

Helpdesk Research Report

Evidence on the comparative cost efficiency and effectiveness of varying social assistance modalities

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19.01.2016

Question

What is the evidence on the comparative cost efficiency and effectiveness of different social assistance modalities (particularly cash transfers, food vouchers and food distribution), taking into consideration the range of associated costs and benefits, with emphasis on conflict affected and protracted crisis settings, particularly in the MENA region.

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1. Overview

Cost efficiency and effectiveness are critical to understand and compare when making decisions about which social assistance modalities are most appropriate to use in a given assistance programme. Humanitarian contexts such as protracted crises areas present yet additional factors to consider, such as access, security, administrative capacity, inflation, and market integration, and these may likely vary over time. Disaster relief contexts are typically dynamic and unstable, this should be expected when assessing delivery options. Cash transfers, food vouchers and in-kind food assistance are the main instruments used to provide support in humanitarian contexts.

There is limited literature that rigorously measures cost efficiency of programme modalities, or that compares modalities. There is consensus among scholars and practitioners that this is a major gap. Methods to measure cost efficiency vary widely in scope and breadth – so are not usually comparable, and systematic data collection is a challenge. The literature reviewed for this rapid research is from journal articles, development and implementing agency reports, and some grey literature. A number of case studies are provided with emphasis, when possible, on humanitarian contexts, including in the Middle East and North Africa (MENA).

Evidence seems to suggest that overall cash is often a more cost-efficient humanitarian response, with potential for positive spillover effects in local markets (Bailey, 2015). Gentilini (2014) finds that costs associated with both cash transfers and vouchers have shown to be substantially lower relative to food, but notes that measuring cost-effectiveness is not yet systematic and comparable and has proven difficult to compile. A further issue in interpreting cost efficiency is how to factor in effectiveness of whether the programme is meeting its goals (Hoddinot *et al*, 2013) and if there are spillovers (positive and negative) that should be included in the equation. Monetary values cannot always capture a wide range of these sometimes less direct and qualitative aspects (e.g. wellbeing, preference, dietary diversity). In general, cost efficiency and effectiveness of a given modality is a function of several factors and interactions based on existing context, rather than the utility of a specific modality alone (Gentilini, 2014). The selection of the modality to be used will therefore require analysis of the context.

The key points raised in the literature include:

- transfer appropriateness is context-specific and determined by multiple factors including programme objectives;
- cash transfers are generally found to be the least-cost modality – which suggests an opportunity in terms of expanding coverage or building complementarities (Margolies and Hoddinot, 2014; Bailey, 2014a; Venton, Bailey & Pongracz, 2015);
- the provision of cash requires well-functioning local food markets – questions of access to markets, increase in supplies to local markets, potential price fluctuations and competitiveness should be assessed;
- modality choice requires examination of available food and access through markets (Gentilini, 2014; FAO, 2012);
- consideration should be given to transfer value and price fluctuations, particularly for cash and vouchers, as they are rarely index-linked and risk potential value loss when food prices rise – in this perspective, in-kind food transfers shield beneficiaries from inflation while cash transfers risk erosion (Cherrier, 2009);
- selecting the right choice – cash, voucher, local or overseas food procurement – is seldom a result of systematic response analyses. Priorities may compete, such as timeliness, cost-effectiveness, local market effects, recipient satisfaction, food quality, impact on smallholder suppliers, and livelihoods (Lentz *et al*, 2013a);
- a single modality may not be always preferable (Lentz *et al*, 2013a);
- intra-household preferences and intended beneficiary choices on type of modality should be assessed, as this has potentially important implications on inter-household dynamics and the ultimate effectiveness of programme goals (Bailey, 2014b).

2. Social assistance modalities

There is no right way or most cost efficient means of providing social assistance – only a “best fit” given the context, goals, and other factors. Preliminary assessments are essential to determine the appropriate modality, as there is a range of factors that will influence effectiveness. These include, as examples, needs, capacities and preferences of intended beneficiaries; available markets and prices; a realistic assessment of involved agencies’ capacities; timing and urgency of the transfer; infrastructure conditions; and envisaged goals, i.e. the outputs, outcomes and impacts (such as improved food security and nutrition, or women’s empowerment) (ACF, 2012). Cost-efficiency and effectiveness also depends on how beneficiaries will use the transfer – e.g. if beneficiaries were to sell in-kind food distribution to access cash for basic needs, cost effectiveness of the delivery model would fall (Cherrier, 2009).

