



**Programa  
Mundial  
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*Cash and Food Transfers  
for  
Food Security and Nutrition*

*Emerging Insights and Knowledge Gaps  
from WFP's Experience*

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## *Cash and Food Transfers for Food Security and Nutrition*

### *Emerging Insights and Knowledge Gaps from WFP's Experience*

Food aid as well as cash transfers are provided in many countries through mother and child health programmes aimed to address malnutrition. Similar programs also exist to improve primary and secondary school enrolments, and other related developmental outcomes. On the emergency side, countries may face recurrent natural disasters that result in loss of life and livelihoods. The typical response to these crises involves transfer of food to needy populations, aiming to assure their food and nutrition security.

Within the overall context of food and cash transfers in both emergency and longer-term developmental settings, the effectiveness of the respective transfers and combinations (food and cash) with complementary measures (such as nutrition education or micronutrient fortification) is not adequately researched and documented. There is thus a pressing need for greater information about the relevance and impact of alternative tools for ensuring food and nutrition security in emergency, transition and development contexts.

This paper presents a view on this set of issues from the World Food Programme (WFP).

### **WFP's PERSPECTIVE<sup>1</sup>**

Efforts to enhance food and nutrition security in both relief and development contexts typically involve resource transfers to needy populations. A significant part of such transfers comprise in-kind food aid, but cash transfers are rapidly growing in importance. This dynamic raises two related issues for WFP and other relief and development agencies. First, what are the best transfer mechanisms in given contexts i.e., which ones are most effective in lowering food insecurity, hunger and malnutrition for target populations? Second, which transfer mechanisms are operationally feasible for given types of organizations?

These are contested issues. Food security and nutrition turn on several context-specific factors. How well a given resource transfer mechanism works in a given context is thus an empirical matter. The nature and severity of operational trade-offs associated with given transfer mechanisms are also empirical matters.

A number of initiatives aiming to share experience and capture lessons learned in cash transfer schemes have been launched in recent years. Evidence on the first issue above i.e. the comparative advantages of cash and food transfers, is therefore growing, though the quality of the studies is patchy and the implications for food and nutrition security are

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<sup>1</sup> The section is based on two recent WFP documents: (1) "Cash in Emergencies and Transitions." Report on a Technical Meeting held in Addis Ababa, Ethiopia, 3-5 October 2006; and (2) "Cash and Food Transfers: A Primer." Both documents are available upon request.

not always clear. In Latin America, there are many studies that document significant positive impacts of cash transfers on enrolment, reduction of poverty, health-centre attendance, etc. but the impact on child malnutrition is still not fully documented or understood.

Analysts have yet to tackle the second issue - operational feasibility - in a detailed way. As a result, a more comprehensive picture needs to emerge about operational trade-offs facing relief and development agencies considering food- and cash-based responses. Thus, while technical aspects of the debate over which transfer mechanisms are most appropriate in given contexts is becoming progressively less polarized, operational implications still need to be fully understood and carefully assessed.

A key recognition is that most analyses of these issues either explicitly or implicitly assume competition between in-kind or cash options. Very little analysis has been undertaken seeking to identify if and how cash and food transfers might be productively combined. Such combination could be in the context of a particular initiative i.e. blending in both space and time, or it might occur in phases within the context of long-term social protection strategies featuring sustainable safety nets. Indeed, there are strong theoretical arguments and partial empirical evidence supporting the notion that rather than being competitive alternatives, food and cash might be complementary and mutually reinforcing instruments for addressing food and nutrition insecurity. Progress in resolving controversial operational issues likely depends on enhanced understanding of such “middle ground” options.

*Oportunidades* (Mexico) is an example of a successful programme in which cash and food complement each other. The programme has had important positive effects on child growth in both rural and urban sectors and on the reduction of anaemia in the rural zones. There is strong evidence to believe that the nutritional effect of *Oportunidades* is the results of the nutritional supplements. In other words, it is unlikely that the programme would have had an impact on the child nutritional status without the nutritional supplements.

Several WFP country offices have recently participated in cash transfer initiatives, typically in a piloting mode.

