Helpdesk Research Report: Cash payments in DDR programmes
13th June, 2011

Query: What are the benefits and potential risks associated with use of cash payments for discharged combatants in DDR programmes? Where possible, please make reference to cases from Asia, and distinguish between cases where there is an accompanying rehabilitation and where there is no rehabilitation programme beyond cash payments.

Enquirer: DFID

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1. Introduction and lessons learned

Cash payments to ex-combatants are a common feature of Disarmament, Demobilisation and Reintegration (DDR) programmes, yet there is considerable debate in academic and donor circles about the benefits and risks of using them. Evidence on the impact of cash payments in DDR programmes is mixed, and experience has not been universally positive (Robert Muggah, email correspondence, 9th June 2011).

Cash payments may take various forms and be disbursed at either the disarmament, demobilisation or reintegration stage. They may be intended either as a temporary safety net to support household consumption, or to kick-start longer-term household investment (Specker, 2008). Cash may be disbursed in a lump sum, or periodically over time. Allowances may be allotted in lieu of or to supplement in-kind assistance. A variety of forms of cash payments have been used in DDR programmes in El Salvador, Haiti, Liberia, Mozambique, Nicaragua and Somalia, Indonesia, Philippines and Sierra Leone, among others (Özerdem et al., 2008). Most of the available case study material is focused on experience in sub-Saharan Africa, and there is relatively little evidence of the use of cash payments in DDR in Asia.

While there is broad agreement that using cash payments for securing disarmament has not been effective - primarily because such programmes have been seen as ‘cash for weapons’ - there is disagreement about the effectiveness of using cash payments at the demobilisation and reinsertion stage of DDR processes. There is considerable divergence of opinion on the benefits and risks of cash payments during these stages. While some experts argue cash payments can have a positive impact on economic development in local communities (e.g. the banking sector), others predict inflation and market distortion. While some support cash payments because they allow the recipient more flexibility in determining how he/she will spend the cash, others are concerned about the potential for cash to be misused by recipients. There is also considerable concern about the potential
for cash payments to lead to corruption, and about the negative impacts of cash payments on community relations where payments are seen as reward for combat.

Overall, there appears to be a paucity of empirical evidence regarding the benefits and risks of cash payments in DDR programmes, and very few rigorous evaluations of impact. Studies that have attempted to assess the impact of payments on intended outcomes have often come up against attribution problems (Robert Muggah, email correspondence, 9th June 2011). Ultimately, the success or otherwise of cash payments may depend on a range of factors beyond the use of cash per se. Where cash transfers have failed, or had negative side effects, ‘it is likely that factors beyond simply the use of money are more significant causes of failure’ (Willibald, 2006: 321). A key factor is the political and socio-economic context shaping DDR: ‘the shape and character of the conflict and the interests/grievances of the various groups themselves have much to do with the form and function of DDR’ (Robert Muggah, email correspondence, 9th June 2011).

**Lessons learned**

In spite of the divergence of opinion on the benefits and risks of cash payments, there appears to be some consensus around the following issues, which are recurring themes in the literature:

- Where cash payments are necessary, they should be paid in small instalments over an extended period of time (Jackson, personal correspondence, 9th June, 2011; Knight, 2008). The UN favours this approach (Massey, email correspondence 10th June, 2011). Small payments over a longer period may be a more effective way of assuring a peaceful resettlement process (UNDP, 2005). Instalments that decrease over time may reduce dependency and clearly establish that assistance is strictly time-limited (Özerdem et al., 2008: 20).

- The UN’s Integrated Disarmament, Demobilization and Reintegration Standards (IDDRS) recommend cash should be linked to employment or services performed by the ex-combatant for the benefit of the community (IDDRS, n.d). In addition, ‘serial payments, or even micro-finance, over a longer period may offset some negative impacts. If cash is used, the emphasis should be on the payment as a needs allowance. It can also be given to the family, rather than to the ex-combatant alone’ (Stabilisation Unit, 2010).

