

Annex B: Lebanon Case Study

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1 Introduction

Cash and vouchers are increasingly provided as assistance to people affected by disaster and crisis. Studies and evaluations have firmly established that cash transfers can be an appropriate alternative or complement to in-kind assistance. Whilst some evidence exists on the Value for Money (VfM) of different emergency transfers, it tends to be specific to certain countries or projects. Data has not routinely been documented or consolidated to determine useful cost metrics or cost drivers. To address this gap and inform its policy refresh, DFID is undertaking research on the Value for Money (VfM) of cash, voucher and in-kind transfers, which will lead to the development of DFID guidance.

Case studies were conducted in Philippines, Lebanon and Ethiopia. These contexts were selected because they represent different geographical regions and types of disaster (sudden onset disaster, refugee crisis and protracted food insecurity). For each country, a researcher contacted aid agencies to acquire data on cost and effectiveness and undertook interviews with individuals involved in planning and implementing programmes using cash, vouchers and in-kind assistance. For the Lebanon case study, in-country research took place between 2 and 6 September 2014 in Beirut. More than 30 people, primarily from international aid agencies, were interviewed.

The individual case studies are not intended to be in-depth research, but rather a review of the types and level of evidence available in order to both contribute to the evidence base and inform guidance that can be used for analysis of Value for Money. They review available information and do not establish controlled conditions for comparing different types of transfers, and as such comparative analysis faces limitations. The type of transfer provided is only one variable that might influence outcomes; other variables include differences in how programmes were designed and implemented and differences in the characteristics of beneficiary households. Challenges for cost analysis include obtaining accurate cost data from aid agencies, different accounting procedures across organisations, teasing out costs (e.g. staff, administration) specific to one intervention and the lack of comparability between cash and in-kind programmes. Aid agency monitoring data is used for analysis on effectiveness. Such data is usually not

robust given the cost and obstacles for doing representative sampling, but nonetheless can establish basic trends.

Data on the types of cash responses and overall spend are taken from spreadsheets compiled by the UNHCR Cash Coordinator. These types of lists are based on self-reporting from aid agencies and therefore exclude aid agencies who choose not to report and they represent incomplete information where aid agencies have not provided data for all categories. Cost data was provided by aid agencies and not verified through financial reports. Cost data and budget analysis provided by aid agencies are also subject to human error. And in a fast moving environment, numbers of beneficiaries targeted, numbers of programmes, funding committed, price developments, etc are changing on a weekly basis. All of these factors should be considered as limitations for the data and analysis presented in this report.

2 Context

2.1 Emergency Response in Lebanon

There are currently about 1.2million registered Syrian refugees in Lebanon with a Lebanese host population of 4.4million and 500,000 Palestinian refugees. In the first half of 2014, on average 40,000 more refugees have registered every month. The border is now closed and the UN does not see the refugee numbers rising above the 1.2million.

The humanitarian response is now in its third year. 73% of the 2013 Regional Response Plan 5 for Lebanon was funded, totalling \$882million. The 2014 Regional Response Plan 6 for Lebanon initially appealed for \$1.7billion. By July, it was only 43% funded, and revised downwards to \$1.5billion.

The largest sector by far was food, followed by WASH, health, protection and education.

Table 1: RRP6 for Lebanon: Sector requirements

Sectors	Total 2014/US\$
Food	550,332,352
WASH	202,424,337
Health	188,110,729
Protection	184,596,468
Education	182,815,702
Shelter	168,083,696
Basic Needs	149,090,198
Social cohesion/livelihoods	98,424,687
TOTAL	1,723,878,169

The Cash Working Group¹ has collected information on cash and voucher programmes totalling about \$134million, in addition to the \$501million WFP food voucher programme in 2014.² There are about 30 cash and voucher actors reporting to the Cash Working Group.

¹ The Cash Working Group (CWG) in Lebanon, hosted by UNHCR, is currently the key forum for discussion on the transition towards a multi-agency unconditional Cash Transfer Programming (CTP), shifting from a sector-based response model to a holistic approach enabling cash to meet needs across multiple sectors. Hence, CWG is not a sector by itself but concentrating on the development of a framework for CTP, which will cut across any sector which could 'monetize' part of its support but unconditional.

² Cash Working Group: Cash Actors Mapping, 20140901

Using the \$134 million of self-reported cash and vouchers and not knowing yet what proportion of the RRP6 will be funded, cash and vouchers (exclusive of WFP's vouchers) is less than 10% of the overall response, probably between 5-8%. WFP's food voucher programme constitutes about 30% of the overall response.³

The Regional Response Plan lists 71 partners in the Lebanon response. While cash and vouchers constitute less than 10% of the response amount, 43% of the 71 partners are involved in cash programming. This means that there are many small cash transfer and voucher programmes going on in Lebanon with significant room for economies of scale and efficiency with consolidation and rationalisation.

Half of the 30 cash actors use the same delivery mechanisms for their cash transfers - CSC cards. However, until now, most agencies issued cards for each cash programme they run so that many households have several CSC cards rather than one for everything. There are estimates of at least 100,000 duplicate cards in circulation.

This amount of duplication looks credible considering the at least 14 different objectives of cash transfers having been identified from the Cash Actors Map:

- 1 Cash for rent
- 2 Cash for shelter rehabilitation
- 3 Cash for winterisation
- 4 Unconditional cash as contribution to Minimum Expenditure Basket
- 5 Cash/vouchers for education (tuition, transport, uniform)
- 6 Cash for legal assistance
- 7 Cash for SGBV assistance
- 8 Vouchers/cash for food
- 9 Cash for hygiene kits/baby kits
- 10 Cash for medication
- 11 Cash for children's winter clothes
- 12 Cash for access to secondary and tertiary health care (reimbursement)
- 13 Cash for work
- 14 Cash for newcomers

It is clear from the above that different actors using the same tool for different purposes provides opportunities to increase efficiency that would not be possible with more

³ This percentage again depends on how much the overall appeal will be funded and how much WFP will be funded.

traditional models of providing humanitarian aid in-kind. This is particularly important as the Lebanon response faces a trilemma of:

- Large numbers of refugees unlikely to return to Syria any time soon and scattered across 1,700+ locations making it difficult to reach people in need.
- Donor funding going down with several other crises erupting in mid-2014 (Iraq, Ebola and others)⁴.
- A very expensive operating environment in comparison to more traditional humanitarian response environments. Lebanon is an upper-middle income country where the cost of supporting one refugee is at least six times the cost of supporting refugees in Kenya in Dadaab camp for example.⁵

2.2 Transfer Options in this Case Study

The Cash Actors Map lists 180 different cash and voucher programmes. They all differ in scale, timeframe, objective, sector, conditionality, transfer value and transfer modality (cash through ATM cards, cash through envelopes, cash in hand, direct payment to service providers, paper vouchers, cheques, e-vouchers and hybrids). Only those programmes referred to in this paper are listed here.

Table 2: Transfer Types

Type of programme	Transfer		
	In-kind	Cash	Vouchers
Newcomer assistance	Newcomer kits	Cash for newcomers	
Food assistance		Unconditional cash	E-vouchers for food; Paper vouchers for food
Hygiene	Hygiene Kits	Cash for hygiene kits	
Winterisation	Winterisation kits	Unconditional cash	Paper vouchers for fuel
Shelter	Shelter and WASH upgrades	Cash for shelter and WASH upgrades Cash for rent	Paper vouchers for shelter and WASH upgrades

⁴ Both UNHCR and WFP have warned of major pipelines breakages this autumn.

⁵ Cost of multi-sector package for one refugee in Dadaab for one year: approximately \$242. Minimum expenditure basket for one month for a households of five: \$607, so \$1456 per refugee per year.

3 Evidence on Value for Money

3.1 Economy Analysis

Economy assesses the cost per input of a programme. This is very closely linked to the efficiency analysis, which looks at the cost per output; improvements to the cost per input will directly impact the cost per output.

In the Lebanon response, the input cost that makes or breaks the efficiency of cash versus vouchers and in-kind aid are the banking fees. The Lebanese Financial Sector is highly developed and scored high on all indicators in WFP's macro-financial assessment in 2012 – a good precondition for working with the banking system. However, it seems that too few agencies were able to get together and approach the banking sector with one voice to negotiate the best possible terms for their cash and e-voucher programmes.⁶ This has led to different deals with different actors and several different banks issuing cards for refugees at widely varying costs.⁷ In order to make scaling-up cash more economical, banking fees would need to be re-negotiated.⁸

Within in-kind transfers, as in all humanitarian responses, significant input cost differences are apparent in the chart below. The comparisons were made by the NFI Working Group of goods procured to the same sector standards (of the same quality). In the scope of this study it was not possible to look through the budgets of the agencies. It was therefore not possible to pin down what the cost drivers were and where efficiencies have been or could have been made. However, as in most other situations where budgets have been analysed, the main costs drivers for in-kind aid here were likely to have been commodity prices and procurement costs.