In-kind assistance

In-kind distributions, in particular food aid, have been the predominant relief response in contexts of humanitarian emergencies. However, thinking on this subject has shifted, with a rising awareness that in-kind distributions – food and non-food items may not always be most cost efficient or the appropriate modality. It is also viewed as paternalistic – reducing choice and potentially distorting market prices (UNHCR, 2012). The choice and nature of food distribution interventions must be linked to contextual conditions including local markets, food prices, commodities available and accessible, and also opportunities for local procurement – taking into account regional trade barriers and price stability (Lentz, Passarelli & Barrett, 2013b). In circumstances of unfavourable food market conditions, food distribution may be most needed and a cash transfer or voucher may not lead to adequate food access or availability, choice or purchasing power. In sum, lacking a basic level of market functionality, food distribution could be likely the optimal modality (Gentilini, 2014).

Local and regional procurement (LRP) of food aid is an option of increasing interest, claimed to lead to quicker and more cost-effective response. Lentz *et al* (2013b) conducted a study based on timeliness and cost-effectiveness estimates. They compared US-funded LRP activities in nine countries against in-kind, transoceanic food aid shipments from the US to the same countries during the same time. Results showed that procuring food locally or distributing cash or vouchers results in a time saving of nearly 14 weeks, a 62 percent gain. The cost-effectiveness of LRP varied by commodity however – procuring grains locally saved an average of over 50 percent, but local procurement of processed commodities, mainly oil, was not always cost-efficient. Shipping bulky cereals for example from the US is expensive relative to the underlying commodity value. They found a ratio of weighted average commodity costs over weighted average ocean freight costs for processed products at about five, and about two for cereals, meaning, a larger portion of transoceanic costs for cereals is spent on ocean freight charges which are not necessary with LRP. The authors temper their findings however, and conclude that LRP is not always superior to transoceanic food aid in cost-effectiveness terms, although their data do indicate LRP is superior by timeliness. They advise agencies to analyse the context and to identify their objectives; timeliness, cost-effectiveness, or other factors. In an environment of increased demand and reduced resources for international food assistance, LRP merits attention (Lentz *et al*, 2013a).

Cash transfers (CT)

The use of cash-based modalities are rapidly on the rise, playing a critical role in emergencies as well as in high poverty and vulnerability contexts. Part of this momentum is due to the fact that traditional emergency food aid responses to disasters, notably in Sub-Saharan Africa, have been seen increasingly as inadequate. Emergency food aid responds to famines but has failed to clearly contribute to food security. Importantly, replacement of food subsidies with cash transfers in many countries (such as Mozambique) has the potential to expand fiscal space for more social protection targeted to the most vulnerable (Garcia & Moore, 2012). Countries that introduce CTs in place of food subsidies may likely increase efficiency of spending on social protection, also enabling greater coverage.

There are a range of types and objectives underlying cash transfer programmes, such as established cash grant programmes (around a rights based approach), more short term poverty reduction and food security programmes (which may be conditional or not) and humanitarian. Among the booming expansion of social safety nets around the world, the number of countries with conditional cash transfer (CCT) programmes have increased ten-fold, from three in 1997 to over thirty in 2008. Unconditional cash transfers are also increasingly popular, notably in Africa (Banerji & Gentilini, 2013).

Cash is increasingly used in emergencies – particularly where markets are viable (Creti, 2011). The HLPE (2012) global report and Gentilini (2014) conclude that distributing cash is typically often cheaper than distributing food or other commodities, with studies showing that in-kind administrative costs are 20-25 percent higher for those types than for cash transfers (HLPE, 2012). Cash transfers integral to national social protection programmes may also likely be more efficient than implementation by multiple

partners. But cash transfers can evidence inefficiencies. Garcia and Moore (2013) report for example that Mozambique's cash subsidy transfer programme was estimated as spending US\$1.55 for every dollar of benefits delivered in 2007, attributing inefficiencies to the implementation structure and administration. Evidence suggests that cash transfers can achieve high levels of cost-efficiency however when they are designed and implemented efficiently. With the onset of e-electronic payments, cost efficiency and overcoming implementation challenges have been even further improved (Banerji & Gentilini, 2013). Typically, inefficiencies may commonly be due to administrative and implementation features, and in any case, should be examined closely to improve cost efficiencies.

