

Cash Versus In-Kind Transfers:
Comparative Differences and Individual Best Practices to Benefit Recipient Communities

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Abstract

This research paper seeks to compare cash and in-kind transfers in the context of foreign poverty aid to determine which transfer style is most beneficial and to evaluate long-term best practices of each kind to more positively benefit the recipient communities. It does this by comparing arguments for and against each transfer model. The first argument discusses the differences in distribution costs between the two models. The second compares the cash transfer's strong concept of choice with in-kind transfer's typical style of controlled consumption of goods. The second argument discusses the timing and impact of targeting communities in connection to each transfer style. Finally, the last argument discusses the contrasting macroeconomic impact each style has on local markets. Cash transfers are predetermined cash donations given either as a lump sum or in periodic transfers. Conversely, in-kind transfers are direct transfers of physical goods distributed to households. This paper maintains that both transfer styles have the capability of being beneficial if they are planned and executed with extensive knowledge of the unique local community, its needs, the economic and social effects of each transfer style, and a purposeful design aimed at long-term growth and empowerment of communities.

Key words: Cash Transfers, In-Kind Transfers, Distribution Costs, Choice, Targeting, Impact on Markets, Temptation Goods, Social Conditioning.

Cash Versus In-Kind Transfers:

Comparative Differences and Individual Best Practices to Benefit Recipient Communities

The vast variety of people groups across the globe comprise diverse cultures and diverse forms of poverty. Every year, tens of billions of dollars are spent on foreign charity to alleviate poverty worldwide. These foreign aid transfers come in a vast variety of forms from purchasing livestock, school supplies, food or seeds, to microloans or smaller cash transfers, to skills training, and to paying for the development of community infrastructure. Unfortunately, long-term studies have found that when assistance programs carry out their projects, they are often done in uninformed, inefficient, and potentially harmful ways. Because of this, it is becoming increasingly important to educate oneself about how best to decide a project's transfer style and then how to execute that chosen style in the way that will be most beneficial to the recipient communities long-term. This process is far from simple. Poverty spans all spheres of life and the complex dynamics that create and sustain a good's availability are universally intricate and connected. There is no single answer or solution to the problems of poverty; therefore, it is vital to educate oneself on how best to execute foreign poverty aid projects.

The two largest categories of foreign aid transfers are in-kind and cash transfers. These two transfer types have been broadly researched separately but only recently are they being studied together to research their comparative effectiveness. It has been suggested that both forms of transfers can be beneficial when done well, but there is continued debate as to which form is most beneficial for different contexts. This research

paper seeks to compare cash and in-kind transfers in the context of foreign poverty aid to determine which transfer style is most beneficial and to evaluate long-term best practices of each kind to more positively benefit the recipient communities.

In-Kind Transfers

In-kind transfers are direct transfers of physical goods that are either delivered from outside of the local region, or are purchased/manufactured within the local region and then distributed to households according to established criteria. These transfers can range from food, to shoes, to eyewear, and even to condoms. This model of transfer has consistently been used more often than cash transfers in the past few decades.

Arguments for In-Kind Transfers

The in-kind transfer foreign aid model is incredibly popular for many reasons. First, this model allows for significantly more control on what is consumed by the recipient households (Gentilini, 2014). Typically, in-kind transfers allow for a very direct strategic aid strategy. For example, if an organization desires to specifically target food insecurity or a lack of school supplies, the in-kind donations allow sponsors to target those specific areas by donating grain or textbooks. Paternal benefactors appreciate that they can better regulate the goods consumed by the recipients. Because of the regulating capabilities of the benefactors determining the goods consumed, proponents argue that in-kind transfers of food are more effective than cash in reducing food insecurity and increasing caloric intake (Gentilini, 2016). Additionally, some argue that when goods are transferred in this way, there is greater incentive for less needy recipients to self-opt out

of the donations if they are not in need of the specific good being donated (Cunha, De Giorgi, & Jayachandran, 2011; Cunha, 2014).

Another benefit of in-kind transfers originates is found the fundraising side of a charity project. In practice, it is often easier to persuade potential donors to give to charity projects that donate tangible in-kind goods because people feel more connected with what they are giving money towards instead of impersonal cash. Finally, in terms of microeconomic market impact, supporters claim that in-kind donations increase local supply while decreasing demand in local markets and therefore decrease local prices. These transfers endorse an intentional redistribution of wealth from the producers to the consumers due to the price effect created by increasing the supply of a good: “These pecuniary effects are a potentially useful policy lever” (Cunha et. al., 2011, p. 2). However, this redistribution is not deemed positive by all economists.

Arguments Against In-Kind Transfers

One of the largest arguments against in-kind transfers is an inevitable counterpart to the above market impact. While it is true that the price effect created by in-kind transfers favors the consumers, that consequently means it hurts the local producers (Cunha et. al., 2011). It is possible that donations brought from outside of the local community can, in essence, shut down local businesses by eliminating what little local demand had previously existed. Another negative of in-kind transfers is that it can lead to a good being “overprovided.” Overprovision occurs when the paternal donating society provides more goods than the recipient community would have consumed on its own volition, if it had received the equivalent value in cash (Currie & Gahvari, 2008).

