



# Evaluation and Review of the Use of Cash and Vouchers in Humanitarian Crises

## Part 1 - Evaluation Report



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The comments contained herein reflect the opinions of the consultants only

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*Source of cover page picture: Lesley Adams*

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## Abbreviations & Acronyms

AAA	Agro Action Allemande
ACF/AAH	Action Contre La Faim/Action Against Hunger
ACTED	Agence d'Aide à la Coopération Technique Et au Développement
ALNAP	Active Learning Network for Accountability and Performance in Humanitarian Action
CCT	Conditional Cash Transfer
CFR	Cash for Returnees/Refugees
CFW	Cash for Work
CRS	Catholic Relief Services
DfID	Department for International Development (UK Government)
DG ECHO	Directorate-General for Humanitarian Aid (EC)
DR Congo	Democratic Republic of Congo
EC	European Commission
FAFA	Financial and Administrative Framework Agreement
FAO	Food and Agricultural Organization (of the UN)
FEWS-Net	Famine Early Warning System Network
FFW	Food For Work
FPA	Framework Partnership Agreement
FSIS	Food Security Information System
HAP-I	Humanitarian Accountability Partnership—International
HQ	Headquarters
ICRC	International Committee of the Red Cross & Red Crescent
IDP	Internally Displaced Person
IFRC	International Federation of the Red Cross & Red Crescent
IOM	International Organization for Migration
LRRD	Linking Relief, Recovery and Development
MC	Mercy Corps
NFI	Non-Food Items
NGO	Non-Governmental Organization
NRC	Norwegian Refugee Council
ODI	Overseas Development Institute
OPT	Occupied Palestinian Territory
PA	Programme Assistant (DG ECHO)
PU	Première Urgence
RCRC	Red Cross & Red Crescent
RRP	Rural Relief Programme (ICRC Palestine)
RSO	Regional Support Office (DG ECHO)
SCUK	Save the Children UK
SDC	Swiss Agency for Development & Co-operation
SENAC	Strengthening Needs Assessment Capacity (WFP)
SST	Sector Support Team
TA	Technical Assistant (DG ECHO)
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UN-OCHA	UN Office of Humanitarian Coordination
UNRWA	United Nations Relief Works Agency
UVP	Urban Voucher Programme (ICRC Palestine)
VFF	Vouchers which can be exchanged for food items
VFW	Vouchers for work (work remunerated in vouchers)
WFP	World Food Programme
WV	World Vision

## Terminology

Term	Use of the term in this report
Basic services	Services which are the minimum necessary for human existence and development (water, health care, education)
Cash transfer	The provision of cash with or without conditions to a person or household in need of goods or services in order to enable beneficiaries to purchase these goods or services in the market place.
Conditional cash transfer	(In this report) the term relates to the provision of a cash grant to beneficiaries, where the beneficiaries are required to fulfil specific obligation or activity. These conditions can relate to behaviour (e.g. attending a clinic), or to an action (e.g. return to home country), or to work (e.g. 8 hours work).
Cost-efficiency comparison	A measure which provides a ratio of the resources required for a particular activity/objective compared to the costs associated with alternative approaches
Fact Sheet	Guidance notes for DG ECHO partners which set out the main parameters and conditions for different aspects of DG ECHO-funded operations
Food aid	Traditionally this term has been interpreted as food commodities donated as food aid by governments of countries with surplus production to export. Broader interpretations are starting to emerge within the aid community—which include any kind of assistance which addresses household food insecurity.
<i>Halwaladar</i>	Cash transfer agent
<i>Hawala</i>	System of cash transfer in Afghanistan which uses local traders and is based on trust
Humanitarian aid	Assistance whose sole intention is to prevent or relief human suffering
In-kind	The provision of goods and/or services to a person or household deemed to be in need of these items/services
Safety net	Provision of assistance to households who would otherwise be unable to cope
Unconditional cash transfer	The term “unconditional cash transfers” used in this document refers to the use of grants (only) as described by the DG ECHO’s management note of August 2007. In conformity with its legal parameters DG ECHO has not issued any unconditional cash transfers prior to this management note. As such, all references to unconditional cash grants are in the context of its possible use by DG ECHO in the future only.
Voucher	The provision of a voucher to a person or household which can be exchanged for the goods through a fair or through the market.
Voucher Fair	The organization of an opportunity whereby people who are in need of humanitarian assistance are helped to access it through a fair. Traders with the needed items are invited to supply these in exchange for the vouchers which they submit to the donor for reimbursement after the fair.
Watsan	Water and sanitation programmes

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# 1. Executive Summary

## BACKGROUND

1. With an overall organisational objective to develop a coherent policy regarding the use of cash and vouchers in the context of humanitarian assistance, DG ECHO has commissioned two interrelated studies (an *Evaluation* and a *Review*) examining cash and voucher projects within projects funded by DG ECHO as well as other donors.
2. The first in the series of two reports, this evaluation report's focus is two-fold: to draw on DG ECHO's past experience; and to articulate the potential future challenges of an expanded use of cash and vouchers in the specific context of DG ECHO's mandate, policy, procedures and instruments.
3. The key purpose of this evaluation document is to provide the decision makers with a preliminary understanding of the key issues that may require consideration in order to develop a workable policy for the use of cash and vouchers by DG ECHO. And while the findings included in this report make use of past organisational experiences, the emphasis is on identifying needs and implications of an *expanded* policy.
4. The findings of this evaluation report will be further studied and validated in the second report: through the review of the best practices emerging from the key donors and organisations with experience in the use of cash and vouchers. It is based on the findings and understanding of these two reports together that the consultants will draw up conclusions and recommendations for consideration by DG ECHO in its ongoing policy development.
5. This evaluation is carried out in the specific context of cash and voucher projects, and as such it does not attempt to make comparison with the use of in-kind assistance. Moreover, some of the findings of this report may well be equally relevant or common to DG ECHO's other resource transfer methods. Where necessary, this report aims to highlight the implications of each issue specific to cash and voucher projects.

## OVERARCHING FINDING OF DG ECHO'S PAST EXPERIENCE

6. In the light of an extensive study of over 180 project documents, stakeholder interviews and field visit, the cash/voucher projects funded by DG ECHO in the past were found to be in clear achievement of their project objectives. No evidence was found of erroneous decisions about the use of cash, of objectives not having been achieved, or of negative impact. The satisfaction of beneficiaries, implementing partners and DG ECHO's in-country experts about the use of cash or vouchers was systematically verified during interviews and documentary review.
7. Cash and vouchers have proved to be a valuable tool for humanitarian response in a wide range of contexts and within a number of sectors. Comparison with non-ECHO-funded projects (in the review) will reveal to what extent other agencies are using cash and vouchers with good effect in different sectors or at a larger scale which would fit within the parameters of DG ECHO's current policy.

## OTHER KEY FINDINGS

### DG ECHO's experience

8. For DG ECHO, the use of cash and vouchers as a mechanism to address the needs of vulnerable populations represents a departure from "traditional" forms of humanitarian assistance. While the use of cash and vouchers by DG ECHO and its partners has increased over the last few years (around 180 since 2000), such projects remain relatively limited in both scope and scale.
9. Moreover, such projects are largely assessed, designed, delivered and monitored by the partners in the same way as a traditional "in-kind" assistance projects. As such, critical in-house learning—concerning the specific needs and challenges of funding cash and voucher projects by DG

ECHO—remains to be fully understood and documented. Such in-house learning will be critical to the sustainability of an expanded cash and voucher policy.

10. Among the cash projects funded by DG ECHO, there is a clear domination of one particular type of project: Cash for Work. This largely reflects the parameters set by DG ECHO's past legal interpretation concerning the use of cash. The revised interpretation should allow more flexibility to address needs of vulnerable households for whom work is not an option.
11. The use of vouchers is both limited and new within DG ECHO, mostly representing a “half-way house” between in-kind assistance and a cash grant. The understanding of the implications (advantages and disadvantages) of using vouchers (for beneficiaries, traders and the implementer) remains limited among most partners.
12. The number of cash or voucher projects funded since 2000 has increased steadily from less than two in 2000 to over 45 in 2006. There remains also considerable geographic variation. The majority of projects come from three countries (Afghanistan, Palestine, DR Congo), which are— notably—some of the most challenging environments globally for humanitarian assistance. In terms of partnerships there is no clear dominance and DG ECHO has funded a high number (39) of organizations for cash and vouchers.

### **DG ECHO's Policy**

13. DG ECHO's current policy is represented by Fact Sheet D3, which sets out principles and parameters on the use of cash/vouchers. The fact sheet is largely focused on the objective to maintain accountability and safeguard resources. While the legal interpretation is consistent with EC's financial regulations, it nevertheless has the potential to limit resource transfer choices—and choice underpins the principle of responding to the “victims' needs and interests”, “economy”, “efficiency” and “effectiveness” as set out in the Council Regulations 1605/2002 (revised 2007) and 1257/96.
14. The latest legal update (issued August 2007) expands the parameters on the use of cash transfers, thus increasing the range of resource transfer options open to partners. While enhancing DG ECHO's ability to fund context-specific responses, it nevertheless also brings with it the urgent need for knowledge and systems necessary for meeting the challenges of implementing Unconditional Cash Transfers.

### **Project Assessment**

15. Assessment methods and information used by the partners to design the past portfolio of projects have been mostly adequate, but being tailored to the requirements of traditional in-kind assistance, they have focused mainly on identifying corresponding beneficiary needs. As such, in a significant number of cases they have not sufficiently captured the specific information required for a potential decision to initiate cash/voucher projects.
16. DG ECHO will need to specify the extent and type of information and analysis required within assessments for cash and voucher initiatives. To meet such requirements, partners may need to employ specialized personnel (which may carry cost and capacity implications that will require consideration).
17. However, a major challenge will be to ensure that the extent and detail of assessment information required is consistent with the nature of the problem to be addressed, the context, and the size of the cash and voucher project, thus not making it overly complicated in an emergency framework.

## **Project Design**

18. Proposals submitted by partners mostly do not contain comparative analysis concerning the proposed method of resource transfer as well as other options. For example, proposals rarely explained why cash or vouchers have been proposed (and not in-kind assistance); or the value to be provided to beneficiaries, and how this was determined; or the reasons for attaching conditions (e.g. work), and implications for the most vulnerable. Furthermore, they do not routinely consider the relative cost-efficiency of the different options.
19. These limitations arise partly because the project design instruments, such as the Single Form and supporting documentation, are tailored mostly to DG ECHO's specific information needs for traditional (in-kind) approaches and partly because a comparative analysis has never been required by donors in order to approve in-kind assistance. As such, in order to ensure that the choice of resource transfer is efficient and effective, both the project design instruments and the underpinning analysis may need to be adjusted to accommodate the realities of cash and vouchers. In this regard, DG ECHO may need to specify its own information needs and develop guidance to help partners articulate a comparative analysis of different delivery options (including their associated risks and benefits).

## **Project Review: Stakeholders**

### *Partners*

20. Among the partners funded by DG ECHO for cash/voucher projects, most are relatively new to this kind of intervention. As such, the projects are generally designed and analysed based on the criteria used for in-kind projects. Given that partners' analysis and design information is fundamental to DG ECHO's review process, any broadening of the policy on the use of cash and voucher will require careful attention to addressing the partner capacity limitations and the costs involved in developing enhanced capacity for cash and voucher initiatives.

### *DG ECHO*

21. Discussions with DG ECHO staff explored the issue of cash/vouchers in relation to each cadre's role and responsibilities. Although competent and experienced in the traditional resource transfer methods, many staff are relatively new to the subject of cash/vouchers, with limited background and expertise for dealing with issues such as market analysis. As such, DG ECHO's policy to broaden the use of cash beyond its current scope and scale will have to include a clear strategy on how to address the need for relevant in-house knowledge, training and expertise.
22. The field team (the Technical Assistant (TA) and the Programme Assistant (PA)) are pivotal to the review process. The current high variation in use of cash/vouchers within DG ECHO's global portfolio is partly a consequence of the high variation in the knowledge and experience of TAs and PAs. Capacity building of this cadre would bring greater consistency in the field-level approach to cash/voucher projects. In the case of proposals for higher risk ventures (either large scale, or in remote locations, or those implemented within a context of high food insecurity) this cadre will need to be able to assess the validity of the partners' market analysis and consequent proposal.
23. Geographical desks, while having a largely management approval function, maintain a fundamental role in screening and reviewing project proposals and seeking legal endorsement for the same. The Desk's current technical experience remains largely in the area of in-kind assistance. Given the limited scope of current cash and voucher projects, the knowledge required by the desk for review and approval remains mostly adequate. However, a significant expansion in the use and scope of cash projects may require some training and added capacity to review more comprehensive and perhaps complex assessments provided by partners.
24. DG ECHO's overall capacity to review cash-based proposals may partly remain constrained by the fact that the current system registers only partners' financial and procurement systems and capacities at HQ level (as set out in the Framework Partnership Agreement (FPA)). Whereas, in the case of cash/voucher projects, the knowledge of partners' field capacities and systems becomes equally important. Such information may need to be systematically required by DG

ECHO and documented by its partners, thus creating a solid basis for the review of partner field accountability systems and capacities.

25. The Regional Support Offices (RSO) are expected to provide technical support to both geographical Desks and TAs. The expansion in the use of cash and voucher may raise the need for specialised knowledge and capacity to advise and assist both TAs and Desks. DG ECHO may therefore need to consider the benefits and economies of scales that could result from having such capacity available within the RSOs.

### **Project Implementation**

26. Partners were found to have stricter beneficiary targeting standards for cash/voucher projects than for in-kind projects. The rigour of the systems they currently employ requires intensive staff involvement. Although this remains quite manageable in the current context of small-scale cash/voucher projects, the viability and the cost implications of targeting beneficiaries for large-scale projects have yet to be studied and validated.
27. In remote or insecure areas where banks are not available, the cash transfer needs of the partners for their own field operations (e.g. office running costs, staff salaries etc.) invariably required transfer of far larger sums than those transferred directly to beneficiaries within cash/voucher projects. As such, even without cash and voucher projects, partners maintain well-developed field operational systems and procedures for cash transfer and storage.
28. Partners were found to make use of banking services where available and suitable. Elsewhere partners transferred cash using either their own staff or remittance companies. In all cases, the arrangements were found to be context specific and well managed.
29. A number of areas of partners' implementation and accountability systems were found to require further attention. These include: the need to document field systems and procedures associated with cash transfers, storage and disbursements; the communication of these arrangements as part of project design information; and systems to encourage field reporting of suspected cases of financial mismanagement. It would benefit all parties if DG ECHO established and communicated minimum requirements for field accountability systems for cash and voucher projects.
30. Inflationary risks were not analysed nor were contingency plans considered to deal with different price scenarios. At a larger scale greater attention would be required to this issue.

### **Project Monitoring**

31. Monitoring, as it stands now, is often used as an instrument of reporting by the partners. One reason why this is so could be that DG ECHO has in the past often seemed satisfied with input monitoring rather than results or impact monitoring. The revised single form is expected to address this issue with its greater attention to results-based monitoring.
32. In the case of cash and voucher projects, the monitoring system needs to include—in addition to project progress—information on the adequacy, coherence, process, accountability and impact of the resource transfer choice and the systems employed, thus ensuring it is used as an important learning tool to refine and improve the use of cash and voucher by both DG ECHO and its partners.
33. In practice, the monitoring function is carried out mostly by the same partner staff whose responsibilities sometimes included targeting, registration and delivering the resources. In the case of cash-based projects (as with any kind of resource-transfer), this may potentially result in conflict of interest. Clear guidelines are required.

### **Project Evaluation**

34. The choice of whether to conduct an external project evaluation appears to be mostly left to the partners, and the reasons underpinning such decisions remain undocumented. DG ECHO needs to establish the conditions which ensure that evaluations are carried out according to need for organizational learning, and that such learning is captured systematically—particularly for cash and voucher projects as they are relatively new.