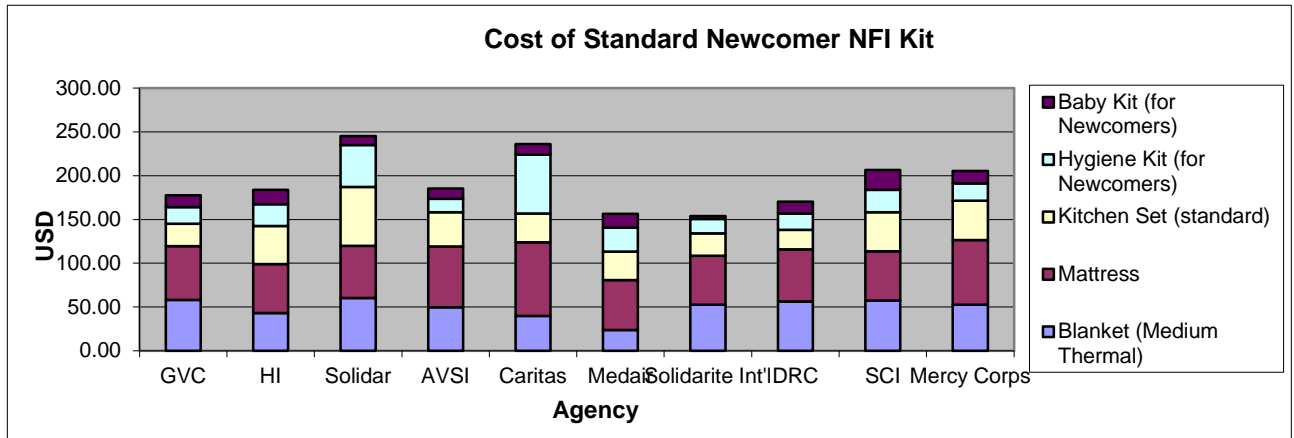
The chart does help identify the most economical agencies. It is included to illustrate how widely input costs can differ between agencies providing very similar goods to the same place. But this study did not analyse further if items were all internationally procured, what the bulk purchasing savings exactly were, what import duties were paid or not and if there were any quality issues despite sector standards.

⁶ DRC Lebanon (2014), "Unconditional Cash Assistance via E-Transfer: Implementation Lessons Learned: Winterization Support via CSC Bank ATM Card", January 2014.

⁷ Avenir Analytics (2014), "Research to Identify the Optimal Operational Set-up for Multi-Actor Provision of Unconditional Cash Grants to Syrian Refugees in Lebanon. Final Report and Recommendation." See more on banking fees in the section on the efficiency of the overall response below.

⁸ Input costs such as agency overheads are the same across the different modalities. However, as discussed below under efficiency, more or less intermediation leads to more or less overheads and reducing intermediation could lead to a greater reduction in costs than a reduction in the banking fees.

Figure 1: Cost of Standard Newcomer NFI Kit



3.2 Efficiency Analysis

Efficiency analysis assesses the cost per output, i.e. cost per beneficiary and considers whether a different approach could have achieved the result for less. One way of calculating the most efficient approach or modality is by calculating cost transfer ratios.⁹ The Total Cost Transfer Ratio for example calculates the total cost of delivering one unit of transfer (e.g. \$100) to a beneficiary. Ideally, one could calculate and compare one ratio across all programmes. However, with so many different programmes with different objectives and different actors using different accounting structures, it was not possible in the framework of this case study to provide a comparison of Cost Transfer Ratios of all programmes.

⁹ DFID (2011) "Guidance for DFID country offices on measuring and maximising value for money in cash transfer programmes", October 2011

However, several agencies have done their own analysis of the efficiency of cash versus vouchers versus in-kind aid in different formats. The Cost Transfer Ratio was calculated where appropriate to complement the picture. The comparisons presented below are:

Transfer modality comparison	Sector
Cash and in-kind	Multi-sector assistance
	WASH (Hygiene)
In-kind and paper vouchers and cash	Shelter and WASH
Paper vouchers and e-vouchers and cash	Food
Cash in envelopes and cash through ATM cards	Multi-sector assistance

3.2.1 Cash and In Kind

3.2.1.1 *Newcomer Packages*

Table 3 is a comparison of the actual costs of an in-kind newcomer package (including baby kits, hygiene kits, kitchen sets, mattresses and blankets) and a planned switch to a one-off cash transfer for households that have just registered as refugees in Lebanon. The transfer value of \$150 was taken from the NFI newcomer package cost comparison above where the lowest cost package was priced at about \$150.

Table 3: Comparison of newcomer packages in-kind and hypothetical cash

	In kind (actual costs)	Cash (estimated costs)
Value of newcomer package	\$150	\$150
Bank management and transaction fees	\$0	\$6.65 for a one off transfer, decreasing as number of transfers on same card increases - average \$4.65 per loading after 2 transfers, \$3.98 per loading after 3 transfers, \$3.65 per loading after 4 transfers, etc.), tending towards the loading fee (\$2.65).
Distribution costs (rent of site, security guards and rent of equipment, distribution staff and casual labour)	Large variation depending on location, number of HH, package, etc. – for newcomer kit approximately between \$10 and \$15 per HH.	Distribution infrastructure still needed to distribute credit cards but smaller, approximately 50% of in kind cost.
Warehouse and goods transportation costs	Large variation depending on location, number of HH, package, stock turnover, etc. – for newcomer kit approximately between \$30 to \$50 per HH.	\$0
Procurement costs	\$4 per HH to advertise tenders and procurement staff	\$0.50 per HH for card manufacture and embossing fee
All other costs (which are unaffected by the delivery modality) including management, monitoring, transportation, security, indirect costs, etc.	\$100-\$200 per HH	\$100-\$200 per HH
Total cost per HH	\$294-\$419	\$262.15-\$360.15

Cash could be 14% cheaper to deliver using the upper bounds of the comparison, and about 10% cheaper using the lower bounds.

Another way of presenting the efficiency of cash over in-kind is a comparison of the cost transfer ratios. The Total Cost Transfer Ratio for in-kind ranges between 2 and 2.8 or in other words, admin costs are between 100% and 180% of the transfer value. The Total Cost Transfer Ratio for cash ranges between 1.7 and 2.4 or in other words, admin costs are between 70% and 140% of the transfer value. While delivering cash is more efficient, the Total Cost Transfer Ratios are relatively high, reflecting the one-off nature of the transfer.

What this comparison does not take into account however are the differences in prices for items purchased in local markets versus international markets. This has been done for hygiene kits below but was not possible to do in the scope of this study for the full newcomer kits as well. If the same goods included in the newcomer packages were available in local markets at prices much higher than internationally procured, cash could be more inefficient than in-kind. This is indeed the case for hygiene kits (see below), but we do not know if this is the case for all goods included in the newcomer packages although international procurement for the majority of the goods is highly likely.

3.2.1.2 Hygiene Kits

This cost comparison is based on the real costs of two WASH programmes that ran for several months at scale, i.e. for between 37,000 and 50,000 households a month. In contrast to the comparison on newcomer packages, it includes a comparison of local and international prices.

Table 4: Hygiene kit comparison in-kind and cash

	Cost of in-kind	Cost of cash transfer
Hygiene items (per HH/month)	\$23.10	\$29.19
Transport and storage	\$1.57	
Staff costs	\$2.88	\$0.71
Other direct costs	\$1.13	\$3.70*
Total delivery costs	\$5.58	\$4.41
Grand Total (cost per HH/month)	\$28.69	\$33.60

*The cost driver is the card fee with \$3.

Table 4 shows that in this case of hygiene kits, while cash was 21% cheaper to deliver, in-kind aid was overall more efficient than cash assistance. This was due to the following factors:

-\$1.06 per HH per month	Reclaim of VAT for delivery in kind
-\$5.03 per HH per month	Difference in cost buying in bulk through international tender compared to local market
-\$3.70 per HH per month	Difference between cash transfer value and local market price
+\$1.17 per HH per month	Difference in delivery and implementation cost between cash and in kind

The cost inefficiency of buying individually on the local market was the biggest factor, outweighing the savings on delivery and implementation costs. Bulk procurement in international markets was more efficient. For 50,000 households a month for five months, the cost savings of providing hygiene kits in-kind would have been \$1.23million.

The Total Cost Transfer Ratio for cash is 1.15, meaning that admin costs are 15% of the transfer value. The Total Cost Transfer Ratio for in-kind is 1.24, meaning that admin costs are 24% of the transfer value. So while the admin/delivery costs for cash are lower than for in-kind, in-kind is overall more efficient.

What the above cost comparisons have not included are the costs of providing wrong or unneeded in-kind items. Several NGOs provided anecdotal evidence on wrong nappy sizes having been provided and households selling the wrong sizes at a big discount or discarding them. Similarly, sanitary napkins were provided regardless of the number of female household members leading to unwanted items being discarded or sold on at a discount and hence an efficiency loss. This loss of efficiency has not been quantified or monetised though. It would require data on the amount of goods being given away, discarded or sold at what prices.

Another important point which will be dealt with under effectiveness but needs mentioning here is that all the cost comparisons above are about the same items being purchased either by the beneficiary household or the aid agency. However, we know that different families have different priorities so are likely to purchase different things for the cash they get for newcomer packages or hygiene kits. If the aid agencies had to procure this much wider variety of priority goods for each individual household, the efficiency of providing in-kind aid would be significantly reduced. Bulk procurement would be less possible, and logistics would be very expensive.

To conclude, there seems to be a case for procuring internationally for universal necessities (e.g. soap) in order to gain from lower prices through bulk procurement. Informed by Post-Distribution Monitoring data on utilisation, this in-kind assistance could then be combined with cash for the more individual needs that could not efficiently be replicated to procure and deliver by aid agencies.

3.2.2 In-kind, Paper Vouchers and Cash - Shelter

Cost

The only comparison of all three transfer modalities (in-kind, cash and vouchers) is an example from an NGO working on emergency shelter and WASH upgrades. It carried out programmes through all three transfer modalities. As more permanent

rehabilitation of shelter is not always possible or appropriate an alternative approach to addressing the huge scale of unmet shelter and WASH needs was developed. It consists of an integrated package of shelter weather-proofing and basic improvement of water and sanitation facilities for vulnerable families living in sub-standard buildings. It is layered with complimentary Hygiene Promotion in order to provide a complete package of household-level WASH assistance. This was first done through in-kind assistance but Post Distribution Monitoring and beneficiary feedback demonstrated that there was a need for greater flexibility than what was allowed for by in-kind. This was largely due to the wide range of living conditions and beneficiary priorities.

Table 5 is an analysis of actual running costs of emergency shelter and WASH upgrades using in-kind versus voucher versus cash assistance. Each approach involved a direct transfer with a value of \$250 per household or \$50 per individual. The only difference is that the approaches were implemented at varying scales but none of them were as small as a pilot.

