



EUROPEAN COMMISSION  
DIRECTORATE-GENERAL FOR HUMANITARIAN AID - ECHO

**THE USE OF CASH AND VOUCHERS**  
**IN HUMANITARIAN CRISES**

DG ECHO funding guidelines

24 March 2009

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## PART I - OPERATIONAL SUMMARY

### 1.1. Cash and Voucher Terminology

#### CASH AND VOUCHER TERMINOLOGY

The terms “Cash” and “Voucher” can be used to apply to a wide array of instruments. In the context of this paper the terms are used to refer to a restricted number of tools where the cash or voucher is given to individuals, households or communities, but not to governments or other state actors.

The use of centralized fee waivers (such as for health, education or water services), tax waivers, direct budget support and micro-finance is excluded from further discussion in this paper.

**Cash transfers** *“The provision of money to individuals or households, either as emergency relief intended to meet their basic needs for food and non-food items, or services, or to buy assets essential for the recovery of their livelihoods.”*

If the beneficiaries are required to fulfil a specific obligation or activity (such as attending school, plant seed, establish a livelihood, demobilize, etc.) to receive the transfer, then this is described as a **conditional cash transfer**. Examples include: Cash for Work (CFW) where payment is made for work on public or community works programmes, or repatriation grants to facilitate return of IDPs or refugees to areas of origin.

Grants paid to beneficiaries without the beneficiary having to do anything specific to receive the benefit are described as **unconditional cash transfers**.

Therefore, conditionality refers to what beneficiaries are required to do to receive the transfer, and not to conditions on how they subsequently use the resources.

**Vouchers** Vouchers provide access to pre-defined commodities or services. They can be exchanged in designated shops or in fairs and markets. The vouchers may be denominated either in cash, commodity or service value. These are described respectively as **value-based, commodity-based or service-based vouchers**. Combined vouchers also exist.

Vouchers have been most commonly used to provide access to seeds and livestock.

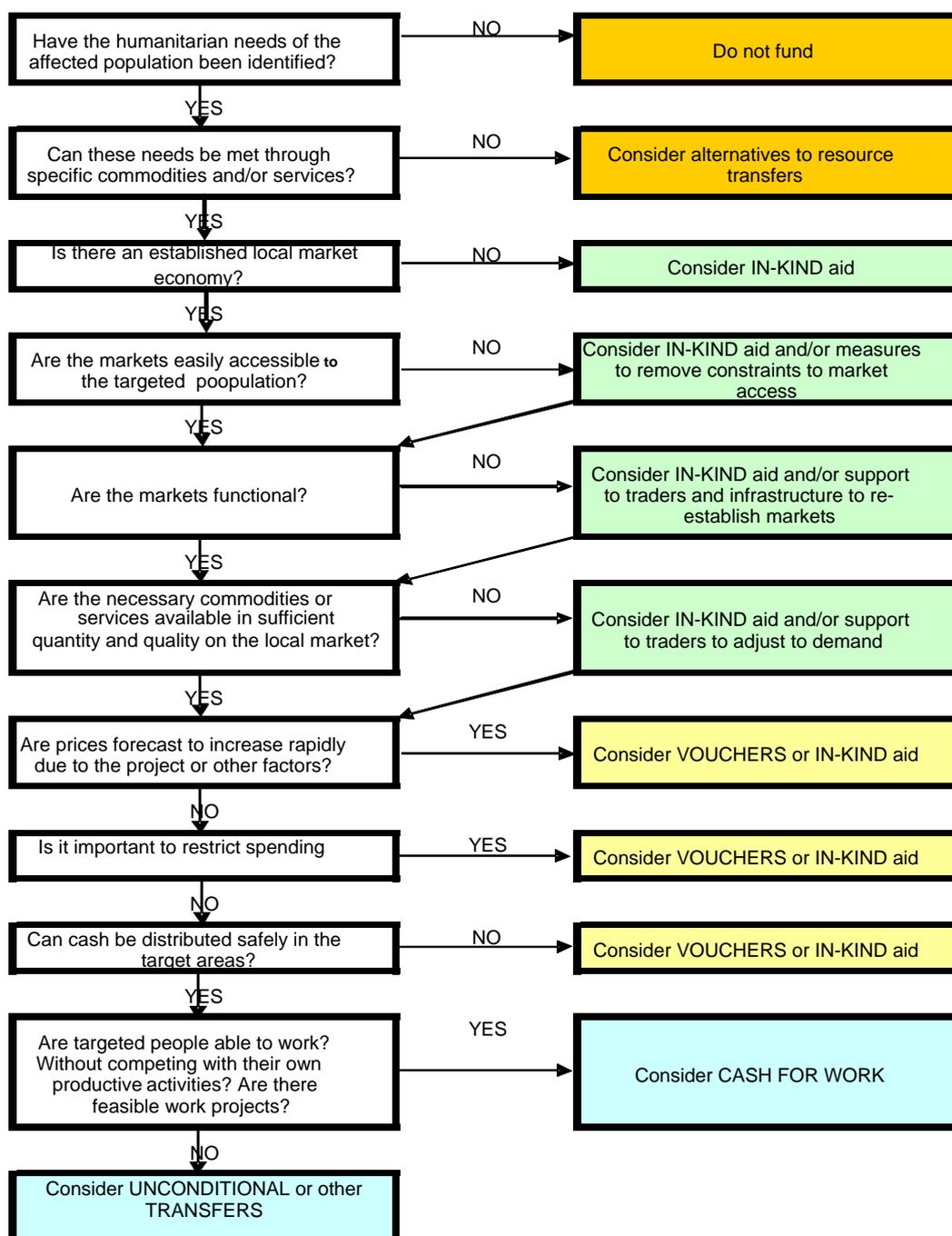
If the vouchers are not tied to a set of pre-defined commodities or services, then they will be treated as cash payments.