35. Evaluation is wrongly perceived by some of the partners as part of the DG ECHO control/audit mechanism, and therefore its benefit for organizational learning is not fully appreciated. From both programme and accountability perspectives, DG ECHO needs to clearly articulate the aspects of evaluation that are of interest in cash and voucher projects. A reformed approach to evaluation becomes even more important given the need to refine and validate the use of cash and vouchers, and their accountability systems.

### **Project Audit**

36. DG ECHO currently considers audit of cash and voucher projects as identical to in-kind projects. However, an expansion in the scope of cash-based projects to incorporate unconditional cash transfers could change the *nature* of risks involved, thus requiring appropriate systems for an adequate audit trail. The challenges here also relate to the need to define minimum audit requirements for a cash project; to articulate clearly the limits to manageable and residual risks; and to establish an effective system of audit feedback to facilitate refinement of both standards and instruments underpinning design, delivery and accountability.

### **Cross-cutting Issues**

#### *LRRD (Linking Relief, Rehabilitation and Development)*

37. This evaluation found examples where DG ECHO's funding of cash-based initiatives had created both the environment and the capacity conducive to EC's development services to take over. However, such instances are not always fully documented and/or reported.
38. Cash projects were found to carry greater potential than in-kind projects for preparing the ground for transition out of the humanitarian phase. This aspect however remains to be fully studied and incorporated into DG ECHO's exit strategies.
39. The critical potential for DG ECHO funding to promote LRRD to a greater extent—given the strong attention to LRRD in many partners' own country strategies—is not fully acknowledged nor systematically documented. This is an area where DG ECHO already plays a fundamental role and it therefore deserves a better understanding.

#### *Humanitarian Mandate and Choice of Resource Transfer*

40. DG ECHO takes a critical view of funding requests which approach what is classified as "development", to avoid overstepping its humanitarian mandate. It is in this context that cash/voucher initiatives could at times be misinterpreted. In some cases, the fact that a cash/voucher intervention is feasible could be perceived to indicate cessation of the humanitarian phase. However, it should be appreciated that humanitarian needs of some groups may well continue to exist even after markets have recovered. An analysis of context, market and beneficiary needs - in a form appropriate to resources and time available - is therefore critical to ensuring that the choice of using cash/voucher for resource transfer is consistent with the humanitarian mandate and that it is not rejected due to weak or missing information.

### **Conclusions and Preliminary Recommendations**

41. Most partners' experience of cash and vouchers is relatively new. Nevertheless, both DG ECHO and its partners have demonstrated strong capacity to manage and account for such initiatives. Of the 180 or so projects implemented, all achieved their objectives, and in many projects the potential benefits of cash or vouchers over in-kind assistance were realized (but often not made explicit).
42. However, it is also appreciated that, for the use of cash and vouchers to remain manageable in terms of accountability and delivery if expanded, a number of issues need addressing by DG ECHO and its partners. These fall into four broad categories.

- a. Organisational learning regarding cash and vouchers will be enhanced only through improved systems of information management, and systematic use of specifically tailored monitoring and evaluation studies.
  - b. Adequate staff capacity and training is needed within both DG ECHO and its partners to:
    - i. conduct assessments incorporating the appropriate level of market analysis and routinely compare different resource transfer options (cash, vouchers, in-kind);
    - ii. review, approve and implement projects which consider the context-specific economic and market-related risks of cash/voucher projects (e.g. inflation).
  - c. Operating procedures and guidelines are required for delivery, management and accounting of cash resources (particularly, but not only, in remote and/or insecure areas). DG ECHO needs to articulate information required, and minimum standards expected of the partners.
  - d. Instruments—such as the Single Form and the FPA—need to be adapted to accommodate the specific realities and information/analysis required for cash and voucher initiatives.
43. With existing limits to partner delivery capacity and the current legal and financial parameters regarding use of cash and vouchers, DG ECHO’s funding of such projects—in the foreseeable future—may see only a modest rise in project size. As such, the system adjustments, capacity development and procedural requirements identified in this report need not become an immediate prerequisite and/or impediment to continuing DG ECHO funding of cash and voucher initiatives, specially considering its positive experience so far.
44. However, organisational learning needs to be improved with some urgency, through a systematic use of well-designed monitoring systems and evaluations and opportunities for horizontal and vertical sharing of learning. This is to ensure that the risks and opportunities anticipated for cash and voucher projects, together with experiential learning about the successes and challenges, are fully captured and integrated into ongoing policy dialogue and tailoring of DG ECHO’s procedures and instruments.
45. In the light of this report’s findings, the issue facing DG ECHO is not just to what extent the use of cash and vouchers should be allowed. Instead, of equal (if not greater) importance are the issues surrounding processes, systems, procedures, manpower, capacities and resulting costs that remain to be studied, understood and addressed in order to develop a sustainable expanded policy.
46. Since both DG ECHO’s experience of cash and voucher projects (and the experience of most of its partners) is limited, attention is needed to understand and develop these elements in the future. Otherwise, a cash and voucher policy may by itself remain either impractical to implement or carry unnecessary accountability risks.
47. The biggest challenge in doing so will be to ensure that the procedures and systems are not made overly stringent or costly. Otherwise the use of cash or vouchers may very well become an unattractive proposition from the partners’ point of view, and the comparative advantages anticipated for these projects may be diluted.
48. Indeed, while the attention here has been on cash/voucher projects, this report does not suggest that measures recommended here are not applicable to in-kind projects (which likewise deserve to be routinely analyzed for cost-efficiency, relevance, appropriateness and impact).

**The Next Step:**

49. Based on the findings of this evaluation report, in an interrelated Review the consultants will attempt to:
- a. identify the best practices developed by other donors and organisations that are either of direct relevance or could potentially be adapted to the specific needs of DG ECHO;
  - b. make final recommendations, based on the findings of *both* the evaluation report and the review paper, towards the development of DG ECHO’s policy on the use of cash and vouchers.

## **2. Background**

### **2.1 Objective of this Report**

With an overall organisational objective to strengthen consistency and coherence in its policy matters, DG ECHO has commissioned two interrelated studies (an *Evaluation* and a *Review*) exploring the use of cash and vouchers in the context of humanitarian assistance. See Annex I for the Terms of Reference and Annex II for the Inception Report.

In the series of two reports, the focus of this *Evaluation* is two-fold: to draw on the past experiences and to articulate the potential future challenges of an expanded use of cash and vouchers in the specific context of DG ECHO's mandate, policy, procedures and funding instruments. In doing so, this evaluation report attempts to lay the groundwork for discussion among the decision makers on the issues that may require addressing in order for DG ECHO to develop a workable policy necessary for systematic consideration of cash and vouchers as two options available for delivering assistance in a context-specific and accountable manner.

This evaluation highlights the major trends and patterns observed by the consultants. Some of the findings of this evaluation may well be equally relevant or common to in-kind assistance funded by DG ECHO. Where necessary, an attempt is made to highlight the specific considerations surrounding these common areas in relation to the use of cash and vouchers.

In the next stage, findings of this evaluation report will be studied and validated by the consultants through the review of the best practices emerging from the key donors and organisations with most experience in the use of cash and vouchers. It is based on the findings of these two studies (the evaluation report and the review paper) together that the consultants will be recommending alternatives for policy consideration within DG ECHO.

### **2.2 Report Structure**

To ensure objectivity, this report considers the use of cash and vouchers to be two of the various possible resource transfer tools available to designers and implementers of humanitarian projects. It is acknowledged that the choice of resource transfer tool is subject to a range of considerations and factors.

For the purpose of documentary and field review, the consultants used a checklist based on standard evaluation methodology (see Annex III). However, for reporting purposes, the consultants selected the Project Cycle as a means of articulating the findings in a systematic manner, linking these findings to the organisational processes, procedures, practices, capacities, and legal and financial instruments.

To ensure coherence across this report, each step in the project cycle is explored and analysed using a standard set of questions, as follows.

- What is the current policy or practice?
- What observations were made in the field or through documentary review?
- What elements need attention and why?
- How and to what extent are these elements in the process of being addressed?
- What are the practical or policy implications for DG ECHO and its partners?

### **2.3 Approach and Methodology**

The approach adopted by the consultants for field and documentary review of projects was to systematically explore the output, impact, appropriateness, risks and any inconsistencies of DG

ECHO-funded projects against the projects' objectives, context, organisational capacities, delivery mechanisms, and systems used for monitoring and evaluation.

The consultants adopted a consultative approach to the evaluation process, ensuring that all relevant DG ECHO units and staff and related partners could proactively contribute to the findings of this report as required by DG ECHO. Annex IV lists the DG ECHO staff and partners consulted.

The main following methods were used by the consultants.

- Interview and consultation with DG ECHO's headquarters officials in the Policy and Evaluation Unit, in the three Operational Units, in Finance and Legal, Internal Control and Audit, and in Food-Aid.
- Visit to DG ECHO-funded projects in countries in each of DG ECHO's three operational units. The country visits included Eastern Democratic Republic of Congo (Ituri province), Jerusalem and Palestine (the West Bank), Afghanistan (Kabul), Azerbaijan (Baku), and Kenya (Nairobi). The visit to Kenya included a study of projects implemented in Somalia also. The main elements of these visits comprised:
  - interviews with DG ECHO field technical experts (Technical Assistants (TAs) and Programme Assistants (PAs);
  - workshops with partners, exploring the assessment, design, choice, coherence, coordination and context aspects of cash and voucher projects;
  - one-to-one meetings with partner managers, operational and control staff. This included study of the partner field accountability systems, operating procedures, human capacity/limitations, and security/risk-related concerns relevant to the implementation of cash and voucher projects;
  - visits to project sites and interviews with beneficiaries, particularly women.
- Interviews with DG ECHO Regional Office and the Sector Support Team (SST) team based in Nairobi.
- To further assess the use of cash/vouchers in the specific country contexts visited, the consultants also consulted the EC delegation, other donors, and implementing agencies/organisations funded by other donors to compare with DG ECHO's projects.
- The desk study included:
  - Review of around 180 project support and summary documents provided by the policy and operational units.
  - Project documents – single forms, final reports etc. relevant to the countries and projects visited.
  - DG ECHO/EC's Financial and Legal Regulations, Fact Sheets, partnership agreements (FPA) and (FAFA)<sup>2</sup>

## **2.4 Report limitations**

This evaluation is done in the specific context of DG ECHO-funded cash and voucher projects only, thus it does not provide comparisons with in-kind assistance initiatives. For a full understanding it would be useful, in a separate study, to review in-kind assistance to identify cases where the use of cash/vouchers might have been appropriate, or where it might have carried advantages over in-kind assistance (or vice versa) This would be quite difficult to do under the current arrangement, simply because the in-kind assistance projects rarely assess whether beneficiaries would have preferred another form of resource transfer or whether another form would have been appropriate.

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<sup>2</sup> Framework Partnership Agreement (NGOs), and Financial and Administrative Framework Agreement (UN).

## **2.5 Constraints Faced**

Most of the partner cash and voucher projects funded by DG ECHO are assessed, designed, implemented and monitored using the criteria and approach of traditional in-kind assistance project. Moreover, given that it is currently not a requirement, the proposals do not include a systematic analysis to underpin the choice of using cash and vouchers. This difficulty is symptomatic of a broader issue: the topic is not a category found normally within standard organizational classification systems. "Cash" and "voucher" projects, for instance, are not a sector (most evaluations are of specific sectors- such as Water-sanitation, Health, or Livelihoods. This topic is also not generally treated like a cross-cutting theme, such as "Gender" or "HIV/AIDS". Indeed: cash and vouchers are, after all, just resource transfer tools that are used for project delivery.

Moreover, in multiple-activity humanitarian interventions it is often difficult to separate the cash and voucher element from the rest of the programme - for instance it was quite difficult during the analysis of the 180 projects funded by DG ECHO to isolate the exact amount of money that went directly to beneficiaries from the overall amount that was spent on beneficiaries (which included various other programme elements).

As a consequence, drawing lessons and quantitative conclusions based on project document review – in the specific context of the use of cash and vouchers, proved to be significantly challenging. This was compensated through auxiliary documentary review and extensive interviews with all parts of DG ECHO and its key partners.

### 3. Main Report:

#### 3.1 Context Analysis:

##### 3.1.1 Cash/Vouchers and In-kind Resource Transfers in Humanitarian Assistance

In-kind assistance is a “catch-all” traditional humanitarian resource transfer approach, sustained by long experience and well-established delivery and accountability systems and tools. Food aid is often included in this category, which also includes provision of kits (household, hygiene and shelter kits etc.) and materials to kick-start livelihoods activities (seeds and tools, productive assets and the like). However, an increasing body of research and empirical evidence has started to question the economy, efficiency and effectiveness of such a “one size fits all” approach to the diversity of humanitarian situations and country contexts.

Recognising the weakness of context-insensitive delivery options, and the resulting cost to both their taxpayers and the beneficiaries, some of the main humanitarian donors and organisations (including SDC, DFID, Oxfam, ICRC, WFP etc.) have started systematically experimenting and learning by funding cash and voucher-based interventions.

It is beyond the scope of this report to debate the merits of the learning emerging out of the above-mentioned work by donors and their partners (this issue will be addressed partly in the review paper). However, it is important to recognise that major progress has been made by these agencies in addressing some of the more critical issues and risks concerning the policy, design, implementation, monitoring and accountability of cash and voucher interventions. Nevertheless, it is also recognised that cash and voucher initiatives—with few exceptions—remain mostly small-scale and experimental in the pure humanitarian context.

##### 3.1.2 DG ECHO’s Cash/Voucher Policy Parameters

DG ECHO is currently in the process of developing policies concerning the use of cash and vouchers. In the meantime, the 'Fact Sheet D3' sets the principles and legal parameters on the use of cash as a means of resource delivery. The fact sheet however, sets no limits or conditions on the use of vouchers, considering these as largely similar to in-kind distribution.

The fact sheet D3 covers three main categories of cash intervention:

- Cash for returnees: cash transfers are permitted in order to facilitate return of IDPs or refugees to areas of origin. These type of projects are only allowed under the supervision of an international organization, such as UNHCR.
- Income generation: this covers both cash for work schemes (where employment is created temporarily by the implementing organization) and projects whereby assets and tools for income generation are provided to people to resume livelihoods activities. The provision of credit (micro-credit) is not allowed as it is perceived to require long-term commitment.
- Cost recovery: the cost recovery projects mentioned in the fact sheet relate to initiatives aimed at developing commercially-viable providers of basic services in humanitarian contexts (for instance, revolving drugs schemes). Cost recovery entails some kind of pay-back system and for this reason this type of intervention is not considered here.

The parameters set by the fact sheet D3 remain subject to debate within DG ECHO. It is beyond the competency of this study to comment on the legal interpretation provided in this fact sheet. However, based on the study of DG ECHO’s mandate, EC financial regulations and its principles, the following section attempts to highlight the aspects that are equally important to the current debate.

Council Regulations 1605/2002 (issued 2007) sets three principles for Sound Financial Management.

- The principle of **Economy**: requires resources to be made available in due time, in appropriate quantity and quality and at the best price.
- The principle of **Efficiency**: requires best relationship between resources employed and results achieved.
- The principle of **Effectiveness**: requires attaining specific objectives set and achieving the intended results.

In agreement with Council Regulation 1257/96 on Humanitarian Aid, DG ECHO confirms, in the partnership framework agreement, that its first duty remains towards the victims—its major stakeholders—to ensure that aid is delivered in the most relevant, effective, efficient and rapid manner.

In short, the above extracts from Council regulations point to three key considerations for making funding decisions. These being:

- understanding of victim’s needs and interests;

*Comment: This entails a sound needs assessment to be used as the basis for designing a humanitarian response.*

- making sure that the humanitarian response is based on the principles of economy, efficiency and effectiveness;

*Comment: This entails the need to be able to compare the merits and costs of different delivery options – in-kind assistance, vouchers and cash.*

- ensure accountability, safeguard resources and to put into place measures for managing risks.