Table 5: Comparison of Cost per Individual for Different Assistance Modalities

COMPARISON OF COST PER INDIVIDUAL FOR DIFFERENT ASSISTANCE MODALITIES				
	IN-KIND (i.e. kits) [\$ USD / individual]	VOUCHERS [\$ USD / individual]	CASH [\$ USD / individual]	
Direct components	\$ 52.20	\$ 53.40	\$ 52.90	
Staffing	\$ 7.36	\$ 8.32	\$ 8.32	
MEAL	\$ 2.52	\$ 2.52	\$ 2.52	
Additional Costs	\$ 4.66	\$ 1.52	\$ 1.52	
Support costs	\$ 16.39	\$ 16.29	\$ 16.16	
TOTAL	\$ 83.13	\$ 82.05	\$ 81.42	

The cost-efficiency comparison demonstrates that in-kind, paper vouchers and cash can deliver the same outputs for roughly similar costs. Cash is just 3% cheaper to deliver than in-kind.¹⁰

There is a pervasive assumption amongst many shelter agencies that mass, centralised procurement is the most efficient. In 2013, at least 75% of shelter assistance in Lebanon was in-kind.¹¹ While the cost of the material is marginally cheaper with in-kind international procurement here, the shelter experts consulted believe that individual

¹⁰ The Direct Components costs vary marginally as transportation and voucher printing costs are included for vouchers, whereas in-kind and cash does not include transportation. Cash includes card fees though.

¹¹ Data from the Shelter Working Group

beneficiaries could potentially access a mixture of suppliers and informal supply chains and get better value overall.

Based on available information relating to a different component of this NGO's shelter programme, they estimate that beneficiaries may be able to identify savings up to 10 to 20% of the currently provided cash transfer value (i.e. buying the items 10-20% cheaper than what the agency estimates and provides cash for) whilst achieving the scope and quality agreed with the landlord. Given the informal nature of many of these transactions, it has not been possible to obtain quantifiable information but the NGO is currently in the process of gathering a more comprehensive comparative study of the different market channels. A decision could then be made on providing full cash transfers or a mix of internationally procured bigger items and cash for smaller items that are more specific to individual circumstances and can be bought locally.

The Total Cost Transfer Ratios range between 1.63 and 1.66, meaning it costs between \$63 and \$66 to deliver \$100 in transfer value.

Speed

Table 6 shows how long it took the NGO to set up the three different transfer modalities. The start-up costs were estimated to be very similar and small for each of the three modalities. The costs were primarily a percentage share of staffing. The most critical issues were lead-time and the level of existing in-house technical capacity. Procurement was the slowest process.

Table 6: Start Up Requirements for Transfers

MODALITY	MAIN INTERNAL SYSTEMS REQUIRED (Not exhaustive)	LEAD-TIME TO ESTABLISH SYSTEMS	MAIN STAFFING REQUIREMENTS	NOTES
In-kind	Framework Agreements (national level)	8 to 12 weeks	Procurement Officer (20%) Technical input from Adviser and Logs Manager	Initial batches of procurement were done outside of the Framework Agreements with separate quote process (in order to allow a timely response)
Paper Vouchers	Market Assessment and identification of suitable suppliers Contract with multiple local area-level suppliers Requires separate contract per tranche of activities	2 to 4 weeks	Procurement Officer (20%) Technical input from Adviser and senior logistics staff	To date, this has required separate contracts per batch of activity (e.g. over a 2 to 3 month period). This approach needs a minimum of 2 suppliers per Area Office
Cash	System and bank selection Contract negotiation Training of staff Agreement of internal financial systems	4 to 8 weeks	Finance Officer (20%) Cash Adviser (20%) Technical input from senior finance staff	-

Cash was the most efficient by a small margin but took longer to set up than the paper voucher system. While staffing costs were very similar in all three transfer modalities, the lower associated costs of cash such as logistics were off-set by banking fees and the costs of issuing ATM cards. Consistent with other findings,¹² the costs of providing an ATM card that might only be used once or twice for one particular project can make cash through ATM cards less cost efficient than other delivery mechanisms and transfer modalities. This strongly supports the arguments below on enhancing the efficiency of the overall response by all cash actors using one card only per household and consistently over time.

While cash is marginally more efficient in this shelter upgrade example, the NGO found vouchers to be the most effective and cost-effective. See below under effectiveness.

3.2.3 Paper Vouchers, e-Vouchers and Hypothetical Cash

3.2.3.1 Delivery Cost Comparison

WFP switched from paper vouchers to e-vouchers in the third quarter of 2013 and now runs its largest voucher programme ever with about 220,000 beneficiary households in mid-2014. Each household receives one e-card (or e-voucher) issued by the Banque Libano Francaise (BLF). The e-card gets charged once a month with \$30 per eligible person in the household (or \$150 per average household of five). Households can shop at about 340 shops nationwide with their vouchers. Vouchers can be redeemed in those shops at any time and with any amounts up to the monthly limit. Vouchers can be redeemed against all food items in the store except alcohol and tobacco. However, not all WFP-contracted shops sell fresh food items needed by beneficiaries, in particular fruit, vegetables and meat.¹³

WFP uses a closed-loop Point of Sale System, where the selected shopowners buy a Point of Sale Machine that can only be used for the WFP cards. The WFP cards also have the facility to be charged with cash for withdrawal at ATMs. While this facility is not currently in use, WFP has negotiated the fees for this facility with BLF. While WFP does not have to pay loading fees for cards to be used at Point of Sale devices (i.e. vouchers) having negotiated a waiver for these fees with Mastercard for Lebanon, WFP would have to pay loading fees for cards to be used at ATMs.

¹² DRC Lebanon (2014), "Unconditional Cash Assistance via E-Transfer: Implementation Lessons Learned: Winterization Support via CSC Bank ATM Card", January 2014

¹³ WFP (2014), "Lebanon M&E Quarterly Report, April to June 2014"

The delivery cost comparison in Table 7 is from WFP and is based on actual numbers for paper vouchers and e-vouchers. The numbers for cash are based on the pre-negotiated deal with BLF for a hypothetical cash programme.¹⁴ All costs are incurred by WFP.

Table 7: WFP Delivery Cost Comparison between paper vouchers, e-vouchers and cash¹⁵

US\$	PAPER VOUCHERS Actual	E-VOUCHERS Actual	CASH Hypothetical
Shop selection	23,041	23,041	
Card issuance		715,000	715,000
Pin issuance			165,000
Bank selection		115,000	115,000
TOTAL set-up costs	46,083	858,541	1,000,500
Card maintenance		66,000	66,000
Loading/transfer fees ¹⁶			683,196
Cooperation Partner (CP) costs for distribution and M&E	789,000	789,000	789,000
Paper voucher printing	22,125		
TOTAL monthly costs	811,125	877,020	1,560,216

The set-up cost drivers for e-vouchers and cash over paper vouchers are:

- Bank selection process
- Card issuance fees

The additional set-up cost driver for cash over e-vouchers is:

- Pin issuance fees

The recurrent monthly cost drivers for cash over vouchers are:

- The loading/transfer fees

¹⁴ This pricing structure negotiated with BLF for ATM card usage is very similar to the pricing of UNHCR's winterisation cash programme with their card service provider. In both cases, the loading fees for ATM cards are the main cost driver, and they are almost identical per transaction

¹⁵ The figures are based on 220,000 beneficiary households and the roughly 300 shops currently in the voucher system.

¹⁶ This is a fee charged by the bank for wiring the transfer value on to the beneficiary card for use at ATMs.

These cost drivers lead to the following percentage increases in cost:

Table 8: Cost increases to WFP

	Cost increase from paper vouchers to e-vouchers	Cost increase from e-vouchers to cash
Set-up costs	+1763%	+17%
Recurrent costs	+8%	+78%

The transfer fees charged by banks are clearly the largest cost driver for cash, constituting about 44% of recurrent monthly costs. For an average \$150 transfer per month, transfer fees of \$2.55 per transfer constitute 1.5% of the transfer value. As mentioned previously, most agencies in Lebanon have different deals with the banks for the cash and voucher programmes. UNRWA for example provides cash through ATM cards to 60,000 Palestinian Syrian Refugees. While UNRWA pays \$5 per card to BankMed in issuance fees (versus \$4 for WFP issuance and Pin issuance together) and \$0.50 monthly maintenance fees per card (versus \$0.30 for WFP), they do not pay any transfer fees. This means that the monthly \$2.55 transfer fee that makes cash so inefficient for WFP is not paid by UNRWA. However, UNRWA beneficiaries need to pay a transaction fee if they want to withdraw money from non-BankMed ATMs. For a country-wide cash programme, restricting ATM use to one bank only would lead to other large inefficiencies. This can only work with smaller more concentrated caseloads. There are also cases of NGOs not paying any transfer fees, significantly increasing the efficiency of cash over time.

According to WFP the M&E costs are the same for all three modalities. Time and resources previously spent on extensive paper voucher distributions, reconciliations and verification of distributed and redeemed vouchers were re-dedicated to intensified monitoring and evaluation with the e-vouchers (including training and following up with Cooperation Partner staff on household and shop monitoring). The comparison is therefore not entirely appropriate. Had the same level of monitoring taken place with paper vouchers, M&E costs would have been higher for paper vouchers than for e-vouchers. WFP expects the M&E costs to remain the same for cash as for e-vouchers. Although, given WFP's plans to expand the shop-network from 300 to 1000 shops, the costs of shop monitoring will inevitably increase threefold. As several NGOs mentioned that their M&E budget is not nearly covering their costs, it is unlikely that this increase in shop monitoring can be delivered with the same amount.

In conclusion, a stand-alone WFP cash transfer programme could only become more efficient to deliver than the existing e-voucher system if banks were to reduce their transfer fees or if bank intermediation would be cut out.