- There should be some engagement with ex-combatants on how cash payments will be used. Several sources note that former combatants may have little success in investing lump sum payments for productive purposes. Many recommend that cash payments should therefore be combined with financial education (Özerdem et al., 2008: 20). As Muggah (2008) notes, ‘the risks and trade-offs associated with providing lump sum payments to veterans without sufficient financial management skills are well known. Indeed, it is expected that the provision of assistance in phases allows for learning from mistakes’ (Muggah, 2008: 1).

- Cash payments have not been effective when used during the disarmament phase. They can be misperceived as ‘cash for weapons’ and may be misused to buy drugs, alcohol, or more weapons (Jackson, personal correspondence, 9th June 2011). In Liberia, for example, cash for demobilization became a source of violence and unruliness among ex-combatants and the payment was scrapped in favour of a reinsertion allowance, paid in two instalments (Knight, 2008).
• Reviews have highlighted that reintegration programmes which focus solely on cash payments, without parallel livelihood and investment support, risk failing to help beneficiaries to save or make productive use of their allowances and make little contribution to ex-combatants long-term economic reintegration. Specker (2008: 35) concludes ‘it is therefore essential that policy-makers are made aware that cash payments and in-kind assistance to ex-combatants are important precursors, but not substitutes for, social and economic reintegration assistance’. Others agree that cash payments should be seen as a transitional safety net, used in the reinsertion stage - they do not address the problems of socially integrating ex-combatants into society (Özerdem et al., 2008: 14).

• The overall risks and benefits of cash payments should be set against the risks and benefits of the alternative: in-kind transfers. There is ongoing debate about the benefits of cash versus in-kind transfers, and a divergence of views about the relative ease, liquidity, and problems of corruption associated with these two types of assistance. Likewise, ‘there is a related debate about the merits of different types of in-kind assistance, in particular voucher programmes, in-kind kit and equipment, including tangibles like domestic and agricultural tools, shelter materials, and access to food rations’ (Özerdem et al., 2008: 11). As one expert pointed out: ‘the record on non-monetary incentives is also varied’ (Muggah, email correspondence, 9th June 2011).

• It is important that expectations are managed appropriately. A key lesson from Ethiopia is that the predictability of cash entitlements is often at least as important as the quantity of assistance: ‘where inputs are promised but not delivered on time, they can contribute to moral hazard. When promised assistance does not materialise in a consistent or routine fashion, material (and social) conditions of households and individuals can also deteriorate. Where training and other inputs are offered after the fact, individuals may have little incentive to continue the course without the means to invest’ (Coletta and Muggah, 2009: 44). ‘In cases where expectations for cash have already been raised, it may be possible to advocate a different way of providing cash benefits – for example, in the form of start-up business capital. Linking payments to work and services can help avoid the perception that they are a reward for ex-combatants war efforts, and a way of legitimising their role in the conflict’ (Specker, 2008: 33).

• Cash payments should not be provided to children (Wilibald, 2006; UNDP, 2005).

• In the case of male ex-combatants, spouses should be engaged in discussion about how the money should be spent. Experience shows that male ex-combatants tend to spend the cash payments on themselves with a small amount going to family, whereas, women tend to use it towards their children’s education (Massey, email correspondence 10th June, 2011).

### Potential benefits

**Cash payments** may be the preferred option for both donors and ex-combatants for a number of reasons. The most common benefits cited in the literature are:

• **Cash is beneficiary-friendly**: Cash benefits enable ex-combatants to purchase items of their preference, and give them the opportunity to make their own decisions. Cash is more adaptable to the specific needs of individual beneficiaries, and may represent an important step towards
dignity and empowerment (Wilibald, 2006: 321). The alternative of in-kind assistance does not provide beneficiaries any flexibility (Özerdem et al., 2008: 13).