Although consistent with the Council Regulations, the fact sheet D3 appears to be mainly driven by the last of the above three main considerations i.e. accountability and safeguarding of resources. In doing so, the parameters set by it could potentially have a limiting effect on resource delivery options, thus reducing the critical element of choice that underpins the principle of “beneficiary-first”, economy, efficiency and effectiveness. Here, it is important to recognise that the parameters set by the fact sheet on the use of Unconditional Cash Transfers are based on the Financial Regulations and therefore not limited to humanitarian aid but applicable to all sectors.

Based on the flexibilities introduced by the Revised Financial Regulations – Articles 120 (2) and 184 (a), the latest Legal Note of August 2007 opens the possibility for DG ECHO to fund unconditional cash grants<sup>3</sup> as means of resource transfer to beneficiaries.

In conformity with EC Financial Regulations, the note sets a maximum limit<sup>4</sup> of EUR 100,000 per contract for an unconditional cash grant, subject to approval of project funding. It means that in practice, the partners will now have the possibility of adding a limited component of unconditional cash transfer to their regular projects for DG ECHO funding.

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<sup>3</sup> The term “unconditional cash transfers” used in this document refers to the use of grants as described by the management note of August 2007. In conformity with its legal parameters DG ECHO has not issued any unconditional cash transfers prior to this management note. As such, all references to unconditional cash grants are in the context of its possible use by DG ECHO in the future only.

<sup>4</sup> The limit of EUR 100,000 is, for now, applicable only on DG ECHO financing of NGO projects. This limit does not apply to either International/UN Organizations or the Specialised Agencies of the Member States.

The consultants understand that the limit of EUR 100,000 may be raised in future revisions. However, this may largely depend on how well the systems for the management and accountability of unconditional cash transfers are addressed by both DG ECHO and its partners. It is with this consideration that the consultants—in this report, in addition to DG ECHO’s past experience—also systematically analyse and highlight the instruments, means and capacities necessary for dealing with any expansion in the scope and scale of cash transfers in an accountable manner.

**3.1.3 Knowledge of DG ECHO policy among partners**

Most partners interviewed during field evaluation seemed either unaware or appeared to show limited interest in DG ECHO policies on cash and vouchers. The most common perception is that DG ECHO remains “against” the use of cash and vouchers. As such, many partners, instead of applying to DG ECHO for cash/voucher project funding, either preferred to pursue more flexible donors or resorted to in-kind assistance. A clear DG ECHO policy combined with clear proposal guidelines on funding of cash and voucher projects would therefore be quite timely.

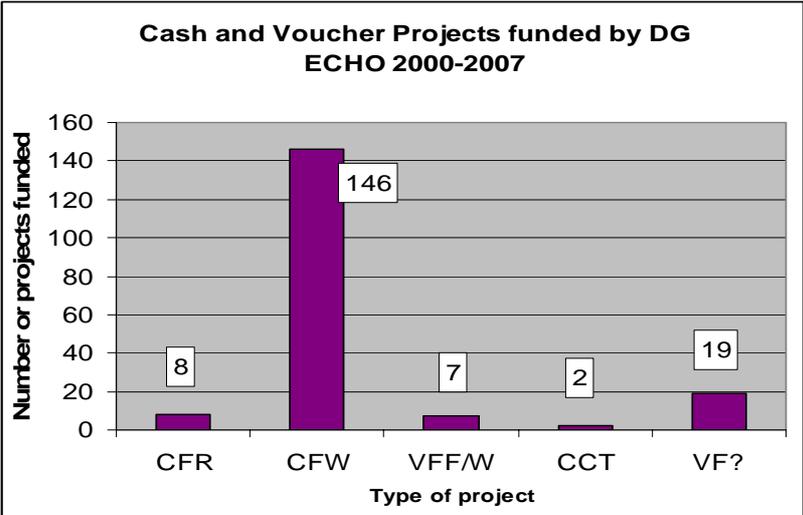
**3.2 Overview of DG ECHO funded Cash/Voucher projects**

Contrary to an earlier perception that DG ECHO has not funded many cash/voucher projects, the HOPE database has yielded a list of over 180 such projects that have been funded since the year 2000. Given that projects are not necessarily registered in the database for their means of delivering resources, it is possible that the actual number of projects with a cash/voucher component is larger. The full extent of relevant cash/voucher projects implemented since 2000 identified through the database is summarized below<sup>5</sup>.

While the consultants are mindful of the limitations of such quantitative analysis, the data is presented to highlight a number of patterns and trends, as follows.

**Types of projects funded:** Figure 1 below shows a clear dominance of cash for work projects. Other forms of cash and voucher transfer are less common, and some options have never received DG ECHO funding (the use of cash for provision of livelihood recovery inputs, for example, or the use of cash to help food insecure households access food without having to work).

**Figure 1: Types of cash/voucher project funded**



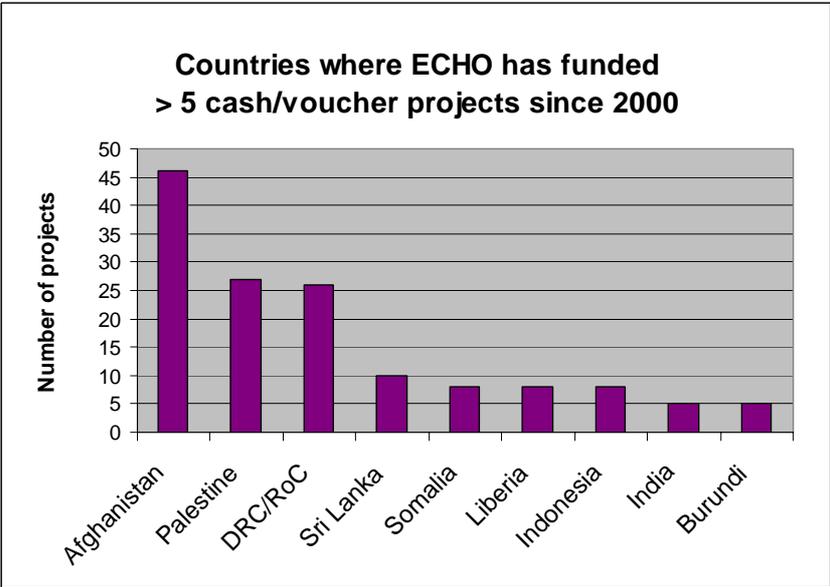
- Key**
- CFR** = Cash for Returnees/Refugees (a cash grant which enables the household to meet specific needs.)
  - CFW** = Cash for Work
  - VFF/W** = Voucher for Food or Work
  - CCT** = Conditional Cash Transfer (cash provided to address a specific need against a specified behaviour or condition (e.g. attend training; destocking))
  - VF?** = provision of vouchers to help households access specific items – e.g. agricultural inputs, livestock, water.

<sup>5</sup> Source (for all graphs and tables): Inventory of cash/voucher projects compiled by DG ECHO Policy Unit, Brussels, edited for inclusion error (where no mention is made of use of cash/vouchers).

**Variation across countries:** in several notable countries cash is a core resource transfer option. In Afghanistan, for instance, the cash/voucher project inventory records DG ECHO as having funded 44 cash for work projects since 2000; in the Occupied Palestinian Territories the figure is 23. The graph below—which features only the countries with more than five projects funded by DG ECHO since 2000—illustrates the dominance of three countries in this field.

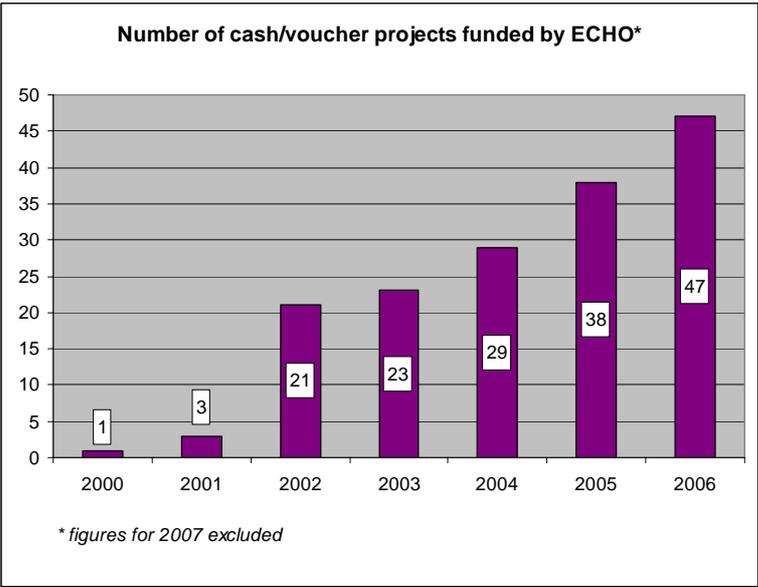
**Figure 2: Countries with experience in cash and voucher projects**

In ten countries DG ECHO has funded only one cash/voucher project, and there are a number of countries where cash/voucher projects do not seem to have received DG ECHO funding within the last seven years. For the Africa, Caribbean and Pacific regions the following country programmes have not featured cash and voucher transfers: Angola, Caribbean, Chad, Eritrea, Guinea Bissau, Kenya, Mozambique, Suriname, Tanzania.



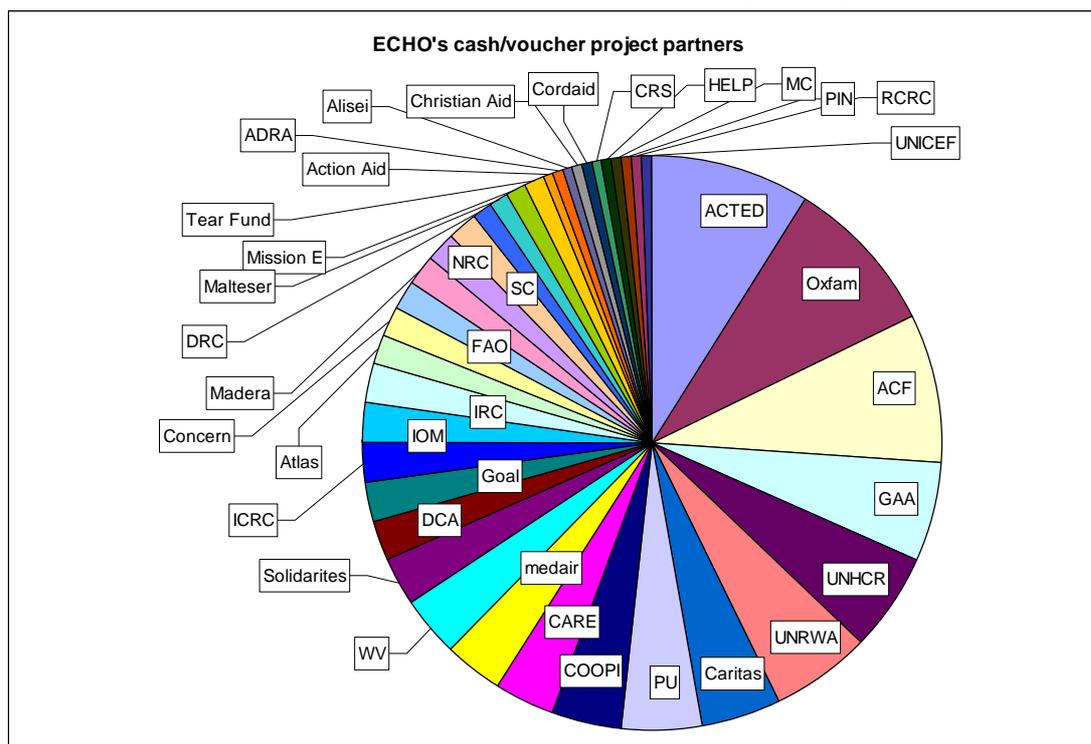
**Longitudinal trend:** In terms of the longitudinal trend the accompanying graph shows that in recent years the number of projects funded by DG ECHO have steadily increased.

**Figure 3: Trend in cash/voucher project funding since 2000**



**Project Partners:** The graph below shows the relative importance of different partners for DG ECHO in terms of cash and voucher projects. Unlike some of the above analyses, there is less overall dominance here; partners with the largest numbers of projects are ACTED and Oxfam with 16 each, and ACF/AAH with 15 projects.

**Figure 4: DG ECHO's Cash/voucher project partners**



This graph is slightly misleading, however. While it represents the relative importance of these agencies to DG ECHO's knowledge and experience of cash/vouchers, it does not represent the importance of cash and vouchers to these organizations. Some of the leading proponents of cash and vouchers (such as Oxfam) often use their own funds, or seek funding from other donors for cash and voucher component of projects. The ICRC, for example, has received funding from DG ECHO for four projects since 2000 but the agency has implemented a total of 28 cash/voucher projects between 2003 and 2007, most funded from other sources.

### **Limits to Quantitative Analysis**

It should be noted that a major limitation of this quantitative analysis is the fact that as the study has not looked at in-kind projects it is not possible to determine the *relative importance* of cash/voucher projects compared to in-kind projects. Given the fact that cash and voucher projects were deemed acceptable—because the market was functioning—it is possible that further use of cash/vouchers in place of in-kind assistance might have been viable had the partner considered it, and/or DG ECHO permitted it.

It would also have been useful to investigate the number of cash/voucher projects that have been rejected for funding at any stage of the project cycle, but this is not possible as DG ECHO only records details about projects where funding was agreed.

### **Qualitative analysis of use of cash/vouchers among DG ECHO partners:**

The following table is a summary of some key examples of DG ECHO-funded cash/voucher projects, illustrating the range of types of projects where cash and vouchers have been used.

**Table 1: Summary of the range of cash projects funded by DG ECHO**

Type of intervention	Examples
Providing beneficiary with cash or vouchers as a direct grant with no conditions or work requirements	<ul style="list-style-type: none"> <li>▪ UNHCR grants to Chechen refugees in Baku, Azerbaijan (primarily to cover a portion of rental expenses)</li> <li>▪ Cash for host families (UNHCR Kosovo)</li> <li>▪ Transport allowance for families returning to Liberia from Ivory Coast (UNHCR, IOM and NRC)</li> </ul>
Paying beneficiaries in cash for taking part in a public works programme	<ul style="list-style-type: none"> <li>▪ Palestine job creation programme (SC, Mercy Corps, UNRWA and others);</li> <li>▪ Creation of jobs among traders (PU Palestine)</li> <li>▪ Road clearance (ACF in Afghanistan)</li> <li>▪ Road construction/rehab – DR Congo</li> <li>▪ Water and sanitation projects Somalia</li> </ul>
Paying beneficiaries in vouchers	<ul style="list-style-type: none"> <li>▪ Vouchers for work, Oxfam Mali and Niger</li> </ul>
Providing a cash grant during training	<ul style="list-style-type: none"> <li>▪ Medair, Afghanistan: cash was provided to encourage trainees; the trainers were elderly women with craft-making skills which risked being lost to the community</li> </ul>
Paying beneficiaries to repair their own houses or rehabilitate farm land	<ul style="list-style-type: none"> <li>▪ ACTED Afghanistan</li> <li>▪ ICRC Liberia (clearing of cash crop farm land for returnees)</li> </ul>
Providing beneficiaries with cash on condition that they do something (attend school, plant seeds, demobilise) Destocking	<ul style="list-style-type: none"> <li>▪ UNHCR grant for Afghan families returning to Afghanistan from Pakistan and Iran (provision of cash at transit centres in country of return)</li> <li>▪ Livestock purchase – CORDAID Ethiopia</li> </ul>
Providing beneficiaries with vouchers for a particular type of good (e.g. seeds) or a bundle of goods	<ul style="list-style-type: none"> <li>▪ Seed voucher fairs in DR Congo (AAA, PU)</li> <li>▪ Seed/fertilizer/tools voucher schemes by FAO/CRS in Lesotho</li> <li>▪ Seed/tuber replication (e.g. Sweet Potato replication (WV Zimbabwe)</li> <li>▪ Donkey vouchers (Oxfam Sudan)</li> <li>▪ Water vouchers (UNICEF Madagascar – <i>proposed</i> for 2007)</li> <li>▪ Vouchers for food (PU DR Congo, ICRC Palestine)</li> <li>▪ Vouchers for fuel – DCA and French Red Cross, Lebanon</li> <li>▪ Vouchers for seed (exchanged through market traders) – ICRC Liberia</li> </ul>

### 3.3 Project Cycle Analysis of the Use of Cash/Vouchers

#### 3.3.1 Assessment (providing a basis for project design and resource transfer choice)

This section deals with the information collected by partners to assess needs and to determine the most appropriate resource transfer intervention in the given context.

