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Cash transfer models and debt in the Kalobeyi settlement



This Research in Brief summarises the findings of Sterck, O., Rodgers, C., Siu, J., Stierna, M.F., and Betts, A. (2020) *Cash Transfer Models and Debt in the Kalobeyi Settlement*. Oxford: RSC.

Key points

- The use of cash transfer programmes in humanitarian contexts is growing. In comparison to in-kind assistance, cash transfers are widely praised for enhancing autonomy, reducing costs, and boosting local markets. However, there is limited evidence on the best modality for providing cash transfers and, in particular, whether the use of transfers should be restricted to food and other essential items and exclude temptation goods such as alcohol or tobacco.
- We use first-hand data from 896 refugee households living in the recently created Kalobeyi settlement in Kenya, making use of a 'natural experiment' to study the relative effects of restricted versus unrestricted cash transfers to refugees.
- Our research shows that removing restrictions on cash transfers has positive impacts on household asset ownership and subjective well-being. Households receiving unrestricted cash transfers are also less likely to engage in the costly practice of reselling food in order to access non-food items. We find some evidence that unrestricted transfers may lead to higher expenditure on alcohol and tobacco. Although this is worrying, it relates to only a limited proportion of households and a small proportion of their budget.
- Both modalities of cash-based assistance are associated with a massive problem of indebtedness, which undermines their effectiveness. A staggering 89% of sampled households are indebted towards their retailers. Cash transfers are used as a form of collateral by retailers to guarantee debt repayment.
- We conclude with a discussion of the pros and cons of various policy options for addressing the problem of indebtedness, including debt repayment schemes or debt relief, social safety nets, more frequent transfers, training, and monitoring.

Cash assistance to refugees

Cash assistance is becoming the new paradigm for development and humanitarian assistance. This paradigm shift results from the accumulation of evidence on the positive, wide-ranging, and persistent effects of cash transfers on beneficiaries. In comparison to in-kind assistance, cash transfers are widely praised for enhancing autonomy, reducing costs, and boosting local markets. Embodying this paradigm shift, the World Food Programme (WFP) distributed 1.76 billion USD in different forms of cash-based transfers to 24.5 million people in 2018, a three-fold increase compared to 2015. WFP promotes cash transfers to "empower people with choice to address their

essential needs in local markets, while also helping to boost these markets". Reflecting this trend, the Good Humanitarian Donorship initiative adopted a principle in 2018 on the use of cash transfers, recommending that organisations "systematically consider the use of cash transfers alongside other modalities according to context, in order to meet the humanitarian needs of people in the most effective and efficient manner".

There are various modalities of cash transfer, from food vouchers to mobile money, and cash. Rigorous evidence on the relative merits of these models is scarce. A recurring question in the literature on cash transfers is whether the use of transfers should be regulated through conditionalities or restrictions in order to maximise target effects and reduce

unintended outcomes. This issue has important implications for WFP's efforts to meet the basic food and nutritional needs of refugees and displaced populations, while also enhancing their self-reliance. In pursuit of these objectives, should WFP promote restricted cash transfers or vouchers that can only be spent on food? Or should WFP provide unrestricted cash and let recipients decide what is best for themselves? There is a need to address these questions: given the extreme vulnerability of humanitarian beneficiaries, even small differences in impact can make a huge difference in welfare outcomes. Humanitarian organisations also need to use their limited resources as effectively as possible to maximise their impact. Put simply, the specific modality of cash assistance matters.



The distribution of cash-based assistance is verified using biometric data.
Credit: WFP/Alessandro Abbonizio

A natural experiment in Kalobeyei

We exploit a 'natural experiment' in the Kalobeyei settlement in Kenya to study the relative effects of restricted versus unrestricted cash transfers to refugees. Every month, refugee households in Kalobeyei receive electronic transfers amounting to KES 1,400 per person (approximately 13 USD). Until mid-2019, all households in Kalobeyei received restricted cash assistance on SIM cards under the Bamba Chakula programme. Bamba Chakula transfers are restricted in two ways: the e-money can only be spent on food items (excluding alcohol and tobacco) and only licenced Bamba Chakula shops can accept payments. However, in June 2019, a cohort of about 1,050 households was enrolled in a new programme for unrestricted cash transfers, which are paid directly into bank accounts. The households in this cohort live in a geographically bounded part of one of the three sections of the settlement, the southern part of Kalobeyei Village 3. Meanwhile, the settlement's remaining 7,000 households continued to benefit from Bamba Chakula.