Benefits of cash are wide, importantly, they enable choice by empowering recipients to evaluate and address the range of their own needs and priorities across multiple sectors, such as food, water, health care and other services, and livelihood investments. People have the freedom to choose. This is particularly important in humanitarian contexts, when households strive to address their own priorities according to their unique situations. The flexibility offered through cash transfer mechanisms, according to Venton, Bailey and Pongracz (2015), supports the case that cash transfers have the potential to best support household resilience. Cash based interventions have been found to be particularly highly effective in urban settings where viable markets and banking systems are already in place (UNHCR, 2012). In rural settings, cash transfers have found to stimulate local agricultural production, non-agricultural activities, household wellbeing, food security and resilience, and the local economy.

Current thinking around the social assistance agenda involves moving from ad-hoc fragmented programmes to coherent complementary portfolios of interventions to address the range of issues of poverty, risk, vulnerability and opportunity, covering the full set of risks at different stages of the life-cycle. While less developed countries might be at the early stages of introducing and expanding this type of basic social protection, middle-income countries are more advanced. In most cases, countries tend to have well-designed programmes that, as a whole, may still leave gaps at critical stages in the life cycle. For example, some countries, such as Brazil, may have extensive CCT and social pension programmes, focusing on needs of families with children and elderly, but limited/no public works to assist the working-age poor without children. A wide systems approach has capacity for realising efficiency gains from systems such as unique (single) registries and institutional coordination as well as effectiveness addressing the divergent needs of different beneficiary groups (Banerji & Gentilini, 2013).

Vouchers

The use of vouchers affords more control over the use of cash by its beneficiaries. Vouchers are considered flexible and efficient, given that the value can be adjusted more easily than, for example, in-kind distribution. One benefit of voucher transfers, for example over food aid, is beneficiary choice, typically immensely appreciated by beneficiaries. Cash-based vouchers can be used in trade fairs, with high potential to promote local vendors and the local economy (Baily, 2014b).

The use of vouchers, however, often places a huge administrative burden on the programme: the voucher management schemes are typically more complex than cash transfer requiring measures to reduce fraud. For example, discrepancies may arise between shopkeepers and buyers, beneficiaries may sell the value from the voucher in exchange for cash or goods outside those allowed in the programme, lost or stolen vouchers could be misused, or shopkeepers could abuse beneficiaries forcing them to purchase goods available in their shops only. There are other investment costs, such as price monitoring and developing wide partnerships which highlight the complexity of voucher modalities (OPM, 2011). Vouchers are generally not as efficient as cash transfers particularly due to staff time, including as example, negotiating prices with beneficiaries and traders, creating contracts with dozens of vendors, training vendors on the voucher system, and paying vendors. Consideration to price-indexing to the food basket costs is also important. This also applies for the case of cash transfers. This is often contingent on negotiations with vendors, and establishing a ceiling for different commodities. In this regard, as discussed below in the Democratic Republic of Congo case, vouchers can create cartels of vendors, who

are not only based outside the locality (thus potentially undermining local economy dynamics), and can also create a monopoly on pricing (Bailey, 2014b).

In the case of Lebanon, Venton, Baily and Pongracz (2015) report that electronic vouchers were less expensive and more cost efficient than cash transfers, for example, setting up the cash transfer mechanism was 17 percent higher in cost than vouchers, and operating the system was reported at 78 percent higher monthly. This was mostly due to the higher automatic transfer banking fees for cash access. However, the authors point out that a range of hidden costs exist and when taken into account, the efficiency of the voucher is reduced. These include, for example, higher purchasing prices to beneficiaries, transaction costs for retailers, less competition, and voucher balance resale, which is interesting because beneficiaries are in need of cash to buy items, such as fresh food, or address other needs.