**Current situation:** the majority of assessments provided by DG ECHO’s partners rely on instruments designed to cater for traditional forms of assistance (including food aid). These “traditional” needs assessments methods are not meant to provide a basis for comparative analysis and determining the merits of different resource transfer options specific to the local context. They instead tend to assess the need as: the number of beneficiaries that require supply of a specific item (e.g. NFI kits, seeds/tools, or a food aid ration) and the quantity per beneficiary. As such, cash and voucher proposals submitted to DG ECHO rarely include basic information on markets, disaster-induced changes in the economic environment, a comparison of the relative cost of delivery and benefit to the beneficiaries of different resource transfer methods, or the relative risk (or feasibility) of different options etc. And it is not evident in all cases that information has been sought (where available) from national food security information systems.

In many cases a partner's decision to use cash or vouchers was found to be driven mainly by the difficulties associated with in-kind provision—such as high sales of received items by beneficiaries, very high logistical costs, constraints with the supply pipeline—or government policy requirements. In these cases, it was the constraints surrounding in-kind assistance and not necessarily market information that was the reason for choosing cash/voucher as a means of delivering humanitarian assistance. However, examples were found of partners collecting information about the cause of household food insecurity, and hence the decision to use cash or vouchers.

- The Danish Refugee Council's proposal for supporting vulnerable households in the North Caucasus, gave clear justification why it had decided to replace in-kind food assistance with a targeted cash transfer (the situation had changed for the general population, who were no longer food insecure; however, the poorest households were unable to earn sufficient income to cover their basic needs). Traders were interviewed to determine whether they would be willing to participate in a cash or voucher scheme—information that resulted in the removal of the voucher component, and the decision to provide cash. Following a small-scale pilot funded from other sources, the agency submitted a proposal to DG ECHO for a larger-scale programme which was accepted for funding in late 2007.
- The ICRC's Urban Voucher Programme (UVP) was designed following a household economy assessment (summarized in the UVP evaluation) and a market assessment. No details are given why vouchers were chosen over direct cash support, but the decision to shift from an in-kind approach to a market-based approach was due to the fact that the urban economy was contracting, that many households had debts due to income shortfalls, and that prices for many items had dropped due to the loss of the export market. The ICRC continued in-kind assistance in the rural assistance programme (RRP), although no market information is given about how the urban and rural areas differed in terms of commodity supply.

Market assessment capacity has improved considerably within WFP and among the major NGOs as a result of the ECHO-funded SENAC<sup>6</sup> project (located within WFP's assessment section, ODAN). Within the SENAC project the open exchange of information—which is a core principle of the project—has been important in raising the standard of market assessment across participating agencies. A challenge that remains for all agencies is the determination of the appropriate level of detail and complexity required at the assessment stage.

Market assessments conducted by agencies funded by other donors are further discussed in the review report. This will include examples of different types of market assessments conducted to determine the appropriateness of cash-based responses to acute food insecurity and examples where an agency has compared different resource transfer options.

The underpinning reasons identified by the consultants for the current limitations in partner assessments are the following.

- a. Collecting primary data is costly and time consuming, with implications for partner's overhead costs. This is especially true for the smaller partners with no established system for regular assessments. Moreover, as the assessment precedes the eligible period for project funding, the cost involved is not foreseen to be funded by DG ECHO.
- b. Many projects get repeated over the years, thus primary data collection (including market data) is not seen as necessary for the assessment. In most cases, partners use the previous year's field observations and experience as substitutes to needs assessment information.

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<sup>6</sup> SENAC: Strengthening Emergency Needs Assessment Capacity.

- c. Many NGOs report that their choice of using cash/voucher or in-kind assistance is dependent on predetermined donor preferences. In such cases, providing a detailed assessment that looks beyond immediate needs becomes a futile and expensive exercise, and therefore avoided.
- d. If requested by the partners, DG ECHO has the provision for funding specific stand-alone assessments. However, DG ECHO does not have its own instruments for systematic and independent market assessment. For this, it largely depends on the information provided by the partners in the single form, and the supporting input provided by the relevant TAs. But the quality of market specific input is subject to partner capacity and the individual knowledge, experience and interest of the TAs.
- e. DG ECHO (as part of project submission) currently has no specific requirements in terms of what should be included in the assessment of a cash/voucher project, and therefore the level of input and analysis remains subject to partner agencies' interpretations and features significant variation.
- f. Implementing organizations admit that market assessment is currently a challenge – not just because standard tools to guide cash/vouchers are not available, but because there are no accepted means of determining the appropriate complexity for assessments in different disaster scenarios and operating contexts.

**The missing elements** related to assessments appear to be:

- a. a clear organisational policy encouraging the choice of resource transfer to be based on informed assessment and good comparative analysis of different resource transfer options;
- b. a clear requirement of assessment information/analysis, consistent with the complexity, size and nature of the project and resource transfer options under consideration;
- c. the TAs (the front-line staff who review the assessment information) and the Desk (the final level reviewing the assessment findings) may need training and added capacity to review the aspects relevant to cash-based transfers, such as market implications of a cash approach, cash transfer options etc;
- d. a considerable number of partners also lack competence in the areas of financial, economic and risk analysis etc. The involvement of finance and administrative staff in the assessment phase is not routine for many agencies. Similarly, few have developed capacities and systems for measuring cost-efficiency, as this has not been a requirement from DG ECHO.

### **Main considerations for DG-ECHO and partners**

- a. The magnitude and details of the assessment will need to be decided on a case-by-case basis, taking into considerations issues such as context and objectives, funding size, operational security, partner experience and capacity etc. This may require added capacity within DG ECHO.
- b. Assessments concerning markets, inflation etc. may require specialized human resources (with probable cost implications) for the partner. As part of its cash/voucher policy, DG ECHO may have to identify the circumstance under which it will consider reimbursing costs for market and other assessments.
- c. Market and economic assessment are specialised activities for which DG ECHO and many of its partners lack institutional competence. However, WFP and other large food-aid players, and some early warning specialist agencies (e.g. FEWS-Net etc.), are better placed to conduct these assessments<sup>7</sup>. In addition to its current support of WFP's SENAC project, DG ECHO may have to consider supporting specific market assessments, thus creating economies of scale necessary for addressing the information needs of the smaller partners.
- d. To be able to advise partners on relevant assessments, in the context of cash and voucher, DG ECHO may need to develop in-house capacity.

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<sup>7</sup> WFP has invested in improving its needs assessment and market assessment capacity in recent years. Many emergency assessments (EFSAs) include market assessment and consideration of different resource transfer options.

- e. Instruments such as the single form may need to be supported by explanatory notes, articulating the assessment requirements for cash and voucher projects.

### 3.3.1.1 Examples of Justification for use of Cash or Vouchers after Assessments

The following table gives examples (from different types of projects and project contexts) of reasons why a cash/voucher approach was selected over in-kind assistance. In most of these cases it is not usual to find explicit information (in the project documents) explaining how assessment findings contributed to the decision to use cash or vouchers over in-kind assistance. This lack of documented information does not mean that there was no formal assessment of different options—rather it seems the knowledge contributing to the discussion was implicit. Recent project documents, however, *have* included this kind of information (e.g. Danish Refugee Council’s proposal for North Caucasus) and provide useful models, but for cash/voucher operations, particularly in food insecure areas, more attention is needed to analysing markets. Information below was obtained largely through interviews with DG ECHO and partner staff involved in the respective projects.

Dem. Rep. Congo (Ituri district): PU and AAA’s cash for work projects since 2003	These cash and voucher projects followed similar projects where food aid was provided to beneficiaries. The decision to change to cash and vouchers stemmed from the high costs of commodity supply (DG ECHO had been subsidizing the local transport costs for its partners—which were not fully covered by WFP). Cash was also seen as complementary and advantageous as labour payments for work on the road rehabilitation projects which sought to open up markets to returnee populations. The cash projects were directed at populations who returned to areas where markets were functioning.
Afghanistan: UNHCR cash grants for returnees: 2002-current	UNHCR has provided assistance to Afghans returning from exile in neighbouring countries to facilitate their return for several years. This used to include food (a standard WFP ration) and household items (tarpaulin, blanket, jerry can, kitchen set, hygiene items). In 2004 the government recommended provision of cash. UNHCR’s cost-benefit analysis identified cash as preferential, and with a change in government the security situation was more conducive to a cash transfer. A further reason for cash was that household kits had been sold by the returnees, at low cost.  Cash grants were also useful to UNHCR as they provided an incentive to returnees to pass through the processing centres, facilitating the collection of critical demographic data.
Afghanistan (during Taliban blockade in Hazarajat region in 1998): cash for work	The Taliban blockade prevented the supply of food by road to the drought-affected population and the cost of the alternative—airdrops—was excessive. DG ECHO funded cash for work projects that enabled households to earn income, and food was brought into the area by local traders.
Afghanistan (2005 onwards): cash for work	The government recommended agencies refrain from provision of free relief (then food relief) to avoid dependency; and requested agencies to provide cash rather than in-kind aid in areas where markets had recovered. DG ECHO partners responded with cash for work projects where appropriate.
Azerbaijan: UNHCR cash subsistence allowance, which covered basic needs and particularly a proportion of the costs of renting.	The decision to provide cash to Chechen refugees living in Baku, the capital of Azerbaijan, to cover part of the cost of renting, accompanied the steep rise in the cost of housing and living. Alternatives (resettlement, construction) were not possible due to political reasons, and the most appropriate assistance was cash grants. The subsistence allowance accompanied food parcels provided through NRC; the decision to provide food parcels rather than add the value to the cash subsistence allowance related to the need for coherence with the government national social

<b>Table 2: Reasons for adoption of cash/vouchers among DG ECHO-funded projects</b>	
	support system which addresses the needs of vulnerable nationals.
Palestine: ICRC food vouchers for vulnerable urban households (2002-3)	The decision to use vouchers (replacing food aid) was because of the desire to support the struggling local economy, and to preserve the dignity of beneficiaries through allowing them choice and flexibility to make their own decisions in purchasing essential commodities.
Liberia: Tear Fund: mixed FFW/CFW project for returnees (2007)	Cash was added to the pre-existing food ration as the work (swamp development) required hard physical labour, and payment in food would not have been sufficient.
Democratic Republic of Congo: seed voucher fairs: AAA and PU: since 2005	Seed voucher fairs were designed to address two issues simultaneously: the first was to provide recent returnees with a variety of quality seeds; the second was to enable those who had returned earlier (and who had been provided with certified seeds the previous season) with improved marketing opportunities.

### 3.3.2 Project Design

This section considers how agencies articulated the design of the cash and voucher project, what factors influenced the design, and partners' use of standards (if any) at this stage.

The basic document articulating the project design for both partner and DG ECHO is the Single Form. It is based on the information provided in this document that DG ECHO ultimately decide on whether to fund a partner's proposal, or whether changes are required.

#### 3.3.2.1 Design of the Single Form

The design of the single form is such that it caters mainly for what are often termed the "traditional" humanitarian delivery methods i.e. supply of commodities (including food aid) or services. This is most apparent from the budget lines under Title One. These currently do not include lines for clearly representing either cash or voucher transfer. To overcome this limitation, partners currently use the budget line closest to the objective of the project (and not its resource delivery mechanism) to represent the funding requirements. While this makes practical sense the lack of transparency (resulting from the form's limitations) could lead to a number of shortcomings.

**Budget Lines:** The lack of an appropriate budget line for cash/voucher transfers means that decision makers are not alerted about the field accountability measures, implementation arrangements and specific risk analysis associated with the resource delivery option selected by the partner. For example, CFW project variously appear in single form as either "infrastructure rehabilitation", "non-food goods" or "self sufficiency". It makes a considerable difference if the delivery method is simply procurement of a contractor (in-kind assistance), or if, instead, it involves a system to account for the beneficiaries employed in return for wages.

Some partners have provided information that justifies elements of the design of cash/voucher interventions (e.g. the Danish Refugee Council proposal for North Caucasus), but this is not typical of most proposals, which do not clearly articulate information that is needed to decide whether a cash/voucher project is appropriate.

**Guidelines:** When projects involve procurement, the FPA provides clear guidelines to the partners concerning DG ECHO's requirements. However, no guidelines currently exist to advise partners about their responsibilities (and DG ECHO's accountability expectations) when designing the delivery mechanisms for cash or voucher projects. More details about the consequence of the current lack of clarity are discussed in the following sections.

### 3.3.2.2 *Relevance of Project Objectives to Assessment Information*

In the review of DG ECHO-funded projects, it is not always clear how far the assessment results underpin the decision to use cash or vouchers, as there is limited mention of this in the project design narrative. This does not imply that wrong choices are the norm (no evidence was found of erroneous judgements), but it highlights that absence of a clear policy combined with inconsistency between the design tool and the specific needs of cash and vouchers as delivery mechanisms. This has potential for limiting coherence between the beneficiary needs, the context and the project objectives.

It is important to highlight that most of DG ECHO's cash and voucher projects are "repeat" projects, thus the fact that a project was funded in the previous years becomes part of its justification. Moreover, the portfolio of cash and voucher projects funded by DG ECHO remains both small in scale and limited in scope which has meant that hitherto the limitations of design instruments and lack of market-related assessments have not been problematic.

### 3.3.2.3 *Cash or Voucher Value Provided*

In the case of CFW projects, the consultants could not identify a systematic analysis by partners for establishing rates for daily wages appropriate to the project and its context. In most cases, partners claimed that they used local wage rates as the primary guide. But most often, partners were found to follow the rate used by the previous projects and/or other agencies in the area.

A key issue that needs consideration is that while for in-kind projects beneficiaries are not affected by inflation (the higher costs are absorbed by the agency procuring the items), with cash/voucher projects beneficiaries stand to lose out if the price analysis is weak, or if the project does not allow for adjustment of the price in the event of inflation. Such considerations are not currently included in the project design.

Voucher projects potentially carry the options of providing either the value or the quantity of a commodity. Most of the voucher projects visited by consultants used a cash value, thus shifting the inflation implications on to the beneficiaries. Moreover, among the voucher projects visited the agencies were not monitoring the value of the items that beneficiaries received in exchange for the voucher. It was mostly assumed that the purchasing power of the voucher (determined at the assessment stage) remained unchanged.

#### **Box 1: Determining the value of basic needs assistance: the ICRC UVP in Palestine**

The ICRC urban voucher programme was designed following a detailed household economy assessment which identified the cost of vulnerable households' minimum expenditure. This guided the value of the voucher—which was set at 100% of food expenditure (or 65% of overall monthly expenditure). Part of the voucher was exchangeable for a fixed set of locally produced foods (including wheat flour and olive oil), and the remainder had a cash value. The total value was \$90 per household.

### 3.3.2.4 *Effects of conditional resource transfers*

DG ECHO's legal parameters have in the past restricted the use of unconditional cash transfers. But, as observed by the consultants during the evaluation missions, there have been instances where use of unconditional cash would have possibly been both appropriate and manageable in an accountable manner (see box below). This aspect should now be addressed with the introduction of the latest legal note, allowing the use of unconditional cash grants.

## Box 2: The case for Unconditional Cash Transfers

Première Urgence provided assistance to families of malnourished children discharged from a therapeutic feeding programme in Ituri. The agency developed a system of food voucher fairs whereby the mother would return a month after discharge to collect foods from producers and traders to take home. As the nutrition centres covered a large number of communities the children discharged in any one period were dispersed over a wide area. Some had to travel a long distance to reach the fair (30km) and the transport of some 20kgs of food was a major constraint for women with child care responsibilities; some failed to show up at the voucher fair.

A cash transfer paid to the mother on the child's final visit to the nutrition centre could have been an effective way of addressing what is likely to have been a major factor contributing to malnutrition—poverty. While it is recognized that other factors influence malnutrition (e.g. morbidity) and that control of cash at household level may be an issue that warrants monitoring, the point here is that the distribution of cash should have been an option that might have been preferable for the child's carer and for the implementing agency had it been permitted.