Another issue with in-kind donations is that they can, either subconsciously or consciously, introduce new goods that are not available in the local region and create a desire for goods that the recipient communities do not have access to outside of foreign intervention. Specifically, heavy influxes of food types that are not locally grown can alter the consumption patterns of local communities and either negatively affect the recipients physically—if their bodies are not used to digesting the new foods—or affect the holistic community since their local goods are less sought after in contrast to the new imported foods or goods (Barrett, 2006). In the long-term, this can ultimately benefit the paternal western producers far more than the impoverished recipient beneficiaries.

There is also evidence that when recipients receive in-kind transfers, some take those goods and sell them to wealthier neighbors for the cash (Wydick et. al., 2016). If this is the case, then the most efficient transfer would have been a cash transfer that would have cut out the extra logistics costs of the original in-kind transfers. This leads to the final and possibly most prominent argument against in-kind transfers: the overall costs of procurement, transportation, storage, handling, and distribution in comparison to cash transfers. Delivering overseas goods to poor communities can be a lot more expensive than one may assume, (Blattman & Niehaus, 2014).

Cash Transfers

Cash transfers are the more complex of the two kinds of transfers. There is a wide breadth of possible forms these transfers can take. They can be predetermined cash donations given either as a lump sum or as periodic transfers. Additionally, cash transfers can be given without stipulations as to how they are spent—known as

unconditional transfers—although there are some transfer programs that perform conditional transfers in which requirements are established in conjunction with the transfer. Even the size of the transfer influences how it will impact the recipient households. For example, small transfers aimed at “consumption smoothing” are designed to provide for essential needs such as food or basic medicine, and transfers of larger sums are sometimes modeled as “cash grants” which are given with the goal of providing capital for business investments, entrepreneurship, or building major assets (Gentilini, 2007, p. 6). Because of the varied forms cash transfers can take, and because they are only slowly growing in popularity within recent decades, there is less conclusive research on how to successfully utilize this method.

Arguments for Cash Transfers

Supporters of cash transfers state many benefits over in-kind transfers. One of the most common claims is that cash transfers are more cost efficient than in-kind transfers because they have less handling, transportation, and distribution costs. Additionally, cash transfers manage to bypass corrupt government officials or middlemen that in-kind transfers often must deal with during transportation. The third most common support for cash transfers is that they allow recipients greater control to choose their own goods. Cash transfers are more suitable to allow for cultural differences because those in charge of determining the needed aid are the local recipients themselves, not the paternalistic benefactors. According to Blattman and Niehaus, “Mexican families, Ghanaian farmers, Kenyan villagers, Malawian schoolgirls, and war-affected Ugandans -- all have been shown in randomized trials to benefit from cash transfers” (Blattman &

Niehaus, 2014, para. 13). Cash transfers are also known to influence a larger scope in recipients' lives. In a study that was conducted by Haushofer and Shapiro (2013) on cash transfers, they found that recipients were most likely to spend their transfer on building household assets; increasing consumption of a variety of goods and services such as food, healthcare, education, and social or family events such as weddings and funerals; as well as investing in their livestock or businesses. Some also argue that cash transfers have a milder effect on local markets than do in-kind transfers, though not everyone agrees with this.

Arguments Against Cash Transfers

Although there are many arguments supporting cash transfers, there is also a community of speculation about its true effectiveness. One reason is that because recipients gain so much more control over how they choose to use their donation, many benefactors worry that this freedom will be abused by intentionally purchasing harmful temptation goods such as tobacco or alcohol; or that they could be unintentionally harmful if uneducated households are allowed to make unhealthy or ineffective decisions as to how they invest their cash. Secondly, there is concern in the economic field that cash donations increase demand for goods and therefore increase prices which can benefit producers but hurt the surrounding local consumers who didn't receive the cash transfers. Finally, some argue that cash transfers are ineffective in situations where the biggest problem is a lack of resource, not a lack of money to purchase that resource.

Contrasting Cash and In-Kind Transfers

Distribution Costs

As stated above, one of the largest arguments within the cash versus in-kind transfer debate is the disparity between overall distribution costs. In a cost analysis study of in-kind versus cash transfers in Mexico, Niger, Ecuador, Democratic Republic of Congo, Yemen and Bangladesh, the in-kind food transfers were up to seven times costlier than the cash transfers (Gentilini, 2014). Costs for cash transfers are largely payment transaction fees while in-kind transfer costs stem from logistics activities. However, not every country resulted in such a high difference in cost between the two transfer types. Niger's study found that food transfers cost closer to 3.5 times more than cash transfers; but, some fixed cash transfer costs, such as identifying the beneficiaries and implementing partners and contract negotiations, were not accounted for (Gentilini, 2014).

A few economists have tasked themselves with researching the cash equivalents of various in-kind donation programs in order to compare this very issue. For example, a case study done in West Bengal, India showed that the overall cost of choosing a target household, delivering the cow, and training the recipients to benefit from the cow costs the nonprofit Bandhan \$331 to get \$166 worth of livestock to the households (Blattman & Niehaus, 2014). Plus, this is one of the most efficient organizations studied; one study of the charity Heifer International found the costs per cow can reach up to almost \$3,000! As well-meaning as these organizations are—receiving cows are certainly beneficial to the families once they have them—these organizations could be doing more with the

money they are stewarding. Blattman and Niehaus explain that Bandhan could donate the money they spend per cow as a cash grant to twice as many households to purchase local livestock: “And in place of each cow it provides, Heifer could give \$300 -- roughly half of Rwanda’s per capita income -- to ten poor families” (Blattman & Niehaus, 2014, para. 4). They claim that these cash grants would be equally if not substantially more beneficial to the target communities than the in-kind donations. In their words, unconditional cash payments “are one of the most sensible tools of poverty alleviation” (Blattman & Niehaus, 2014, para. 5). However, on behalf of in-kind transfers, it is prudent to point out that if these charity organizations purchase the goods in bulk at reduced rates from producers in the local community, it could increase their cost efficiency more than the locals receiving cash transfers would be able to purchase the same good from local suppliers slightly downstream in the market.

