



Risk and humanitarian cash transfer programming

Background Note for the High Level Panel on Humanitarian Cash Transfers

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Providing any sort of resources in conflict environments is risky and one of the risks is that parties to the conflict may divert resources intended for humanitarian purposes and use them to fuel the conflict. This is one of the central dilemmas of humanitarian action – the risks of doing something need to be balanced against the humanitarian imperative to act in the face of avoidable suffering and the risks of doing nothing. Cash doesn't fundamentally change this dilemma but may present new types of risk and new opportunities for mitigating them.

Cash transfers have become a more significant element of humanitarian response. At the same time, donors and agencies are responding to humanitarian emergencies in increasingly fragile and complex environments, where corruption or diversion of aid, including to terrorist groups and parties to the conflict, is a risk. This is not, however, new: cash transfer programming has been implemented for many years, including in insecure environments, giving us a good understanding of where risks may lie and how they can be mitigated. Moreover, the risks associated with cash transfer

programming must be counterbalanced against those associated with the in-kind programmes.

What are the risks?

Cash transfer programming raises concerns about a number of risks for corruption or diversion. In general, these risks are similar for cash and in-kind programming, as each can be stolen, diverted and put people at risk of attack. The types of risks faced by different transfers (cash, vouchers and in-kind) will always be a context-specific judgement. What is needed is good analysis of the comparative risks and strong measures to be put in place to monitor and mitigate risks.

Diversion: Cash is desirable. As a result, it is sometimes perceived as a more tempting target for theft and diversion (Harvey, 2005). In-kind aid, however, is also fungible and can be taxed, diverted and sold to generate cash. The question in any context is whether or not cash is more or less prone to being taxed or diverted by local authorities or parties to the conflict.

Targeting: Corruption in the targeting phase is a risk for any programme, where communities may collude with programme staff to sign up the ‘wrong’ beneficiaries, create ‘false’ beneficiaries, or demand that beneficiaries hand over a portion of aid in exchange for inclusion in the project. If cash is a more tempting target, the risk may be higher, but evidence to date finds that this has not been a major problem and that it is a manageable challenge.

Theft, corruption and fraud: Both cash and in-kind transfers are at risk of theft. Cash may be more at risk if it is more tempting to steal and easier to divert. However cash transfer programming may bring distinct advantages for reducing and managing fraud risks. Money transferred using electronic payments (mobile money, ATM cards, or e-vouchers) can be better traced than physical cash and in-kind transfers, meaning that any fraud or diversion is more likely to be picked up (Brewin, 2009; Sossouvi, 2013).

Using mobile money, smart cards and money transfer agents can avoid the need for transport of cash or for beneficiaries to travel to a distribution point, significantly reducing the risk of diversion compared to physical cash or in-kind aid (Murray, 2013). This may improve security for staff and beneficiaries if they no longer need to travel through insecure areas to deliver and access aid. This has made e-transfers feasible in contexts where in-kind aid, or physical cash, was not (Murray and Hove, 2014).

Cash transfers pose different corruption risks. There are high risks of corruption related to procurement, storage and transport of goods; using cash rather than in-kind distribution avoids some of these corruption opportunities (Lor-Mehdiabadi and Adams, 2008). At the same time, cash can and has been subject to corruption, including aid agency and money transfer staff colluding to divert funds.

Staff and beneficiary safety: There may be risks to staff and beneficiaries in transporting cash, particularly where cash is distributed all at once in a single, pre-determined location (which is becoming less common with aid agencies using banks, e-transfers, etc). Its distribution and transportation is usually much more discreet compared to bulky in-kind goods and obvious aid distributions. Even in insecure settings people make monetary transactions all the time, and a greater problem for them may be aid agencies deciding not to assist beneficiaries out of concerns for ‘their’ security.