“Cash-based” is used in this document to refer to both cash and vouchers transfers.

The FPA uses different terms to describe these categories. “Conditional Cash Transfers” are included under the sub-sector of “Activity Linked Cash”, while “Unconditional Cash Transfers” fall under the sub-sector of “Cash and Vouchers”. The reference document for procedures is the “ Fact Sheet D.3 Cash for Returnees, Income Generation, Cash for Work, Revolving Funds, Unconditional Cash: Limits and Constraints” In this Fact Sheet, unconditional cash transfers are referred to as “cash payments without an associated activity”.

## 1.2. Decision tree for response option analysis

DG ECHO does not advocate the preferential use of either (i) cash-based tools or (ii) the provision of in-kind humanitarian assistance<sup>1</sup>. The objective of the Commission is that all forms of resource transfer for the delivery of humanitarian assistance are systematically analysed and compared. DG ECHO will support partners to respond to the needs of the affected population in the most appropriate way given the context encountered.



<sup>1</sup> See art. 35 of the Consensus for the qualifications of the latter regarding the preference for locally-sourced in-kind assistance

### 1.3. Checklist for cash and vouchers projects

This checklist is meant to assess a project proposal's conformity with the DG ECHO cash and vouchers guidelines. It is intended to be filled in by the expert (TA and /or RMO) and can be used during three phases of the project (ex ante appraisal, during implementation of projects or during ex post evaluation). The questions provided are to guide the analysis which could be concluded in more substance on the last page.

Phase	Check	Yes	No	DNK	Details
Assessment	Have the actual needs of beneficiaries been defined, together with the beneficiaries, including the most vulnerable and taking into account the possible existing institutional social transfers?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	Are the beneficiaries aware of the alternative transfer options and have they been consulted on their preferences?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	Is the problem a failure of effective demand (eg. a lack of purchasing power), rather than a supply-side failure (eg. a problem of availability)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	Does the local market have the capacity to respond to increased demand and deliver the commodities or services required, without excessive inflationary impacts that may disadvantage other people living in the target area?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	Is the present rate of inflation of the local economy and expected trend compatible with the cash modality?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	Are the shops, markets and service providers accessible to recipients?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	Have the traders and service providers been involved in planning the response?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Phase	Check	Yes	No	DNK	Details
	Has the cost-effectiveness of the alternative response options been evaluated?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	Are the security implications, for beneficiaries and agency staff, acceptable?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	Are the risks of corruption manageable?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	Do the necessary capacities and skills exist in the implementing agency to implement the proposed intervention?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Proposal</b>	Does the proposal articulate an objective that is consistent with the humanitarian mandate of DG ECHO and the relevant decision text? Is it coordinated with or complementary to existing more long term actions carried out by other Commission services and relevant donors and organisations with a view to enhance synergies?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	Is there a clear reference to situation analysis, needs assessment and response analysis (in section 2 of the Single Form)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	For NGO proposals for unconditional cash transfers: does the amount requested for unconditional cash transfers exceed Euro 100,000?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	Are the minimum and maximum amounts of financial support that can be paid to a beneficiary, the criteria for determining the exact amount and the specific control, monitoring and reporting procedures detailed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Phase	Check	Yes	No	DNK	Details
	Does the risk analysis propose contingency plans to monitor and mitigate possible inflationary increases (whether or not linked to the project), corruption and security risks?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Implementation</b>	Are the targeting procedures adequate?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	Are field missions to verify the accuracy of the targeting procedures proposed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	Is an efficient and effective distribution mechanism proposed for cash- type transfers?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	Does the Post Distribution Monitoring system deliver the minimum information requirements (Box B)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	Does the monitoring system include indicators of sectoral outputs and/or outcomes?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Evaluation</b>	Is an external evaluation foreseen?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	Will the evaluation contribute to filling identified knowledge gaps concerning cash and voucher projects?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Phase	Check	Yes	No	DNK	Details
<b>MAIN CONCLUSIONS AND OTHER COMMENTS</b>					
Summarize where the project deviates from the guidelines and recommendation					

## **PART II - SUPPORTING DOCUMENT**

### **2.1. Introduction**

An increasing number of humanitarian projects funded by DG ECHO include the distribution of cash and vouchers to final beneficiaries.