Within these two types of transfers, there are various ways to examine costs. Gentilini (2014) pointed out that there seems to be a trade-off between the costs of the benefactor and the recipients. As the benefactor takes on more costs to transfer the donations, whether cash or in-kind (but more substantially for in-kind transfers), there are less costs for recipients to make themselves available to access the payment or distribution points, or vice versa. It is possible that programs could seem less expensive from their financial books but the reality could be that they are simply requiring more from the recipient households (Cunha et. al., 2011). In summary, the above studies maintain that logistical activity costs for in-kind transfers are consistently more expensive than cash transfers.

Choice Versus Controlled Consumption

One of the strongest arguments for cash transfers over in-kind transfers is the concept of choice. Cash transfers shift “the power of choice” to the recipients instead of the benefactors in determining their greatest needs. Some also argue that dignity plays a factor in the cash versus in-kind transfer debate when the concept of choice is involved. Authors Akhter U. Ahmed, Agnes R. Quisumbing, Mahbuba Nasreen, John F. Hoddinott, and Elizabeth Bryan have from the International Food Policy Research Institute (2009), as well as Ugo Gentilini from the World Bank (2014), and many others have noted that cash transfers have a connotation of freedom or empowerment while in-kind transfers can give off the suggestion that the recipients are inferior because they are unable provide basic needs for themselves—even though both transfers have the same ultimate purpose of providing aid. But, many argue, can’t that free choice be abused on harmful goods? In theory, yes (Cunha, 2014). However, study after study of the outcomes of cash transfers show little to no evidence of the money being used on harmful goods like alcohol or tobacco (Haushofer & Shapiro, 2013). This should calm one of the greatest fears of paternalistic policy makers regarding effects of cash transfers.

Even with the understanding that some uneducated poor may not make perfect decisions regarding how to spend their money, poor people who receive cash donations are not found to waste the cash. Interestingly, unconditional cash transfers usually bring about the same purposes that the traditional in-kind transfers aim for—an increase in food security, training, and livestock or business assets—although these are chosen and purchased by locals, within their own community markets, in accordance with what that

exact household needs most. (Blattman & Niehaus, 2014). For example, in the case of in-kind transfers aimed at food insecurity, most paternalistic policymakers are ultimately aiming at the health of recipients instead of the type of food itself. Similarly, in a study that was conducted by Haushofer and Shapiro (2013), they found:

With an increase in food consumption by 20%, we observe significant reductions in hunger and food insecurity, e.g. a 30% reduction in the likelihood of the respondent having gone to bed hungry in the preceding week, and a 42% reduction in the number of days children go without food. (Haushofer & Shapiro, 2013)

However, the study performed by Gentilini in 2016 found that although cash transfers increased the overall consumptions of food more than in-kind food transfers, the food transfers outperformed cash transfers in increasing the actual caloric intake of the recipient households. A second study concurred with this finding:

In terms of nutrition and health, both transfer types led to greater consumption of essential micronutrients by both children and their mothers, but the increases of larger magnitude under the in-kind transfer appear to have had a more meaningful impact with significantly more individuals consuming above the recommended dietary allowance. (Cunha, 2014, p. 228)

Though there may be many reasons for this, one of the most influential could be that those in charge of choosing the in-kind donations may be more knowledgeable or concerned about the nutritional value of the food being donated as opposed to the recipients of cash transfers who may be willing to compromise the nutritional value of the

food to have cash left over to invest in other goods. However, repeated studies have shown that cash transfers are largely spent either on nutritious foods or medicine so it could be argued that cash transfers lead to at least accomplishing some of the same goals of in-kind food transfers (Cunha, 2014).

Nonetheless, it is important to realize this concept of “choice” is not advantageous in every case. This benefit of “choice” is not truly beneficial if there is little or no food to choose to purchase in food scarce communities. Therefore, in-kind transfers would be most effective in this context (Gentilini, 2014). Another suggestion is that in-kind donations are most beneficial when they are done in terms of “social goods” such as infrastructure or community health (Blattman & Niehaus, 2014). This is because households that receive cash transfers most likely will choose to spend the money on goods that will directly benefit their own household instead of the community at large. It is unlikely that a cash transfer recipient will use the scarce money they receive to build a source of clean water for the community, regardless of whether or not poor health from dirty water is in fact the biggest problem the community is facing. This could be an ideal situation for an in-kind transfer where an organization can intervene with one large donation that would benefit the entire community. This finding is critical in choosing which transfer type would best serve an overseas charity project. Remember, though, that purchasing the materials from the local community is much more beneficial for the local market’s economy than bringing in outside goods. Market effects will be expanded on later in this paper.