By moving money through businesses like banks and money transfer companies, aid agencies can transfer the risk of transport and storage in a way that is rarely possible with in-kind transfers (Harvey et al., 2010; Lor-Mehdiabadi and Adams, 2008). Although this may have negative aspects, local providers have established mechanisms to transfer cash and manage risk in the absence of formal banking systems, and using them may boost traditional systems of transferring money (Harvey, 2005). The large amounts of cash assistance through the hawala in Somalia show the power of these systems for reaching people in insecure areas.

Mitigating risk

The successful use of cash in contexts such as Afghanistan, Pakistan, Somalia, Democratic Republic of Congo, Syria and Chechnya demonstrate that these risks can be successfully mitigated, allowing programmes to be implemented effectively (Harvey and Bailey, 2011).

Diversions (Somalia, 2010-2011) and fraud (USA, 2005-2006)

In 2010, evidence emerged from Somalia of the diversion of hundreds of millions of dollars of food aid, crippling confidence in aid agencies. In 2011-2012, cash was used on a large scale in response to famine, using local NGOs and the *hawala* system. A UNICEF evaluation of the response found that: ‘Given the Somali aid environment, corruption and diversion were an acknowledged risk. Unsurprisingly, the evaluation raises issues of misuse of funds. Evidence suggests that these were less serious than comparable in-kind interventions, but still could have been countered through better risk analysis and preparedness and were not sufficiently identified by monitoring systems’ (Humanitarian Outcomes, 2012).

The largest documented case of fraud in a humanitarian program providing money is from the United States. In the wake of Hurricanes Rita and Katrina, the Federal Emergency Management Agency (FEMA) quickly provided aid through the Individuals and Households Program, which provided money for housing and immediate needs. As of February 2006 more than 2.6 million payments were made totalling over \$6 billion. The US Government Accounting Office estimated \$1 billion of these payments were fraudulent from bogus claims and double registration (GAO, 2006).

E-transfers: programme evaluations have shown significant reductions in theft through use of e-transfers, while the privacy they afford makes them popular with beneficiaries (Sossouvi, 2013). E-transfers also reduce risks for staff when transporting money and eliminate the need for counting cash. E-transfers are not feasible in all contexts due to the need for infrastructure and the time they take to set up, and they are often more expensive than other ways of distributing money. There are also challenges associated with e-transfers that need to be addressed before they can reach their full potential as a humanitarian tool, related to reporting / proof of receipt, authentication and data protection, as well as compliance with donor requirements (an alternative point of view is that donors and aid agencies should adapt their reporting requirements to those of payment companies).

Distribution planning: Theft and diversion can be reduced by adopting distribution practices that maximise security (Harvey, 2005). This can include: limiting knowledge of cash movements, varying distribution days and locations (balanced with the need for transparency and enabling beneficiaries to plan), smaller/more frequent transfers or smaller/more frequent distributions to reduce the amount of money transported at once. The transport costs and logistics associated with moving in-kind aid often preclude such practices.

Local distribution mechanisms: Where they exist, agencies can maximise security by working with local mechanisms such as the hawala agents in Somalia and Afghanistan (Harvey, 2005). This reduces the need to transport cash, local organisations will have systems to manage risk, and they are trusted by beneficiaries. However, due diligence is needed to avoid working with agents linked to extremist groups. Similar approaches may include use of local microfinance organisations or distribution of vouchers to be redeemed with local traders.

Identity verification: Identity verification methods can mitigate duplication and impersonation. The UN refugee agency UNHCR successfully used iris scans on the Afghanistan/Pakistan border, while others have set up beneficiary bank accounts or used biometric IDs or fingerprint scans (Harvey, 2005).

Other risks

Voucher collusion: In voucher programmes where beneficiaries can redeem vouchers with pre-agreed traders there is a risk of diversion of funds through

artificially high prices due to collusion between traders, or sale of vouchers below value in order to access cash (Cabot Venton et al., 2015; Harvey, 2005; Lor-Mehdiabadi and Adams, 2008).