3. Cost efficiency and effectiveness assessments: case studies

Occupied Palestinian Territories (oPT)

An analysis conducted by Cherrier (2009) compares cost efficiency of social protection modalities of the United Nations Relief and Works Agency for Palestine Refugees in the Near East's (UNRWA) support in the occupied Palestinian Territories (oPT) concluding that although more expensive to administrate, food transfers were more cost efficient during the 2007-8 period of analysis, largely explained by huge price differences between international, national wholesale and local retail markets during the global food crises. UNRWA valued the food transfer at US\$70/person/year, and the actual ration value increased—estimated more than US\$129/person/year, up to US\$207 in the West Bank. In contrast, the actual value of the cash subsidy (US\$40/person/year) decreased, losing up to 55 percent in Lebanon (p 10). Outside the exceptional volatile global food price period, cash transfer was assessed cheaper to administer than food transfer. In Jordan, Syria and Lebanon, food distribution costs were estimated to be 11-18 percent of the commodity value, while cash distribution costs were estimated to be less than 2 percent of the cash transfer value (pg 79). Based on beneficiary discussions, the majority preferred a mix of both food and cash together, given the food price context.

Another study based on the World Food Programme's (WFP) support in the Gaza Strip (Creti, 2011) found that a cash/voucher based approach in oPT is cost-inefficient for the provision of a traditional food basket to meet basic needs of the most food insecure. Analysis of the West Bank voucher modalities indicated that in-kind food distributions appear to be more cost-efficient than vouchers in providing an adequate food basket to the beneficiaries. The review found that vouchers were between 49 and 147 percent more expensive than traditional in-kind food assistance. Also, with the same value of transfer, average food basket through vouchers provides less than half the minimum daily requirements for energy (40 percent compared to the 90 percent provided through the in-kind ration) and protein (50 percent, compared to 100 percent) (Creti, 2011). However, the report shows, with greater degree of choice, beneficiaries are able to make rational and economical decisions about what they purchase with the voucher which commonly results in greater dietary diversity. As such, in oPT, although vouchers were evaluated as less cost-efficient, WFP pursued vouchers due to these benefits and multiplier effects in markets (ACF, 2012).

A study by Oxford Policy Management (2011) commissioned by UNRWA assessed cost efficiency of modalities for all UNRWA fields of operation and found that costs of storage, transport and distribution are more than 19 percent of the actual purchase cost and more than 16 percent of the total costs incurred to provide food aid to beneficiaries. The report highlights there are clear cost savings with the use of alternative delivery options under an all-cash approach as food distribution carries significant overheads and tends to be labour-intensive compared to providing cash transfers. Context is also a determining factor, the report explains that WFP in Syria and the West Bank moved to vouchers as food markets exist in these locations and there is a need to deliver services more cost-effectively.

Case studies from Ecuador, Uganda, Yemen, and Niger

A study led by the International Food Policy Research Institute (IFPRI) (Hoddinot *et al*, 2013) was contracted by WFP to evaluate the comparative performance of cash transfers, food payments, and vouchers in terms of costs, household food security and other outcomes in four pilot projects. The evaluation was based on an experimental design where the delivery modalities were randomly assigned. Findings showed that, excluding the cost of procuring food, cash transfers were always cheaper to deliver than food and that the magnitude of cost differences was large. On a per transfer basis, cash costs US\$2.91 less to deliver to a beneficiary in Uganda, US\$6.28 in Yemen, US\$8.47 in Ecuador, and US\$8.91 in Niger. However, if WFP procurement of food is less expensive than food purchases in local markets, this cost differential will narrow. Their conclusions suggest that as WFP obtains experience with cash transfers, costs of cash transfer delivery will be reduced, which will widen this cost differential. Further, although the study did not systematically assess local market impacts, qualitative evidence found during the study suggested no adverse effects on local markets transpired (although they note the transfer size was small and the pilots were temporary). Regarding effectiveness, concerning nutritional outcomes, overall, in three countries (Ecuador, Uganda, Yemen), cash had a larger impact on improving dietary diversity as did vouchers in Ecuador, but in the fourth country (Niger), food had a larger impact on dietary diversity. But, in two countries, food transfer had a larger impact in terms of increasing quantity of calories available for consumption at the household level.

As above, in Niger, Hoddinot, Sandstrom, and Upton (2014) find through their randomized design evaluation that with respect to short-term food security objectives of food distribution, the food basket had clear advantages. Households who received the food basket experienced larger, positive impacts on measures of food security and dietary diversity than those receiving cash. Less than 5 percent of the food was ever resold. The more modest diversity in diet among cash recipients was likely due to the fact that cash recipients had opted for purchasing grains in bulk, which is most probably a reflection of their extreme poverty as well uncertainty regarding future food prices. Households receiving food also resorted to fewer coping strategies. While this was the case, households receiving cash spent more money on agricultural inputs.