Importance of Targeting

The ambition of effective targeting is to deliver the most beneficial aid to the neediest recipients in the most efficient method. Additionally, targeting seeks to positively foster both short-term and long-term development while mitigating or avoiding possible negative impacts. One goal of targeting is to identify eligible recipients that are truly in need of transfers while excluding non-needy households, or encouraging recipients no longer in need of the aid to withdraw from the program. The concept of supply and demand presents itself in the importance of targeting, especially in the realm of food donations. Severely impoverished households that have little capacity to purchase needed goods are often the most fitting recipients of in-kind aid because they did not have capital to purchase the goods they need; therefore, the transfer would not decrease existing demand nor are the households likely to increase supply by selling their donated goods (Barrett, 2006). The contrast to this shows why poor targeting would negatively impact markets: households which normally could afford purchasing food will decrease their demand upon receiving food donations and may actually increase market supply even more by selling their excess food. A properly designed transfer program would have processes in place that would discourage households such as these to stay in their program.

A complication reality is that a specific household can both be food secure and food insecure depending on the agricultural time of the year. Therefore, the timing of the intended donation is both important and complex:

Availability of food at the household level depends on the household's own capacity to produce food, household food stockholding, and availability of food in the local markets, which, in turn, is a function of market operations, infrastructure, the flow of information, and seasonal variations in domestic food production. (Ahamed, Quisumbing, Nasreen, Hoddinott & Bryan, 2009, p. 2)

Though targeting is important in every distribution area, it is especially complex in the sphere of food insecurity because of how fully integrated the process of food distribution is into every aspect of life—even with the changing of the seasons. In-kind food influxes are more beneficial and have less chance of causing negative impacts if they are done outside of harvesting season when the local food resources are most scarce and households are most food insecure. In contrast, cash donations are more efficient in providing for individual's greatest needs when food supply is prevalent. This is because households retain more control over how much money to spend on the available food during harvesting season, but can later use the excess cash to purchase other needed goods without causing harm to local markets or agricultural businesses. Positive transfer timing of each kind could foster appropriately decreased prices during times of local food shortage and then encourage investment in agriculture with the extra household capital which ultimately would improve the local economy (Barrett, 2006). Ultimately when it comes to timed targeting, it is best if cash transfers can be conducted during harvest season while food is more prevalent and then direct food transfers can be conducted during the off seasons when food is scarce.

Therefore, both cash and in-kind transfers can be beneficial when done well and targeting can mitigate the possibility of harming already fragile economic systems. However, when focusing on the long-term benefits for communities, timing transfers is so complex that it is critical to spend extra time and resources to ensure it will be done properly.

Macroeconomic Impact on Markets

Unfortunately, timing is only a piece of the overall argument on how transfers affect local market economies. Research has found that in-kind transfers and cash transfers generally have opposite effects on the markets in local communities. Due to the price effect, prices almost invariably fall in local markets after an in-kind aid distribution (Gentilini, 2014). Distributions of goods cause local prices to fall in a few ways. First, in-kind donations increase supply and decrease demand for the commodity and its substitutes. Additionally, households can choose to sell their donated aid for various reasons and therefore flood the market with even more commodities which would continue to drive down prices. These factors ultimately benefit consumers and hurt producers, (Cunha et. al., 2011). However, a small positive is that these increases in supply could also create an increase in demand for complimentary goods which would raise those prices and hopefully bring some benefit to producers of different goods (Barrett, 2006). Conversely, cash transfers often lead to an increase in demand in the local market and therefore increase local prices—benefiting producers but not consumers. Unfortunately, because of this, in regions whose markets are influenced heavily, “those left out of the programs suffered the double burden of not benefiting from transfers and

relying on markets with inflated prices” (Ahamed et. al., 2009, p. 12). However, cash transfers consistently tend to have a softer relative negative impact on markets than in-kind transfers do. This could be because cash transfers lead to a diluted increase in demand across all market goods or services instead of the concentrated increase in supply that results from direct in-kind transfers of a specific good.

Additionally, the structure of the local market greatly affects how much impact the transfer will have: “The extent of any price reduction depends heavily on how well integrated the local market is into broader regional, national and global markets” (Barrett, 2006, p. 10). Supply and demand shocks often dissipate quickly in well-integrated markets. However, in markets that are much less connected to surrounding communities, the shocks are much more impactful: “Many recipient economies are not robust and food aid inflows can cause large price decreases, decreasing producer profits, limiting producers’ abilities to pay off debts and thereby diminishing both capacity and incentives to invest in improving agricultural productivity” (Barrett, 2006, p. 10).

In summary, in-kind transfers to more isolated villages, whose markets are less integrated outside of their own village, have a greater effect on the price levels of local markets and therefore should be avoided. If the market is large and well integrated, in-kind transfers can be beneficial because they run less risk of harming local markets. In contrast, cash transfers work best in two different contexts. First in the context of countries with well-established infrastructures, they are valuable in stable countries that lack financial services and are made up of mostly self-employed individuals who are in need of credit and capital investments to advance their private businesses (Blattman &

Niehaus, 2014). Secondly, this research maintains that cash transfers are best suited for more remote areas with less market and agricultural infrastructure whose markets are more sensitive to shocks and changes. This allows for a benefit to the cash recipients as well as the local producers; which in most underdeveloped communities, are also consumers of other goods within the same community. Unfortunately, the biggest possible concern for cash transfers in this context is if the market is so underdeveloped that it does not have any infrastructure to produce or sell the needed good. In this case, cash transfers would be ineffective while an in-kind transfer would be much more beneficial. This often is seen in areas that are food insecure that do not have enough sustainable agriculture or livestock markets. Hypothetically, one organization could donate food as an in-kind good which may be the most impactful need short-term in order to keep households food secure while another project uses cash to help establish secure market and agriculture infrastructures for long-term results to ultimately be able to extract themselves from the community so that it can prosperously function on its own.