3.2.3.2 Other Costs

Costs to retailers

Retailers incur a cost by participating in the e-voucher programme. These are the costs for POS machine rentals and the costs per transaction paid to the bank. With rental fees of \$4 per month, overall the cost of POS machine rental for 300 shops per month is \$1200. Much more important costs are the transaction fees of 0.45% per transaction to retailers. With 220,000 households receiving on average \$150 a month, transaction fees amount to \$148,500 per month. Including these fees in the efficiency calculation above on recurrent costs would lead to a reduction in the efficiency of e-vouchers over cash by 23%. So rather than being 78% more efficient to run, e-vouchers would become only 55% cheaper to run.

Costs of devalued vouchers

Just as high local market prices can off-set the efficiency of cash delivery, high prices caused by the oligopolistic nature of the e-voucher business can reduce the efficiency of delivery. WFP research shows that the WFP food basket price in non-competitive areas of WFP contracted stores has been 6.3% higher on average than in competitive areas of WFP contracted stores. The research suggests that half of all Lebanese districts have been oligopolistic or monopolistic¹⁷, so non-competitive.¹⁸ In fact, the WFP Economic Impact Study says that only one fifth of the districts have competitive voucher markets. It is important to note here that perhaps the voucher market's functionality reflects the state of the open market. We do not know for certain that that one would not face similar concentration issues (and higher prices) with a cash transfers. The WFP economic impact study found that there was some convergence of prices towards the second quarter of 2014, reducing the 6.3% difference.

Therefore, the assumptions in the following calculation are conservative to reflect this uncertainty. Assuming that prices are higher only in half the cazas, and half the current beneficiaries live in these non-competitive areas and are only able to buy food worth 6.3% less than the value of the transfer (i.e. \$141 instead of \$150 per household), \$990,000 might be lost every month in higher prices/lower transfer value for beneficiaries. If these costs were set against the monthly \$683,196 transfer fees for the

¹⁷ Oligopolistic means that there are few sellers, as a result of which they can greatly influence price and other market factors. Monopolistic means that there is only one seller that can set prices.

¹⁸ WFP (2014), "Economic Impact Study: Direct and Indirect Effects of the WFP Value-Based Food Voucher Programme in Lebanon."

hypothetical cash programme that make it less efficient to deliver, cash would become overall more efficient than the e-voucher programme.¹⁹

It is important to make another qualification on this calculation. It is based on the same comparison as the delivery cost comparison above, namely taking into account only the current 300 WFP stores and not the planned increase over the next year to 1000. Tripling the number of stores should also increase competition in the non-competitive areas (if there are no other underlying reasons for non-competitiveness) and bring prices more in line with competitive markets. So the advantage of cash in terms of reducing prices through more open competition could potentially also be achieved by increasing the shop network. But clearly increasing the shop network has a cost as well in terms of shop selection and greater recurrent monitoring costs.

There is another cost not accounted for yet in the voucher programme. This is when households sell balances of their e-vouchers at a discount. WFP and NGOs have collected data on this value loss from households selling balances, reducing the efficiency of the vouchers by about 5%, for example, in the first quarter of 2014.²⁰ As data vary significantly on resale and value loss every quarter, the table below assumes the 5% being a reasonable estimate and applies it to the 220,000 caseload used for all efficiency calculations.

In conclusion, it is important to consider potential other costs not borne by WFP but impacting on both the efficiency and effectiveness of the different transfer modalities. Travel and transport costs to beneficiaries would be another one that have not been analysed here. Depending on the magnitude of these other costs, one transfer modality might become less efficient than another purely based on those costs as shown in Table 9.

Table 9: Cost Comparison

US\$	E-vouchers (actual)	Cash (hypothetical)
Monthly delivery – cost to agency	877,020	1,560,216
Transaction fees – cost to retailers	148,500	

¹⁹ Assuming more conservatively that only a quarter of the cazas are non-competitive or that it was only possible to make markets in this quarter of cazas more competitive by moving to cash (because in other cazas the markets are non-competitive for other reasons), the efficiency of cash would still be increased by \$495,000 and almost off-set the higher loading fees.

²⁰ See details in the effectiveness section below.

Higher prices – cost to beneficiaries	495,000-990,000	
Face value loss – cost to beneficiaries	165,000	
Total	1,686,000-2,181,000	1,560,216

Overall, all absolute costs given above are based on 220,000 beneficiary households and about 300 WFP shops. The costs change significantly if beneficiary numbers go down (through tighter targeting), transfer values per households change or prices change. As a percentage of the total monthly transfer value of \$33million, any efficiency gains in the order of \$100,000 to \$600,000 a month are marginal with maximum of about 2% of the transfer value. With so many beneficiaries and in such a high-cost environment with no income earning opportunities for refugees, costs will remain high.

3.2.4 Cash in Envelopes and Cash through ATM Cards

Aid agencies switched relatively quickly from cash in envelopes to ATM cards for larger scale programmes and repeat transfers. The table below provides an example from an NGO that demonstrates a cost saving of 30% for ATM cards over cash in envelopes.

Table 10: \$100 a month for five months for 1000 beneficiaries

	Cash in envelopes	ATM cards
Item	Cost	Cost
Staff costs	\$ 40,000	\$ 8,000
Logistics costs	\$ 12,000	\$ 2,400
Bank fees	\$ -	\$ 26,000
TOTAL	\$ 52,000	\$ 36,400
		70%

The efficiencies come from having to do only one distribution of ATM cards versus monthly distributions for cash in envelopes. This leads to much lower staff and logistics costs. Also, phone notifications are not necessary for ATM cards leading to important savings.²¹ The main cost driver with ATM cards are the loading/transfer fees.

²¹ In the case of ATM transfers, the dates are fixed from the start and there is no location where beneficiaries need to show up. At enrollment and cards distribution stage, a letter is signed with each beneficiary with the dates so that no phone notification is required at each upload. In the case of cash in envelope, locations and dates may change due to any possible reason, hence notification is required.

3.2.5 Drivers of Efficiency

The examples above provide evidence that it is possible to drive efficiency in Lebanon by:

1. Maintaining the same transfer, but switching from less efficient approaches to more efficient approaches, e.g. from cash in envelopes to ATM cards.
2. Switching from less efficient transfers to more efficient transfers, e.g. from in-kind to vouchers for shelter upgrades.

There are a variety of factors that have a very strong influence on cost efficiency of the different approaches or transfer modalities:

- Duration of the programme: setting up an ATM-card or e-card/voucher system is too costly to make it efficient for a one –off transfer as card issuance fees are between \$4-5 per card in Lebanon.
- Local market prices: if local market prices are so high that they offset the lower distribution costs of cash, in-kind international procurement can be more efficient than cash.
- Prices in non-competitive markets: where an aid programme creates non-competitive markets, higher prices in those markets can reduce the efficiency of delivery.
- Banking fees: if banks charge loading fees for each transfer to a beneficiary ATM card, these fees can add so much as to off-set the lower staff and implementation costs of cash transfers.
- Face value loss of voucher and in-kind assistance because of reselling at a discount (this is dealt with under effectiveness below)

These factors also influence the efficiency of the overall humanitarian response in Lebanon and help identify what future direction the overall response should take in order to maximise efficiency.

3.2.6 Efficiencies within Overall Response

Within the overall response, aid agencies together could switch from less efficient approaches to more efficient approaches. To illustrate the differences three scenarios are presented below on a sliding scale:

1. Business as usual with 180 cash and voucher programmes, 30 cash actors, households with several cards each, several transfers by different agencies to the same households, etc.

2. A rationalised model that combines several programmes and transfers into one, thereby reducing cost. The more rationalisation, the greater the efficiency savings.
3. A radical change to the response system with the least possible intermediation.

Efficiency savings could be achieved by moving along the scale from the current scenario 1 towards 2 and from scenario 2 towards 3. The first step would need to be for agencies to agree on providing Syrian refugees with a partial or full cash contribution (i.e. multi-sector cash) to the monthly Minimum Expenditure Basket (MEB). This is currently valued at \$607 and includes in order of value: food, rent, water, NFIs, education, transportation, clothes, communication, and health.²²

The greater the cash contribution to the MEB, the greater the efficiency savings that could be achieved through three main channels:

- Using one e-platform and one card per household
- Rationalising the number of actors
- Removing intermediation

One e-platform – one card

As mentioned above, many vulnerable refugee households have at least two cards in addition to the WFP e-card. There are estimates of at least 100,000 duplicate cards being in circulation with a sunk cost of about \$325,000 to \$400,000 given the most often cited \$3.25-4 issuing fee for each card²³.

More expensive though is the duplicate loading of cards every month costing about \$2.65 for each loading. With many families being supported through different cards or the same card but loaded with differing amounts from different agencies, a duplicate cost of \$265,000 a month (or \$3.18million a year) is not an unrealistic calculation. There is also considerable anecdotal evidence from several NGOs that some families have up to five or six different cards.

As calculated above at least \$3million a year could be saved in loading fees by combining transfers and using one card only. The most efficient way would be to transfer monthly amounts contributing to the Minimum Expenditure Basket. The minimum could always be the monthly cash for food allowance and then top-ups if the

²² Cash Working Group – Minimum Expenditure Basket Review, April 2014.

²³ Some NGOs seem to pay nothing or as little as \$0.50 per card issue. It has been impossible in this study to verify who is paying how much and which cards have cost what. It is clear that there is large variation in costs. The range of \$3.25 to \$4 was cited the most often in all discussions.

household or a person in the household is targeted for additional programmes using cash, such as winterisation support.

An additional saving by using one card only would be that the issuing of new cards could be discontinued. NGOs and agencies are still issuing new cards for new cash transfer programmes (be it cash for work, cash for legal assistance, cash for SGBV, etc). Using one platform and one card only per household would reduce the issuing fees. Again, assuming half of all households were to receive a new card over the next year, about \$500,000 could be saved by using the existing cards.