There are a number of methodological and practical limitations of the pilot cash transfer initiatives. Such limitations preclude definitive conclusions on the two issues raised above. However, a number of tentative insights have emerged as follows:

- **Clear programme objectives.** It is important that programme objectives are stated upfront in order to better evaluate effectiveness and efficiency. The comparative impact of cash and food transfers on food consumption and nutritional status, for example, can only be assessed if transfers were intended to achieve such results. If the objective of a cash transfer is to simply increase purchasing power, then such a transfer is de facto *always* effective.

- **Economics.** Three main insights are emerging, mainly from the micro-economic literature. These factors relate to: (i) the size of the transfer to the household, (ii) the extent to which households are likely to use the additional resource to increase food consumption, and (iii) who controls the transfer within the household.
  - Standard neoclassical economic theory predicts that when an in-kind transfer is '**extramarginal**' (i.e. when it is *greater* than the amount the recipient household would have consumed without the transfer), it is likely to stimulate food consumption more than an equal cash transfer, but that when an in-kind transfer is **inframarginal** (i.e. when it is *less* than the normal food expenditure), cash and food are economically fully fungible. However, careful empirical research mainly from high and middle-income countries shows that in-kind transfers trigger higher food consumption than cash even when inframarginal. This phenomenon is referred to as the 'cash-out puzzle'<sup>2</sup>.
  - Estimating the '**marginal propensity to consume food**' (MPCf) provides useful insights into how households would use a cash or food transfer. High MPCf suggests that food aid is likely to be consumed and that an equivalent cash transfer is spent on food<sup>3</sup>.
  - **Gender and intra-household decision-making.** Different household members may show different sets of preferences that may ultimately influence how resources are spent within and outside the household. Hence, gender and intra-household resources control and distribution are key factors in shaping aggregate household food consumption levels. These aspects are commonly used as one way of explaining the 'cash-out puzzle' and need to be taken into account when determining the appropriate response.
- **Nutrition.** Empirical evidence on the nutritional impact of cash transfers is relatively scarce. Most of the evidence is drawn from the Mexican experience with *Progresas/Oportunidades* and other long-term social protection programmes in Latin America. Studies from middle-income and developing countries (e.g. Egypt, Pakistan and Philippines) are somewhat dated. In both cases, however, food-based programmes are generally more effective in enhancing food consumption and nutrition as measured by kilocalories available at the household level. More research is needed to investigate the comparative impacts as measured by *anthropometric* indicators.
- **Markets** can play an important role in addressing food insecurity. The fact that hunger exists does not necessarily mean that markets are inefficient. Possible market distortions due to transfer programmes may be due to poor programme design – both

<sup>2</sup> However, transfers that are extramarginal in the design phase will remain so also in practice only if the resale of ration is effectively prohibited or done below the market price or entails high transaction costs.

<sup>3</sup> An exception may be represented by the so-called 'liquidity-constrained' households, i.e. households that are not used to receive and manage cash. In this case, a cash transfer is likely to be spent on non-food items or on buying less food but of higher quality (e.g. meat, processed foods etc.).

with cash and food – rather than linked to a single option *per se*. Market effects should be judged in their overall dynamic net effect of possible price increase (decrease) by cash (food) stimulating longer-term production (consumption) and hence possible price decrease (increase). Moreover, **multiplier effects** in the local economy may not be realized in all cases of cash transfers but depend on the *way* transfers are provided. For instance, predictable, generous and stable transfers may allow both better planning and investment by beneficiaries and better cost-benefit analysis by traders, leading to increased trade flows.

- **Cost effectiveness and efficiency.** When conditions are in place for cash delivery, almost all comparative studies show that transferring cash is less costly than distributing food (some 30-50% less than intercontinental shipments, 5-10% less than locally procured foods).

Even if this argument could be further reinforced with a microeconomic hypothesis that relaxing restrictions on households' budgets is the most efficient way of improving their well-being (as it allows to express their preferences and to determine the demand of goods), a strong counter-argument is that in conditions of limited levels of education, it is likely that an improvement in the overall well-being of the household is not reflected, at least in the short- and medium-term, in the nutritional status of children.