Comparison Conclusions

As one researcher put it, “Transfer selection should be considered as a key choice in safety net decision-making” (Gentilini, 2016, p. 160). Therefore, in order to gain a greater understanding of the cash transfer versus in-kind transfer debate, the first part of this paper sought to articulate the arguments surrounding each style and then focus specifically on how the two compared in the areas of distribution costs, choice versus controlled consumption, the importance of targeting, and their impact on markets. Although in some areas one transfer model was found to be superior to the other, the

comprehensive conclusion is that the decision process for determining the most beneficial transfer style is incredibly complex and needs to be evaluated with regard to each of these areas instead of any one or two in particular. Every project and community is unique and it is the responsibility of the beneficiary to work with the local recipients to wisely determine which type of transfer will be the most beneficial for the long-term betterment of the communities they are trying to serve. With the above information in mind, the second part of this paper seeks to examine in-kind and cash transfers to suggest some positive best practices, and caution against some common harmful practices.

In-Kind Transfers' Best Practices

The Focus of Attention and Power

The traditional in-kind transfer model exhibits paternal organizations coming into impoverished foreign communities to freely distribute imported goods without any community empowerment or involvement of their own. Unfortunately, the focus of attention and the relational power between the two sides is often very imbalanced. One could argue all the focus and power lies on the paternal benefactors as heroes who have come to “rescue” the recipient communities from their helplessness. This creates a powerful superior versus helpless inferior dynamic that has proven in studies to influence dependence or even entitlement mentalities, especially among children in recipient communities. For example, one study reported that their transfers were unfortunately coupled with the fact that there was a higher percentage of children who thought that outsiders should be the ones providing for their families (Wydick et al., 2016). Designers

of aid programs or projects must work very hard and intentionally to not create generations with dependence mentalities.

In contrast to imbalanced power and focus dynamics, beneficial programs create an empowering, fostering dynamic for recipients through equal power relationships that direct positive attention on the individuals or local community's organizations and businesses instead. One way to do that is to distribute the in-kind goods through local NGOs or community centers to create community and positive acclaim for those organizations. Liberty University in Virginia has created a disaster relief program called LU Send Now which strives to practice this discipline. For each trip it takes, it finds local community centers or ministries to serve through so that the name of that local center, and not the distant Liberty University, is the name that locals see as they observe the charity work (Liberty University, 2017). This not only brings positive messaging for the local organization, but it also empowers that organization to continue to have a greater reach and stronger connections with their community after the donor organization withdraws.

Another best practice that has proven successful in empowering recipients is charging a small monetary cost for the transferred good being donated. One eyewear company, Warby Parker, has found success doing this. There are a few reasons for this. First, with the revenue from the "sales" to the locals, they are able to train local community members to give eye exams and "sell" the donated glasses to their own community. Neil Blumenthal, the co-CEO and co-founder of Warby Parker explained, "By charging [for glasses], you make a needy beneficiary into a responsible consumer. It

treats them with greater dignity” (Wharton, 2015, para. 18). By requiring something of the recipients, this can actively cultivate self-esteem and encourage self-care for the locals to affirm that they have some control. As a partner to this idea, instead of charging a monetary fee, a program could require some form of labor from recipients to earn their transfer. Some aid programs required labor from the women who were receiving the donations and studies found that this led to female empowerment because the women felt a sense of pride over the income they were bringing into their households and therefore caused them to seek larger roles in determining how that money would be spent. Additionally, other household members respected the women more because they saw the positive impact the women’s work was having on the household (Ahamed et. al., 2009). Finally, another possible best practice is to require positive lifestyle behavior from individuals to receive a good as an incentive or reward. These incentives point the focus of the transfer toward positive behavioral lifestyle choices such as “obtaining vaccinations, health examinations, and school attendance or performance” and away from the benefactor itself (Wydick et al., 2016, p. 8). These directions toward community and individual empowerment can significantly foster further desire for self-advancement and reduce the possibility of the negative “Western savior complex” and aid dependency that can result from in-kind donations.

Short-Term Economic “Patching” Versus Long-Term Stimulus

One major shortfall of many in-kind transfer programs is that it focuses too much on short-term or immediate need over a community or individual’s long-term development. For example, when a transfer program procures transfer goods outside of

the distribution region and then floods the local market with one specific end good in order to fill an immediate need, it is looking too closely at the short-term symptom instead of the true long-term problem. Instead of encouraging communities to invest in their own local vendors, the donations are eradicating what little demand there had been for those cobblers to make a living. This ultimately hurts the economy more than it helps it. For example, as the number of apparel donations sent out from the United States continues to increase—now worth over \$700 million each year—this is significantly affecting African apparel productions (Wydick, Katz, Calvo, Gutierrez, & Janet, 2016). With the average influx of clothing donations into Africa in the past few decades, “apparel production declined on average 13% per year...and apparel employment declined 9.6% per year” (Frazer, 2008, p. 21). This is especially important to note within the context of Africa because the apparel industry is so extensive that its employment opportunities surpasses the manufacturing industry (Frazer, 2008). When benefactors simply come into a community, distribute mass amounts of a foreign good, and then leave after a period of time, harm results because while the good is being distributed, the local producers are no longer in demand—losing both customers and jobs. Because of this, some may go out of business or have to reduce their supply. Then later, when the benefactors leave and cease distributing anything, the local producers no longer are able to supply even what they had been supplying before the paternalistic benefactors deemed it necessary to intervene in that way and the community is left worse off than it was before (Poverty, Inc., 2015).