An external evaluation of these transfers concluded that these projects have been successful in reaching their objectives.

Cash and vouchers offer greater choice to beneficiaries and help to foster dignity in the receipt of assistance.

However, the use of cash and vouchers remains limited in scale compared to the in-kind delivery of humanitarian assistance, and consumes a relatively modest share of the total humanitarian budget.

Building on this experience, DG ECHO deems it opportune to present these guidelines on the funding of cash and voucher projects to facilitate the further uptake of this modality. In addition, the revision of the Financial Regulation has expanded the scope for using cash and voucher transfers.

This paper summarizes DG ECHO position on the use of cash and vouchers in responding to humanitarian needs. It provides guidance on the funding of projects which include the distribution of cash or vouchers to final beneficiaries.

A trend towards the increasing use of cash transfers and vouchers makes this an opportune time for DG ECHO to formulate this guidance. Among other sources, this paper draws on the findings of a two stage evaluation (looking inwards) and review (looking outwards) of the use of cash and vouchers in humanitarian crises, commissioned by DG ECHO in 2007/08<sup>2</sup>.

This document is *not* intended to provide detailed technical directions on managing cash and voucher projects. Other reference materials are available for this purpose<sup>3</sup>.

### **2.2. Lessons learnt from using cash and vouchers in humanitarian response**

Traditionally in-kind assistance, through the provision of commodities and services, has dominated humanitarian aid. More recently there has been a growing interest in the use of cash or vouchers *as an alternative or complementary means* of increasing access to necessary commodities and services.

Several factors are supporting this trend: 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 the rural areas. Furthermore, the reduced availability of grain on the world market encourages the further consideration of cash-based programming.

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<sup>2</sup> See Lor-Mehdiabadi and Adams, 2008, Volume 1 and 2.

<sup>3</sup> See ICRC/IFRC 2007, OXFAM 2006 and ACF 2007.

Over the last decade there has been a rapid growth in experimentation with the use of cash transfers and vouchers. However, the use of cash and vouchers in humanitarian response remains limited. Most experience remains at the level of pilot projects and there are few examples of their application at larger scales.

Within DG ECHO there has been a steady increase in the number of cash and voucher projects. Over 180 projects have been funded, through 39 partners, since 2000. Evidence of the diversity of projects funded by DG ECHO is given in the boxes below.

Relatively small-scale Cash for Work (CFW) projects have dominated the DG ECHO portfolio. These projects were financed under previous versions of the Financial Regulation. Since the recent recast of the latter, there has been an expanded scope for such an approach. Now is an opportune time to present these guidelines.

A number of important lessons have been learnt with the use of cash and vouchers. The key issues that need to be considered in comparing the relevance of cash, vouchers and in-kind transfers which are in essence quite different instruments are summarized below:

- a) *Cost-effectiveness*: In principle, whether a cash-based (ie. cash transfers and vouchers) or in-kind distribution is more cost-effective will depend on the prices of goods or services in local markets, compared to the price it would cost an aid agency to deliver them. Cash-based programmes are likely to have lower transport and logistics costs, but there may be higher administrative costs.

However, assessing cost effectiveness is rather more complex than this basic calculation. For example, it is necessary to consider factors including the secondary economic effects of cash-based transfers, and the extent to which vouchers or in-kind transfers are monetized by beneficiaries to meet other needs.

- b) *Market impacts*: Any kind of resource transfer may impact on markets and local economies, and in deciding whether to provide cash or in-kind assistance these impacts need to be assessed. For cash-based transfers the main risk could be causing, or contributing to, inflation in the prices of key goods.
- c) *Flexibility*: Competing issues need to be considered in deciding on the most appropriate degree of beneficiary choice. Greater choice fosters dignity and allows beneficiaries to meet their most pressing needs. Conversely, a restricted type of transfer may be more directly linked to a specific objective, for example providing food of a specific nutritional composition.
- d) *Targeting*: Targeting remains a problematic issue for all kinds of transfers, cash, vouchers and in-kind. There is a delicate balance to be struck between inclusion and exclusion errors, and the costs of the targeting exercise compared to losses incurred through poorly targeted resources. The need for stringent targeting arrangements for cash have been highlighted, given the attractiveness of the resource. Self-targeted transfers – for example conditional

transfers dependent on work – may be simpler to target than unconditional transfers.

- e) *Corruption and security risks*: Cash may be more attractive than in-kind assistance, and so particularly prone to being captured by elites, to diversion or to seizure by armed groups. The attractiveness of cash may create risks both for staff transporting cash and for recipients once they have received it even if there are ways of distributing it that reduce possible security risks. However, cash can also be easier to hide and thus could turn out to be a safe modality as compared with more highly visible commodities.
- f) *Skills and capacity*: Implementing cash and voucher projects requires different types of skills and capacity from managing in-kind transfers. If logistics are often simpler, there is a need for additional administrative and finance capacity. Assessments and monitoring need to include analysis of markets and distribution networks.