On cost efficiency, given food and cash were delivered with the same degree of frequency and timeliness, food transfers cost 15 percent more to implement, as the monthly transfer value was roughly US\$55 and the specific cost was US\$12.91 per food transfer while the cash transfer cost only US\$4.00 per transfer. This meant that coverage could have been increased by 15 percent if all was in cash, providing cash assistance to an addition 741 households (estimated 5,041 people). Moreover, the authors underline that despite more food security benefits in the short term from food transfer, in the long term it may be difficult to assess as households receiving cash spent more on agricultural inputs which would mean that such households could have higher incomes in the future (Hoddinot *et al*, 2014).

The Ecuador randomised evaluation reflected insightful findings concerning effectiveness, particularly as this study was focused on more urban areas with integrated functional markets. All three modalities – food transfer, food vouchers and cash transfers – significantly improved the quantity and quality of food consumed but differences emerged in the types of food. Food transfers led to larger increases in calories consumed, while vouchers led to larger increases in dietary diversity. Importantly, in terms of cost effectiveness, they found marginal costs are US\$11.50 to provide a food transfer, US\$3.03 to provide a cash transfer, and US\$3.30 to provide a voucher. Cash is evidently the least expensive modality, given these costs and impacts, they conclude food is the *least* cost-effective means of improving all food consumption and dietary diversity outcomes (particularly in an urban, well-functioning food market context) – but they remark, the ultimate decision hinges on the specific objectives of the programme. In the Ecuador case, cash was the modality that beneficiaries most preferred, and was also the cheapest type of transfer. If the objective is only to improve welfare, cash would be most ideal. Moreover, shifting from food to cash could have increased beneficiary coverage by 12 percent. But if the objective is to increase calories or dietary diversity, vouchers were the most cost effective, followed by cash. Ironically, vouchers were found to be the modality least preferred (Hidrobo *et al*, 2014).

Meta-evaluation: 10 country study

This meta-evaluation reviewed 12 comparative studies in 10 countries, including in the context of drought (Niger); man-made crises (Democratic Republic of Congo, Ecuador); natural disasters (Sri Lanka); arms of social protection systems (Bangladesh, Ethiopia, Mexico, Cambodia); and fragile contexts (Yemen, Uganda). The studies reviewed show that cash transfers tend to be at least twice more efficient than food based interventions. Yet methods for cost analyses vary in scope, breadth and depth. Gentilini (2014) suggests that while the challenges of robust cost analyses should not be underplayed, future cost-effectiveness studies should be more standardised and nuanced.

Highlights of the cost efficiency comparison among countries include, for example, that in Mexico, logistics costs of moving commodities from warehouses to villages have been estimated to be about 20 percent of the wholesale cost of the transfer. Using a generic delivery cost estimate, food is roughly seven times more costly than cash transfer. There are various reasons for those cost differences. In the case of food transfers, major costs are due to logistics (storage, handling, transport, distribution and insurance) while the largest cost item for cash transfers is payment (transaction fees is about 3 percent in Ecuador, Uganda and Yemen and 6 percent in Niger).

In Bangladesh, Gentilini (2014) reports the costs for delivery of cash and food transfers. For cash, only the bank transaction cost was considered, generating a very low cost. But for food, taking into consideration procurement costs, costs at ports, losses, internal transport, storage and handling, a total cost was found to be 1.2 taka per 1 taka (local currency) transferred. In the Democratic Republic of Congo, vouchers were 1.2 times more expensive than cash transfers, indicating staff time as the major cost, followed by transport and coupon printing.

Regarding effectiveness, Gentilini (2014) examined the performance of modalities on a range of mostly food security related indicators, and found that differences in effectiveness vary only moderately by indicator on average. There are cases where differences are more marked (e.g., cash more effective in increasing food consumption, and food seems to outperform cash in increasing household caloric intake), although most often not statistically significant. The paper concludes that the transfers' modality performance seem a function of the organic interactions of several factors (e.g., profile and 'initial condition' of beneficiaries, local markets, programme objectives and design), rather than inherent merits of a given modality.

