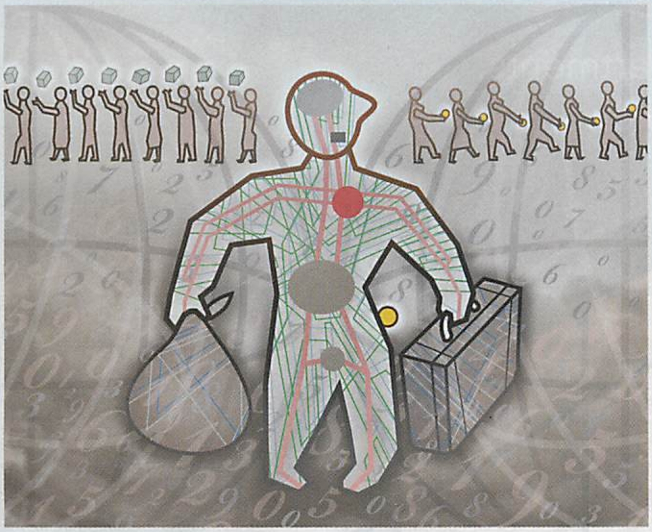
Free exchange | Hard-nosed compassion

Cash transfers, rather than handouts in kind, would help aid to refugees go further



THERE are 20m refugees worldwide, most of them children. Some 1.6m Syrians live in Lebanon; even more in Turkey. Humanitarian agencies struggle to meet their basic needs. In July the World Food Programme (WFP) cut assistance to refugees across the Middle East, saying that its regional operation was 81% underfunded. One way to make scarce aid money go further, argues a report* released this month by the Overseas Development Institute and the Centre for Global Development (CGD), two think-tanks, is for donors to give less in kind and more in cash.

Many developing countries hand cash to needy citizens to help them escape poverty. But less than 6% of humanitarian aid last year came in the form of cash. One concern is that refugees, like others in desperate circumstances, may not spend the money well. That's because the stress of poverty engenders a "scarcity mindset", as Sendhil Mullainathan of Harvard University calls it, which can lead to bad decision-making, in part through the overvaluation of present benefits over future ones. Abhijit Banerjee and Esther Duflo of the Massachusetts Institute of Technology cite the example of poor Indians, who often say it is hard to resist buying sugary tea, a costly treat that brightens up dark days but is not nutritious. In theory, giving refugees aid in kind ensures that they are supplied with the goods and services they really need.

Sadly, aid agencies can be even worse at deciding how best to spend their limited resources than the refugees themselves. They typically send a surfeit of some items, and not enough of others. A study by REACH, a UN initiative, found that 70% of Syrian refugees in Iraq had traded handouts from aid agencies for cash, including as much as two-thirds of the rice they received.

Moreover, even if aid in kind does successfully address one debilitating aspect of poverty, by improving decision-making, it may worsen others. Refugees, in the jargon of welfare economics, suffer from a lack of "capabilities". They are typically deprived of many attributes of a decent life, including social acceptance and the right to express themselves politically. Obtaining handouts from aid agencies, which usually involves waiting in long queues in public, is a source of shame for some. Aid in cash, in contrast, can boost refugees' capabilities. It can be dispensed discreetly, especially with the use of pre-paid cards, points out Owen Barder of the CGD, one of the report's authors. With cash in their pockets people can participate in the life of the community, since they can do things—repay debts, host others and contribute to ceremonies—that aid in kind does not allow.

The question of cash v handouts sparks macroeconomic debate, too. One concern relates to "Dutch disease", a term coined by *The Economist* in 1977, to denote an influx of foreign money that leads to an appreciation of the receiving country's currency. That, in turn, makes exports less competitive. In a paper published in 2009, Arvind Subramanian and Raghuram Rajan, both then of the IMF, found that in the 1980s and 1990s the more aid a country received, the less growth it saw in export-oriented industries. The inflation sparked by the influx of cash can also push the price of basic goods—food and rent, for instance—out of the reach of the host country's host population, fostering discontent.

But giving cash to refugees need not lead to Dutch disease. First, the number of refugees in most countries is tiny relative to the host population. Even in places with lots of them—in Lebanon, about one person in four is a Syrian refugee—an influx of foreign money is unlikely to be a disaster. From 2011 to 2014 humanitarian aid to Lebanon (in cash and in kind) was equivalent to just 1.3% of Lebanese GDP, estimate Mr Barder and Theodore Talbot, also of the CGD. Although an influx of cash may lift inflation, it may also create jobs and growth in the receiving economy.

Second, the alternative—aid in kind—has its own macroeconomic consequences. As goods and services flood in from abroad, local businesses may suffer. One paper, from three wonks at the University of San Francisco, looked at TOMS, a firm that gives a free pair of shoes to a poor child for every pair sold to those of greater means. Those who received shoes from TOMS, naturally enough, were less likely to buy a pair of their own, harming the local shoemaking industry. Other studies suggest that food aid reduces local commodity prices, to the detriment of domestic food producers. (Procuring handouts locally gets around this problem: of the $1.1 billion-worth of food bought by the WFP in 2012, three-quarters came from developing countries.)

Lighter, faster, harder to steal

The biggest benefits of cash are practical. It is relatively easy to siphon off aid, or rig a procurement contract, but harder to pilfer from electronic transfers. A report on cash assistance to Syrian refugees in Lebanon by the International Rescue Committee, a non-governmental organisation, found no evidence that it bred corruption. Technology can make things better still. Jordan, which houses 1m Syrian refugees, is the first country to use iris-recognition devices to ensure aid goes to the intended recipients, who can only withdraw it after a scan has confirmed their identity.

Cash is also far cheaper to distribute. America's government has estimated that transport and other overheads eat up 65% of spending on emergency food aid. Aid in cash goes much further. Nearly 20% more people could have been helped at no extra cost if everyone received cash instead of food, according to a study of aid in Ecuador, Niger, Uganda and Yemen by researchers then at the International Food Policy Research Institute.

Cash does have its problems: in times of emergency, when shops are shut, it may be useless. But if those 20m refugees are to have any hope of a decent life, it should play a far bigger role. ■

* Studies cited in this article can be found at www.economist.com/cashorkind15

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