We used a mixed-methods approach to study the comparative effect of the two modalities of food assistance. To assess the impact of the new, unrestricted modality of food assistance, we exploit the fact that the allocation of housing to refugees within Village 3 was quasi-random, effectively creating the spatial layout required for a 'natural experiment'. We use first-hand quantitative data from a representative sample of 896 households living in Village 3 of Kalobeyei. This data was complemented by focus group discussions and over 50 semi-structured and open-ended interviews with a broad range of stakeholders, including refugees, shopkeepers, and humanitarian employees.

Letting refugees choose what is best for them works

Our analysis reveals that the switch to unrestricted cash transfers had robust positive effects on household asset accumulation and subjective well-being. Households receiving unrestricted cash transfers also appear to be less likely to engage in the highly inefficient practice of reselling food in order to access non-food items. We find limited impact on food security and total food expenditures. However, there is some evidence that unrestricted transfers may lead to higher expenditure on alcohol and tobacco. Although this is worrying, it relates to only a limited proportion of households (14%) and a small proportion of their budget (3.7%).

The results of the pilot experiment of unrestricted cash transfers are therefore broadly positive. However, only a limited share of households reported benefiting from the switch: less than one-third of respondents reported preferring unrestricted cash assistance compared to Bamba Chakula, while two-thirds reported that they have no preference between the two models.

Refugees who prefer unrestricted cash transfers reported a number of benefits. First, recipients can use their assistance on non-food necessities like shoes, clothing, utensils, and wood or charcoal. Under the Bamba Chakula programme, people can only purchase non-food items by selling their food for cash, which is discouraged by WFP, and forces them to sell at below-market prices. Second, unrestricted cash offers recipients a broader market of retailers from whom to purchase goods. Whereas Bamba Chakula can only be used at a limited number of retailers who have been selected by WFP, the unrestricted cash can in theory be used in any shop. Third, recipients of unrestricted cash benefit from a 'cash-in-hand' discount: goods purchased with cash tend to be cheaper than those purchased with Bamba Chakula.

The vicious cycle of indebtedness

However, the majority of refugees do not benefit from these advantages because of indebtedness. A staggering 89% of sampled households are indebted to retailers. Shopkeepers have long provided food on credit as a form of social support to assist food insecure clients. But cash-based assistance in Kalobeyei has contributed to higher levels of debt than the partial in-kind food aid provided in the Kakuma camp. This is because the material technology required for receipt of cash assistance – SIM cards for Bamba Chakula and ATM cards for the Equity programme – provides a physical object that can be retained by shopkeepers as collateral. While refugee customers have few assets to offer as conventional collateral when taking credit, shopkeepers can hold customers' Bamba Chakula lines or ATM cards to ensure debt repayment. Moreover, in Kalobeyei, many households lack food security. Adult employment rates are very low (5.9%) and remittances are rare (8.3%), meaning that food assistance is the only source of livelihood for most households. Savings are almost non-existent. In the absence of social safety nets, refugees who have insufficient income or are facing some kind of economic shock generally have no other option but to take food on credit. Unforeseen shocks are common in Kalobeyei: in the 12 months preceding the survey,

