Cash transfers, rather than handouts in kind, would help aid to refugees go further

...people can participate in the life of the community, since they can do things—repay debts, host others and contribute to ceremonies—that aid in kind does not allow.

The question of cash vs handouts sparks macroeconomic debate, too. One concern relates to “Dutch disease”, a term coined by The Economist in 1977, to denote an influx of foreign money that leads to an appreciation of the receiving country’s currency. That, in turn, makes exports less competitive. In a paper published in 2009, Arvind Subramanian and Raghuram Rajan, both then of the IMF, found that in the 1980s and 1990s the more aid a country received, the less growth it saw in export-oriented industries. The inflation sparked by the influx of cash can also push the price of basic goods—food and rent, for instance—out of the reach of the host country’s host population, fostering discontent.

But giving cash to refugees need not lead to Dutch disease. First, the number of refugees in most countries is tiny relative to the host population. Even in places with lots of them—in Lebanon, about one person in four is a Syrian refugee—an influx of foreign money is unlikely to be a disaster. From 2011 to 2014 humanitarian aid to Lebanon (in cash and in kind) was equivalent to just 13% of Lebanese GDP, estimate Mr Barder and Theodore Talbot, also of the CGD. Although an influx of cash may lift inflation, it may also create jobs and growth in the receiving economy.

Second, the alternative—aid in kind—has its own macroeconomic consequences. As goods and services flood in from abroad, local businesses may suffer. One paper, from three wonks at the University of San Francisco, looked at TOMS, a firm that gives a free pair of shoes to a poor child for every pair sold to those of greater means. Those who received shoes from TOMS, naturally enough, were less likely to buy a pair of their own, harming the local shoemaking industry. Other studies suggest that food aid reduces local commodity prices, to the detriment of domestic food producers. (Procuring handouts locally gets around this problem: of the $1.1 billion-worth of food bought by the WFP in 2012, three-quarters came from developing countries.)

**Lighter, faster, harder to steal**

The biggest benefits of cash are practical. It is relatively easy to si-phon off aid, or rig a procurement contract, but harder to pilfer from electronic transfers. A report on cash assistance to Syrian refugees in Lebanon by the International Rescue Committee, a non-governmental organisation, found no evidence that it bred corruption. Technology can make things better still. Jordan, which houses im Syrian refugees, is the first country to use iris-recognition devices to ensure aid goes to the intended recipients, who can only withdraw it after a scan has confirmed their identity.

Cash is also far cheaper to distribute. America’s government has estimated that transport and other overheads eat up 65% of spending on emergency food aid. Aid in cash goes much further. Nearly 20% more people could have been helped at no extra cost if everyone received cash instead of food, according to a study of aid in Ecuador, Niger, Uganda and Yemen by researchers then at the International Food Policy Research Institute.

Cash does have its problems: in times of emergency, when shops are shut, it may be useless. But if those 20m refugees are to have any hope of a decent life, it should play a far bigger role.

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*Studies cited in this article can be found at www.economist.com/cashorkind15*