Having studied the cash-for-work (CFW) projects funded by DG ECHO, it is clear that adding a work requirement to the provision of cash has mostly been an appropriate choice. In many instances the beneficiaries themselves preferred to work, because a) they were underemployed; b) they appreciated being able to contribute to the development of their community; c) the activity of work brought psycho-social benefits (and elements of peace building); and d) it is perceived as more dignified than a handout.

However, a critical issue for CFW projects is that while its primary objective may be to address an income deficit for vulnerable households, the inherent labour requirement has the potential to cause exclusion of *labour-poor* households (who are often the most vulnerable). These include women-headed households with childcare responsibilities and the elderly and infirm. This aspect is not always assessed and addressed in the design of such projects. Moreover, because monitoring tends to mostly focus on the beneficiaries only, this could therefore inadvertently fail to identify those who are not project beneficiaries, and therefore unintentionally excluded. It is therefore critical that design of CFW project also provide an analysis of most vulnerable that could get excluded due to the provision of work, articulating the corrective measures. The addition of unconditional cash transfers in the revised policy note gives partners the flexibility of addressing these particular households' needs without having to resort to in-kind assistance.

### 3.3.2.5 Exit strategy

Similar to in-kind assistance, and as part of their design, cash and voucher projects should have a clear exit strategy. This is perhaps more important with cash and voucher projects, considering the potential for creating unsustainable expectations and dependency. However, the cash and voucher projects funded by DG ECHO, past and present, are so limited in both magnitude and scope that potential risk in terms of sustainability remains quite small. As such, partners' responses to the section on exit strategy (in the single form) remains generally limited. A partial reason for this could also be the limited duration of DG ECHO's funding cycle, and consequently partners finding it difficult to articulate exit strategy plans for a one-year funding period.

One aspect that remains to be fully understood and appreciated is the potential carried by cash and voucher in relation to DG ECHO's own exit strategy from a country or a region. Cash and voucher initiatives could easily be translated into projects aimed at reducing humanitarian aid dependency of beneficiaries when preparing for handover to recovery/development donors in the LRRD preparatory context. Irrespective of considerable in-house debate on the subject of DG ECHO's exit strategies, the use of cash and vouchers remains to be fully explored for its immediate relevance and significance.

### 3.3.2.6 Cost-Efficiency

As it stands now, the single form does not require partners to calculate cost-efficiency. The only place where cost-related information is considered is in the in-house project support analysis provided by the TA. In this regard, the cost-efficiency analysis remains mostly limited to the calculation of “cost per beneficiary” only.

With the expansion in the choice of resource transfer methods, analysis of different options’ cost-efficiencies is of considerable importance. As such, DG ECHO may need to determine its own information needs and develop guidance to help partners calculate—at the design stage—the relative cost efficiency of different delivery options.

### 3.3.2.7 Risk analysis

Risk analysis provided by the partners in the Single Form remains fairly general in nature – e.g. focusing on the risk of adverse climate, or political change, or the risk that beneficiaries might not accept the agency’s vulnerability criteria etc. For example, partners do not articulate—in the case of cash and voucher projects—the risks to the resources, fiduciary and accountability systems and/or the possible security risk for the field staff etc. This will require DG ECHO to specify what it expects as risk analysis in the specific context of cash and voucher projects.

Improved risk analysis is in DG ECHO’s interest as it would promote safer programmes in what are often difficult environments. However, partners may be reluctant to share risk analysis if they fear that their transparency could lead to refusal of funding. Rather the presentation of such information could be seen as evidence that the partner has strong capacity to manage cash and voucher projects in difficult environments. DG ECHO may have to develop a better understanding of real risks for cash and voucher transfers in different contexts. This will require a keen understanding of how partners have reduced exposure to risk by adapting or improving field accountability systems and capacities. It is with such knowledge that DG ECHO can negotiate with partners what is an “acceptable” level of risk, and to ensure risk-reduction measures are in place.

## 3.3.3 Proposal Review: submission and approval

For DG ECHO to be able to sustain a policy of determining a context-specific system of resource transfer – including cash or vouchers, it may need to consider a number of issues relating to its own and its partners’ capacities and arrangements. This section highlights the most relevant issues concerning the review and approval stage of the project cycle.

### 3.3.3.1 Stakeholders

#### A) *DG ECHO’s Partners*

Context: There are three types of partners of relevance to cash/voucher projects.

The first are the large organizations (NGOs such as Oxfam, Save the Children, CRS, Mercy Corps) that have been implementing cash/voucher projects for several years. These agencies tend to approach other donors for funding because they often perceive DG ECHO as an ‘unlikely’ donor for such projects. These organisations tend to have better capacity to provide comparative analysis for the different resource transfer options in a given context and often blend innovation with sound planning and practices to result in successful projects.

The second are organizations who, by and large, have not explored the use of cash and voucher projects, perhaps because they have not seen the need to change from their current approach (essentially in-kind supply).

The third group are those who have started to explore the use of cash/vouchers, but it is not yet mainstreamed through their organizations. These tend to have relatively limited in-house capacity, expertise or experience for comparative resource transfer analysis in a context-specific manner.

**Relevance:** the inventory of DG ECHO-funded cash and voucher projects is dominated by organisations that belong to the third group (see **Figure 4**). The quality of these organisations' project funding-related studies and subsequent analysis remains limited due to their historic reliance on in-kind assistance only. These organisations tend to have used cash and vouchers projects in some cases because either the in-kind assistance has been logistically not feasible (e.g. Afghanistan) or extremely expensive (DR Congo), or because government policy discouraged it (Afghanistan). As such, in many cases, the request for funding is not based on a comparative analysis of the benefits of the resource transfer method being proposed.

To make an informed decision, and for cash and vouchers to become a genuine option for resource transfer, DG ECHO mostly depends on the capacity of the partners to analyse benefits and compare advantages/disadvantages of using such systems in a given context. Such an analysis should in turn present DG ECHO with options, differentiated by cost-efficiency, impact and accountability considerations.

The study of the field capacity of DG ECHO's partners (visited by the consultants) shows that their experience, expertise and capacity (with a few notable exceptions) is weighted towards sectoral interventions and logistics—which is consistent with the design and implementation of traditional in-kind, food and/or service-delivery type projects. As such, a number of partners currently have very limited capacity to analyse, for example, the implications of using cash as opposed to in-kind assistance on e.g. food prices etc.

To be able to sustain their funding proposals for cash initiatives with a good comparative analysis, the partners will have two options.

- One, is to develop in-house (in-country) capacity and expertise. Given the cost implications—especially for the smaller partners—this will remain a distant objective for some time to come.
- Two, a more realistic option will be for partners to hire short-term specialised human resources, for specific projects, to conduct the required feasibility analysis. This is likely to have serious cost implications too. Agencies such as WFP, CARE, SCUK and Oxfam have carried out such studies in recent years. Generally speaking they take between 1 and 2 months, and require extensive field research.

In short, any broadening of the DG ECHO policy on the use of cash and voucher will remain of limited effectiveness unless four fundamental issues are considered and addressed, these being:

- the need for requiring a solid analysis to underpin choice between resource transfer options, specially cash and voucher;
- current limitations to partner capacity to produce relevant analysis and the need for strengthening this capacity;
- cost implications for the partner of addressing capacity shortfall;
- DG ECHO's policy and willingness to support these additional costs.

## ***B) DG ECHO***

### **• Field Technical Assistant**

DG ECHO's Technical Assistants (TA) are generally the key reference persons for partners in the field. They are available to partners for guidance and discussion on project preparation and other issues such as selection of resource transfer options. This makes the capacity and knowledge of the

TA—concerning not only of DG ECHO’s policies and procedures but also of various resource delivery options and their implications—of vital importance for cash-based interventions.

DG ECHO’s TAs are essentially 'generalists' with various technical – and often NGO- backgrounds. Their knowledge of DG ECHO’s ongoing policy discussions can vary. Of particular relevance in this case is their *capacity, knowledge and understanding* of the use and implications of non-traditional resource delivery mechanisms (such as cash and vouchers). This is reflected in the considerable variation across projects, countries and continents in the proportion of different resource transfer approaches used. For example, two entirely different TA approaches to DG ECHO funding of cash/voucher projects were found in two countries in the same region, visited by the consultants.

In one country the partners had started to explore the use of CFW and vouchers for seed, as a context-specific means to help vulnerable households access basic needs. These partners—until quite recently—had been focusing only on traditional food and in-kind assistance. This change was brought about largely by the arrival of a new TA. With his prior knowledge of the use of cash/voucher projects and his understanding of relevant policy approaches, he helped partners to explore the viability of non-traditional resource transfer methods in a context specific manner. An important contributory factor was the exorbitant cost of distributing in-kind resources. Coinciding with the TA initiative, a workshop on cash/vouchers (funded by DG ECHO and led by the Overseas Development Institute (ODI)) helped de-mystify some of the partners’ reservations, and paved the way for the use of cash and voucher projects.

In the second country (from the same region) however, although DG ECHO’s partners had a keen interest in the use of cash and vouchers, they had been discouraged by the responses of successive TAs. The current TA’s resistance seems to stem from lack of prior exposure to cash and voucher projects. Moreover, the TA had little understanding of the information and field research needed to validate cash/voucher initiatives, and he did not appear to fully understand the options available.

The desk review revealed considerable variation in the extent to which the cash/voucher element itself is explored at the review stage. Some TAs have been diligent in requesting partners for further information about disbursement procedures, whilst some project documents make no mention of this at all.

The above examples illustrate the current disparities that may exist in the knowledge and understanding of TAs concerning cash and vouchers. As the first point of contact, they can potentially both inspire and discourage partners in being context-specific in their choice of resource transfer methods. As such, any broadening of DG ECHO policy on the use of cash and voucher has to also consider the issue of building and maintaining uniform capacity across its key field representatives. Otherwise, it is difficult to see how DG ECHO will ensure that its partners’ cash and voucher initiatives receive equal treatment when screened at the field level.

- **Programme Assistant (National Staff)**

The importance of the national programme assistants (PA) of the TAs should not be underestimated. In some cases, where the TA turnover is significant, they may become the institutional in-country memory of DG ECHO. Although with no direct decision-making role, some PAs may contribute towards proposal review and the decision process, and again the contribution varied considerably across countries. Two factors underpinning such variation appear to be the PA’s own professional capacity and training, and the extent of the TA’s confidence in the PA’s capacity.

Similarly, the knowledge and understanding of PAs concerning DG ECHO’s approach to the use of cash and vouchers can vary considerably. PAs interviewed fell into two broad categories:

- Those with project-specific hands-on knowledge about a particular aspect or type of cash/voucher initiative. These PAs had a limited understanding of the broader subject

and underpinning considerations. This was mainly due to the fact that the same type of projects were repeatedly proposed and funded in the same country.

- Those with no prior exposure to the use of cash and vouchers, and with a very limited knowledge of related assessment, planning, review or operational needs.

To ensure consistency in their approach, specific guidance may be needed for PAs (and possibly TAs also) on the appropriate level of involvement in, and influence on, key project design decisions made by the partners. In parallel, ensuring the consistency of their knowledge concerning cash and voucher policy and instruments carries challenges for DG ECHO that may be rather similar to those mentioned above concerning TAs if one considers the continuity factor that they bring to field offices.

#### • **Geographical Desk**

Geographical desks play a crucial role at HQ level when it comes to screening and approving both concept notes and project proposals (single form). They are also involved in matters pertaining to DG ECHO's developing policies and working parameters.

Essentially, the desk officers have managerial backgrounds and are experienced in DG ECHO and EC procedures concerning the administration of funds. Their technical judgment and decision on whether a certain resource transfer mechanism is appropriate depends mostly on the TA's input, as well as on the analysis prepared by the partner (both of which may vary in quality and depth).

Most of the desk officers -with some exceptions, are familiar mainly with the methods of traditional resource transfers i.e. in-kind assistance and direct service delivery. They have therefore a good understanding of the relevant issues to consider, and of the information which should be provided for making decisions on traditional types of projects. However, when it comes to the use of cash and vouchers, there may be need to reinforce the awareness and training of the desks about their use such that the technical knowledge is commensurate with the decision making function.

Currently, DG ECHO funds a very limited set of cash and voucher projects which are in turn limited in both scale and scope (almost all cash-related projects are cash-for-work (see table 1). These are invariably run on the daily labour principle. As such, the knowledge required by the desk for review and approval of such a project, in the current context, is relatively straightforward. However, if DG ECHO were to expand the use and definition of cash projects, then Desks may need both training and added capacity to be able to adequately review the relevant proposals.

#### 3.3.3.2 *Systems and information needs:*

Information concerning partner operational arrangements: currently, DG ECHO reviews a funding proposal in the context of the partner's HQ financial and procurement capacities/arrangements, agreed under the FPA. This arrangement works well as long as the proposal being reviewed involves a "traditional" in-kind resource transfer, thus involving consideration of the partners' HQ procedures for procurement. However, in the case of cash and voucher-based projects, the partner's HQ procurement capacity and procedures become substantially less relevant. Instead, it is the partner's field operating and accountability systems and human resources that are relevant and important for the proposal review process. Currently, such information regarding partners' field operating systems is neither required nor provided in a systematic manner. As part of its policy on the use of cash and voucher, DG ECHO may need to specify the extent of information on field operational arrangements that the partner will be expected to provide.

Accountability boundaries: in the case of cash and voucher projects, a fundamental issue that needs to be defined are the accountability boundaries between DG ECHO and the partner. Existing accountability boundaries—defined in the FPA—are based on the traditional resource transfer systems i.e. bulk procurement of goods/services and their distribution by the partners. However, in the case of cash-based projects, the DG ECHO funding remains in cash form until it gets disbursed to the

individual beneficiary. Without clear accountability boundaries for cash projects, the real danger is that DG ECHO will shift its attention down the supply chain, thus blurring the accountability boundaries with partners. Above all, this could leave DG ECHO exposed to accountability risks that should be purely a partner responsibility.

Added support capacity: the Regional Support Offices are expected to provide technical support to both geographical Desks and TAs. The expansion in the use of cash and vouchers may increase need for specialised knowledge and capacity to advise and assist both TAs and Desks during the review process. DG ECHO may therefore need to consider the benefits and economies of scales that could result from having such capacity available within the RSOs.

### **3.3.4 Project Implementation**

The following key issues for the implementation stage of cash/voucher projects emerged during field discussions and project visits.

#### **3.3.4.1 Targeting of beneficiaries**

As part of the DG ECHO application process (single form), the partner identifies the key criteria to be used for selecting the most vulnerable beneficiaries. However, translating this into reality is a different matter as targeting any resource comes with challenges, and most approaches have limitations. The same is the case also for other donors and implementers. Errors in targeting can be ascribed to “inclusion error” (which is the practice of including those who are not eligible) and “exclusion error” (excluding those who are).

The main factors influencing the actual beneficiary selection includes: accuracy of needs assessment; relevance of delivery means to beneficiary context; partner experience and its presence in the area; ease of access to beneficiaries; local resource sharing traditions; and potential for political influence and corruption.

It is almost impossible to identify a project where all factors influencing beneficiary selection are fully addressed. Numerous studies and evaluations concerning the selection of beneficiaries for in-kind assistance (including food aid) testify to such difficulties and the resulting partial loss of resources.

An emerging body of studies also shows that reaching targeted beneficiaries is only part of the challenge. A more serious problem concerns the provision of beneficiaries with inappropriate in-kind assistance, which leaves them with no choice but to sell part of the assistance (often at a loss) to raise money for other basic human needs. This is sometimes documented in DG ECHO monitoring reports but it should be standard for all resource transfers.

Over the years, both implementers and donors have continued refining beneficiary targeting systems concerning food and in-kind assistance. Irrespective of the progress made in targeting, there exists a varying degree of informal acceptance that a certain proportion of in-kind assistance (including food) will either not reach the intended beneficiary, or will fail to have its full intended impact. This acceptance is also partly driven by the recognition that excessive control over resource targeting has a cost, which in turn reduces the amount of resources that can be made available to the beneficiaries.

