

Learning from cash responses to the tsunami

Issue Paper 3

Setting the value

Lesley Adams and Paul Harvey

A key question in the design of cash transfer programmes is how much money to give people. This Issue Paper explores the questions around setting the value of the cash grant in four areas:

- grants to meet basic needs;
- grants to support shelter recovery;
- grants given via cash for work projects; and
- grants for livelihoods recovery.

Providing cash to meet basic needs – food and other items – requires an assessment of what people need to survive, how much meeting these needs will cost and whether the cash grant is trying to meet those costs in full or in part. Similarly, deciding on the size of cash grants to support shelter recovery requires an understanding of what building adequate and safe housing will cost, and a decision on whether the grant should cover the whole amount, or is just a contribution. Cash for work rates are influenced by a number of considerations, including local wage rates before and after the disaster, the availability of labour and the cost of living. Deciding how much cash to provide for livelihoods recovery is more difficult: should agencies provide the same amount to everyone in the target population, or should the amount being provided vary according to the type of business or livelihood being supported?

Setting the value of cash grants to meet basic needs

Cash grants to help people meet basic needs are often seen as an alternative to food aid, and their value is calculated accordingly: instead of \$10-worth of food aid, a recipient is given \$10 in cash. Tying the value of cash to the value of food aid may, however, be unnecessarily restrictive since cash is flexible enough that it can be used to meet basic needs other than the need for food: governments in India and Sri Lanka, for example, have provided cash for housing, clothes and fuel, as well as food. In assessing how much cash is appropriate to meet a



A cash beneficiary in Matara, Sri Lanka

©Oxfam GB

household's basic needs, we need to take into account the entirety of that household's routine daily and weekly consumption costs (including basic services). Other 'one-off' costs – burials, for instance – may also be important.

The first step in calculating how large a cash grant should be is to work out what people need, decide how much of that need the cash grant should meet and estimate what that will cost. The list below covers the basic questions to be considered:

1. Articulate your objectives – is your aim to help people meet their basic food needs, their basic non-food needs or both? Whether you concentrate on food, other needs or a combination will depend partly on what other organisations are providing.
2. Do you need to meet people's entire food and/or non-food needs, or is it sufficient to meet only part of these needs? Again, this will depend on what people are getting from other food and income sources. Beware, however, of over-estimating what these other sources can provide.

This is the third of six issue papers which form part of a project to document learning around cash based responses to the Indian Ocean tsunami. The project was funded by the British Red Cross, Save the Children UK, Oxfam GB, Mercy Corps and Concern Worldwide. Further information and resources are available at: http://www.odi.org.uk/hpg/Cash_vouchers_tsunami.html



3. Estimate the cost of a household's basic food and other needs. Consider price trends (projected) and compare current prices with past and pre-disaster prices. Check whether there are important regional differences in prices.
4. What needs can a cash transfer appropriately meet, and what needs require other approaches?

Inflation is a particular problem with cash transfers for basic needs assistance; inflation reduces the value of the cash grant, meaning that needy families may not be able to buy enough to meet their essential needs. The value of the cash transfer therefore has to be in line with the cost of living, and adjusted should the cost of living change. Regular reviews are needed, with analysis of the factors behind inflation.

Agencies should make sure that they cover four important activities.

1. Analyse the market.
2. Develop scenarios describing the likely price and maximum acceptable price increases in different situations; worst-case scenarios should also be considered.
3. Establish contingency plans for the most likely scenarios.
4. Monitor prices; when they exceed the likely price and move towards the maximum acceptable price, set in motion the contingency plan.

The main issues involved in market analysis are covered in more detail in Issue Paper 1.

Setting the value of cash grants for shelter recovery

If cash is provided to support the rebuilding of permanent shelter, the question of how much to provide is normally linked to the cost of rebuilding or repairing houses. This is likely to be difficult to calculate on a case-by-case basis, so a flat-rate grant is normally provided. In Sri Lanka, this caused some controversy because people with only lightly damaged houses received the same amount as those whose homes had suffered much greater damage. Inflation in the price of building materials also meant that the value of cash grants was eroded, and the amount provided was insufficient to enable recipients to completely rebuild their homes. However, one potential advantage of cash-based shelter responses is that people can more easily bring their own resources to bear (for instance from remittances) in the rebuilding process. Cash-based shelter responses are discussed more fully in Issue Paper 4.

Setting the value of cash for work rates

Guidelines usually recommend setting wage rates at a level similar to or below the prevailing market rate for the labour. In practice, however, this means

that cash for work projects may not be paying a living wage. Particularly in situations of widespread and chronic poverty, wages for casual labour are so small already that setting a wage level at or below this would deliver an extremely low level of benefits to participants, and the amount paid would fail to meet minimum levels of subsistence or calorific requirements. If people are also receiving other assistance, there may be less need for cash for work wages to meet all of people's basic needs.