To fight against this problem, a better alternative would be to switch the focus from relieving short-term symptoms to holistically encouraging long-term impact by empowering the community to produce its own needed goods and use the donor organization's resources to purchase their transfer goods from local businesses instead of importing them. One idea could be to equip a local business with business assets that can eventually produce the needed good instead of simply providing the good. In this way, the good ultimately is still provided but it is provided through the labor and resources of locals which will continue even after the benefactor leaves. In many markets, communities need the economic stimulus that comes from the jobs and revenue created through producing goods locally more than they really need the goods themselves. All of this is also coupled with the fact that purchasing or manufacturing goods in the community they will be distributed in can reduce heavy procurement costs of importing foreign goods.

However, an important disclaimer should be made on this topic of short-term versus long-term objectives. There is a necessary balance between meeting current needs and focusing on long-term development. Lauren Walters is the co-founder and CEO of 2 Degrees, a company that donates a meal to an impoverished child for every food bar it sells. She warns against forgoing any short-term help for the lofty aim of long-term impact in the case of critical health issues. She asserts, "Let's find the food locally. Let's provide funds so people can buy food locally. But I'm not a purist. I'm not willing to let hungry families go without food while we wait for the system to catch up" (Wharton, 2015, para. 25). In some cases, it would not be productive to withhold certain in-kind donations for

fear of hurting an economy. If children are dying of starvation, it would not be beneficial to wait until an organization can grow a new crop of grain in the neighboring fields to feed them. Instead, it can start the farming process while distributing food to meet the immediate need in the meantime. This can apply for situations outside of merely food too. For example, if children are truly not wealthy enough to afford uniforms or supplies to go to school, it would be rational to provide these needed supplies for them to educate themselves enough to then become invested, educated members of their society where they will one day grow their wealth enough to afford these supplies for not only themselves, but their families as well. Ultimately, a balance has to be found; but when a decision has been made to address short-term needs, it is important to be conscious and educated benefactors in the design of the programs.

Communication

When designing in-kind transfer programs, the final best practice to remember is to consistently communicate with and involve local community members regarding what they determine are their greatest needs and how best to execute a transfer. Not actively communicating with households in communities on their initial need and then not monitoring and adjusting the transfer design after receiving feedback significantly hinders a project's ability to be successful. As foreign benefactors, there is no way to truly understand a community's needs without speaking directly to those immersed in it. For example, TOMS Shoes is an organization that became famous for its One-For-One charity model in which they donated a pair of shoes to a child for every pair of shoes that was purchased. However, after a few years many of the recipients' mothers in different

weather climates commented that they would have preferred the shoes to be of heartier material because the original shoe design tended to wear out quickly or because different weather climates required different styles of shoes (Wydick et al., 2014). With this information, TOMS was able to adjust their shoe program by designing new shoes and now manufactures four different styles of shoes depending on the region they are distributing their transfers—with many of those shoes being manufactured in the country they are distributed.

One has to acknowledge that every community and culture will be affected in different ways and it is always best to clearly communicate and work with recipient communities. For example, in-kind transfers' success with educational uniforms varies by region. When students are provided school uniforms in Kenya, attendance and performance increases significantly. However, in Ecuador, attendance and performance actually tended to decrease. This is thought to be due to the fact that when shoes or uniforms are freely provided instead of financially invested in, Ecuadorian parents are less personally invested in the child's education (Wydick et al., 2016). In this case, communication with the households or local schools could substantially influence the success or failure of a transfer program. Another benefit of communicating well with locals is that they may have new ideas or perspectives simply because they are looking at an issue from a different mindset. For example, one local spoke in a documentary titled *Poverty, Inc.* (2014) about how he would much rather be enabled to export his locally produced goods than receive imports of foreign goods. To him, this insures job creation and growth for his business as opposed to simply donations.

The focus of power on the community, a long-term perspective, and the importance of communication are all essential best practices to keep in mind when carrying out in-kind transfers. Additionally, though these often find themselves specifically in the realm of in-kind transfers, their foundational truths are also beneficial in the context of cash transfers and should be kept in mind when designing any form of transfer model. The following section will focus specifically on best practices for cash transfers and how those can be implemented in a beneficial transfer model.