- **Cash payments are relatively more efficient to disburse than in-kind benefits**: Some practitioners believe cash payments are logistically easier to disburse than in-kind benefits (Specker, 2008: 32; Stabilisation Unit, 2010). Cash may be a more cost efficient way of delivering and receiving aid because it entails lower transaction costs in terms of transportation and storage (Wilibald, 2006: 321).

- **Benefits may extend to the wider community**: Some experts argue cash payments have positive knock-on effects in the local community because they stimulate the local economy, particularly the banking sector (Specker, 2008: 32). There is some evidence that in Sierra Leone cash payments had positive impacts on local markets and trade (Wilibald, 2006).

### 3. Potential risks

The most common risks associated with cash payments cited in the literature are:

- **The potential for corruption**: Cash payments in DDR programs have sometimes led to fraud, mismanagement of funds, and divergence of assistance funds from targeted beneficiaries as well as extortion (Knight, 2008). Afghanistan is often cited as an example of how cash payments can be prone to corruption. In the early stages of the DDR program, each ex-soldier was paid in two cash installments of $100, but this was discontinued when it was found that some commanders were extorting the money from their soldiers, often violently. The payments were redirected into ex-combatants’ reintegration packages (Hartzell, 2011). However, Wilibald (2006) concludes that the presence of corruption has less to do with cash as an instrument and more to do with eligibility criteria and choice of payment location: misuse and corruption can be reduced through agreement on spending restrictions and eligibility criteria, supported by sufficient supervision.

- **Cash payments may fuel community resentment**: Many experts argue that cash payments can exaggerate social tensions between ex-combatants and civilians because of the perception by war victims that payment is unfair (Jackson, personal correspondence; Specker, 2008: 33). They may have particularly negative connotations where ex-combatants consider them to be a war bonus or payment for service (Knight, 2008). As Özerdem et al. (2008: 7) note, ‘even when reinsertion benefits are not explicitly conceived as a reward or entitlement, they may be seen as such by combatants and by the population at large’. In addition, as Specker (2008: 33) notes, ‘civilians may easily come to view payment in cash as the wrong signal in a fragile and largely destroyed economic context’. Wilibald (2006) found that cash to ex-combatants can cause community resentment in some cases; although initial community resentment is likely to lessen once the gains of the transfers are recognised, and if additional community-focused programmes are implemented.

- **Risk of raising and not meeting expectations**: Where ex-combatants believe they are entitled to cash, this can lead to expectations that cannot be met, which in turn can spark unrest. In Liberia, for example, riots broke out in camps when ex-combatants did not receive the amount they expected (Özerdem et al., 2008: 8).
Negative impact on local economy: Lump-sum payments to ex-combatants can have an inflationary effect on the local economy (Knight, 2008).

Evidence on use of cash payments

Much of the discussion in the literature regarding the potential positive and negative impacts of cash payments centres on the question of how the payment is used, and who ultimately benefits from it (i.e. the ex-combatant, his/her extended family, the wider community). However, there is little evidence of how ex-combatants have actually used cash payments. In a widely cited exception to this, one study in Sierra Leone found that ex-combatants do tend to use the money they receive wisely: the money received was spent on meeting living expenses and family needs, on food and clothing, followed by investments in trading businesses, medical care, housing construction, education, marriage and family (Wilibald, 2006). Studies in South Africa similarly found no evidence of squandering cash on alcohol and gambling (Özerdem et al., 2008: 14).