### **2.3. Handling cash and vouchers through the project cycle**

This section provides guidance for the programming, identification, completion of proposals, implementation and evaluation<sup>4</sup> of cash and voucher programmes. It clarifies *the standards expected* from implementing partners and the *decision making criteria* applied by DG ECHO. These funding criteria are summarized in the checklist given in Annex.

#### *2.3.1. Programming*

In principle cash and voucher transfers may be used to respond to the range of assessed humanitarian needs, by increasing the purchasing power of disaster-affected people. This may enable them to meet their minimum needs for food and non-food items; provide access to basic services; or to support emergency livelihood recovery.

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<sup>4</sup> See the DG ECHO manual on Project Cycle Management for a definition of these phases.

### BOX A: Examples of possible cash and voucher transfers

- unconditional cash grants in early stages of emergency recovery;
- the use of cash to meet nutritional needs;
- milling vouchers to complement food distributions;
- provision of cash or vouchers in place of NFIs;
- the use of cash for shelter (supporting hosting, helping households construct transitional shelter);
- to help households access basic services (water, health and education) where these are not free; and;
- to procure livelihood inputs and assets.

The relevance of cash and vouchers varies in the differing phases of natural disasters, conflicts and complex emergencies:

- a) The *early stages of sudden onset emergencies* (whether natural disasters or conflicts) may prove particularly challenging for establishing cash transfers or voucher programmes. Markets may be disrupted, infrastructure damaged, people displaced and security threatened. In very specific contexts unconditional cash transfers may have a particular niche at the start of an emergency.
- b) In *long running conflicts* markets may re-establish themselves in periods or places of relative security, creating opportunities for cash and vouchers.
- c) Cash and vouchers may have a particular value in assisting the *transition towards recovery and development* in support of protecting or restoring livelihoods. Cash and voucher projects can help to revitalize local economies providing local traders with the incentive to trade with beneficiary communities and to develop local markets.
- d) This in turn helps create jobs vital to transition out of the humanitarian phase.

Despite the constraints in using cash or vouchers in certain contexts—such as the early stages of a sudden-onset emergency—no *a priori assumptions are made on restricting the use of cash or vouchers to specific contexts*.

#### 2.3.2. Assessment

The common starting point for any humanitarian intervention is an assessment of the actual humanitarian needs, taking into account also the possible existing institutional social transfers. A secondary decision is which resource transfer modality will deliver the necessary aid in *the most relevant, effective, efficient, safe and rapid manner*

possible<sup>5</sup>. In some cases this will entail an in-kind response; in others a cash or voucher approach will be preferable, while in other situations a combination will be most appropriate.

Seasonality can be important to factor-in; for example, it may be appropriate to provide cash as a means to improve food access in the period after harvest when supplies are plentiful, but appropriate to switch to in-kind transfers during the lean season. Alternatively, across a large region there may be areas where cash is more appropriate and other areas where in-kind transfers are preferable. Opportunities to combine or sequence cash, vouchers and in-kind transfers will thus be assessed.

Cash-based transfers may also *complement* in-kind assistance. Therefore, cash should not necessarily be seen as a replacement for other forms of aid, but may be an additional, complementary instrument. Depending on the situation, the use of cash, vouchers and in-kind transfers may be phased or integrated.

In order to make an informed choice on the best form of resource transfer (cash, voucher or in-kind), it is necessary to ensure that any proposal is supported by an analysis of the most *appropriate* and *feasible* type of transfer to meet identified needs. A decision tree to guide the selection of the most appropriate form of response is given in the operational summary.

Most of the elements of the comparative analysis of cash or voucher proposals are shared with in-kind projects. However, a pre-requisite for cash-based programming is to determine whether the local market can supply the required quantity and quality<sup>6</sup> of commodities and services.

The complexity of the market assessment should be adapted to the phase of the emergency, the scale of the project and the practicalities of the situation. It is also acknowledged that humanitarian interventions often take place in a challenging environment, where ideal standards may be hard to achieve. Therefore, in specific circumstances a community level consultation on markets may suffice.

Conversely, as the scale and complexity of projects increase, or the immediate emergency subsides, then increasingly rigorous assessment is required. As specialised market assessment skills may be scarce, and this requirement may prove an impediment for some partners, DG ECHO encourages the coordination and exchange of information and the use of common assessment results, when possible.

In addition to an appreciation of whether local markets are in place to support a cash-based transfer, it is necessary to consider a number of other criteria in making a final decision on the best transfer modality. This includes cost efficiency, secondary market impacts, the flexibility of the transfer, targeting, and risks of security and

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<sup>5</sup> It is acknowledged that one response option may not necessarily meet all these criteria simultaneously and compromises may be necessary.

<sup>6</sup> For example, beneficiaries may have a particular nutritional requirement (the very young, pregnant and lactating women, the sick- especially those with HIV/AIDS- and elderly). The local market may not be able to supply these specific types of food.

corruption. A list of questions to guide a comparative analysis is given in Annex 1. This annex should be used to complement the decision tree presented in the operational summary.