In the case of cash-based assistance however, a similar acceptance is currently unimaginable. To some extent this comes from the generalised perception about the inherent attraction and risk of corruption for cash compared to in-kind assistance. As such, targeting of cash assistance is perceived to be considerably more difficult. But, while bearing in mind that experience in the use of cash is fairly limited, there exists no comprehensive comparative study to either sustain or reject such fears and perceptions. From the discussions and field visits that took place during this study, and the consultants’ experience of cash transfers elsewhere, these perceptions are not borne out by field experience.

Experience of DG ECHO in the use of cash and vouchers remains very limited, both in nature and scale. Nevertheless, the cash and voucher projects visited and studied by the consultants showed that partners and DG ECHO staff constantly check and refine processes for beneficiary targeting and resource delivery. Quite clearly, both operational partners and DG ECHO staff were found to be very conscious of the risks involved. However, most of these field level experiences and innovations remain mostly undocumented and limited to the individuals involved.

Beneficiary targeting and the identification process used by the partners for cash and voucher projects was reported to be far more rigorous than that used for food and other forms of in-kind distribution. Beneficiaries of cash and voucher projects get identified, confirmed and reconfirmed many times over. For example, in the case of DG ECHO funded subsistence allowance to Chechen Refugees in Azerbaijan, UNHCR has established a system of beneficiary identification and verification, involving a rigorous system of monitoring visits which are carried out by two separate sets of staff plus social workers. The system works very well, ensuring not only accountability but also a flexible system of targeting which optimizes the impact of limited resources. However, this is a very small caseload of just over 2,500 refugees and therefore quite manageable. Being able to maintain a similar level of targeting and monitoring rigour for a much larger caseload will not only be difficult but also costly.

In the less secure areas of Afghanistan, D.R. Congo and Palestine partners were found to have developed multi-layered systems for beneficiary identification, using village committees, local administrative bodies, local NGOs, and their national and international staff to identify and reach beneficiaries for CFW projects. In addition to this, where possible, the daily payment for cash-for-work projects is set slightly below the market wage to enhance self-selection –as a day’s hard labour will be less attractive to those other than the most vulnerable beneficiaries.

Overall, the systems for beneficiary targeting in DG ECHO-funded cash and voucher projects were found to be well implemented. However, these remain small projects with limited and therefore manageable numbers of beneficiaries.

#### *3.3.4.2 Operational Systems and Capacity*

##### **A. Procedures and Systems**

The following section provides information and examples from the conflict-affected countries visited by the consultants where the use of cash-based activities is often perceived to involve high risk. This section looks at the ways in which DG ECHO’s implementing partners have addressed some of the concerns surrounding handling of cash-based transfers, and the areas where tighter systems and capacities are required.

Given that all cash or voucher initiatives eventually involve movement, storage and disbursement of cash in difficult field locations, this section therefore focuses on the innovations and consequences of cash transfers systems and procedures underpinning both cash and voucher-based projects.

##### *i) Cash Transfers and Payment Systems*

The implementing organisations working in insecure areas were found to have well developed cash handling procedures and arrangements in place. This is mainly true among the partners with experience in the use of cash and vouchers who tend to demonstrate a proactive approach to anticipating and minimizing risk through the development of procedures and capacities to manage the risks involved. The following section provides an analysis of the consultants’ findings in different contexts.

a) Locations where a commercial banking system exists

Where available, implementing partners were found to use the local banking systems for cash transfers to their remote field offices and/or beneficiaries. In Palestine (the West Bank) for example, partners pay beneficiaries with a bank cheque. Beneficiaries would either cash these cheques in the bank, or in some cases they used a local shop as intermediary for a relatively small fee (less than the cost of a return bus journey to the bank).

However, in D.R. Congo (Ituri district) while there was a bank in the main town which was capable of receiving money transfers from an international bank in Uganda, DG ECHO's partners avoided using this local banking system for a number of reasons, the main one being that the system was considered unreliable: the bank often had liquidity constraints, and transfer costs were high. The partners in Ituri therefore chose to transfer cash using their own staff on commercial flights from Uganda.

In D.R. Congo, one of the partners had taken insurance cover for all physical transfers of cash and its retention in their main office in Bunia. Another partner had no system of cash insurance in place, and instead made efforts to ensure that the arrival of cash coincided with its rapid disbursement. In both cases, none of the partners had ever lost any cash in the process prior to July 2007. Nevertheless, they were not aware of both eligibility and obligations for insurance coverage of resources provided by the fact sheet C-4.

As already stated, it is important to note that for partners working in conflict-affected and/or remote areas, the physical transfer of cash for staff salaries and operational running costs far exceeds the transfer amount paid to beneficiaries under the cash and voucher projects. For example, a partner working in Ituri, DR Congo, with over 100 staff, transfers over USD 200,000 per month for its entire programme. Out of this, a sum of only USD 20,000 was destined for CFW project beneficiaries. As such, it could be said that cash transfer risks exist even without cash/voucher projects. Handling and transferring large amounts of cash in insecure locations—for humanitarian operations—has a long history with relatively limited cases of resources being lost.

b) Locations lacking a viable commercial banking system

- Using staff to transfer cash to remote locations

In situations where a commercial banking system is not available for transfer of cash, the implementing organisations were found to have different but quite structured and elaborate operating systems. These took into consideration both contextual constraints and opportunities available for the movement of cash and its distribution to beneficiaries. Documentation of such operating systems varied from partner to partner. In a limited number of cases (usually organizations which have a solid background in cash transfers) these procedures are extremely thorough and well documented. In most cases—especially among smaller partners—the procedures were documented either partially or not at all.

Currently, DG ECHO does not specifically require partners to provide operating details of how they intend to manage cash storage and delivery at the field level. As mentioned earlier, FPA and FAFA only capture partner HQ accountability systems in-terms of procurement and finance. Cash-based projects however fall outside this traditional arrangement and require field-level operational accountability arrangements, and a donor system which understands, assesses and acknowledges the same.

- Using Remittance Companies/Traders to transfer money to remote locations

Countries like Afghanistan and Somalia have well established traditional systems of cash suppliers (known as *Hawala* in Afghanistan) with capacity to transfer cash to remote location in their respective

countries. In the absence of any banking system, humanitarian organisations working in both countries have long been using this system for local transfer of cash.

Irrespective of some donor reservations concerning transfer of resources through *Hawala*, the humanitarian organisations continue to find the system to be reliable, safe and economic for transfer of cash to remote and insecure areas of the country. The issue of legality is not discussed here since (as mentioned above) the use of *hawala* goes beyond cash and voucher transfers and is a solution to operational constraints of working in stateless and/or conflict-affected countries.

The selection process for the *hawaladar* (as the operators are known) follows standard procurement procedures to the extent possible. Organisations working in Somalia and Afghanistan—through local knowledge and reputation—annually invite a selected number of reputable *hawaladar*/money traders to submit bids. Open bid invitations are purposefully avoided due to security concerns. A further reason to avoid open bids relates to efficiency: in fact most *hawaladar* operate only in specific areas – where their clan or ethnic affiliations allow them to work with an acceptable level of security.

The terms of the agreement (e.g. the extent of the *hawaladar*'s involvement in the transfer up to the final beneficiary, and the charge for this service) are variable. In Somalia it is common for the cash to be transferred into the hands of the final beneficiary through a radio network (incurring a higher fee); in Afghanistan most agencies use the *hawaladar* to transfer cash from the capital to the field office, and from that point the agency takes responsibility for paying the beneficiaries direct.

DG ECHO partners were found to have different procedures for providing cash supplier with money to be transferred. One agency reported that the money trader transferred the cash first and was reimbursed after the transfer/receipt was confirmed by the field office. In many cases, the money traders were paid by cheque ahead of the cash transfer to the field office. In a few cases partners reported carrying cash physically to the money trader's office for ongoing transfer to the field – an approach that could be risky for the partner staff. In all cases, the cash suppliers took responsibility for any money lost whilst in their possession. As such, the fee paid by the partner serves to cover both the cash transfer cost and insurance to cover any loss. The consultants could not find a case of cash lost by partners while using this system.

One partner reported that DG ECHO would not pay the cost involving cash transfer through the system of *Hawala*. However, consultants found that DG ECHO *was* paying this cost to other partners using the same system in the same country. Inconsistency in partner approach in this regard may be due to their lack of understanding of DG ECHO's fact sheet C-3 and its flexibilities.

## **B. Limitations with the procedures and systems used by Partners**

The study of DG ECHO's implementing partners revealed a rich mix of locally-developed operating systems used to ensure accountability and security of all cash transfers and payment to beneficiaries. However, at the same time, some recurrent procedural and capacity issues were identified that require addressing, i.a. the following.

- Locally developed operating systems being practiced by the partners are not always documented, officially approved by the partner's own headquarters, or known/understood by DG ECHO. These are seen to be a local arrangement, adjusted to reflect the changes in security and risk. As such, on paper, a partner may appear to have very limited field operating procedures for handling cash-based project, thus failing to reflect the presence of a good accountability system to an outsider. This can be a real concern when an auditor compares system coherence with actual cash handling and disbursement practices.
- Two DG ECHO partners—implementing CFW in insecure areas—were found to use different procedures for cash disbursement to beneficiaries. In one case, the national programme staff—responsible for beneficiary identification and project monitoring—was also required to undertake field cashier responsibilities and to make the payments. Whereas another partner

organisation required the office cashier to personally make all payments in remote field locations. In both cases, consultants could not locate the related approved operating procedures.

- Partners implementing cash-for-work projects in difficult and insecure areas, such as Afghanistan and D.R. Congo were found to have developed extensive beneficiary payment systems. However, the system requirements were, in some cases, not consistent with the information registered on the payment and receipt forms. In one case, the partner payment systems required the village chief, the expatriate project engineer, the liaison programme officer, and the supervisor to be present at the time of payment to the beneficiary. This elaborate system was meant to ensure transparency and accountability, especially where most beneficiaries lack identification papers and cannot read or write.

While these systems strive towards accountability, there are often some limitations in practice. For instance, the related Payment Form failed to capture the essential elements of this accountability system. The form did not carry signatures of any of the four witnesses actually present, and was instead signed (in addition to the beneficiaries) by the head of the partner programme—who was not involved in the payment. As such, although a well-designed accountability system is intended, and is largely practised, it is neither documented nor it is reflected in the payment forms.

- A relevant issue that emerged is the absence of clear communication to staff and partners about penalties and sanctions that would be levied in the event of diversion or other forms of misuse of funds or abuse of the system<sup>8</sup>.

### **C. Key observations**

Four areas emerged from the study of partners' implementation and accountability systems as requiring attention.

- Partner operational/field offices remain very conscious about the risks of cash and voucher programmes, and therefore take a lot more care in putting into place locally-specific and often elaborate accountability systems, at times exceeding their standard HQ accountability requirements. However, these remain weak in terms of documentation and coherence.
- For various reasons – including the lack of specific DG ECHO requirement, the partners' field accountability and cash handling arrangements are little known to the managers of DG ECHO.
- There are currently no DG ECHO guidelines setting minimum standards for partner field accountability systems when dealing with cash and voucher projects.
- No specific “whistle-blowing” policy currently exists and/or is required by DG ECHO. Such systems would reinforce accountability by protecting the staff that report malpractice.

#### *3.3.4.3 Human Resource Capacity and Budgetary Implications*

The bulk of the partners' projects continue to be dominated by food and in-kind transfers. Consequently their human resource capacity for implementation reflects this tendency, and their staff come mostly from logistical and technical service delivery backgrounds. As such, with very few exceptions, partners have limitations in terms of the specialist human resource knowledge and skills needed for implementing, for example, unconditional cash transfers or voucher schemes.

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<sup>8</sup> In other contexts—particularly countries where corruption is endemic—agencies have made efforts to actively communicate policies on this issue, and to include it explicitly in staff contracts, or to include it routinely in the induction/briefing process for new staff.

- **Current situation**

- In case of Cash-for-Work projects, partners use their existing logistical and sectoral technical capacities for implementation. This is mainly because implementation of CFW projects is perceived as an infrastructure project, where the beneficiary gets paid for the work done. The only additional capacity partners currently arranged in such projects is for cash transfer and its disbursement in field (discussed above).
- The voucher-based projects funded by DG ECHO are far less in number than cash-for-work. Mostly this relates to limited partner knowledge, capacity and desire to organise and manage the implementation of these often very demanding initiatives.
  - In the cases studied by the consultants, the process used by the partners tended to be highly control-focused, thus ensuring that the local producers (traders) and their goods/prices were screened and weighed, that identification of each beneficiary was repeatedly verified, and it was ensured that they could not manipulate the system. Similar to CFW projects, partners mostly manage the voucher implementation by using staff from a previous in-kind programme. As a consequence, the focus of these initiatives remains on logistics for delivery and control of resources.
- The systems, procedures and capacities to implement and manage both CFW and voucher-based projects were found to be mostly local innovations, tailored to specific circumstances, and very similar to implementation of in-kind initiatives. Most notable of all, the small organizations who had never used cash or vouchers before did not attempt to access information and resources from organisations experienced in their use—even when they were known to implement similar schemes in the same country.
- Partners interviewed did not see the need for specialist human resources for implementation of their current CFW and voucher initiatives. This could be attributed to two factors—the limited size and scope of current initiatives, and the limited understanding among partners’ field staff about the possible implications of these initiatives on, for example, market prices and inflation etc.

The cash and voucher projects implemented by DG ECHO’s partners, were found to require intensive staff and logistical involvement. Given the current limited scale and scope of cash and voucher projects, the partner capacity to implement and control was found to be, at times, stretched, but mostly adequate. However, all attempts to expand either the scope or the scale of cash and voucher initiatives will have to be carefully assessed against partner human resource and implementation capacities.

- **Cost/Budgetary implications of cash/voucher projects**

Traditional food and in-kind assistance programmes tend to be cost intensive in the areas of procurement and logistics. The budget proportions - between Title One and Title Two (70% and 30% respectively)—of the single form largely reflects this reality.

However, a well studied, designed and implemented cash or voucher project could be more cost-intensive in terms of technical human resources, and far less costly in-terms of logistical and procurement costs. As a result, to accommodate the cost realities of cash and voucher projects, the proportions and design of budget lines within Title One and Title Two may need reconsideration. This important aspect remains to be studied and verified.

The systems and procedures currently being used by the partners in cash and voucher projects for beneficiary targeting, accountability and resource delivery are fairly intensive, requiring high levels of human resource input. Although this has ensured that a high level of care and control goes into cash

and voucher projects, the real cost of operating such systems is not entirely either understood or analysed. Understanding the cost implications becomes even more difficult when partners fund their cash and voucher projects through a multi-donor initiative.

Further expansion in the scope of cash and voucher initiatives for DG ECHO will need a better understanding of the corresponding cost implications and acknowledgement of the same in the single form's budgetary arrangements.

### **3.3.5 Project Monitoring**

The term “monitoring” is used here as including progress, process and results/impact monitoring. Monitoring systems are understood as systems for routine data collection during the course of project implementation which can be used to revise policies or procedures.

- **Current Situation:**

- Similar to in-kind assistance, the monitoring of DG ECHO funded cash and voucher projects is the responsibility of the partner. This tends to focus mostly on measuring project progress against the indicators set in the logical framework of the single form, such as the number of beneficiaries employed under CFW project, or the length of road rehabilitated etc. Given that these indicators are required to be “objectively verifiable”, partner monitoring tends to focus mostly on measurable quantitative deliverables. Under this aspect, partner interim and final reports mostly show adequate statistical information. What however is not clear from partner reports is the extent to which the project process and impact (to the extent that the latter is indeed measurable within the limited framework of emergency operations) are systematically monitored, such as the appropriateness of the resource transfer method and/or its relevance to the beneficiary needs or preferences etc.
- Monitoring, as it stands now, is used mainly as an instrument of reporting. A study of partner final reports indicates that DG ECHO seems often to be satisfied with input monitoring, rather than monitoring of the whole process and the results/impact. Introduction of the revised single form is expected to address this issue. It is however important to mention that many partners, as part of their own internal organisational requirement, often do undertake more in-depth result-based monitoring. But these are neither systematically required nor are they separately submitted to DG ECHO.
- Another important aspect of monitoring is the periodic project visits undertaken by DG ECHO field staff and Desks. These tend to generate useful qualitative insights and information as part of in-house monitoring/reporting mechanism. These focus not only on project progress but also interview beneficiaries to assess their satisfaction and/or concerns with regard to project deliverables/method.

