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Learning from cash responses to the tsunami

Issue Paper 2

Disbursement mechanisms

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This Issue Paper examines the disbursement options available to agencies making cash payments. It builds on the section in the Oxfam guidelines on methods of cash delivery and payment, which sets out three main options for cash delivery:

- Using local banking systems.
- Using local money transfer companies.
- Direct payments by an implementing agency (Creti and Jaspars, 2006).

Aid agencies implementing cash-based responses to the tsunami mainly used banks or direct payments. The Sri Lankan government used an existing welfare payment system called Samurdhi to distribute cash to tsunami-affected people at a rate of Rs200 per week. A similar approach was used by the Red Cross following the Bam earthquake in Iran. Post offices were not used, but a study in Sri Lanka suggested that they should have been considered (Aheeyar, 2005).

Assessing different options

In weighing up the different options for disbursing cash, managers need to consider a number of issues:

- What options are available?
- How far will beneficiaries have to travel to reach the disbursement point?
- How much cash is being transferred, and how frequently are payments required?
- What security and corruption risks will we face? Does this risk change depending on the option we choose?
- How long will it take to establish disbursement arrangements?
- How cost-efficient are the various options? What is the total cost of getting the cash into the hands of the beneficiaries (this includes 'invisible' costs, such as staff requirements and vehicles)?

The first step in any assessment process is to map out the alternatives. It is important in doing this to include not just formal banks but other transfer mechanisms as well, such as remittance companies and post offices (these are sometimes overlooked).


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Cash is distributed during an Oxfam GB Cash for Work programme in Matara, Sri Lanka

It is also important to consult beneficiaries before making a final decision. Simply asking people how they ordinarily receive and transfer cash may suggest possibilities that have not been considered. Group discussions could be held involving different sections of the community to explore the advantages and disadvantages of different options.

Accessibility

Whatever mechanism is chosen, beneficiaries must be able to get to their cash without having to travel too far, or waiting too long. The maximum acceptable distance depends on how frequently disbursements are going to be made, and hence how frequently people need to visit the disbursement point. For large or one-off cash grants, the distance may be less important. For regular payments of small amounts, the cash needs to be accessible locally. If people regularly visit a town, for instance to go shopping, then asking them to make this journey to pick up their cash may be acceptable, even if the town is a relatively long way away. The number of branches a particular institution has may be an important consideration here.

Some banks may be willing to provide mobile services; Oxfam in Zambia has worked

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with a bank that did this. It is also important to consider the mobility of groups such as the elderly and the disabled, who may need special support. Again, the bank or post office may offer services for these groups.

Literacy and familiarity with modern banking technology also require some thought. The British Red Cross (BRCS) used a bank in Banda Aceh that provided ATM services. For illiterate people or people who did not understand the language used in the machine (Bahasa Indonesia) this may have been a barrier. New users may worry about forgetting their PIN number, and may write it down or tell it to other people, raising security risks. That said, if people are comfortable using ATMs they have clear advantages in terms of ease of access.

Gender issues may also need to be considered with regard to accessibility. Might women have less access to cash transfers through bank accounts if they are not the account holders? Religious and cultural norms may influence whether women can get access to cash outside the home. In Muslim areas, whether an institution operates according to Sharia law might be important; this was a consideration in Aceh, for instance.

A disaster may of course affect the options available; banks may be closed due to disaster damage, and transport or communications may be disrupted. The cash transfer mechanism an organisation uses may change over time, as the environment or programme intervention changes.

Security and corruption risks

The first priority has to be choosing a mechanism which allows cash to be delivered safely by the agency, and spent securely by beneficiaries. Payments through bank accounts are often seen as minimising security risks for both agencies and beneficiaries, and where banks are accessible they are normally the preferred option. Direct disbursement may sometimes still be necessary in the absence of banks, and this method was used in the tsunami response. After the tsunami, many people were living in temporary camps where privacy and security was a problem. Keeping cash safe may therefore be particularly difficult. Security risks need to be carefully assessed, and clear procedures and guidelines put in place for managing them (Creti and Jaspars, 2006). Different delivery mechanisms will also create different types of corruption risk. For instance, using banks may add another layer of accountability, but may also introduce an additional point at which corruption can occur.

Speed and timing

The transfer mechanism should be relevant to the needs of beneficiaries at particular times, and should relate to the purposes for which the cash has been provided. Transfers for basic needs require quick, regular deliveries of relatively small amounts of cash. Transfers for livelihood recovery are likely to involve larger amounts of cash, but people are likely to need the money later in the emergency response and recovery phase, giving agencies more time to plan and establish effective systems.

Establishing a bank or post office transfer system

The following steps are involved in establishing a bank transfer system:

1. Assess the strengths and weaknesses of the available financial institutions.
2. Develop a Memorandum of Understanding for the service provided (e.g. transfer of $x to x beneficiaries in x villages, or opening x bank accounts) which details the charge to be levied by the bank, and cash transfer details. The MoU should include a complaints procedure for beneficiaries in case the financial institution underperforms.
3. Provide a list of beneficiaries (with relevant identity information and necessary documents) and the list of cash entitlements for each. This should accompany the transfer of funds from the agency to the bank. The bank then transfers the cash directly to the beneficiaries, or into their bank accounts.
4. Inform beneficiaries about the procedure for cash transfer.
5. For regular cash transfers that are not paid into bank accounts and for beneficiaries without a valid ID card, the agency or bank/post office should provide some form of identification for beneficiaries, which includes a photograph and signature or fingerprint.
6. Agree on the package: what will beneficiaries get (for instance cheque book, pass book or ATM card)? It is also important to be clear about any bank charges, and whether these costs will be covered by beneficiaries or by the agency.
7. Provide training for beneficiaries if they are not familiar with using banks. This should cover paying in and withdrawing cash, the rights of the account holder, access to other services and information about saving in a bank. Training should ideally be provided by the bank before accounts are opened.