Where possible, the cost-efficiency of the alternative response options should be compared on the basis of the desired project outcome. For example, if the objective of the project is to improve food access, the comparison between response options should be based on the cost of delivering a specific calorific value through in-kind food distributions compared to delivering sufficient cash to purchase the same calorific values on local food markets. However, this requirement may be waived depending on the urgency and scale of the proposed response.

The analysis must also confirm the necessary capacity, amongst in-country partners, to implement the preferred response option. Implementing cash and voucher projects requires different types of skills and capacity from managing in-kind transfers. Logistics may be simpler, but there is a need for additional administrative and finance capacity.

It is particularly important to carefully assess the risks of security and of corruption. The security implications, for beneficiaries and agency staff, must be assessed and deemed acceptable. To be noted, however, that in certain circumstances, cash can be safer because it can be hidden more easily. ***In certain situations, security and corruption risks may be so great that the option of cash-based instruments must be excluded.*** The final decision on the best modality requires a case-by-case approach, calculating the trade-offs at the local level.

### 2.3.3. *Presentation and evaluation of proposals*

All proposals to DG ECHO for the distribution of cash and vouchers must clearly articulate the humanitarian outcome(s) that the distribution of these resources is intended to lead to, and be consistent with the humanitarian mandate of DG ECHO as described in Article 2 of Council Regulation (EC) No 1257/96 of 20 June 1996 concerning humanitarian aid listing the principle objectives of the humanitarian aid operations. The proposals will be coordinated also with the existing more long term actions carried out by the other services of the European Commission and other relevant donors and organisations involved in the latter with a view to enhance synergies between the different types of actions from different actors in the field?

In a humanitarian context the money must be used to cover basic needs or to rebuild livelihoods activities, with the needs identified through assessment. Therefore, a cash or voucher transfer cannot be the primary aim of a project.

Supporting needs assessment(s) should be referenced in section 2 of the Single Form.

Applications from all DG ECHO partners for projects that provide conditional cash transfers (including cash for work, cash for returnees and cash grants for livelihood inputs) and vouchers redeemable against specific commodities or services are eligible, in accordance with normal procedures.

In conformity with the Council's Financial Regulation<sup>7</sup>, DG ECHO can consider funding unconditional cash transfers (grants) to beneficiaries. There is a maximum limit of EUR 100,000 per grant agreement and EUR 10,000 per beneficiary, for an unconditional cash transfer. This limit only applies to NGOs and does not apply to International/UN Organizations. Therefore, for FPA partners unconditional cash transfers are likely to complement other programme activities.

The conditions for implementing unconditional cash transfers must be strictly defined in the agreement and in the relevant section of the Single Form. This should specify the minimum and maximum amounts of financial support that can be paid to a beneficiary (with no margin for discretion), the criteria for determining the exact amount and the specific control, monitoring and reporting procedures.

All proposals must include a comprehensive risk assessment in the relevant section of the Single Form. For each of the major risk factors the proposal must indicate a) the specific measures to be taken during implementation to minimize the risks; b) the arrangements to monitor whether these risks develop, and c) if so, the response measures to mitigate the consequences.

For cash-based instruments the proposal must specifically address the risks of inflation, security and corruption. The proposal must define the circumstances that would justify a switch to in-kind distributions.

In budgetary terms it is acknowledged that a well-designed and implemented cash or voucher project could be more cost-intensive in terms of technical human resources, but less costly in terms of logistical and procurement costs.

#### 2.3.4. *Implementation*

The targeting procedures used for cash and voucher programmes attract considerable attention. Cash transfers in particular are perceived to have higher potential inclusion errors, although targeting of *all types of resource transfers* remains a problematic issue. There is commonly a trade off between exclusion errors (those who should receive the transfer, and do not) and inclusion errors (those who should not receive it, but do).

Cash and voucher projects need to demonstrate adequate targeting procedures to minimize targeting errors. But as with in-kind transfers, this needs to be achieved within reasonable limitations of cost and complexity.

A variety of targeting mechanisms can be used. The choice of the methodology will be determined by the context and the nature of the crisis. In an emergency context, timeliness may prevail over efficiency. In a protracted crisis scenario, more elaborated, in-depth methods will be preferred. Here an initial geographic targeting process will be followed by a household level targeting process using community-based methods, demographic, socio-economic criteria, self targeting mechanisms or a

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<sup>7</sup> Article 120 (2) Financial Regulation and Article 184 (a) Implementing Rules of the Financial Regulation– see Fact Sheet D3.

combination of these approaches. Verification exercises, including home visits during implementation, are regarded as crucial to effective targeting.

A wide number of cash distribution mechanisms exist and should be considered by partner agencies. All these systems (many of which are already widely used for the remittances of overseas migrants) come with their own preconditions, advantages, and limitations<sup>8</sup>. Some of the more innovative distribution systems may be more cost effective, and used to mitigate risks of corruption and security for the agency involved in distributions. Partners must therefore carefully assess and select the most efficient and effective distribution mechanism.

Attention should be given to the fact that the choice of a specific delivery mechanism could exclude certain groups among the most vulnerable, for example children who head households who might not have the right to a bank account.