A second argument for paying relatively low wages is that it can enable projects to be self-targeting, as only poor people will want to work for the wage on offer. However, an extreme use of this strategy – particularly in disaster recovery phases – may exploit the vulnerability of poorer groups. Again, this may mean that the poorest groups end up working for wages below what they need to live on.

Conversely, setting cash for work rates too high, or making the terms of work more attractive than existing norms, can disrupt labour markets by taking workers away from local enterprises. If there is no prevailing market rate because the market has not yet recovered, then agencies should use the rates established before the disaster. When labour markets start to recover, agencies should check that the wage is in line with the local rate for unskilled labour, and that local enterprises are able to find people to work for them. If cash for work is leading to labour shortages, it may be necessary either to reduce wages, or restrict participation.

Clearly, there is a dilemma here: the need to fix wage rates at or below normal rates may conflict with the need to pay a wage that allows people to meet their basic needs. Agencies need to think through the issues (and discuss them with beneficiary communities) and see what makes sense:

- If agencies provide a higher-than-normal wage, they need at least to communicate that the high wage reflects the unique nature of the devastation, and is designed to help people recover more quickly.
- The cash for work wage must cover basic needs when households have no other sources of food or cash. This is less important (at least as far as nutrition is concerned) when a full food ration is being provided.
- At least in the early stages, the devastation wrought by the disaster has itself distorted the labour market, so interventions should be designed to temporarily compensate for this. Particular care is needed when the labour market starts to recover.
- Be conscious of the possibility that people will prefer cash for work to their usual labour opportunities. What of future years, when tsunami-related labour opportunities are no longer there?

- Expecting cash for work projects to solve people's cash problems is unrealistic: wages are unlikely to be sufficient to cover more than basic needs.
- If the work complements the broader disaster recovery process (as with cleaning-up operations in tsunami-affected coastal villages) then the wages themselves may not be the main factor attracting people to the work.

There are also important choices to be made in the targeting of cash for work programmes. If public works projects are intended to be self-targeting, then they need to be able to absorb as many people as want to participate. In practice, however, this is often impossible due to capacity constraints, and participation has to be restricted. It may therefore be preferable to employ fewer, poorer workers for longer, rather than using up the budget more rapidly by paying higher wages to a larger number of people, some of whom may be in less acute need of the cash. After the tsunami, casual labourers were often particularly vulnerable because they were less likely than other groups to benefit from other forms of livelihood support.

A related issue is the risk that cash for work projects exclude households with no labourers, or with high dependency ratios. Options for addressing this problem include making free payments or grants to households unable to work, setting aside types of work that might be better suited to people who find hard physical labour difficult or impossible and providing childcare at project sites.

Setting the value of cash grants for livelihoods recovery

Cash support to enable people to rebuild and recover their livelihoods has to contend with the fact that people earn a living in enormously diverse and flexible ways. As a result – and this was the case in the tsunami – agencies tend to provide variable amounts of cash to support livelihoods recovery. This can be administratively complex, and often requires lengthy procedures for deciding the amount that individual households receive, developing business plans and monitoring progress against these plans. An alternative is to provide the same amount to all targeted households. Whether an agency chooses to provide the same value of grant to all affected households, or according to business recovery plans, the process of setting the value should follow similar a similar logic, which involves estimating what support is needed to enable people to restart different occupations, whilst taking into account issues such as levels of debt, the extent to which basic needs are being met and what other support is being provided (this is discussed in more detail in Issue Paper 5). Key issues to consider are:

- Variable grants – need to estimate how much is needed for different groups of livelihoods or individual business plans.
- Flat-rate grants – need to estimate how much cash provides a reasonable average level of support for the range of livelihood options within the targeted group.

Setting the value of cash grants in the tsunami

The tsunami response provided a rich range of experience as agencies set amounts for cash grants and cash for work projects and grappled with the tricky question of how much to provide.

In WFP's pilot cash project in Sri Lanka, the amount was set as close as possible to a cash equivalent of the food aid ration because the project was designed to compare cash and food approaches. Care's pilot project in Indonesia provided a mixture of cash and vouchers that amounted to approximately double the value of the food aid ration. The amount was set to cover

Government cash responses: some examples

- In Thailand the government provided cash grants as compensation to the relatives of those who had died or been injured in the tsunami (Government of Thailand, 2005). The government also provided tax and loan reprieves such as temporary income tax exemptions.
- In Indonesia, the government aimed to provide IDR3,000 per person per day, starting in March 2005 and running through the year. This was intended as a complement to a WFP ration.
- In India, people received \$2,264 for each death in their family, and lesser amounts for injuries; \$22 per person per month was distributed for four months to cover basic needs, and households received another \$22 to cover basic household goods, such as kitchen utensils and stoves. The government also provided cash to Self Help Groups, for the repair and replacement of fishing equipment; exemptions from school fees; grants to women for fishing-related businesses; extra pension benefits; and cash for agricultural reclamation and as support to orphans.
- In Sri Lanka, the government provided \$1,515 in compensation for deaths, \$25 for household items, \$50 as an emergency resettlement allowance, \$8.50 a month for approximately 12 months and four unconditional transfers of \$198 per household. The government also provided cash grants for people with damaged and destroyed houses.

