for example six months of food consumption would probably be considered problematic at best.

A meeting with the national tax authorities was organised to discuss this issue further and also to see if it would be possible to obtain an exemption should it be decided to introduce cash/vouchers as a part of the WFP response.

During the meeting with the national tax authorities it was confirmed verbally that WFP Beneficiaries would not be tax liable for any contribution received from WFP **as the National Tax Authorities seems to consider cash/voucher distributions from UN agencies differently hence tax exempted** which is not the case for the NGOs.

2.5 Conclusion Tax Issue:

The representative met is known to WFP Tajikistan and has on previous occasions been able to assist WFP on tax issues so therefore, it is believed that WFP would not be tax liable in case food transfers were to be shifted to cash/voucher transfers. However, as noted above this is a challenging political environment to operate in and therefore, it is recommended that a written confirmation of the tax exemption is obtained from the tax authorities as soon as possible before possible changes of national authorities staff.

2.6 Market ability to respond to increased purchasing power

WFP market surveys have established that markets would be in a position to respond should the purchasing power increase (Regional Market survey and urban and rural food security assessment reports). **Market mobilisation time will, however, vary from district to district** and should be taken into consideration before full implementation. One suggestion to mitigate the different mobilisation times would be to conduct market mobilisation campaigns well in advance in the more remote districts/locations in order to avoid market disruptions.

The best indicator for the sustainability of the market is the fact that 40% of GDP is made up by remittances and a large proportion of these are used for consumption. The **market is able to respond without serious difficulties** in spite of the fact that remittances have a tendency to fluctuate over the course of the year.

2.7 Market Conclusion

The food **insecurity situation in Tajikistan is mainly due to access** and availability is being regulated by demand. Markets have demonstrated an ability to respond in a timely manner though as cited in the market surveys with different response times.

Therefore, as mentioned above, according to market surveys and recent food security assessments, traders at all levels have confirmed their capacity to adapt to increase demand and purchasing power among WFP beneficiaries. It should not be an obstacle for introducing cash/vouchers however, implementation should be gradual and information campaigns should be conducted in areas identified as needing longer mobilisation time.

3.0 Comparison between cost of delivering food rations and cash/voucher equivalent

Initial cost calculations indicate that provision of cash/voucher equivalent to WFP food rations is more expensive when maintaining the same overhead costs for cash/voucher distributions minus transport.

WFP Tajikistan is following the prices of basic food commodities in the market very closely and based on collected price data and WFP food import costs, the cost for distributed imported (wheat, pulses, veg oil) or locally purchased (sugar, salt) foods by WFP is approximately 82% of the market prices (depending a little on the commodity type).

For example:

A monthly ration per beneficiary under the emergency programme can be calculated as follows based on the assumption that beneficiaries should be able to buy an equivalent food basket as distributed:

Cash/voucher option: local market equivalent: 37 Somoni or US\$ 10.86 ³
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Food option: Food cost DDU Dushanbe/Khujand: 30 somoni or US\$ 08.90
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In addition to the food cost it is necessary to add overhead of 8 Somoni or US\$ 2.33 per beneficiary based on WFP rules and regulations of full cost recovery for the cash/voucher based option and 9 Somoni for the food based option as ITSH would have to be covered.

Price difference is therefore 6 Somoni (US\$ 1.75) per beneficiary per month should it be decided to supply cash/vouchers instead of food⁴.

It should be noted that this is a fairly simple calculation which should be refined in case a project document were to be produced. There are probably savings to be realised over time when WFP becomes more familiar with these types of interventions and most importantly it may not always be necessary to supply the full value of the equivalent food basket.