Cash Transfers' Best Practices

Harmful versus Beneficial Consumption

Cash transfers are not wasted on harmful goods when paired with positive transfer model designs. In addition to the research referenced earlier in the paper, there was an extensive study performed by Evans and Popova regarding this topic. They conclude, “Across 44 estimates from 19 studies, we find that almost without exception, studies find either no significant impact or a significant negative impact of transfers on expenditures on alcohol and tobacco” (Evans and Popova, 2014, p. 3) Though most economic studies categorize tobacco and alcohol as normal goods, there are factors that apply differently to temptation goods in the context of cash transfers than to other income contexts. First, conditional cash transfers carry the influence of a substitution effect which increases spending on schooling and health over other goods which would discourage spending on temptation goods. However, the amount of money initially spent on schooling and health before the transfer would influence how significant the substitution effect would be; with the effect being stronger as a higher proportion of the cash transfer is needed to satisfy

the transfer conditions and less significant if the conditions were nearly or totally met before the transfer (Evans and Popova, 2014). The second factor applies to both conditional and unconditional cash transfers: social messaging. Many programs are coupled with strong social messaging encouraging spending on beneficial goods and discouraging “wasting” the money on unhelpful or temptation goods. This theory has been termed “the flypaper effect” (Evans and Popova, 2014, p. 4). The last factor referenced by Evans and Popova is the “household bargaining effect” which is found when transfers are given directly to the head women of the household because it is believed that women are more likely than men to spend transfer money on health and education as opposed to temptation goods. Evans and Popova maintain that the substitution effect in conditional transfers, the social messaging effect, and the household bargaining effect seem to compensate for any income effect—therefore leading to no significant net change in consumption of temptation goods. (Evans and Popova, 2014).

This author understands that though there is significant research emphasizing that the vast majority of households do not misuse cash transfers, there will be some households who will spend these donations on temptation goods, but this insignificant percentage should not discourage the use of cash transfers to benefit the majority. There are steps that not only protect against the purchasing of temptation goods, but also encourage transfers to be spent in the most beneficial way, and one best practice is to pair positive social conditioning or messaging with transfers to encourage valuable consumption. These can be both cultural or economic messages. As a cultural example, it was found that children who owned shoes tended to prefer to go without them when not

in school, therefore increasing their health risks. The reason for this seemed to be because of cultural custom; but also, because there was pressure from parents to take good care of the shoes they had so they tended to save them to wear specifically for special circumstances (Wydick et al., 2016). In this case, positive social messaging could educate families about the risks associated with not wearing shoes and explain the health and ultimately economic benefits that will result from children wearing their shoes more often. By paying for a new pair of shoes slightly more frequently, children will be healthier to work and go to school, as well as will require less medical costs.

A positive example of successful social messaging is PROGRESA, a conditional cash program employed by the Mexican government to encourage beneficial actions through requiring compliance with school attendance and medical visits while discouraging negative or harmful behavior. One researcher who has studied this program emphasized that “program administrators must ensure that programs are structured to encourage the intended behavior change while minimizing unintended, and potentially damaging, behaviors. Achieving successful conditioning requires detailed information about the culture and dynamics of the population to be targeted” (Ganter, 2017, p. 6). As with all other areas, social messaging also requires thorough understanding of the recipient culture to be successful.

Emphasizing Unique Transfer Design Over Poverty Generalization

As mentioned, generalizing poverty across cultures is one of the greatest harms one could bring to the successful outcome of a program. Instead, a benefactor organization should work with locals based on their unique form of poverty to agree on

the biggest needs in the area, and design the transfer program accordingly. This concept finds roots in every level of a program's design. For example, on the largest level—as concluded early in this thesis—the decision between cash and in-kind transfers relies heavily on the social and economic climate of the recipient community. However, this extends much farther down the line to the transfer size and frequency because they influence which types of economic results a cash transfer will have or which types of goods the cash transfer will likely be spent on. For instance, monthly transfers—or more frequent transfers of a smaller sum—have a much greater impact on food security than the lump sum, single outlay cash transfers. However, the lump sum transfers have larger effects on larger assets (Haushofer & Shapiro, 2013). In fact, in one study, lump sum transfers increased asset holdings twice as much as monthly transfers—specifically in livestock, furniture and iron roofs. Additionally, the research found that both the psychological well-being and female empowerment were increased more because of the lump sum transfers (Haushofer & Shapiro, 2013). Particularly after lump sum transfers, research has found that cash transfers increase investment in and revenue from household income sources—especially non-agricultural business and livestock. Revenue from the sale of animal products in households that received cash transfers was 46% more than the control households (Haushofer & Shapiro, 2013). Therefore, program designers and local community members must work together to determine the goals of their final outcome weighted against one another because different goals for specific communities will require different design choices.

Transfer Levels Influence Employed Labor

In the case of cash transfers, more is not necessarily better. Up to a certain point, a cash inflow will encourage and empower household labor to increase nutrition, invest in their family's education, or increase household assets. However, simply giving households as much money as an organization can raise has the possibility to ultimately encourage idleness. Studies have shown that in every community, there is a level of "too much" cash influx into a household where the recipients can become apathetic and will simply sit on the money because they no longer see working as necessary. In a study conducted by Andrés Mideros and Cathal O'Donoghue (2015), they found that in most cases when transfers are distributed to poor households, cash transfers increase labor. However, they also found that negative effects on labor occur once the transfer size reaches a certain level. For example, in their research done in Ecuador, the turning point from stimulating employment to discouraging it is \$4.53 dollars per person per week, or about \$71 a month for an average household. When non-labor income transfers exceeded this amount, the amount of time recipients dedicate to their paid labor jobs decreases. A well-researched level of transfer would be one where the amount is enough to convince parents that staying at school is a better option for their children than having them go to work. In contrast, if the amount is too high, poor families might abuse the privilege and increase fertility, or family members might quit their work, which would hurt the economy (Ganter, 2017).