Ethiopia

Sabates-Wheeler and Devereux's (2010) report is based on empirical evidence providing data from Ethiopia's Productive Safety Net Programme (PSNP). This report is based on a two-wave panel survey conducted in 2006 and 2008. The authors estimate econometrically a growth regression model comparing impacts of different payment modalities. Ethiopia experienced unprecedented inflation since 2007, reducing the real purchasing power of the PSNP cash transfer. Their regression findings confirm food transfers or 'cash plus food' packages were superior to cash alone – while they also promote more income growth, livestock accumulation and (self-reported) food security. These findings support the view that a reliance on un-indexed cash transfers to deliver social protection in an inflationary environment is not an optimal strategy – commodity-based transfers retain their value whereas the purchasing power of cash transfers is eroded by rising commodity prices. An appropriate response to inflation is to reconsider the balance between cash and food transfers, or alternatively to introduce index-linking to cash payments, to ensure that they retain their real value irrespective of food price movements.

Results such as these pose questions concerning the most appropriate humanitarian response and the most cost efficient and effective modalities of social assistance in zones of volatile contexts. Sabates-Wheeler and Devereux (2010) summarise that the 'cash/food debate' remains unresolved – cash transfers and food aid can often be found within the same country, sometimes even within the same humanitarian relief or social protection programme as a multi-modality social assistance programme.

They recommend that to achieve objectives, namely food security, social assistance programmes must introduce mechanisms that buffer social transfers against shocks, which implies a design including among other factors: (1) inflation forecasting; (2) assessment of local markets; and (3) building a contingency fund into programme budgets, before choosing between alternative payment modalities.

Democratic Republic of Congo (DRC)

An evaluation by Baily (2014b) examines the appropriateness and effectiveness of food-assistance interventions provided by an ECHO-funded food assistance programme in DRC, including provision of cash transfer, vouchers, as well as trade fairs managed by implementing partners working in partnership with UNICEF's Rapid Response to Population Movements (RMMP). Baily (2014b) argues that voucher and cash-based interventions were more efficient compared to in-kind food aid, which was actually originally envisaged to complement RMMP, but never transpired, motivating ECHO to support the food-assistance form of modalities. Although a cost efficiency comparison with in-kind food assistance was not possible, the author notes that as cash and vouchers interventions involved more locally produced food compared to in-kind food aid, typically purchased and transported from outside DRC, there will likely have been cost savings on transport, storage and staff time. Cash transfers were the most efficient modality of the approaches, reducing resources in time required with voucher systems, their vendors, and trade fairs.

Bailey (2014b) found that the cash-based food assistance intervention was effective and flexible. When compared to in-kind food transfers, the cash and vouchers involved more locally produced food and thus cost savings on transport and storage. However, prices were found to be high for some commodities through the voucher. This is because vouchers can create cartels enabling certain businesses to control the market. She proposes that targeting local traders would benefit more the local economy than larger vendors – who are mostly external. If the prices negotiated by beneficiaries and vendors are higher than local market prices, agencies should verify the reason and determine if it is acceptable. Insisting on lower prices on the other hand might favour larger vendors over small local vendors. Overall, a critical positive spin-off effect of the voucher intervention was the injection of cash into the economy. For more than 500 traders, the food vouchers resulted in US\$3.9 million in sales, and vendors reported that their profits were used for household needs, school fees, improved housing, and investments etc. The traders who did not participate directly also benefited from an increase of dollars circulating in the zone.

In humanitarian response settings, with unpredictable contexts such as in DRC, flexibility, efficiency, timeliness of food assistance and coordination are vital. Coordination in targeting, for example, was found to greatly impact efficiency. Overall, the model of directly funding implementing partners to provide flexible food assistance made sense, increasing efficiency and coherence through a multi-sector approach. Bailey (2014b) recommends to further pilot mixed approaches of food assistance modalities including cash transfers and vouchers that can be used for either food or non-food items, as people choose.

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Key websites

The World Bank Social Protection Website:
<http://www.worldbank.org/en/topic/socialprotectionlabor>

Cash Learning Partnership:
<http://www.cashlearning.org/>

The World Food Programme – Cash and Vouchers website:
<https://www.wfp.org/cash-and-vouchers>

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Suggested citation

Pozarny, P. (2016). *Evidence on the comparative cost efficiency and effectiveness of various social assistance modalities* (GSDRC Helpdesk Research Report 1323). Birmingham, UK: GSDRC, University of Birmingham.

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