Due to the higher flexibility for the cash/voucher receiving families they would be able to purchase commodities which are in season and thereby ensure the same calorie intake at a lesser price. Secondly, it would be fair to assume that in livelihood crises as seen in Tajikistan, beneficiaries might at times be forced to sell some of the food in the market in order to meet other essential expenditures and they will suffer a transaction cost which means that what in WFP terms might have a certain value will for the beneficiaries after having paid the transaction cost have a lesser value. Unfortunately, this has not been documented well enough yet in order for WFP to

³ Based on a 3.42 exchange rate between Somoni and US\$

⁴ For further reference regarding prices please see annex 1

calculate a real value for the beneficiaries against the WFP book value, however, it could be considered to investigate this a bit further through focus group discussions.

Lastly, gender concerns were expressed by several of the people interviewed. Men in the Tajik society traditionally control cash/vouchers and cash/vouchers might not be prioritised for livelihood expenditures.

3.1 Comparison conclusions

If the cost per beneficiary to the donor is a major concern, it is not recommended that cash/voucher interventions be introduced. However, it could be argued that even though a premium will have to be paid by introducing cash/voucher transfers these would be justified by the greater flexibility of the households, positive effects on local markets etc.

From a WFP point of view, it seems that the most important factor when deciding input modality would be the objectives of the intervention and as soon as they are not purely nutritional objectives and provision of food in non-availability situations cash/vouchers should be considered.

It is important that the WFP programmes are integrated with ongoing development programmes and social safety net initiatives especially if the initial higher cost is to be justified.

With regards to the transfer value, it should be noted that due to the higher flexibility for the households when using cash/vouchers these households are enabled to purchase products which are in season and therefore often cheaper than WFP provided commodities. It could therefore be argued that transfers do not have to be 100% of the WFP food value. For examples, in programmes such as take home rations for girls where the overall objective is attendance it is highly likely that a smaller cash/voucher amount would have the same effect. This of course needs to be investigated further through focus group discussions etc.

Lastly, with regards to the gender considerations, it is important that the issue is monitored closely and where possible transfers should be made in the name of the women in the families. Experience from other similar projects around the world also indicates that these issues can be avoided through community campaigns and combined the principle of mainly targeting women as recipients.

4.0 Anticipated programmes areas

Based on the above conclusions it seems that **Cash/voucher programmes would have the highest effect when used in livelihood objective programmes.** In WFP terminology this would be most of our recovery activities under the PPRO and hence not part of the emergency response where the humanitarian imperative dictates that as many lives should be saved as possible and therefore it becomes difficult to justify a premium price.

Another **programme area that would lend itself towards cash/voucher programmes could be those where behavioural change is the overall objective.** Programmes such as take-home rations, TB projects, MCH projects etc. are maybe suitable because as mentioned above it would probably be possible to determine a cash/voucher incentive that would ensure the behavioural change which is not fully equivalent to the current food basket being distributed in these programmes.

4.1 Programme conclusions

Based on the fact that setting up cash/voucher transfers are more expensive than food based programmes and it is also a fairly lengthy process to set-up in an implementation environment with limited experience in cash/voucher transfers, it is recommended that WFP Tajikistan maintain food distributions through the upcoming winter period and then prepare for the introduction of cash/vouchers for the planned recovery activities.

The preparations for a cash/voucher programme should start already now and the following steps are to be taken (please see below) if the country office would like to be in a position to initiate cash/voucher pilots at the end of the winter emergency period in response to recovery activities as anticipated in the PRRO. It should also be noted that these steps can easily take four to six months. In my experience country offices need to be able to present a fairly comprehensive plan to donors before it is possible to secure funding and therefore requires up-front investment if the initiatives are to materialise.

4.2 Next steps

Steps to be taken not in a prioritised order:

- Tendering process for banking facilities
- Obtaining the necessary tax exemption in writing
- Identifying a donor/donors willing to accept implementation of cash/voucher programme instead of food
- Market information campaigns conducted
- Printing and distribution of cash/voucher books and these need to be printed with a technology not available in-country
- Beneficiary Information Campaigns
- Pilot testing in selected areas
- Familiarise WFP staff with rules and regulations in place for cash/voucher programmes and related reporting requirements

Annexe 1 - People Met

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