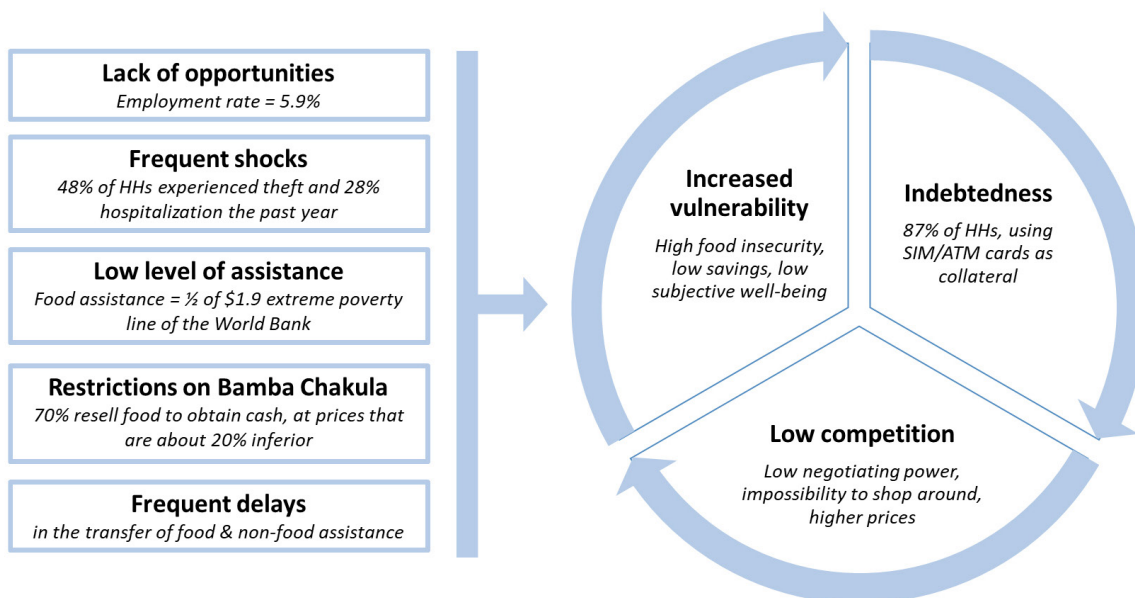


Figure 1. The vicious cycle of indebtedness

48% of sampled households reported being a victim of theft or robbery, and 28% had at least one adult admitted to the hospital. Recurrent delays in the transfer of food and non-food assistance have also fostered indebtedness and when all households are affected at the same time (systemic risk), informal safety nets are usually unable to cope with such delays. When there is nothing left to eat and neighbours cannot assist, households turn to their retailers to bridge the gap.

Many of the intended benefits of the switch to unrestricted cash were unrealised because of indebtedness (Figure 1). The debt relationships that were created under the Bamba Chakula model have endured despite the switch to the unrestricted cash model. This has prevented recipients from accessing cash as intended. Indebted households have low negotiating power, are burdened by high prices, and are prevented from selecting between competing retailers. Indebted households are more likely to be food insecure, more likely to be dissatisfied with their circumstances, and less likely to have savings. Facing both the uncertainty of food insecurity and the social pressures exerted by their creditors, many indebted refugees are left with feelings of anxiety, helplessness, and fear. In turn, the growing debts owed to shopkeepers also complicate relationships between retailers and wholesalers. Debt also subjects women to the coercive strategies of some male shop owners, putting them at risk of sexual harassment and gender-based violence.

Policy implications

Realising the benefits of unrestricted cash transfers requires UNHCR, WFP, and other stakeholders to address the problem of indebtedness and decrease the heavy reliance on credit. We discuss the pros and cons of various policy options for addressing the problem of indebtedness, including debt repayment schemes or debt relief, social safety nets, more frequent transfers, training, and monitoring.

1. Debt relief

In order for refugees to realise many of the benefits of unrestricted cash transfers, the staggering levels of indebtedness must first be reduced. We estimate the cost of providing direct debt relief to refugee households at about one million USD in Kalobeyei. Debt relief would be encumbered by a number of complications. First, humanitarian agencies would struggle to

verify the quantities of the debts owed to retailers, as there would be an incentive to exaggerate the values. Second, offering debt relief once may raise expectations that it will be offered again in the future. This presents a moral hazard for the credit system and might result in a rapid return to indebtedness for many cash recipients. Therefore, debt relief only makes sense if policies are adopted simultaneously to prevent households from falling back into debt.

2. Debt management

Our results suggest that a stand-alone behaviour change strategy – which would discourage households from seeking high levels of credit and traders from providing it – is likely to fail. Indebtedness is not simply a result of poor decision-making; rather, refugees are forced by circumstance to request credit to make ends meet when their resources do not reach the end of the month. Similarly, traders cannot let their regular customers and neighbours go hungry, and so they agree to provide food on credit.

However, a humanitarian agency could facilitate repayment of debts by supporting a transitional arrangement for indebted households. The agency would work with shopkeepers and refugees who choose to participate in the repayment scheme to ensure they progressively reimburse their debt while receiving enough food each month. This solution may be seen as heavy-handed by some clients and shopkeepers, and it would not resonate with a key tenet of cash-based assistance, which is to foster dignity by increasing household financial autonomy. However, the repayment assistance would be a temporary strategy that would ultimately reduce household dependency on credit and build capacity for greater financial autonomy in the long run.

3. Supporting community safety nets

People take credit from shopkeepers when their personal social networks – including family, friends, and religious communities – are unable to provide support. One way to reduce reliance on credit from shopkeepers is to support formal and informal social safety nets in Kalobeyei. Humanitarian agencies could begin by implementing a formal safety net in the form of an emergency fund for refugees in situations of extreme vulnerability due to temporary shock. Social workers and local leaders would identify problematic cases and authorise emergency transfers

on the accounts of identified households. Such transfers could be provided as either a gift or as a loan.

4. Streamlining cash transfer programmes

Humanitarian agencies should solve the problem of recurrent delays in the delivery of food and non-food assistance. Frequent delays in the distribution of cash transfers are exacerbating the indebtedness problem. Such delays are systemic shocks that affect all households at the same time, implying that informal networks are unable to efficiently respond.