The relative novelty of cash and voucher projects places a premium on strong monitoring systems. Implementation needs to be closely monitored to identify and mitigate potential risk factors. Monitoring must help to verify the original response analysis made, and fine tune ongoing response analysis to enable adjustments to the operational strategy.

Monitoring systems established for cash and voucher schemes will collect and analyze realistic amounts of data and provide products which are directly usable by the programme managers for an appropriate implementation, including a quick response to changing circumstances and erroneous assumptions in the project design.

Post Distribution Monitoring (PDM) should be done routinely for cash and voucher transfers (just as is the case with in-kind assistance). It should be quick and efficient, and provide an early indication of any problems which can be corrected during implementation. It also provides information which can be used to judge outcomes and results.

**BOX B: Minimum set of questions to be monitored for cash distributions**

- Did people get the right amount of cash?
- Were payments made on time?
- What are people spending the cash transfer on?
- Are the items that people want to buy available on the market?
- Where and how far do people have to go to buy what they want?
- Has the cash distribution had an effect on prices?
- Does this meet the programme's specific objective?

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<sup>8</sup> See DfID 2007, ICRC/IFRC 2007, Oxfam 2006

If inflation of key commodities or services, particularly those that beneficiaries are expected to purchase, is an identified risk then the prices of these items will need to be monitored over the course of the project. Price increases above an acceptable threshold may be used to trigger remedial actions – including those identified at the planning stage.

DG ECHO is committed to a results-based management approach. Therefore there is a requirement to monitor outcomes, in addition to outputs and activities. The appropriate and specific outcome indicators for all transfer projects (cash, voucher or in-kind) will be determined by the relevant humanitarian objective as defined in the proposal. The results indicator must measure progress towards the sectoral outcome identified in the proposal, rather than simply reporting on activities.

#### 2.3.5. *Evaluation*

Evaluations of cash and voucher projects can play a vital part in the learning process for both DG ECHO and its partners. This knowledge can contribute directly to refining and validating the use of cash and voucher projects and their accountability systems.

Partners are encouraged to routinely conduct an evaluation of cash and voucher projects. They must justify and document a decision *for not undertaking* an evaluation. When financially feasible, external evaluations are encouraged. This must focus on evaluation as a learning process, rather than as an audit function.

Evaluations of DG ECHO funded projects are specifically encouraged to fill key knowledge gaps on:

- a. the advantages and risks of different beneficiary identification and targeting approaches;
- b. the relative merits and risks of alternative cash distribution systems in various contexts;
- c. the implications of different resource transfer options on control over resources at the intra-household level including women and children;
- d. impact of intra-household targeting on the results of the programme (as women are generally seen as better providers of household's care and needs)
- e. the extent of inflationary impacts and consequences, and the adequacy of contingency options;
- f. the direct impact on beneficiary households;
- g. the indirect impact on the traders and market development;
- h. the cost efficiency of cash and voucher projects; and;
- i. the role of cash and vouchers in fostering early recovery and the transition towards longer term development.

## **2.4. Capacity building**

The study of the field capacity of partners of DG ECHO (Lor-Mehdiabadi and Adams, 2008 Volume 1) shows that their experience, expertise and capacity (with a few notable exceptions) is weighted towards sectoral interventions and logistics consistent with the design and implementation of in-kind, commodity or service-delivery type projects.

DG ECHO recognizes that, for cash and vouchers to become a more routinely considered option for resource transfer, increased capacity is required by the implementing agencies. This in turn requires a system-wide investment to strengthen the capacity of partners, to complement the project level financing.

The further development of tools to compare the relevance efficiency, effectiveness and feasibility of alternative resource transfer strategies is needed, in particular market analysis and response option analysis tools. Therefore DG ECHO will support (specifically through the capacity building fund and grant facility) the further development, and dissemination of such tools and standards amongst the global humanitarian community.

Training is also required of programme staff responsible for implementation. In particular, training of partners' financial staff and increasing financial literacy amongst beneficiary communities, may contribute to reducing financial risks.