4. Implementation challenges

Several sources make recommendations on implementing cash payments effectively. Wilibald (2006) argues that any potential disadvantages in the use of cash transfers in DDR packages are surmountable if questions of payment location, eligibility criteria and the choice of who to target are properly addressed. A 2007 study into the effectiveness of cash transfers, conducted by the Multi-Country Demobilisation and Reintegration Programme (MDRP), found that proper implementation relies on coordination mechanisms and agencies, cost-effective delivery, and fine-tuned analyses of host communities prior to implementation (MDRP, 2007). Özerdem et al. (2008) argue that effective implementation requires, amongst other things, complementary financial education for ex-combatants and a non-corruptible distribution system. These and other sources suggest the following specific approaches to implementing cash payments:

- **Targeting vulnerable groups**: It is important to consider the particular risks and benefits of giving cash to vulnerable groups, including women and children (MDRP, 2007). ‘Former combatants are a heterogeneous group, including men, women, boys and girls, with varied characteristics and needs, which may face different difficulties and obstacles in the DDR process. When assessing the diversity of caseloads, there is a need to establish the beneficiaries and target of reinsertion assistance. Recent practice acknowledges that special attention needs to be given to the fate of former combatants who have been disabled as a result of the conflict, as well as female combatants and child soldiers’ (Özerdem et al. 2008: 16).

- **Determining the amount of payment**: ‘The amount of cash payment provided should be based on the intended purpose – consumption or investment. Smaller and more frequent transfers (monthly or bimonthly) may be suitable as transitional safety nets, intended for consumption purposes only. Larger and less frequent transfers tend to favour productive investments. Lump sum payments offer the ex-combatant the opportunity to make up-front investments. Where large lump sum payments are to be made, the local banking system needs to have sufficient capacity’ (Specker, 2008: 33). Özerdem et al. (2008) argue the amount of the allowance should broadly correspond to the level of household income of the general population to avoid generating community resentment, and should avoid creating a disincentive to find employment.

- **Cash allowances may be delivered alongside in-kind benefits**: Vouchers may be used where
there is a desire to ensure that a particular type of good or commodity is purchased by the recipients or where there are security fears about negative effects of cash flows. Assistance could include school fees, books and uniforms, operationalised through a system of vouchers redeemable at schools and shops (Özerdem et al., 2008).

- **Targeting and differentiation criteria:** Criteria for differentiating the amounts paid to particular groups must be established transparently (Özerdem and Podder, 2008). DDR programmes should be careful to take account of the displacement and migratory patterns of former combatants, many of whom may have settled in cities (Coletta and Miggah, 2009: 44).

- **Targeting household beneficiaries:** It may be useful to conduct an intra-household analysis to evaluate how benefits might be shared or given directly to families. In Sudan, male ex-combatants are encouraged to bring along their wives when collecting the cash allowance—and they receive an additional US$ 100 if they do. ‘A strong sensitization campaign targeting ex-combatants and communities could trigger community pressure on the recipient of benefits to use them fairly and wisely’ (Özerdem et al., 2008: 18).

- **Gender mainstreaming:** In many cases, women in the company of male combatants are seen only as dependents, regardless of whether they bore arms or engaged in violence. Eligibility criteria may mean that even if they were engaged in fighting, they are unable to claim DDR assistance. Where women are identified as a specific group of beneficiaries, commanders have less to gain from excluding them from the process (Willibald, 2006: 329).

- **Distribution system:** ‘The establishment of a non-corruptible identification system is imperative in forming and maintaining confidence in the distribution of reinsertion assistance, among both the beneficiaries and the donors contributing towards the DDR programme. The payment list needs to be complete and accurate, former combatants should be registered and provided with a non-transferable photographic ID and benefits should be tracked via the DDR programme management information system’ (Özerdem et al., 2008: 149). The DRC has used an innovative mobile phone-based banking and money transfer system, allowing payments to be made country-wide with reduced logistical and security burden (Özerdem et al., 2008).

### 5. Related resources


This report highlights various concerns concerning the use of cash transfer programmes in fragile and conflict-affected settings, including:

- Insecurity, ongoing conflict in some areas and the risk of a return to conflict, hindering the safe delivery and receipt of cash benefits
- Weak state capacity that constrains the ability of governments to plan and implement cash transfer schemes
- Difficulties in targeting
- The possibility of creating inflation in weak markets
- The absence of a banking system
- The risk of corruption and diversion and capture of cash by elites and armed groups
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Additional information

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Selection of websites visited


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