A more effective system of delivery would be to spread cash transfers over the entire month. Rather than sending transfers to all 8,000 households living in Kalobeyi on the same day each month, transfers could be sent daily to groups of about 260 households. This more distributed pattern of monthly cash transfers would have many benefits for refugees and shopkeepers. First, social networks would be better able to respond to shocks, as not every household would be facing end-of-the-month scarcity at the same time. Second, it would facilitate the work of shopkeepers who would not have to respond to high demand peaks on distribution days, which often leaves them short of stock. Third, it would limit the total amount of cash needed in the local economy.

5. Increasing purchasing power

Many refugees also complained that cash assistance is insufficient for their basic food and non-food needs. Humanitarian agencies should pursue two avenues for increasing refugees' purchasing power. First, they should continue to invest in self-reliance programming, as improving livelihoods and generating new income-earning opportunities is the best way to increase purchasing power in the long run. In the short run, however, if resources are available, UNHCR, WFP, and other humanitarian agencies should consider increasing the monthly value of cash transfers and broadening their scope.

We estimate that a comprehensive transfer for food and non-food items should be around KES 4,000 (approximately 37 USD). At the time of writing this brief, WFP is planning to increase the value of monthly transfers to KES 2,500 (approximately 23 USD)

per person in Kalobeyi to cover the cost of food in a Minimum Expenditure Basket. Other needs will have to be covered by other agencies or through livelihood options.

6. Numeracy training

Indebtedness might also partly result from poor numeracy. About 47% of South Sudanese adults in our sample have completed no formal education at all. There is limited ability to identify numbers in their written form; only 50% of respondents were able to read a four-digit number when presented to them on a tablet. Reassuringly, about 75% of respondents were able to solve math problems entailing multiplication and addition. This suggests that many are able to carry out the calculations necessary for negotiating prices and maintaining a budget, although they may not be able to read receipts or maintain written records of their purchases. One direct way to improve numeracy would be to organise training sessions about how to do simple calculus with a calculator or with their mobile phones. The intervention could also target children, as a majority of them go to school and may therefore be able to help their parents with shopping.

7. Monitoring and research

WFP has built important relationships with business partners in Kalobeyi, in Kakuma, and elsewhere. However, contact with households is more limited with the new cash assistance schemes than with the traditional in-kind assistance. WFP could therefore benefit from seeking first-hand information from beneficiaries on a more regular basis, to react quickly when issues such as indebtedness arise. WFP should also closely monitor the behaviour of businesses to encourage healthy competition. Finally, rigorous research is needed to evaluate the impact of any policies implemented to tackle indebtedness. Over-indebtedness is not just a concern in the refugee community, but also amongst low-income households in other contexts. The need to better understand how to most effectively assist these households in breaking out of and preventing from falling back into the vicious debt cycle is critical.

Implications for Covid-19

UNHCR has identified digital cash-based transfers as a crucial tool in the Covid-19 response. Cash transfers can be distributed remotely and goods can be purchased in a socially distanced manner at dispersed retailers. By contrast, distribution points for in-kind food are prone to overcrowding and cannot be staffed if humanitarian employees are in lockdown.

Our research suggests that scaling up cash transfers during Covid-19 may also carry risks. Many refugee households in Kakuma have attempted to stockpile food in anticipation of supply chain interruptions. This strategy may pay off for some households, especially if the food system in Kenya is affected during the pandemic. However, urgent efforts to stockpile food on credit – often using cash transfer technology as collateral – may result in higher levels of debt. This would be exacerbated if food prices rise in response to increased demand or disrupted supply chains.

This is not an argument against the use of cash-based assistance, which offers many potential benefits including greater choice for beneficiaries and more efficient use of resources. However, policy-makers must remain attentive to the ways that systemic shocks – such as Covid-19 – can push cash transfer recipients into debt, as well as the economic risks and protection concerns that arise as a result.

Authors: Olivier Sterck (Senior Research Officer), Cory Rodgers (Pedro Arrupe Research Fellow in Forced Migration Studies), Jade Siu (Research Assistant, Refugee Economies Programme), Maria Flinder Stierna (Research Assistant, Refugee Economies Programme), and Alexander Betts (Leopold Muller Professor of Forced Migration and International Affairs)

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Cover photo: Street vendors at Kalobeyi Village 3 market. Credit: WFP/Martin Karimi.

Refugee Studies Centre, Oxford Department of International Development,
University of Oxford, 3 Mansfield Road, Oxford OX1 3TB, UK
+44 (0)1865 281720 | rsc@qeh.ox.ac.uk | www.rsc.ox.ac.uk