As one group of researchers explained, in poor households, labor does not operate under the same economic conditions of normal goods: "Leisure is not a normal good

until a certain level of income/ consumption is achieved” (Mideros & O’Donoghue, 2015, p. 243). This means that as a normal good, an increase in non-labor income would promote an increase in both leisure and consumption. However, when an individual does not have a normal balance between leisure and consumption, that individual would be willing to trade less leisure for more consumption—also stated as increasing labor to earn more income to then consume. Put simply, it is difficult to prioritize leisure when one lacks basic food, clothing, and health needs. Therefore, “if social transfers help individuals to overcome labour constraints by, for example, covering transaction and caring cost, financing labour search or acquiring productive assets, the final effect may be positive on labour supply” (Mideros & O’Donoghue, 2015, p. 230). When these transfers are further coupled with childcare services and promoting gender equality, employed labor increases even more successfully. A best practice for transfer programs is to research the most effective level of transfer to encourage action without enabling idleness, and then offer incentives at that level.

Placing Focus on Consumers versus Production Infrastructure or Training

Another negative practice that is found in less effective cash transfer programs is focusing too much on consumers instead of producers in communities that lack the infrastructure for needed goods. It is ineffective to offer cash transfers to households for the purpose of purchasing a needed good in markets where the needed goods’ prices are excessively high or volatile (Gentilini, 2014). Additionally, it is ineffective to offer cash in communities where the local markets are incapable of providing for the need due to lack of infrastructure or resources. The “leaking bucket effect” is a term used to explain

that “improvements in availability and access to the foods that are important for good nutritional status may be offset by poor access to nonfood inputs, such as high-quality health care facilities...or by ineffective mechanisms for delivering these services” (Ahmed et. al., 2009, p. 3).

Instead, in communities such as these, it is more beneficial to use funds to support community or personal development like education, training in trades, economic and social infrastructure, or legal aid. Jean-Ronel Noel, co-founder of Enersa, a solar panel company in Haiti, explains his thoughts on this issue by referencing the common proverb, "Give a man a fish and you feed him for a day; teach a man to fish and you feed him for a lifetime." He explains, “Your goal should be to give me a fishing rod and to teach me how to fish and then move out; but after 40 years if you’re still here, there is a problem” (Poverty, Inc., 2014). He maintains that it is increasingly beneficial to train and equip trade laborers in more effective and efficient techniques to bring into their own businesses so that producers can then promote development in lives of consumers because they are employing and bringing revenue to households by means of their own labor. Ultimately, one can argue that a universal truth across cultures is that people have an internal capacity to bring themselves out of poverty if they are well equipped with many of the things our Western world takes for granted, such as “legal protection from theft and violence, justice in the courts, the ability to get a legal title to one’s land, freedom to start and register a business, and links to wider circles of exchange” (Poverty, Inc., 2014). Therefore, one best practice could be to bypass individual consumers and

invest cash transfers straight into the development of social and economic infrastructure or business markets.

Conclusion

"The approaches to poverty alleviation are as diverse as the individuals experiencing poverty themselves" (Hazeltine, Bieliauskas, & Talkachova, 2017, p. 2). As is evidenced all over the world, the past model of paternalistic benefactors generalizing poverty is not working. This paper aimed to analyze current research on cash and in-kind transfers in order to understand their differences and establish best practices to consider in the transfer design process.

The transfer models were compared in the categories of distribution costs, choice versus controlled consumption, the importance of targeting, and macroeconomic impact on markets. In regard to distribution costs, cash transfers are consistently less expensive than equivalent in-kind transfers. However, in the context of choice versus controlled consumption, there is greater complexity. In-kind transfers are more beneficial in households that are resource scarce and lack the option of "choice," or as a social good that would benefit the entire community. Inversely, cash transfers allow greater autonomy to effectively empower recipients to invest in personal needs they deem most important, such as their family business or personal health. Transfer targeting needs to be thoroughly researched within a specific community to ensure proper timing, especially in accordance with agricultural and economic seasons. Finally, in-kind and cash transfers have opposing macroeconomic effects on markets. In-kind transfers tend to have a greater shock on a specific market in an economy and are best used in economies that are

well-integrated with surrounding market economies; or in communities that are void of accessible resources. Cash transfers are preferred in economies that have fragile agricultural or market infrastructures; or in communities that are predominantly in need of capital investments for private businesses. This author maintains that neither transfer model is altogether superior to the other; but, program designers must understand the ramifications of the different areas and choose the best program to benefit recipients in the long-term.

Furthermore, this paper sought to warn against common mistakes and encourage best practices within both transfer models. The conclusions testify to the need for cooperation, communication, and empowerment. Project focus should be on communicating with recipient communities to enable them to meet their needs as well as foster community unity. Additionally, transfers should be specific to individual communities to encourage beneficial consumption and increase skilled labor. Ultimately, sustainability and emergence from poverty will come from developing local communities and businesses with a holistic, long-term vision. This paper's research concludes that though both styles of transfer can be effective, it is critically important to invest time to thoroughly understand the socio-economic conditions of impoverished communities and design transfer models according to suggested best practices in conjunction with local community members.

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