An additional advantage of one e-platform and one card is that this platform should have better bargaining power with the banks than all cash actors trying to negotiate different deals. The DRC lessons learned paper highlighted the uncoordinated approach as a major shortcoming at the start of the cash response.²⁴ In an upper-middle income country like Lebanon, where banking fees are relatively high, stronger bargaining power by cash actors could save millions over time.

Rationalise actors

If one large transfer is provided rather than multiple smaller transfers through multiple agencies, there should be:

- less duplication of assessments,
- lower staff costs through economies of scale, and
- lower implementation costs with fewer projects incurring start-up and closing down costs.

Duplicate assessments: DFID estimates that the humanitarian community has funded at least 88 multi and single sector assessments in the Regional Response Plan 6 for Lebanon plus a further 30 assessments²⁵ outside the RRP6. Assuming 30 days per assessment @ \$600 each for a consultant leads to costs of \$18,000 at a minimum per study. With the 100+ studies, this is a cost of at least \$1.8m with ample room for rationalisation.

Staff costs: From going through project budgets, DFID estimates that the main UN Agencies and INGOs employ about 350 international staff²⁶ and thousands of national

²⁴ DRC Lebanon (2014), “Unconditional Cash Assistance via E-Transfer: Implementation Lessons Learned: Winterization Support via CSC Bank ATM Card”, January 2014

²⁵ DFID office estimates

²⁶ DFID office estimates

staff in Lebanon at the moment. Assuming average costs of about \$150,000 a year²⁷ for international staff, the total international payroll bill runs to more than \$50 million this year. And assuming conservatively that the national staff bill runs to as much again, the total staff cost bill must be upwards of \$100million. Even if larger transfers as a contribution to the MEB were to only reduce the number of staff by 10%, this would provide an efficiency gain of more than \$10 million in one year.

Removing intermediation

The current response model, as in all other emergencies, is donors contributing the bulk of their funding to UN agencies who then subcontract to INGOs who then partially subcontract to national/local NGOs for implementation and M&E. Assuming that 50% of RRP6 gets funded (i.e. \$850million) and assuming very conservatively that only half of the funding goes through UN agencies and then to INGOs, the 7% indirect support costs paid for by donors to the UN already equals almost \$30million this year.²⁸ A multi-sector cash transfer to the MEB could be implemented by NGOs directly. E-platforms are already set-up, the relationships with the banks are established, PDM processes are up and running. There are still certain functions such as fund raising, targeting, coordination, government relations and advocacy that need to be fulfilled by certain UN agencies or a consortium of NGOs. But this could be paid for by function without the pure pass-through of funding that costs at least 7% more than is necessary.²⁹

In conclusion, the order of magnitude of these possible savings are summarised in Table 11. Given a WFP budget of between \$20 and \$30 million a month (\$240-\$360 million a year) alone these are still comparatively small sums as a % of the overall response.

Table 11: Order of Magnitude of Potential Savings

Possible Action	Possible Cost Savings in a year
Stopping duplicate loading	\$3 million
Stopping new card issues	\$500,000
Less staff	\$10 million
Removing intermediation	Up to \$30 million

²⁷ WFP staff time at CO-level (standard rate at P3-level) is \$115,500 for six months.

²⁸ $(\$850m/2)*0.07 = \$29,750,000$

²⁹ An argument could also be made for more national NGOs to be funded directly where appropriate to delay further and increase savings by cutting the 7% indirect support costs to INGOs. In a country context like Lebanon with very capable NGOs, this should definitely be looked at.

3.3 Effectiveness and Cost-Effectiveness Analysis

The data in the previous section demonstrate the following.

Within transfers

1. Efficiency ratios can change completely depending on one-off or repeat transfers being implemented. Cash through ATM cards is not necessarily more efficient than cash through envelopes for one-off transfers. However, one example of a five months repeat transfer programme shows that running costs for cash through ATM cards is 30% cheaper than cash through envelopes.

Between transfers

2. There is no clear-cut evidence that shows one transfer modality being more or less efficient at all times in all sectors. Local market prices, prices in non-competitive markets, duration of programme and banking fees are the cost drivers that can make one transfer modality more or less efficient than the others.
3. Specifically, the costs of issuing cards (for one-off transfers) and bank loading fees (for repeat transfers) drives the costs of cash through ATM cards in Lebanon. Banking fees would need to be lowered very significantly to make cash more efficient to deliver than vouchers.

Within the overall response

4. Combined transfers, rather than several different ones through different agencies and cards, where appropriate, could drive efficiencies for the whole response through the use of one card only (reduced loading fees), rationalisation of actors (reduced transaction costs) and a possible layering of the system (reduced indirect support costs and other transaction costs).

However, cost efficiency is only one part of the equation. The real question is which of the transfer modalities is the most effective in achieving desired outcomes and the most cost effective, i.e. achieving the outcomes at the lowest cost. Because there are no outcome data specifically collected for one transfer modality that is comparable to other transfer modalities, quantitative cost-effectiveness analysis could not be carried out.³⁰ This section therefore looks at the impact of the different types of transfer and

³⁰ About 1.1m Syrian refugees receive food vouchers from WFP at the moment. And WFP collect outcome data for these refugees. However, we cannot compare the outcomes to different group of Syrian refugee households receiving cash for food or in-kind food. Only newcomers receive in-kind food for a very short time. So the outcomes cannot be compared. And nobody receives cash for food. This case study could not find any other data either from other sectors, where it was possible to see which transfer modality has led to which outcome. Quantitative cost-effectiveness analysis was therefore not possible to carry out. It would have required agencies to design their monitoring differently. The case study did not encounter any balanced scorecard approach being used to determine cost-effectiveness either.

the main factors influencing effectiveness and cost effectiveness to provide a more qualitative assessment of cost-effectiveness.

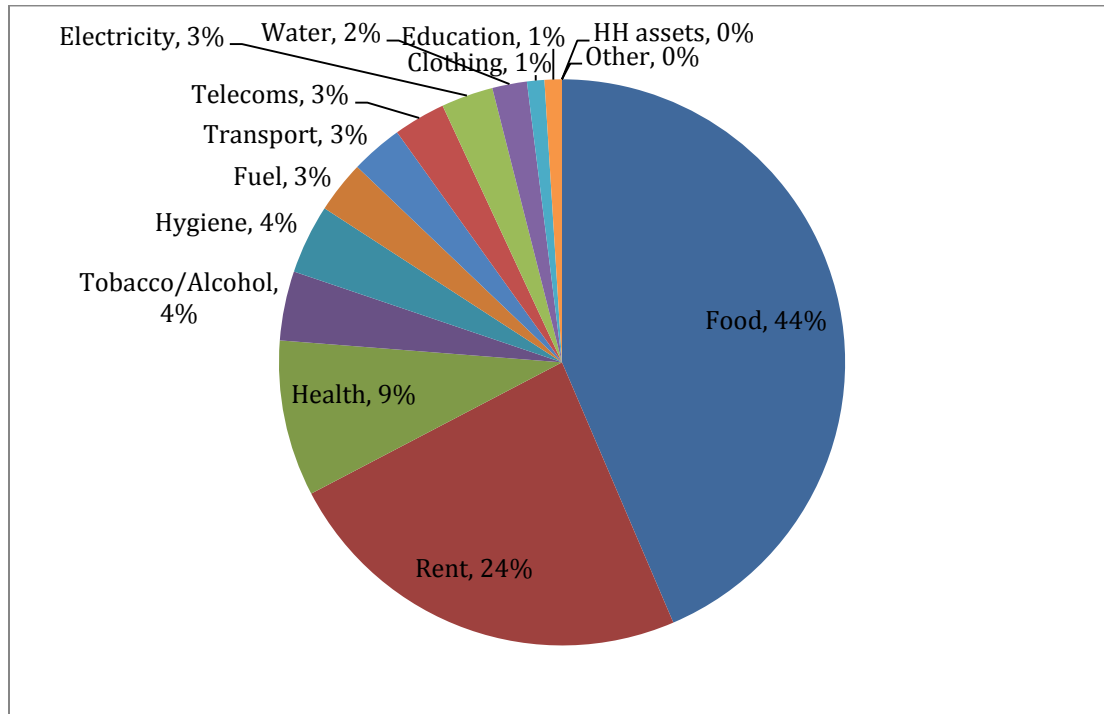
Post Distribution Monitoring, impact evaluation, phone surveys, vulnerability surveys and anecdotal evidence demonstrate differences of impact in the following areas:

- Utilisation
- Beneficiary preference
- Outcomes
- Quality
- Market impact and multiplier effects

3.3.1 Utilisation

WFP’s annual vulnerability survey, VaSyr, provides data on refugee household expenditure. The chart below shows the majority of expenditure going to food, followed by rent and health. It is based on households that do receive WFP’s food vouchers.

Figure 2: Expenditure categories



3.3.1.1 Food Voucher Utilisation

Taking the monthly Minimum Expenditure Basket for a household of five of \$607, the \$150 food vouchers only cover 25% of food expenditure rather than the average 44%. 68% of households in WFP's post distribution monitoring report to be relying heavily on credit to purchase food.³¹

Nevertheless, WFP's post-distribution monitoring from Sept 2013 to Jan 2014, found that 55% of households cashed in their e-card to cover rent and medical expenses and 14% to cover food needs (to either buy fresh items not available in WFP-contracted shops or buy from a preferred retail shop).

Interestingly, households with poor and borderline Food Consumption Scores (FCS) seem to have been selling their vouchers much more than those with acceptable FCS. This might be because the more vulnerable households with poorer Food Consumption Scores have less access to other cash sources and therefore need to cash in their food vouchers for other priorities such as rent and health.