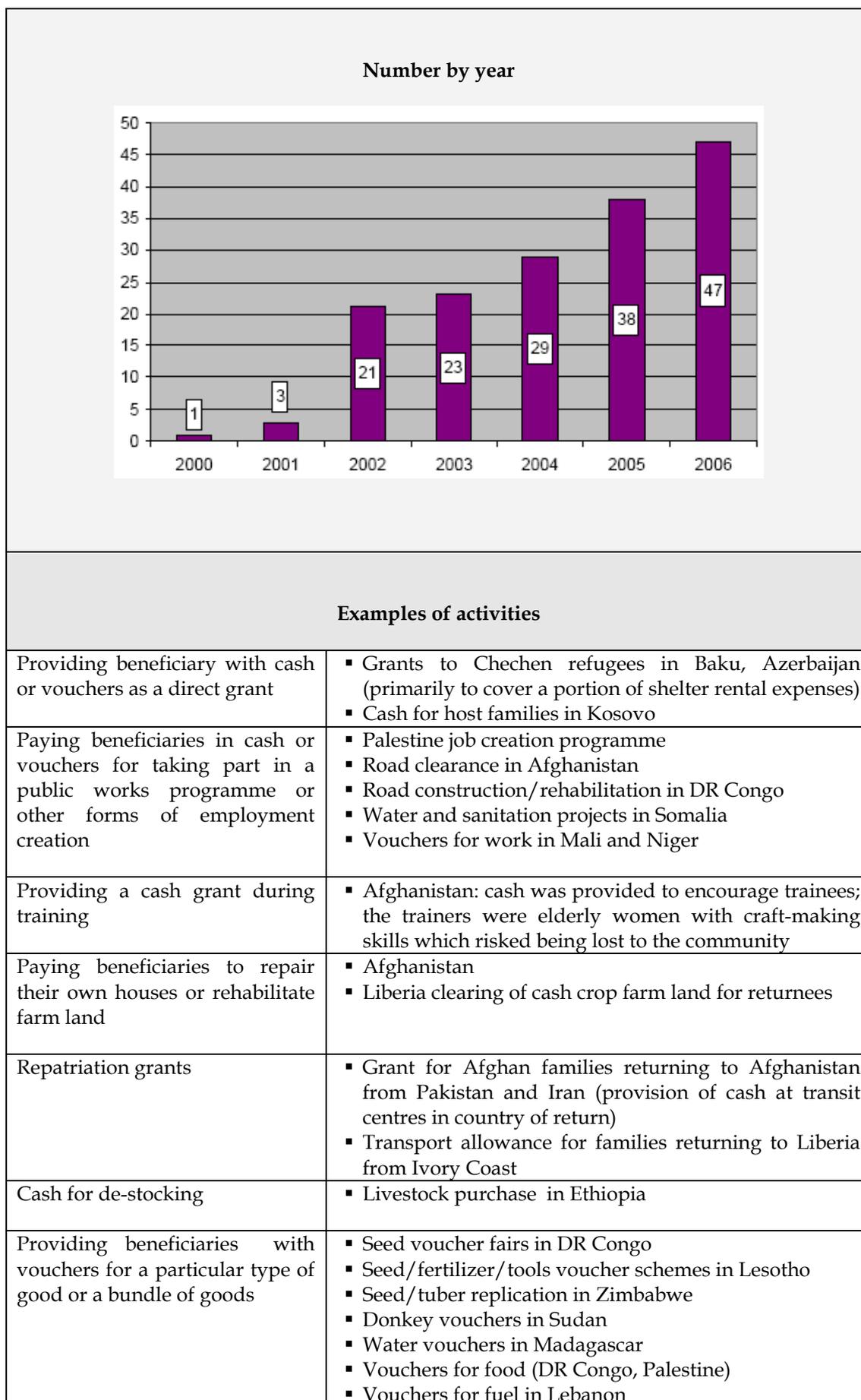
## ANNEXES

### 1. Additional criteria for comparing alternative transfer modalities

Issue	Cash	Vouchers	In-kind
Cost efficiency	<ul style="list-style-type: none"> <li>▪ Are there savings on delivery, distribution and logistics costs?</li> <li>▪ How much does it cost beneficiaries to access markets?</li> <li>▪ Can the response be mobilized faster?</li> </ul>	<ul style="list-style-type: none"> <li>▪ Are there savings on delivery, distribution and logistics costs?</li> <li>▪ How high are the administrative costs?</li> <li>▪ Will the establishment of the system delay the start-up and timeliness of the response?</li> </ul>	<ul style="list-style-type: none"> <li>▪ Are there savings on commodity costs through bulk purchases?</li> <li>▪ What are the costs of procurement and transportation?</li> <li>▪ What proportion of the commodities may be sold to meet other needs?</li> </ul>
Market impacts	<ul style="list-style-type: none"> <li>▪ What are the possible positive secondary impacts on the local markets and economy?</li> <li>▪ Is there a risk of a supply failure affecting beneficiaries?</li> <li>▪ May inflation erode the purchasing power of beneficiaries?</li> <li>▪ Could the intervention have inflationary impacts, with negative consequences for non beneficiary consumers?</li> </ul>	<ul style="list-style-type: none"> <li>▪ What are the possible positive secondary impacts on the local markets and economy?</li> <li>▪ Could the market benefits be monopolised by a few suppliers?</li> <li>▪ Is there a risk of a supply failure affecting beneficiaries?</li> <li>▪ May inflation erode the purchasing power (for value-based vouchers) or require supplier agreements to be renegotiated (commodity or service-based vouchers)?</li> </ul>	<ul style="list-style-type: none"> <li>▪ Does this address an availability problem?</li> <li>▪ Are local purchases used to support local markets?</li> <li>▪ Is there a risk of undermining local production and markets, especially if transfers are sold by beneficiaries?</li> </ul>
Flexibility	<ul style="list-style-type: none"> <li>▪ How important is it for beneficiaries to have high flexibility and individual choice in the use of resources?</li> <li>▪ Can the necessary quality of commodities or services be assured?</li> <li>May the cash be used for unintended or 'anti-social' uses?</li> </ul>	<ul style="list-style-type: none"> <li>▪ How important is it to restrict the commodity or service provided to meet specific project objectives?</li> <li>▪ What is the risk that the specified commodities or services may not meet priority needs?</li> </ul>	<ul style="list-style-type: none"> <li>▪ How important is it to restrict the commodity or service provided to meet specific project objectives?</li> <li>▪ What is the risk that the specified commodities or services may not meet priority needs?</li> </ul>
Targeting	<ul style="list-style-type: none"> <li>▪ Is it harder to target women or most vulnerable people such as the elderly?</li> <li>▪ May child-headed households be excluded if the transfer is made through formal banking channels?</li> </ul>	<ul style="list-style-type: none"> <li>▪ Is it easier to target a voucher than cash?</li> </ul>	<ul style="list-style-type: none"> <li>▪ Easier to target an in-kind transfer than cash?</li> </ul>
Security	<ul style="list-style-type: none"> <li>▪ Are security risks to agency staff and beneficiaries heightened due to the attractiveness of cash?</li> <li>▪ Can new transfer mechanisms reduce the visibility of the transfer and lower the security risk?</li> </ul>	<ul style="list-style-type: none"> <li>▪ Are security risks to agency staff and beneficiaries lowered by the use of vouchers?</li> </ul>	<ul style="list-style-type: none"> <li>▪ Are security risks to agency staff and beneficiaries lowered by in-kind distributions?</li> </ul>