Additionally, even if cash transfers increase the family purchasing power, they do not automatically translate into food consumption and even less so allow targeting children. This is all the more important considering that there is a high proportion of households in which live together adults with adequate weight (or in some cases overweight) with under-nourished children.

In a recent case of Zambia, cash transfers were eventually more expensive than food distributions due to the unexpected appreciation of local currency. However, costs needs to be judged in relation to programme objective (effectiveness). For example, in a maternal-child health programme in Honduras, food transfers are five times more expensive than cash, but cash transfers had no effect on children's calorie consumption or on the use of the health centres, while the food transfer increased both. Transaction costs faced by beneficiaries further complicate the picture and should also be considered when calculating effectiveness and efficiency.

There is evidence that in the case of Central America, transfers of nutritional supplements coupled with an educational component could be significantly more effective than cash transfers and are clearly preferred from the social point of view.

- **Targeting effectiveness.** Cash, being more fungible than food transfers, is often thought to be more prone to leakages. However, evidence is often scarce and programme effectiveness very much depends on implementation modalities (targeting criteria, post-distribution monitoring) and control systems. Both types of transfers are open to patronage, pressure by dominant groups and opportunistic behaviour by non-

target groups that have the potential to impair proper targeting of the food-insecure people.

- **Spending patterns.** Experience gained by governments, NGOs and other actors in implementing and evaluating cash transfers shows that cash is overwhelmingly spent on food (50-60%), basic essentials, agricultural inputs and loan repayment. There are few anecdotes on cash diverted to undesirable uses (e.g. cash given to men in rural Malawi was partly spent on alcohol and buying sex).
- **Beneficiary preferences** for cash or food are too context-specific to be generalized; there are plenty of examples of beneficiaries stating preference of food over cash and vice versa<sup>4</sup>. However, there is evidence that people's preferences depend upon:
  - *Location.* People living in remote areas distant from main markets tend to prefer food transfers, while closeness to markets makes it easier to spend cash on the desired goods.
  - *Season.* In relief situations, cash is said to be more appropriate right after the harvest, when food is likely to be available in markets; food is said to be preferred during the lean season, or 'hungry period'.
  - *Gender.* Cultural habits on the management of cash resources within the households make women more likely to prefer food transfers, while men prefer cash.

One of the interesting questions in cash transfer programmes is whether beneficiaries **share cash** in a similar way that food aid is often shared within communities. Evidence on this is mixed but it seems that cash itself is seldom shared at the community level.

**In summary**, cash seems to be most appropriate:

- ◆ when markets work adequately;
- ◆ when food is available and affordable;
- ◆ when prices are relatively stable and predictable (i.e. when macroeconomic conditions are stable);
- ◆ when there is a basic financial infrastructure;
- ◆ when there is appropriate capacities in delivery and monitoring;
- ◆ when there are adequate contingency plans; and
- ◆ after harvest

Cash seems to be *least appropriate* when the above conditions do not hold or to be less appropriate in situations of limited levels of education. Highly unstable conditions in early stages of emergencies also seem to point toward a diminished role for cash. Cash

<sup>4</sup> According to some evaluations, it is important to filter this for potential biases, i.e. people are likely to express a preference for what the agency has previously provided in the hope of receiving further assistance. Some 'triangulations' of interviews by independent actors are sometimes recommended.

transfers to food-insecure populations seem to be spent primarily on food. The predictability, stability, timing and amount of cash transfers matter importantly to household preferences for or against cash (over food). Distance from markets and seasonal and gender factors also seem to be important determinants of beneficiary preferences.

Any intervention therefore needs to be carefully analyzed in light of the local context. The final decision as to what type of transfer to apply (cash, food or a combination of the two) should necessarily be taken in relation to programme objectives (effectiveness).

These experiences, insights, and knowledge gaps are informing development of an Interim Guidance Note on Cash Transfers for WFP. Central features of WFP's approach are pilot learning initiatives, ideally implemented in partnership with other relief and development agencies, leading to finalization of WFP's official policy on cash transfers.