From Jan to March 2014, 17% of households reported exchanging their WFP e-cards for cash. On average, refugees report exchanging one-fifth of the e-card balance for cash. The four main needs covered with the cash were more food/better food (42%), rent (23%), medicine and health (14%) and hygiene or cleaning items (12%).³²

The need for more/better food can be explained by the fact that 1) not all WFP-contracted shops sell the type of fresh items needed by the refugees, in particular fruit and vegetables and meat and 2) refugees often have a preferred location for grocery shopping, in particular shops that sell Syrian commodities. From April to June 2014, only 7% of households monetised some of their e-cards to primarily buy hygiene or cleaning materials.³³

Another reason for monetisation has been distance to shops. WFP's Economic Impact Study says: "when contracted stores are too far away, beneficiaries will monetise their e-card to purchase food from somewhere closer." There is no quantifiable evidence on how many households find themselves in this position. However, an important recommendation from the Economic Impact Study is to increase the number of shops in

³¹ WFP, Lebanon M&E Quarterly Report, April to June 2014

³² WFP does not collect data on the face value loss of this exchange of vouchers for cash. See below estimates from NGOs.

³³ WFP PDM Reports:

<http://data.unhcr.org/syrianrefugees/documents.php?page=1&view=grid&Org%5B%5D=242>

the e-voucher programme from around 300 to 1000, thereby reducing this reason for monetisation.

WFP's Economic Impact Study also states: "Focus group interviews with refugees also suggest that protection issues can lead to beneficiaries being deprived of their e-cards. Retailers reported that some community leaders are able to accumulate a large number of e-cards and redeem them. This phenomenon is linked to the broader protection issues facing Syrian refugees in Lebanon."³⁴ Several NGOs also reported the creation of black markets for e-cards often controlled by criminal gangs. There is some anecdotal evidence that households that have exhausted all other coping strategies but have to pay for rent, sell their e-cards to card dealers for about \$3-400 for a family of five. The card dealer then starts making a profit after three months. This requires the shop owners working with the card dealers. Some shop transaction reports then show hundreds of cards having the full monthly amount taken off in the space of 10 minutes.

Despite the e-voucher system enabling WFP to monitor banking statements and help identify suspicious transactions, it was impossible to get an idea of the magnitude of the problem. WFP does not systematically analyse and aggregate the data on suspicious transactions.

Face value loss

There is anecdotal evidence from several NGOs that e-vouchers are being cashed in at between 80 to 85% of face value. One NGO reports: "We have found that for vouchers and POS credit cards restricted to use for the purchase of fuel, 30%-60% sell on their vouchers or POS cards to brokers for about 80-87% of the face value, or directly to the fuel station for 87-93% of the face value. So between 2.1% and 12% of the assistance is not reaching the intended recipients." The KDS market assessment report also found that '10 of 135 retail survey respondents admitted to selling their WFP e-cards for cash, reportedly at 75-85% of face value'.³⁵

With the WFP PDM data on the percentage of households cashing in their cards, and the data from NGOs and KDS on face value loss, it is possible to estimate the monthly losses from monetisation. Using the 1st quarter 2014 numbers leads to the following results: with 656,853 beneficiaries or 131,370 households; 17% sold a fifth of their voucher

³⁴ WFP (2014), "Economic Impact Study: Direct and indirect effects of the WFP value-based food voucher programme in Lebanon", August 2014

³⁵ Key Development Services (2014): "Development of a Framework for Multipurpose Cash Assistance to Improve Aid Effectiveness in Lebanon: Support to the Market Assessment and Monitoring Component", 7 July 2014

value at a loss of 15% lead to a face value loss of \$100,498 for the quarter. Although this number is not high and on a declining trend, there is anecdotal evidence from NGOs that increasingly larger numbers of shopkeepers allow purchases of non-food items in their shops, in particular hygiene items.

3.3.1.2 Cash utilisation

While WFP monitoring found that e-vouchers are being cashed-in for expenditure on non-food priority needs such as rent, health and hygiene, the IRC winterisation evaluation in turn found that households spend about 25% of their unconditional winterisation cash on food and water rather than on heating fuel.³⁶ This confirms that basic needs are not fully met for Syrian refugee households. Within their constrained budgets, households then allocate their cash to the highest priority needs. They are rationally cashing in vouchers below face value as even the lower cash value would still provide them with a higher marginal utility given their priority needs (that are not covered by food vouchers). Replacing food vouchers with cash would therefore lead to higher marginal utility as no losses would be incurred from cashing in vouchers below face value.

The IRC Winterisation Evaluation found no evidence on diversion of winterisation cash during the five winter months for people living above 500 meters.³⁷ A lessons learned paper from DRC on the implementation of the winterisation cash transfer programme also found that: “Overall the number of individual cases reporting fraud or complaints was less than 1% of the overall caseload. However, the lack of systematic response mechanisms may mean the actual percentage of affected cases is higher (closer to 2%).” The only complaint relating to potential fraud was refugees reporting meeting individuals at ATMs offering to help them withdraw cash who were not representing a UN agency or NGO.

3.3.1.3 In-kind utilisation

Survey data from the KDS market assessment shows that beneficiaries are not using many of the hygiene products currently provided as in-kind assistance. A move from in-kind to cash assistance would help prevent unnecessary purchases of unwanted goods by agencies, and dumping of those unwanted goods back in the markets, which harms established traders.

³⁶ IRC (2014), “Emergency Economies: The Impact of Cash Assistance in Lebanon”

³⁷ IRC (2014), “Emergency Economies: The Impact of Cash Assistance in Lebanon”

3.3.2 Beneficiary Preference

All phone surveys, evaluations and PDM reports show that there is a strong beneficiary preference for cash of at least 80%. None of the results have been disaggregated though by gender, age or vulnerability.

From April to May 2014, five NGOs conducted a phone survey of 2434 new arrivals receiving in-kind assistance, unconditional cash for winter, and fuel cash.³⁸ “The phone survey results show a clear preference for unconditional cash assistance among newly arrived refugees.

- When asked directly about their preference for cash or in-kind assistance for food/non-food items, 85% of beneficiaries responded that they would prefer cash.
- Over three-quarters (77%) of new arrivals reported they needed cash more than specific items when they first crossed the border from Syria.
- There was a clear preference for unconditional cash food assistance –with 72% of beneficiaries reporting they would prefer to receive cash rather than food parcels (16%) or vouchers (12%).
- Similarly, the vast majority of beneficiary respondents preferred to receive fuel assistance through unconditional cash transfers (89%) rather than fuel vouchers (8%) or direct fuel assistance (3%).”

The IRC winterisation cash evaluation³⁹ found that about 80% of respondents prefer cash assistance only. Less than 5% prefer in-kind transfers only. And a bit more than 15% prefer both cash and in-kind transfers. Those 20% that did not prefer cash only were asked which goods they would prefer to receive in kind. 90% responded food. The evaluation also found that those households living more distant from markets are more likely to prefer in-kind or a combination. With over 80% of respondents in this evaluation being male heads of households, we do not know what women would have replied in terms of preference.

Post distribution monitoring of winterisation by SCI showed that “95% of the interviewed households prefer the direct cash transfers over vouchers, whilst only 5% prefer the voucher system. It is worth noting that 94% of beneficiaries were satisfied with the ATM system and 92% encountered no difficulties in using the ATM card”.

³⁸ DRC (2014), “Newcomers Program Phone Survey: Preliminary Report”, May 2014

³⁹ IRC (2014), “Emergency Economies: The Impact of Cash Assistance in Lebanon”, p. 28

3.3.3 Outcomes

It has not been possible to find any evidence in any sectors on the comparative outcomes of cash versus vouchers versus in-kind. We cannot say that households receiving cash have seen better or worse outcomes than households receiving vouchers or in-kind.

The only comparative evidence⁴⁰ located for this study is the comparison of households receiving cash for winterisation (the treatment group) versus households not receiving any cash for winterisation (the control group). Both groups received the WFP e-vouchers. The evidence shows that the treatment group used negative coping strategies less than the control group.⁴¹ Cash also increased expenditure on food, did not increase spending on “temptation goods”, was not captured by elites and reduced the need to take out loans slightly. Cash was preferred by at least 80% of both treatment and control groups. Over 80% of respondents in this impact evaluation were male heads of households, so that it is impossible to say if these outcomes were any different had female household members engaged in the study.

3.3.3.1 Food Consumption and Dietary Diversity Scores

WFP PDM⁴² shows that household food consumption levels have improved for those families having been in Lebanon for a while. Among refugees receiving WFP assistance, food consumption levels have steadily improved until 2014 and then stabilised between the first and second quarters of 2014.

Consistent over time, households living in unfinished shelter, tented settlements or who were homeless were found to have worse food consumption levels than households living in other types of shelter. This is also true for dietary diversity scores.

Fruits, pulses and vegetables are consistently less consumed than other food groups. This could be because they are less available in contracted shops, but it might be a combination of other factors as well. More data would be needed to explain this fully.

⁴⁰ IRC (2014), “Emergency Economies: The Impact of Cash Assistance in Lebanon”

⁴¹ Negative coping strategies in this evaluation are divided into two categories: consumption based and livelihoods based. This distinction is similar to the one used by WFP’s VaSyr but the indicators are slightly different. In the winterization evaluation consumption based indicators are: relying on less preferred, less expensive food, borrowing food or relying on help from friends and relatives, reducing the numbers of meals eaten per day, restricting consumption by adults for young children to eat and reducing portion sizes of meals. Livelihoods based indicators are: having children work, undertaking risky activities and selling productive assets.