Sources: Adams (2006); Deshingkar (2006); Schubert (2005).

Setting cash for work rates in the tsunami response

In Aceh, cash for work programmes wages were 'set' early on by UNDP's livelihoods recovery working group. The wage rate was fixed at the typical urban casual labour wages for Banda Aceh. Later, it was realised that in some locations the use of the urban unskilled labour rate was inappropriate as it exceeded the local rate for unskilled labour. This was particularly true for agricultural labour – raising the risk that crops would be compromised. In Sri Lanka there was little guidance, and wage rates were variable and generally higher than the market rate.

Wage rates for women everywhere were higher than normal: unskilled labour performed by women is usually paid at lower rates than for men, but cash for work projects stipulated that the rates should be the same. While many men objected to this, agencies insisted on it, and it would have contravened both local and international labour laws if the wages had been different.

Examples of NGOs being sensitive to the local market rate include:

- Mercy Corps in Aceh reduced the number of labour days people could work on a project in response to a complaint from a local brick-making enterprise which was finding it difficult to attract labourers (the market rate for brick manufacture – a highly competitive industry – was significantly lower).
- Oxfam in Killinochi suspended the cash for work programme during a period of critical agricultural labour, thereby freeing up labourers to work in the fields and secure a harvest.
- In Sri Lanka, farmers reportedly purchased farming machinery because they could not recruit agricultural labourers. This has potentially long-term implications when cash for work is no longer available (Aheeyar, 2005b).

the cost of a household's basic needs. CARE felt that using cash gave people the flexibility to meet basic non-food as well as food needs, and that additional support was justified because a government cash scheme intended to cover non-cash needs was not reaching people reliably.

Most of the tsunami livelihoods projects provided different amounts of cash according to what sort of business people were trying to restart. A British Red Cross project provided a uniform \$1,000 to all those targeted (discussed further in Issue Paper 5, on livelihoods recovery). In Aceh, Mercy Corps provided Community Cash Grants during the early stages of the disaster response to enable households to meet basic needs. The intention was that communities would use the cash grant for community rehabilitation projects, such as repairing a bridge or a mosque, or households would opt to spend the cash individually. The grant amount – set at \$50 per person – was determined after rough calculations only; although there were innumerable potential uses for the cash, the value was based on the cost of living and the cost of the basic household items that people might need to buy.

For cash for work projects, the key question was how to get the right balance between avoiding disruption to labour markets and paying enough so that people could begin the process of recovery. Agencies sometimes initially paid higher wages than normal casual labour rates on the grounds that this was justified in the early stages of recovery, when markets were so disrupted and so little other work was available that short-term cash for work projects were unlikely to cause further damage. Much of the initial work focused on cleaning up villages devastated by the tsunami, thereby providing an incentive for people to return to their homes, take

stock and mourn loved ones. After a few months, however, there were concerns that relatively high cash for work rates were disrupting labour markets.

Conclusion

There has been a tendency to complicate the process of deciding how much money to give people, and to develop complex procedures for calculating basic needs or the amount individual households require to recover livelihoods. Clearly, agencies have a responsibility to make the most of limited resources and to set cash support at a level that will enable projects to meet their objectives. However, there is also room to take advantage of the flexibility of cash and the fact that it can be spent on a range of things. There may therefore be virtue in the simple provision of relatively generous cash grants to enable people to meet a range of needs. Providing grants rather loans and removing a work requirement would prevent cash payments from disrupting labour or credit markets.

Resources and references

Creti, P. and S. Jaspars (2006) *Cash Transfer Programming in Emergencies*, Oxfam.

ILO (2005) *ILO Guide on Responses To Support the Recovery and Reconstruction Efforts in Crisis Affected Areas in Indonesia*, International Labour Organisation.

Tajgman, D. and J. de Veen (2005) *Employment-Intensive Infrastructure Programmes: Labour Policies and Practices*, International Labour Organisation.

Humanitarian Policy Group
Overseas Development Institute
111 Westminster Bridge Road
London SE1 7JD
United Kingdom

Tel. +44 (0) 20 7922 0300
Fax. +44 (0) 20 7922 0399

E-mail: hpg@odi.org.uk
Websites: www.odi.org.uk/hpg
and www.odi.hpn.org