Misuse of funds: a commonly-cited risk for cash transfers is that beneficiaries may misuse the funds by spending on ‘vice goods’, such as alcohol or qat, rather than on essential needs, such as food, shelter or non-food items. Evidence suggests spending on such goods accounts for a very small proportion of transfers, with the majority of spending going on food and debt repayment or other essential needs. This risk is not absent with in-kind transfers, as beneficiaries may sell goods to purchase preferred items (Evans and Popova, 2014).

How do cash and in-kind programmes compare?

Many of the concerns around cash centre around its perceived fungibility – the idea that cash can be used to buy anything, whereas in-kind goods will not be sold. In practice, this assumption is often incorrect, with in-kind transfers (or vouchers) frequently sold to access preferred items or cash (Staunton, 2011). This – along with numerous examples of large-scale theft of in-kind aid – suggest that cash and in-kind programming present broadly similar risks, and should be held to broadly similar standards in assessing the security implications and other risks.

Cash transfers have been used in fragile and conflict-affected states and to date there is not evidence that this results in large-scale diversion of aid or that cash is more prone to diversion than in-kind aid. Although the current evidence base is not perfect, these findings have been echoed by the UK National Audit Office, which found in 2011 that cash transfers could be delivered safely and cost-effectively, and particularly highlighted that e-transfers offered a reduced risk of fraud as well as greater transparency and flexibility for beneficiaries (National Audit Office, 2011).

Despite the evidence, many agencies report that risk-averse systems and procedures are a major barrier to expansion of cash programmes, and that these are disproportionately applied to cash programmes rather than to in-kind programmes. This includes concerns about reputational risk if there is reported misuse of cash transfers, while misuse of in-kind transfers is seen as less risky, and biases responses in favour of smaller cash transfer programmes that are easier to scrutinise.

Aid agencies' concerns are not without merit – a donor made an NGO pay back money that had been siphoned off in Somalia after the NGO had investigated the fraud. Looked at more positively, the higher standards to which cash has tended to be held may help to drive up quality in in-kind programming. However, the burden of evidence and analysis often required for cash transfer programming can delay implementation, making in-kind programmes easier to implement even where they might not be the best approach (Austin and Frize, 2011).

Expansion of cash transfers is also affected by counter-terror legislation in agencies' home countries. NGOs are limiting their programme activities and areas of work due to concerns around counter-terror measures, while banks have on a number of occasions suspended services to NGOs working in particular areas (Metcalf-Hough et al., 2015). This increases the challenge of working with cash transfers and limits options for how money is transferred. Some humanitarian agencies report that donors are asking them to take on disproportionate risk and liability related to potential violation of anti-terror legislation.

As cash-based responses are scaled up, it is likely that diversion, security incidents and corruption will increase (Bailey, 2014). Similarly, it is possible that the reduced diversion to which cash transfer programming has so far been subject is due to the closer scrutiny placed to cash programming by agencies and donors, and that large-scale application of cash programmes would lead to increased diversion. Aid agencies and donors need to be ready for the potential media headlines and scrutiny of cash transfer programming that could result from a high profile case.

Conclusion

Regardless of the programme type adopted, risks are inevitable when implementing large-scale programmes in insecure environments. The relative familiarity of in-kind programmes should not bind us to their associated risks, just as the relatively novelty of cash programmes should not lead us to focus unduly on those risks. Evidence from past programmes in a wide range of contexts demonstrates that it is possible to successfully implement cash transfer programming in fragile or insecure environments. As innovative solutions are introduced for transfer of cash and verification of identity, it may be possible to reduce this risk further.

The next phase of the scale-up of cash transfers should therefore focus on ensuring that cash and in-kind are assessed fully on their respective merits – and that this is clearly communicated to partners, who are held back as much by a perception of donor attitudes as the reality (Austin and Frize, 2011). More importantly, the focus in this process should not be on lowering assessment and security standards for cash programmes to meet those which donors currently apply to in-kind programmes. Instead, similar standards should be applied to in-kind programming related to market assessment, security analysis and risk mitigation, improving programming across the board, and ensuring that programmes are adapted to context and that the most appropriate intervention is implemented.

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