⁴² WFP (2014), “Monitoring and Evaluation Quarterly Report”, April-June 2014

3.3.3.2 Coping strategies

While food security scores are increasing for households with the length of stay in Lebanon, it seems that the negative livelihoods coping strategies these households are using are increasing. Contrary to improving food security scores with length of stay in Lebanon, negative livelihoods based coping strategies are increasing. WFP reports that “The analysis reveals that households who have been in the country for more than one year seem to be applying more negative coping strategies than those who have been in the country for less than one year. Despite their better food consumption levels, households who have been in Lebanon for a longer period of time appear to be applying more negative coping strategies, possibly because they have exhausted their savings or other sources of livelihoods. This may have implications for the future food security status of these households, as they may be maintaining acceptable food consumption levels currently by adopting livelihoods-based coping strategies, which would have an impact on their food security status further down the line.”⁴³

3.3.4 Quality

3.3.4.1 Shelter and WASH upgrades

The preliminary findings of an NGO study on shelter and WASH upgrades found voucher programming to be the most effective and cost effective modality. It offers superior flexibility and cost efficiencies to in-kind programming. Cash could provide further efficiencies but because of the additional requirements associated with shelter, vouchers seem to lead to better quality outcomes. These additional requirements are mainly

- physical safety and the need for a minimum level of quality control, and
- different levels of approvals needed from owners or local authorities.

As vouchers are only redeemable against a set list of materials that respect these regulations and requirements, they can most effectively navigate the fine line between addressing core shelter & WASH needs whilst respecting the local rules and safety requirements. So while cash for shelter upgrades is marginally more efficient in the example above, vouchers seem to be more effective and cost-effective.

3.3.4.2 Newcomer packages

While all newcomers in the DRC Newcomers Survey strongly preferred cash over in-kind, they were nevertheless highly satisfied with their in-kind package. For individual items, the mattresses, kitchen sets, and hygiene kits had the highest level of reported satisfaction (96%), followed by blankets (94%) and the food parcel (90%). These findings

⁴³ WFP (2014), “Monitoring and Evaluation Quarterly Report”, April-June 2014

suggest that cash is not preferred because of a lack of satisfaction but instead reflects a genuine preference for cash. This preference for cash can be explained by their reported priority needs with shelter, food, and healthcare consistently ranked as the main priorities for newcomers.

In this case of newcomer packages, the comparison of costs above showed that cash is more efficient to deliver than in-kind. But no comparison has been made between the transfer values of cash and in-kind. It is possible that local market prices for the same products are higher so that a cash transfer of \$150 would not buy the beneficiary household the same amount and quality of mattresses and blankets for example. However, cash is still preferred by beneficiaries as they can prioritise other expenditure with cash by choosing to buy lower priced items or other items that they need more at this point in time.

In contrast, low quality shelter material is more problematic as it needs to comply with certain regulations, can lead to eviction, and can have serious health and safety consequences. The case for vouchers versus cash is much stronger here. As it is for health services that require a minimum acceptable quality standard to be met that is not necessarily provided by the private sector and/or not regulated enough.

3.3.5 Market Impacts and Multiplier Effects

The World Bank carried out a rapid Economic and Social Impact Assessment for Lebanon in mid-2013.⁴⁴ The paper states that with the escalation of the Syrian conflict, spillovers onto Lebanon have rapidly moved beyond the humanitarian to the economic and social spheres where large, negative, and growing spillovers are occurring. The impact of the Syrian conflict is also particularly pronounced in the trade sector, affecting goods and services trade, and the large tourism sector. Across all key public services, the surge in demand is currently being partly met through a decline in both the access to and the quality of public service delivery.

The following section looks at the economic impact of

- Food vouchers
- Unconditional cash
- Shelter/rent assistance
- In-kind hygiene kits

⁴⁴ World Bank (2013), “Lebanon: Economic and Social Impact Assessment of the Syrian Conflict”, September 2013.

3.3.5.1 Food vouchers

Multiplier in the national economy

The WFP Economic Impact Study of the food voucher programme provides evidence on the positive economic multiplier effect of the food voucher programme offsetting some of the above mentioned spillover costs of the Syria crisis.⁴⁵ WFP estimated a predictive multiplier of 1.507, meaning that the planned e-voucher transfer of \$345 million for 2014 should result in \$517 million in indirect benefits to the Lebanese economy, mostly concentrated in the food products sector.⁴⁶

The magnitude of the multiplier effect would likely be similar in a cash programme but the distribution of the benefits would probably be different. Currently, the 'benefits are concentrated in the hands of a small number of actors, especially the 100 large stores that account for the majority of e-card turnover.'⁴⁷ WFP found evidence

- of high concentration ratios of the top three stores in each district (i.e. the amount of business captured by the three largest firms in each district) with half the 26 districts termed monopolistic;
- that the price of the food basket is slightly higher (by 6.3%) and more volatile in the non-competitive voucher markets and in those areas with particularly low store density.

The above shows that WFP has picked 'winners and losers' through its shop selection. From an economic perspective, these distortions could be resolved by open competition through a cash transfer programme rather than the restrictive e-voucher programme. Monopolistic behaviour should decrease, prices should stabilise with shops competing for Syrian customers (who after all are 25% of the population now) and the benefits of the multiplier effect should become distributed more widely as beneficiaries could shop anywhere including local markets.

Prices

⁴⁵ Another paper will be published by UNDP at the end of 2014 that assesses the impact on the Lebanese economy of the UN and International Humanitarian Aid provided to the Syrian Refugees in Lebanon. The study will provide estimates of the fiscal multiplier impact on major branches of production; and the impact on total economic output through a general equilibrium model.

⁴⁶ The predictive multiplier for 2014 for WFP's voucher programme in Jordan ranges between 1.019 and 1.234.

⁴⁷ WFP (2014), "Economic Impact Study: Direct and Indirect Effects of the WFP Value-Based Food Voucher Programme in Lebanon", July 2014, p 18

In the face of the large increase in demand for food, Lebanon has mainly responded by increasing imports. According to the Central Administration of Statistics⁴⁸ food inflation in Lebanon averaged 4.42% from 2009 until 2014. Food inflation has not increased more during the refugee crisis than before.⁴⁹ Markets have so far also supported increases in demand for hygiene products without triggering concomitant price rises.

The price of the WFP food basket, however, increased by 13.7% between June 2013 and June 2014, while the consumer price index for food and non-alcoholic beverages only increased by 6.6%.⁵⁰ It is difficult to interpret these findings without looking more into what exactly has been driving prices in both baskets. The most likely explanation is that the prices in WFP contracted stores are higher. As mentioned before, there is evidence of monopolistic and oligopolistic behaviour of retailers and higher prices in half of all districts in Lebanon.

Economic impact - cash versus vouchers

The economic argument made in the WFP economic impact study in favour of vouchers over cash is based on focus group discussions with retailers who said that the certainty of demand (in both magnitude of demand and types of products) enabled them to make capital investments in enlarging retail space and storage capacity, and to hire more staff. These investments have created employment and guarantee a certain quality and secure supply of food products to refugees. Giving retailers the confidence to expand operations is seen as the main advantage of the e-vouchers programme over cash.

While it is certainly a big advantage to ensure the food supply chain in remote or highly insecure areas of the country, it is not clear why most retailers would not make investments in their shops if the majority of the Syrian refugee population received cash transfers.⁵¹ They know that refugees are likely to spend 44% of their expenditure on food. They by now also know what other products refugees need and buy (e.g. fresh food, hygiene products and cleaning material). And as businesspeople, they know that if they provide consistent quality and competitive prices they will attract sales from a large refugee population.

⁴⁸ <http://www.tradingeconomics.com/lebanon/food-inflation>

⁴⁹ Key Development Services (2014): "Development of a Framework for Multipurpose Cash Assistance to Improve Aid Effectiveness in Lebanon: Support to the Market Assessment and Monitoring Component", 7 July 2014

⁵⁰ <http://www.tradingeconomics.com/lebanon/food-inflation>

⁵¹ The focus group discussions did not include any counterfactual questions to the retailers on what investment decisions they would take if the majority of the Syrian refugee population got cash transfers rather than vouchers. It would of course also take away their privileged position of being a selected store, and their replies would probably reflect this.

3.3.5.2 *Unconditional Cash*

Multiplier

The IRC winterisation evaluation used a different methodology to WFP's to estimate the multiplier effect of the approximately \$51 million injected into the economy during the five winter months of 2013/14. The Jordanian marginal propensity to consume was used as an approximation for Lebanon (as no MPC has been estimated for Lebanon before) to estimate how much of the cash injection generated additional income for the Lebanese economy. The magnitude of the multiplier was estimated to have been 2.13. So each \$1 generated \$2.13 of GDP for the Lebanese economy. While this is entirely plausible, it is not based on actual data from Lebanon. The magnitude of the multiplier should also not be compared with WFP's e-voucher multiplier. The different methodologies used make them incomparable.

Prices

The IRC evaluation could not find any important increases in consumer prices in the communities of the treatment and control groups, except 8% for bulgur wheat in the treatment group.⁵²

Both the analysis of the economic impact of food vouchers and the economic impact of winterisation cash point to a very responsive retail sector that has been able to absorb the huge increase in demand by importing more.⁵³ The market distortions that do exist seem to have been generated because of the voucher system rather than any other market failure.

3.3.5.3 *Shelter/rent*

The winterisation evaluation did not find any differences in housing prices between treatment and control group. The treatment group was found not to pay higher rents than the control group. This is an interesting result given the inelasticity of the housing supply in Lebanon where the limited stock of pre-crisis affordable rental housing is drying up (in fact, Lebanon has been facing a decades old affordable housing crisis prior to the Syrian refugee crisis). As a result, rental prices are increasing, some refugee families have to down-grade their shelter and new arrivals have few affordable shelter options other than informal settlements.⁵⁴

⁵² The findings are based on household surveys and not monitoring of shop prices.

⁵³ There is a question if programme design of favouring larger suppliers and staples over perishables helped to bring about this responsiveness in meeting demand without resulting in price increases.