Corruption	<ul style="list-style-type: none"> <li>▪ Is there a heightened risk of theft and corruption?</li> </ul>	<ul style="list-style-type: none"> <li>▪ Is there a lower theft risk for vouchers?</li> <li>▪ Could the redeeming outlets attract corruption?</li> </ul>	<ul style="list-style-type: none"> <li>▪ What are the corruption risks at distribution points?</li> <li>▪ What are the corruption risks at other stages (eg.</li> </ul>

			contracting)?
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## 2. DG ECHO funded cash and voucher interventions



	<ul style="list-style-type: none"> <li>▪ Vouchers for seed (exchanged through market traders) in Liberia</li> </ul>
Early stages of a sudden onset emergency	<ul style="list-style-type: none"> <li>▪ North Lebanon, vouchers during the first weeks of displacement to provide refugees with NFI (clothes and shoes)</li> </ul>
In the transition to recovery and development	<ul style="list-style-type: none"> <li>▪ A swamp reclamation project in an Ituri district, DR Congo. A combination of cash and work—combined with the new access road—encouraged small-scale agriculture and road side stalls.</li> </ul>

Examples of projects where cash and vouchers were chosen as delivery mode and rationale behind:

<b>Reasons for adopting cash and voucher projects</b>	
Dem. Rep. Congo (Ituri district): Cash for work projects	These cash and voucher projects followed similar projects where food aid was provided to beneficiaries. The main reason for change stemmed from the high costs of commodity supply. Secondary benefits included opening up markets, through road construction, for returnee populations. However, the cash projects were only directed at populations who returned to areas where markets were functioning.
Azerbaijan: Cash subsistence allowance, which covered basic needs and particularly a proportion of the costs of renting.	The decision to provide cash to Chechen refugees living in Baku, the capital of Azerbaijan, to cover part of the cost of renting, accompanied the steep rise in the cost of housing and living. Alternatives (resettlement, construction) were not possible due to political reasons, and the most appropriate assistance was cash grants. The subsistence allowance was accompanied by (in-kind) food parcels provided through the Red Cross, to maintain coherence with the government national social support system.
Democratic Republic of Congo: seed voucher fairs	Seed voucher fairs were designed to address two issues simultaneously: the first was to provide recent returnees with a variety of quality seeds; the second was to enable those who had returned earlier (and who had been provided with certified seeds the previous season) with improved marketing opportunities.

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#### **4. Abbreviations**

ACF	<i>Action Contre la Faim</i>
AIDS	Acquired Immune Deficiency Syndrome
ATM	Automated Telelr Machine
CFW	Cash for Work
DG ECHO	Directorate-General for Humanitarian Aid (EC)
DR Congo	Democratic Republic of Congo
EC	European Commission
FAO	Food and Agricultural Organization (of the UN)
FPA	Framework Partnership Agreement
HIV	Human Immunodeficiency Virus
ICRC	International Committee of the Red Cross
IDP	Internally Displaced Person
IFRC	International Federation of the Red Cross & Red Crescent
LRRD	Linking Relief, Recovery and Development
M&E	Monitoring and Evaluation
NFI	Non-Food Items
NGO	Non-Governmental Organization
ODI	Overseas Development Institute
OPT	Occupied Palestinian Territory
PDM	Post Distribution Monitoring
SCUK	Save the Children UK
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UN-OCHA	UN Office of Humanitarian Coordination
UNRWA	United Nations Relief Works Agency
WFP	World Food Programme