- **Potential consequences of the current approach to monitoring**

Based on the documentary review and interviews, the following are some of the more important consequences of the current partner and DG ECHO approach to monitoring.

- Excessive focus on quantitative indicators means that qualitative change and/or impact on the lives of beneficiaries may not be fully appreciated or reported.
- The monitoring function is currently not designed to guide project implementation. This limitation means that early detection and remedy of both system and process-related problems may not get identified or used for future improvements.
- Excessive focus on progress reporting means that the adequacy and relevance of the resource delivery method, accountability systems, process, and beneficiary targeting etc. are not systematically studied or reported.

- Current practice by some partners to require the same staff who are in charge of implementation to also provide objective monitoring reports on both project progress and its shortcomings carries the risk of biased reporting. Separation of the two functions becomes even more important if one considers that in unconditional cash transfers, uniting the functions of targeting, implementation and monitoring could result in conflict of interest/responsibility.
- **Monitoring issues specific to cash and vouchers**

In the specific case of cash and voucher projects, the need for monitoring not only progress but also adequacy, coherence, process, accountability and impact etc. carries a much higher importance than in the case of in-kind assistance. The two most important reasons for this are:

- compared to in-kind assistance, cash and voucher initiatives inherently require partners to devolve a larger part of the traditional management of cash accountability from HQ to its country and field offices;
- process, tools and systems used currently by both DG ECHO and its partners, which are mostly tailored to in-kind assistance, need to be made compatible with the specific requirements of cash and voucher initiatives. This would in turn require establishing a system of organisational learning, and enabling adjustments to be made through a result-based and system-oriented monitoring process.

**Note:** Monitoring as a function of control, ensuring that resources are accurately targeted and reach the intended beneficiaries in an accountable manner, is also discussed in this report within the section on “project implementation”.

### 3.3.6 Project Evaluation

DG ECHO funds and conducts two different sets of evaluation. One—the evaluations commissioned by the evaluation unit of DG ECHO to cover specific subjects and geographical areas. Two—the evaluations covered under project funding, which are considered the partner’s responsibility. The following analysis concerns the latter only.

Currently, under the single form, the partner has to indicate its intention to commission an external evaluation of the project. The basis on which the partner makes this decision is not recorded and therefore remains unknown to the consultants. This is true for all type of projects and not necessarily limited to cash and voucher initiatives. However, what is clear is that criteria may need to be established under which partners are required to justify their decision in this regard, and for this to be systematically recorded for future reference.

One subjective deterrent for an external evaluation, identified by the partners, is the cost consideration. Partners explained that evaluation costs are normally high, and this results in an increase in the support costs, which they are actively encouraged to maintain under 30 per cent of the total budget. As such, the decision to conduct an evaluation may at times be influenced by budgetary considerations.

Project evaluation is the most important learning tool available to both implementers and donors, as it helps them understand not only the impact on beneficiaries but also helps validate all elements of the project cycle. Ideally, the learning from project evaluation reports should feed into the next project design and implementation cycle. However, in the case of DG ECHO partners, evaluation is often perceived as being part of the donor control mechanism, aimed at auditing project accountability. This is perhaps due to the fact that in both the single form budget and the general conditions for EC-NGO grant agreements (Article-21) “Control, Audit & Evaluation” are placed under one heading. Moreover, in both of the above mentioned documents, the terms “audit” and “evaluation” seem to be sometimes interchangeably used, which goes to reinforce partner perception that evaluation for DG ECHO is an instrument of control, thus diminishing its intended learning objective.

It is therefore important to address the purpose of evaluation, ensuring that it is recognized as a vital part of the learning process for both DG ECHO and its partners. A reformed approach to evaluation becomes even more important with the need for refining and validating the use of cash and voucher projects and their accountability systems.

The ongoing DG ECHO funded study to develop evaluation tools for humanitarian projects is a clear sign of the importance attached to the subject. This study should outline a need-based approach, describing when, and under what circumstances, external evaluation of a project is necessary, thus making it less subject to partner choice and/or cost considerations. In addition, both from programme and accountability aspects, DG ECHO needs to clearly articulate the aspects of evaluation that are of its interest in the case of cash and voucher projects on case-by-case basis.

Cost-efficiency is often difficult to evaluate in a humanitarian emergency context, but in protracted crises it could –and probably should- be better analysed than it is now. This, together with the lack of adequate impact monitoring prevents any kind of statement about the cost-efficiency of cash/voucher projects as opposed to an in-kind approach. This type of analysis, where feasible, would strengthen DG ECHO’s ability to fund projects which are increasingly efficient and effective.

While most project evaluations have not specifically considered whether the cash/voucher itself was an appropriate transfer, there are some notable exceptions. The ICRC Urban Voucher Programme (UVP) in Palestine—which provided nearly US\$ 5 million worth of vouchers in 2002—is one example. The evaluation explores the relevance and appropriateness of the voucher initiative, finding that it was appropriate in helping beneficiaries meet their needs, that it maintained dignity, that it showed significant impact on household economy, that it was relatively well targeted, and that it benefited larger traders (the evaluation, however, specifies that the traders who benefited were “not those who were most vulnerable to the collapsing economy”). The evaluation argued that the US\$1.8 million injected monthly was beneficial to the wider economy, but it was unable to quantify this benefit. The question of why vouchers were selected over cash was not, however, discussed either in the needs assessment nor in the evaluation. No details were given about the costs associated with the UVP, although the report compared the overheads of the urban with the rural assistance programme (11% of the urban programme and 41% of the rural programme). The evaluation also recorded the challenges encountered with the use of vouchers. A second example is the UNHCR evaluation of the cash assistance to Chechen refugees in Azerbaijan.

### **3.3.7 Project Audit**

The issue of audit is of specific relevance to the policy on the use of cash and voucher. The following are the issues that require consideration.

DG ECHO currently considers the audit of a cash and voucher project to be no different to that for in-kind or service delivery projects. This is mainly due to two reasons:

- the very limited use and financial size of cash and voucher projects funded by DG ECHO;
- the scope, design and use of cash and voucher projects funded by DG ECHO remain essentially based on the principles of in-kind assistance.

However, an expansion in the scope of cash-based projects by DG ECHO, such as the use of Unconditional Cash Transfers may change the nature of risks involved and the capacity and systems needed to manage the same. As such, the systems and instruments used by DG ECHO for design, monitoring and evaluation of cash initiatives will therefore need to be fine-tuned to the specific needs of corresponding managing and accounting.

In doing so, DG ECHO will also need to specify the minimum operational, organisational, management, accountability and capacity measures that partner has to clearly define in support of a cash and voucher-based initiative.

In all cases, these very systems and arrangements—articulated by the partner and agreed under the single form—are used subsequently as the basis for the field audit by DG ECHO. As such, an additional challenge to the application of cash and voucher policy will be to ensure that audit instruments (including audit trail) are fine-tuned to take into account the specific delivery and accountability needs of cash and voucher initiatives. Similarly, it will also be important that basic audit requirements are reflected in the relevant project design tools.

To move towards an expanded but manageable and accountable policy for the use of cash and voucher, DG ECHO will need to consider three audit-related issues:

- the acceptable minimum audit accountability/trail requirements that must be incorporated in the design of a cash project;
- clear articulation of what amounts to manageable and residual risks concerning cash and voucher projects;
- an effective system of audit feedback to facilitate the refinement of both standards and instruments underpinning the design, delivery and accountability of cash and voucher projects.

### **3.4 Cross-cutting Issues**

#### **3.4.1 Linking Relief, Rehabilitation and Development**

##### *3.4.1.1 LRRD in practice*

A significant amount of literature already exists regarding the key issues associated with LRRD. The priority areas for EC's development funding are based i.a. on longer-term institutional strengthening and major infrastructures, whereas DG ECHO's humanitarian funding remains focused on establishing and providing access to basic emergency services in the areas of Watsan, Health etc for the most vulnerable, leaving a well-identified but hard-to-bridge "grey area" gap. Key differences can also be found e.g. in the procedures by which DG ECHO and EC's development services carry out their respective priority identification, programme design and funding cycle, partner selection, etc.

The analysis of such examples of divergence between EC's development and Humanitarian policies/design is beyond the scope of this evaluation. Nevertheless, at the level of individual projects, the consultants found examples where DG ECHO's funding of cash-based initiatives had created both the environment and the capacity conducive to EC's development services to step in. A clear example of this was found in DG ECHO's funding of a small partner's cash and voucher projects in DR Congo. With no prior experience in this field, this partner—with DG ECHO support—had developed necessary capacities and experience in implementation of cash and voucher projects that eventually proved vital to acceptance for EDF funding on a related food-security project, in the same area. However, it remained unclear for the consultants if the resulting LRRD linkages in this case were coincidental or actually intended.

An example of LRRD in practice (see below) is drawn from a DG ECHO partner working in Ituri province, DR Congo:

#### **Box 3: LRRD in Practice**

Première Urgence (PU) was funded for an innovative swamp reclamation project in an Ituri district, DR Congo. This project was effectively a pilot to test the acceptability of introducing irrigated rice cultivation to an area where it was previously unknown. The second but equally important key objective was to address humanitarian needs of vulnerable returnee households.

The project was successful in that it managed to achieve the dual objectives: the development and allocation of small but productive parcels of irrigated farm land to vulnerable returnee households, and the improvement of vulnerable households' food security status through their engagement in the cash for work swamp reclamation/irrigation project during the land preparation phase. The project also included standard cash for work projects (road rehabilitation and construction) which opened up the areas' markets and transport links.

At around the same time AIDCO had identified the area as conducive for starting up development activities. DG ECHO's relationship with PU in the area prior to this, and its funding of this type of "transition" project, helped the partner make what was a seamless transition from DG ECHO funding to AIDCO funding. Under the AIDCO project the partners' focus changed to improving production through helping producers to organize themselves into cooperative structures.

The most important element underpinning LRRD at the implementation level remains the level of communication, mutual understanding and sharing of information between EC delegation and DG ECHO's field office. The consultants could not study this in detail, but a few good examples of this happening were encountered, for example in Afghanistan. However, even a good level of field coordination was found to be limited by the fact that the final decisions and choices are made in Brussels, and field offices/delegation's role appears to be limited to making recommendations only.

#### *3.4.1.2 LRRD potential of cash and voucher initiatives*

The LRRD potential of cash projects is recognized by both partners and some DG ECHO staff as significantly greater than that of in-kind assistance projects. This is mainly because the cash/voucher projects tend to inject resources directly into the local economies closest to the beneficiaries themselves and the revitalization of local economies in this way can be a major push towards broader and more rapid recovery. Cash/voucher projects provide local traders with the incentive to trade with beneficiary communities and to develop local markets. This in turn helps create jobs vital to transition out of the humanitarian economy.

The monitoring data collected by some of the DG ECHO partners on the beneficiaries' use of CFW wages provides very interesting trends. It shows that as the cash/voucher transfer allowed beneficiaries to regain control over the resources and to choose what to buy, they usually purchased food—as expected—but in addition they also spent cash on other things including health and education.

Partners interviewed by the consultants indicated that in some areas the original beneficiaries of CFW projects were found to have started micro enterprises. One example was observed by the consultants during a visit to a DG ECHO funded CFW project in D.R. Congo (Ituri). Beneficiaries interviewed showed that the combination of cash and work provided through the project—combined with the new access road—had resulted in a sense of security which inspired communities—although still in need of humanitarian assistance—to get involved in productive activities, such as small scale agriculture and road side stalls. Cash-based projects could therefore carry higher potential to strengthen LRRD objectives<sup>9</sup>.

#### **Box 4: The multiplier effect of cash/voucher projects**

One of DG ECHO's partners in D.R. Congo had employed men and women on the CFW project. One woman was engaged to provide lunch for the workers. Prior to the CFW project she would earn money by transporting items to market on her head, an occupation which was socially problematic for her as a widow and often caused problems as her remuneration from the employer was often delayed or less than agreed. After participating in the project her earnings were sufficient to enable her to switch to transporting larger quantities of local products by bicycle. This allowed her a bigger profit (even after paying for the transport) and it created employment also for the bicycle owner.

<sup>9</sup> This needs to be systematically studied and further verified in the context of DG-ECHO funding.

### 3.4.1.3 LRRD in partners' organisational planning

Analysis of partner input on LRRD potential/linkages identifies three areas requiring attention:

- DG ECHO's partners, at the field level, still have considerably limited understanding concerning EC/ECHO's LRRD objectives and requirements;
- given the short funding lifespan of most projects, partners have serious limitations articulating LRRD potential and its linkages;
- the objective and purpose of the section on LRRD in the single form needs further clarification so it is not left to open interpretation.

The result is that the partners' proposals do not clearly articulate perceived linkages in the LRRD context. One further possible reason for this could be that partners, in order to be relevant, try to articulate their response in the context of DG ECHO/EC funding. In doing so, both partners and DG ECHO may be missing on the most important element of LRRD in implementation.

Quite a number of DG ECHO partners tend to work at all or most stages of the relief, recovery and developmental continuum. In their annual country strategy, the partners (to varying degrees) tend to incorporate all elements of LRRD. It is based on this annual country strategy that the partners apply to specific donors for funding. For example, they would approach DG ECHO for funding of the relief and humanitarian content of their annual plan.

However, in the LRRD section of the single form, the partners are neither required nor do they consider describing their own programming LRRD, in the context of which they are asking DG ECHO to fund a specific project. This would be both relevant and useful in creating awareness about the vital role that DG ECHO funded projects have in the context of partner LRRD plans – which may involve e.g. other donors. It would nevertheless also require a much wider – 'outward-looking' - approach to LRRD, but without such a change in perspective some of the most vital and tangible element of LRRD may continue to be missed-out.

### 3.4.1.4 Lost LRRD opportunities

A unquantifiable number of projects may not be getting DG ECHO funding due to these being considered outside its humanitarian mandate. Most of this may well happen in informal discussion between DG ECHO field offices and the partners, thus some of the concept notes and ideas may never be formally presented to DG ECHO for consideration/approval. Without getting into the merits of the informal process, the more important issue is what happens to such projects—some of which may have been worth exploring.

It is equally important to recognise that it is not currently clear what should happen to the projects submitted by partners which are viewed as being at the limits of humanitarian action. It is quite possible that such projects simply get discouraged at the field level on the basis of being perceived as outside the DG ECHO mandate, thus missing a possible opportunity for DG ECHO to play a catalytic role in moving the LRRD process forward.

The consultants could not identify a process through which DG ECHO systematically plays a role in bringing “borderline” projects to the attention of development agencies. A clear policy on this matter—to help focus attention of field staff on the LRRD role that DG ECHO is expected to play by recommending borderline initiatives—is accorded added significance if cash and voucher projects are intended to be used as part of a humanitarian exit strategy.

## 3.4.2 DG ECHO's humanitarian mandate and implications for choice of resource transfer

### 3.4.2.1 Timing

DG ECHO and its partners are amongst the first on the ground following major disasters and other events resulting in humanitarian crises. In the majority of situations the type of assistance that is first considered—and is often most appropriate—is the provision of life-saving assistance. Large international agencies and some governments have become specialised in such in-kind emergency response. Capacity to deliver this type of assistance is critical and any efforts to use other forms of resource transfer should not compromise the importance of such initiatives.

However, as part of the process to prepare grounds for recovery initiatives, there remains a strong case for a more rational planning that is not constrained by the choice of delivery methods. Rather than set arbitrary timeframes for initial in-kind responses, key questions that early response agencies therefore need to consider are:

- when would a market-based resource transfer approach be appropriate/advantageous for beneficiaries and also for the wider community; and
- how should the implementing agencies manage response so that coherence between the different types of resource transfer approaches is achieved and it remains consistent with the needs and the context of the beneficiary?