⁵⁴ UNHabitat (2014), "HOUSING, LAND & PROPERTY; ISSUES IN LEBANON; IMPLICATIONS OF THE SYRIAN REFUGEE CRISIS", August 2014

The central state has never taken a strong leadership role on shelter and housing issues. Historically, central government policies played a limited role in providing affordable land and housing options and regulating the housing market. This has continued during the refugee crisis, with the only government policy in relation to housing the one on banning the establishment of formal camps.

Unsurprisingly, in such a market of low supply, imperfect information, high informality and no regulation, rents are rising steeply. In sub-standard buildings they vary from \$100 to \$200 USD per month.⁵⁵ Landlords and their middle-men have clear advantages over Syrian refugees (information, networks, and the credible threat of force) and can achieve significant profits.⁵⁶ So in contrast to the food sector, prices are rising and supply is not meeting demand. The result is sub-standard housing at rising prices for refugees and vulnerable Lebanese.

In the absence of being able to address the serious supply constraints in Lebanese rental markets, interventions that target the efficiency and performance of the market are the best option for offsetting any risks of increased financial support to refugees.⁵⁷

3.3.5.4 Hygiene kits

Actors at every step of the market chain reported high incidence of reselling of hygiene products, much from in-kind assistance provided to refugees.⁵⁸ For manufacturers, importers and distributors, this includes finding their products on shelves for as little as 30% of their suggested retail price. This reselling at lower prices is disrupting markets and resulting in inefficient delivery of assistance to beneficiaries as significant infrastructure and numerous new market entrants have emerged to trade in resold goods and in-kind assistance. While there might be ways of tracking in-kind assistance through labelling or sealing to prevent resale, resources would likely be better spent on limiting the supply of goods available for this trade.⁵⁹ Or in other words, providing more appropriate items or allowing more choice so that these items do not get resold at large scale.

⁵⁵ The average cash for rent transfer is \$150 a month per household.

⁵⁶ UNHabitat (2014), "HOUSING, LAND & PROPERTY; ISSUES IN LEBANON; IMPLICATIONS OF THE SYRIAN REFUGEE CRISIS", August 2014

⁵⁷ Key Development Services (2014): "Development of a Framework for Multipurpose Cash Assistance to Improve Aid Effectiveness in Lebanon: Support to the Market Assessment and Monitoring Component", 7 July 2014

⁵⁸ No data could be found on the magnitude of this trade.

⁵⁹ Key Development Services (2014): "Development of a Framework for Multipurpose Cash Assistance to Improve Aid Effectiveness in Lebanon: Support to the Market Assessment and Monitoring Component", 7 July 2014

If agencies wanted to continue to provide in-kind hygiene products because of the lower costs associated with bulk and international procurement, hygiene kits would need to more accurately reflect beneficiaries' priorities and preferences to avoid re-sales and the associated efficiency losses. This might require tighter targeting and monitoring, which in turn requires additional resources that might off-set the gains of procuring in bulk.

3.3.6 Conclusions on Effectiveness

There is no data for Lebanon that shows which delivery mechanism or modality is more cost-effective than another in each sector. That is, we cannot say which delivery mechanism or transfer modality can achieve the same outcome than another at a lower cost. We do know that from an efficiency perspective, the more the response can be moved to combined transfers, meaning single, larger transfers covering needs across sectors rather than multiple smaller grants, the more efficiency savings can be achieved with a reduction of the number of cards, number of transfers, number of actors and general transaction costs for agencies and beneficiaries alike.

From the analysis of effectiveness drivers above, we know that they all point in the direction of cash being more effective and cost effective than other modalities in delivering multi-sector assistance to Syrian refugees. There are no strong reasons why food and other basic needs assistance should not be provided in cash. Markets are functioning and more competition should keep prices down and quality up. Reselling and monetisation of vouchers would cease, reducing inefficiencies to beneficiaries and maximising the marginal utility of cash for each household.

In terms of including cash for rent, cash is already being used widely for housing support to refugees. Combining it with cash for food and basic needs into a contribution to the MEB would only increase efficiencies. However, as mentioned above, there are severe supply side constraints in the housing sector that are driving prices up and standards down. These need to be addressed if the monthly bill for housing assistance is not to rise steeply. Cash for rent is of course also linked to shelter upgrades and shelter rehabilitation. These lend themselves more to voucher rather than cash assistance so that a detailed analysis of shelter needs and supply is needed to determine how to best provide support in the future.

3.4 Barriers to Scaling up Cash

The barriers to scaling up cash in Lebanon are not economic barriers. The barriers mentioned most often in discussions are:

- Political – the Government of Lebanon had a firm anti-cash policy in place at the beginning of the crisis. This seems to be slowly changing⁶⁰ but there is a big difference between supporting limited duration, smaller scale cash programmes to providing cash to a large number of refugees in the country indefinitely.
- Protection – the lack of evidence on what could happen with large scale cash transfers falling in the hands of armed groups. On the other hand, as nearly 80% of the Syrian refugees in Lebanon are women and children, there are protection issues whichever modality is being used. It might be claimed there is more risk with actual cash, however possession of monthly food vouchers can and does expose Syrian refugee women to some intimidation and extortion.
- Uncertainty about food security and nutrition outcomes – there is concern in WFP about a reduction in expenditure on food with cash and hence higher risks of micronutrient deficiencies and increasing malnutrition rates.⁶¹
- The increasing funding gap – UNHCR’s unconditional cash programme, for example, only covered 8000 households as of September 2014 as there was no more funding available for it. WFP has just received a pledge of \$100 million from the US (for the whole Syria response) which will carry them through to November. If no other funding comes on-stream, WFP is planning to reduce the voucher value from \$30 per person per month to \$12-20 per person per month from November.

To collect more evidence on the impact of cash and address some of the barriers to scaling up, WFP had planned to commission a cash pilot one year ago. This has been consistently delayed and is now due to start in November 2014 for six months. It will be evaluated by John Hopkins University. The differential impact will be measured for

- Those who will use their regular prepaid e-cards as vouchers,
- Those who will only be able to use their e-cards to withdraw cash from the ATM machine
- Those who will have the option to use both modalities.

3.5 Maximizing Vfm

Based on the evidence presented, the following conclusions and recommendations can be drawn to maximize the Value for Money in the Lebanon response:

⁶⁰ The Government was for example supportive of the UNHCR winterisation cash initiative last winter.

⁶¹ Although this could be addressed through targeted nutrition interventions. And overall, households are defined to be food insecure only they spend more than 70% of expenditure on food, whereas it is currently 44% in Lebanon.

While the delivery of cash transfers is consistently cheaper than in-kind, in-kind assistance can be more efficient overall because of better prices on international markets not being available to individual beneficiaries. In some sectors, lower prices of goods procured internationally in bulk make cash transfer programmes in Lebanon less efficient than in-kind transfers. While the delivery costs for cash are consistently lower than for in-kind, the higher prices of the commodities for individuals off-set the lower delivery costs. There is evidence from the hygiene product markets though that the reselling of unwanted goods below value partially off-sets these efficiency gains of in-kind aid again.

WFP's e-voucher programme is more efficient to deliver than cash through ATM cards because of high banking fees for cash. Only a very significant reduction in transfer fees could make cash as efficient as e-vouchers to deliver in this context.

Once other costs, such as costs to retailers and beneficiaries, are taken into account, the efficiency of the e-voucher programme is reduced and possibly off-set by cash. Some delivery costs of the e-voucher programme are passed on to retailers such as transaction fees to the bank. These reduce the e-voucher programme's efficiency considerably. Including further important costs to the beneficiaries, such as higher prices due to non-competitive voucher markets, reduces the efficiency of e-vouchers further. By how much exactly is difficult to ascertain as price data in some areas are patchy and prices change over time. However, with relatively conservative assumptions, cash seems to come out as efficient or more efficient overall. The multiplier effect of the large aid injection should also be distributed more widely with cash and not stay concentrated in the hands of a few as is currently the case with the voucher programme.

Cash is the only modality that could make the Lebanon response more efficient and effective as a whole. Looking more broadly at the whole response rather than comparing the efficiency of individual programmes, combined monthly cash transfers provide the opportunity to increase response efficiency significantly. Combining several small transfers into one large unconditional cash transfer per household per month could reduce transaction costs, requiring fewer agencies and less intermediation, and would decrease banking fees. The more sectors combined into one multi-sector transfer, the more savings are possible. Given the dynamic nature of the Lebanon response with often changing numbers of beneficiaries, numbers and types of programmes, targeting strategies, funding commitments, fee negotiations and prices, it is very difficult to put a value on potential future savings based on data from the past. These are only crude estimates to show the possible orders of magnitude of different approaches.

Cash provides the highest marginal utility to beneficiaries. When not all basic needs are met, households can prioritise where to spend their additional \$1 in cash rather than being constrained to certain sectors or shops. Every household has different priorities and they change over time. When a child is sick one month, a rational household will prioritise medication over food that month to keep the child well and alive. \$1 spent on medication is worth more than \$1 spent on food at this point for this family. It would be impossible and highly inefficient for aid agencies to replicate this wide range of different priority needs.

According to several surveys and evaluations cash is strongly preferred by the majority of refugees. All surveys and evaluations find that at least 80% of respondents preferred cash to in-kind and vouchers in all scenarios. The one qualification to this is that most respondents in the evaluations and surveys were male, despite 80% of the refugee population being women and children. Future surveys and evaluations need to collect more disaggregated data.

Donors and aid agencies have a choice in Lebanon to dramatically change the response model and drive efficiency and cost effectiveness by scaling up cash. Business as usual is unsustainable with the decrease in funding and no end of the refugee crisis in sight. Only a radical new cash response model could deliver efficiency and effectiveness gains that could sustain more people for longer. However, it needs to be said that with the large number of refugees in Lebanon, all potential efficiency and effectiveness gains are relatively small in proportion to the funding needs. This case study has focussed on the economic arguments for or against cash. They need to be put into the context of political, protection, funding and longer term sustainability considerations in Lebanon.