### 3.4.2.2 “Humanitarian” vs “Development”: how do cash/vouchers fit in?

In principle, as soon as key humanitarian needs are adequately addressed, DG ECHO should start considering to withdraw and hand over to the EC's development arms. This is an over-simplification, however, and in many of DG ECHO's operational contexts it could be argued that humanitarian needs exist, or emerge periodically, within what could be argued to be a recovery or developmental context. This is particularly true in the case of protracted emergencies or fragile stability.

As such, humanitarian needs may exist for a sub-group of the general population while the context within which they live has improved such that markets have re-established themselves, or are functioning relatively well. Such situations are often described using terms such as “recovery” or the “grey” area between relief and development. The EC's LRRD approach is expected to address this issue and allow for a seamless transition from one phase to the next.

DG ECHO may sometimes be questioned for apparently overstaying its humanitarian mandate and for getting involved in recovery activities. To address such concerns, the Legal office of DG ECHO takes a critical view of the funding requests bordering on recovery/development. It is in this context that cash and voucher-based initiatives may be misinterpreted, or the assumptions on which the funding decision is made may be erroneous or misguided.

A further important issue is that in order not to undermine the fragile attempt of local markets to recover, it may be important to adjust the resource delivery systems from food or in-kind assistance to cash or vouchers.

Apart from helping towards recovery, there are cases where DG ECHO's Cash-for-Work projects, such as in DRC, allowed the local population to not only benefit from improved access to employment, but the engagement of the workers from different communities along the road (which were previously in conflict) also brought peace dividends.

As far as DG ECHO's mandate is concerned, the Humanitarian Aid Regulation foresees in its principles that “humanitarian assistance may be a prerequisite for development or reconstruction work and must therefore cover the full duration of a crisis and its aftermath”. Further in its objectives

(Article 2 d) it confirms the importance of “ starting to help those affected regain a minimum level of self-sufficiency, taking long-term development objectives into account where possible”.

DG ECHO and its partners need to ask the question: What should happen when response and/or resource transfer methods are no longer “humanitarian” in the traditional sense of the term (i.e. they still address the needs of those without resources but may start to negatively affect a fragile balance for the wider population). Moving from an in-kind transfer to a cash/voucher approach can often be beneficial by signalling increasing confidence in the recovery process. Victims of a prolonged humanitarian situation come to associate food and in-kind assistance with continuing insecurity and lack of progress. Changes in humanitarian resource transfer methods—at the right time and reflective of the context—have the potential to reassure the affected population and mark the beginning of improvement in the humanitarian context. It should therefore be within DG ECHO’s mandate to play a catalytic role by adapting its resource delivery systems to acknowledge the realities of the context.

At the same time agencies working in these areas need to ensure that all projects conform to the principles of the Do No Harm approach. Any resource transfer has the potential to exacerbate conflict and cash and voucher transfers are often considered to have greater potential for diversion to fund military campaigns by armed groups. While this has not been proven there is need for clear documentation of the whole project cycle for cash/voucher projects in such areas.

### **3.4.3 Coherence**

Coherence—for cash and voucher projects—is taken to refer to the degree of compatibility and harmony between the DG ECHO funded humanitarian cash/voucher interventions and other organizations’ policies and practices. It is important to note that coherence might sometimes not be achieved because other co-existing policies or programmes might not be appropriate for the context.

The review of the evaluation reports available to the consultants concerning DG ECHO’s cash and voucher projects noted little evidence that the issue of coherence is considered in any detail. In addition, it highlighted a lack of clear understanding on the nature and the type of coherence issues that should potentially be of interest to DG ECHO and its partners for cash/voucher projects. The issues that were identified by the consultants as important to cash and voucher projects include the following.

- **Coherence between DG ECHO-funded cash projects nationally, regionally and globally**

While there is generally clear coherence between DG ECHO’s cash/voucher projects at national level (at least under the stewardship of each successive TA/Desk officer), little evidence was found of systematic effort to create coherence between one TA/Desk approach and the next, between past interventions and current interventions, between interventions in different countries of the same region, and between the three geographical units.

- **Coherence between cash/voucher and other types of projects funded by DG ECHO**

No evidence was found of a systematic approach by either DG ECHO or its partners to highlight or understand coherence issues that may result due to the competing and/or conflicting realities of funding different resource transfer systems in the same area.

- **Coherence with humanitarian policy or response established by government or other stakeholders**

Some good examples were found of this happening in practice. For example, in Afghanistan, DG ECHO’s cash/voucher programmes remain coherent with the government of Afghanistan’s policy – promoting work where possible over gratuitous assistance, and paying people in cash where appropriate.

- **Coherence with existing government safety net systems**

Given that safety net systems are perceived to symbolise a developmental context, DG ECHO's cash and voucher projects are currently not required to articulating coherence with such systems. Implications and importance of this aspect will be further addressed in the review report.

However, coherence between DG ECHO funded projects and government safety net systems may already be happening in a few cases. A clear example of this is the DG ECHO funded cash transfer project for Chechen refugees in Azerbaijan. Implemented by UNHCR, this project is not only coherent with the government's safety net policy towards its own IDPs, but it also tries to mitigate the fact that refugees currently remain excluded from government's safety-net initiatives.

- **Coherence between DG ECHO cash/voucher projects and development interventions of the EC and other donors**

No evidence was found of coherence between DG ECHO projects and those of the EC and other development donors being either systematically studied or documented. This is an important area that requires further study, but remains beyond the scope of this evaluation.

In the subsequent review paper (to follow this report) consultants will attempt at highlighting initiatives and approaches used by the other donors/organisations in dealing with the subject of coherence, and its potential opportunities and challenges.

#### **3.4.4 Co-ordination**

Co-ordination between DG ECHO-funded partners and the partners of other donors is an important issue at the emergency response and recovery stage. Currently, this happens at the level of sectoral working groups, aimed at coordinating various initiatives within different traditional sectors. In addition to their own sector initiatives, these working groups are also expected to consider and incorporate cross-sectoral issues, such as Gender and HIV/AIDS etc.

However, the task of introducing discussion about the choice of resource transfer system often appears to be beyond the competency and outside the interests of members and coordinators of the sector coordination groups. It is left to individual donors and the implementing organisations/agencies to take the initiative to use cash and vouchers—or not. As such, the issue of determining the most appropriate resource transfer system is neither explored nor considered in a sector coordination plan or the UN Country Management Team.

The absence of debate on the resource transfer options in humanitarian coordination fora has major implications for resource utilisation. Given that the whole purpose of sector and cross-sectoral coordination is to maximise impact of available resources on target populations, the lack of analysis and coordination on the subject of resource transfer methods constitutes a major weakness.

With the increasing awareness that choice of method for resource transfer must be context-specific, it would be logical to expand the sectoral discussion beyond the traditional systems of food, in-kind and services. This could be an appropriate area for DG ECHO to champion for inclusion in the humanitarian coordination discussions, perhaps starting off with its own partner network.

In the absence of any formal coordination arrangement or discussion on the use of resource transfer systems, the consultants were unable to ascertain the extent of coordination on the use of cash and voucher projects funded by DG ECHO and other donors.

## 4. Conclusions

### Conclusions and Preliminary Recommendations:

1. In the series of two interrelated studies, the focus of this Evaluation has been two-fold – to draw on the past experiences and to articulate the potential future challenges of an expanded use of cash and vouchers in the specific context of DG ECHO’s mandate, policy, capacities, procedures and instruments. As such, the findings included in this report—although they make use of past organisational experiences, they focus on identifying needs and implications of an *expanded* DG ECHO policy on the use of cash and vouchers.
2. Based on standard evaluation methodology, an extensive study of some 180 project documents, stakeholder interviews and field visits, this evaluation has studied and presented its findings by looking at each element of the project cycle.
3. Drawing on the past experiences of the use of cash and vouchers this evaluation concludes that:
  - a. decisions to use cash and vouchers have—in all cases—been based on valid reasons and justification, aimed at meeting the needs of the beneficiaries in the best possible way;
  - b. the design of the projects conformed with the financial regulations, legal parameters, and the mandate of DG ECHO;
  - c. partners reported to have stricter beneficiary targeting and resource monitoring standards for cash/voucher projects than for their in-kind projects;
  - d. projects were in clear achievement of their objectives. Satisfaction of beneficiaries, implementing partners and DG ECHO’s in-country experts was systematically verified during interviews and documentary review;
  - e. project monitoring and evaluation systems are considerably focused on reporting requirements and control, and there remains scope for expanding the potential for monitoring and evaluation to contribute towards organisational learning.
4. Most partner and DG ECHO staff experience of the use of cash and vouchers is relatively recent. Nevertheless, both have demonstrated strong capacity to manage and account for such initiatives. However, it is also appreciated by the evaluation that the cash and voucher projects implemented in the past have been quite limited in both size and scope. Moreover, these have been mostly assessed, designed and implemented using the principles of traditional in-kind assistance. As such, in order for a significant expansion in the use of cash and vouchers to remain manageable in terms of accountability and delivery, a number of areas are identified by this report for further consideration by DG ECHO in the development of a cash and voucher policy. However, it is important to note that these are only preliminary recommendations that remain to be validated—within the review process—after comparison with the experience and best practices adopted by other donors and organisations. It is based on the findings of these two reports together that the consultants will make final recommendations—i.e. after completion of the review paper.
5. Areas identified/recommended by this report for further consideration—as potential challenges of an expanded cash and voucher policy in the future—fall into four broad categories.
  - a. **Organisational Learning:** systematic approaches are needed which document DG ECHO experience of funding cash and voucher projects and foster learning from this experience.

i. Monitoring and Evaluation are to be used as key learning tools for cash and voucher projects. In particular, they are to be used for documenting and learning from the field level experiences and innovations concerning:

- the appropriate timing of cash and voucher interventions after disasters;
- considering advantages and risks of different beneficiary identification and targeting approaches used by the partners;
- analysing the relative merits and risks of cash transfer systems where banks are not available, and explaining measures to minimize risk;
- examining use of cash by the beneficiaries, and the direct and indirect impact on households and the wider community;
- exploring control over resources at household level and the implications of using different resource transfer options on this;
- verifying different levels of market analysis for use in different humanitarian contexts, and determining when different approaches are most appropriate;
- monitoring adequacy, coherence, process, accountability and impact of the resource transfer choice and the systems employed;
- understanding inflation, its consequences for beneficiaries and the wider community, and providing analysis of different contingency options: their adequacy and risks;
- appreciating the importance / relevance of cash/vouchers in-terms of exit strategies and fostering LRRD;
- routine comparison made of cost-efficiency of different options at the design and evaluation stage;
- implications analysed (advantages and disadvantages) of using vouchers, and voucher fairs, for beneficiaries and implementers;
- cost implications considered for partners of any added monitoring, evaluation and market assessment related requirements.

ii. Use of pilot projects to learn in new and specific cases, such as unconditional cash transfer in emergencies and the use of grants for asset replacement etc.

iii. Implications of moving from pilot projects to larger-scale initiatives in terms of human resource capacities, control and accountability etc.

b. **Capacity & Training needs** – for both DG ECHO and its partners to:

- i. be able to undertake assessments which incorporate household and community-level economic analysis as well as analysis of the wider market system and analysis of resource choices –where feasible;
- ii. be able to review, approve and implement projects in the context of economic and market-related information/consequences, such as inflation etc.

c. **Procedures & Guidelines** – for design, delivery, management and accounting of cash and voucher projects.

- Partners to provide routine analysis of resource transfer options in their proposals on regular basis. DG ECHO to establish clear and rational requirements.
- Annual operational strategy paper (Global Plan) to include analysis and indication of potential resource transfer options in specific country/regional contexts.

- Economic and market assessment –where feasible- to support partner proposal. Establish rational requirements consistent with nature, size and risks of projects and their context.
- Support existing initiatives aimed at developing market assessment capacities, such as WFP’s SENAC project and feasibility studies etc. thus creating economies of scale and addressing the information needs of the smaller partners.
- Guidelines for partners, articulating accountability requirements for cash management and disbursement in areas without banking systems.
- Requirement for partner to monitor inflation and its implications for beneficiaries.
- DG ECHO to anticipate its funding response and requirements in the case of inflation.
- Set standards and requirements concerning cost efficiency analysis.
- Guidelines on specific risk analysis requirements concerning resources, staff, fiduciary and accountability systems.
- Requirement for the proposals, monitoring and evaluation reports to provide evidence of conformity with key humanitarian standards.
- Requirement for proposal to include information on partner field operating procedures, HR capacity and accountability arrangements.
- Requirement for partner to document and formalise their field operating and accountability arrangements, establishing clear audit trail.
- Partner to justify and document its decision for not undertaking external evaluation.
- Articulate aspects of cash/voucher projects which should be evaluated. These being of specific interest to DG ECHO, such as effect of inflation, accountability systems etc.
- Audit feed-back to be used for refinement of DG ECHO’s systems and procedures dealing with cash and voucher.
- Audit to articulate manageable and residual risks concerning cash and voucher project implementation and accountability.
- Guidelines on coherence-related information—specific to cash projects—to be provided by partner with proposal.
- Exit strategy requirements in the context of cash/voucher projects and DG ECHO’s short funding cycle.

d. **Instruments** – Single Form and FPA:

- documents to be adapted to accommodate the specific realities and information needs/analysis of cash and voucher initiatives;
  - to study and adjust the budget ratios between title 1 & 2 to accommodate the realities of cash-based implementation;
  - to ensure that Evaluation does not appear as a function of Control.
6. With limited partner delivery capacity and the current legal and financial parameters, DG ECHO’s funding of cash and voucher – in the foreseeable future, may only see a modest rise in project size. As such, the system adjustments, capacity development and procedural requirements identified in this report need not become a prerequisite and/or impediment to continuing DG ECHO funding of cash and voucher initiatives. This is especially true in the area of cash-based initiatives where solid experience has already been gained, such as Cash for Work.
7. However, the element of organisational learning will need to be addressed with certain urgency, through a systematic use of well-designed studies/pilots, monitoring and evaluations. This is to ensure that the risks and opportunities anticipated for cash and vouchers, together with

experiential learning about the successes and challenges are fully captured and integrated into ongoing policy dialog and tailoring of DG ECHO's procedures and instruments.

8. In the light of this report's findings, the issue facing DG ECHO is not only about how far the use of cash and vouchers should be allowed. Instead, of equal (if not greater) importance are the issues surrounding processes, systems, procedures, manpower, capacities and resulting costs that remain to be studied, understood and addressed in order to develop a sustainable expanded policy. Since both DG ECHO's experience of cash and voucher projects—and the experience of most of its partners'—is in the early learning stages, attention is needed to understand and develop these elements in the future. Otherwise, a cash and voucher policy may by itself remain either impractical to implement or carry unnecessary accountability risks.
9. The biggest challenge in doing so will be to ensure that the procedures and systems are not made overly stringent or costly. Otherwise the use of cash or voucher may very well become an unattractive proposition from the partner's point of view.
10. While this report has focused on cash and voucher projects, it is important to avoid incoherence/imbalance between these projects and traditional approaches. At the assessment and design stages, the different tools should be given the same attention: each carries risks, and each has potential advantages. The way organizations work is often a major influence over how successful any project is. However, it is increasingly recognized as important that organizations strive to *do the right thing*. In some cases this will entail an in-kind response; in others a cash or voucher approach might be preferable. The important point for a donor is to allow as much *flexibility* as possible such that partners can respond to the needs of the affected population in the context encountered and in the most appropriate and efficient manner.

**Next Step:**

11. Based on the findings of this evaluation report, in a linked review paper the consultants will attempt to:
  - a. identify good practices developed by other donors and organisations that are either of direct relevance or could potentially be adapted to the specific needs of DG ECHO, and
  - b. make alternative recommendations, based on the findings of both this evaluation and the forthcoming review report, towards the development of DG ECHO's policy on the use of cash and vouchers.