Cost-efficiency

Different transfer mechanisms will incur different costs, and assessing the relative cost-effectiveness of various options should be an important part of the selection process. It is important when considering costs to include both the costs for the implementing organisation and those potentially borne by the beneficiary. It is also important to consider hidden costs, and costs that may not easily be quantified, such as staff time and the time beneficiaries spend accessing the cash.

The costs of transferring cash include:

- The cost of the payment itself (multiplied by the number of beneficiaries and the frequency of deliveries).
- The cost of administrative personnel (salaries and transfer-related expenses).
- Transport costs (vehicles, fuel and maintenance).
- The cost of office equipment (stationery, photocopying, computers).
- Handling costs (security guards, insurance, fees).

Using banks may appear to be more expensive because the costs are often more explicit – a percentage of the transfer or a flat fee. The costs of payments made directly by an agency may be less obvious, and may relate to the amount of time staff have to spend on the project. These costs should be budgeted for as explicitly as possible.

Key points related to cost:

- More frequent, lower-value transfers cost a lot more than one-off payments if a flat fee is paid for the transfer; if the fee paid is a percentage of the sum transferred (as it usually is when the cash is disbursed by a bank or post office and not paid into an account), it makes no difference whether transfers are frequent or one-off.
- Banks may charge a flat fee for electronic transfers, so payment in tranches could increase costs.
- Staff costs should be calculated based on the number of additional staff needed and/or the amount of time staff involved in cash disbursement take out of the working week. This should include finance and administrative staff, drivers and field staff.

Cash disbursement in the tsunami response

Option 1: Direct disbursement by the implementing agency

Ideally, planning for cash transfer programmes should be part of disaster preparedness and contingency planning. This was not the case in the tsunami response, which meant that agencies explored different options as part of the post-disaster assessment process. This probably explains the tendency to use direct payments, as these are often quickest to put in place. At the same time, however, they impose a considerable workload on staff.

Direct distribution involves considerable input from administrative, management and financial staff, and requires the development of cash transfer systems, procedures and guidelines. These systems should record the requesting, withdrawal and disbursement of funds. Registration and transfer are particularly challenging when the number of beneficiaries is very high, as it was in cash for work programmes in the tsunami response, and when beneficiaries are located in rural, out of the way places.

Some agencies implemented impressively large cash for work programmes. Mercy Corps in Aceh, for instance, had an average of over 10,000 participants a month, and mean monthly disbursements of over $650,000 (Doocy et al., 2006). This made for a complex payment process. The timely delivery of wages was particularly difficult, especially in the first months of the programme. Payments were initially made on a daily basis, but as the programme expanded this changed to weekly payments. Group leaders were paid directly, and were responsible for distributing the cash among the members of their work group. One weakness with this method concerned the appearance of 'ghost workers' on timesheets, and a system of compliance monitoring was introduced to tackle this.

Transferring cash in Aceh

One cash for work manager in Aceh found it very difficult to transfer funds at the beginning of the project. His agency's finance team refused to take responsibility for the cash transfer system, forcing him to do it himself. This involved taking an advance from the bank against his name the day before distribution; because the finance office would not let him keep the cash in the agency's safe overnight he kept it at home. The sums he had to transfer for each site were equivalent to around $10,000 – and he sometimes carried cash for more than one site. On one occasion, he took IDR750m ($75,500) home.

The risks involved were clearly too great, and an alternative solution was quickly found. Cheques were provided to village facilitators (or money was paid into their bank accounts), and they transferred the payments to the workers in the villages. Signed payment slips were returned to the finance department. Facilitators were paid a service fee, essentially becoming the subcontractor for the cash disbursement. The problem with this arrangement, as the manager realised, was that it simply transferred the risk from him to the facilitators. The agency considered using banks, but opening an account for everyone on the project was deemed too difficult. No one thought of using the post office, which may well have solved the problem.

Advantages and disadvantages of direct payments

Advantages	Disadvantages
The organisation has close control over the process	The administrative and management workload is high
The organisation builds trust. Many agencies noted that direct cash disbursement instilled confidence in their capacity to deliver	There are security risks for staff in transporting and delivering cash
Support may be more visible and more closely associated with a particular agency than is the case when cash is disbursed through banks	There are corruption risks
Direct payments may be convenient for beneficiaries if the distribution site is close to their homes	The fact that the distribution is more visible may create security risks for beneficiaries. Visible distributions may prompt moneylenders to demand loan repayments
	Beneficiaries may exert pressure on field staff to give out more money

Advantages and disadvantages of using financial institutions to make payments

Advantages	Disadvantages
Risks of corruption may be reduced: • Bank staff may be better able to check for abuses and inconsistencies • Local elites and NGO staff do not need to handle the cash	Beneficiaries may not be familiar with banks or other formal financial institutions, and may be reluctant to deal with them
Reduced workload for agency staff	Banks may be unwilling or unable to reach remote or insecure areas
The transfer process may be more dignified for beneficiaries	Banks may take longer to prepare disbursements and cannot always be flexible in the timing of disbursements
Receipt of the cash may be less visible and, if accounts are used, recipients may be able to keep cash in greater safety	
Banks may have their own insurance for moving cash and existing security arrangements	
Recipients may become more familiar with financial institutions and so better able to access savings and credit services in future	
For the banks, involvement may provide a way of attracting new customers. The Post Office in Aceh province, for example, is interested in the potential of such extra business due to the decline in the use of postal services with the advent of the internet	

Option 2: Disbursement through formal financial institutions and existing welfare mechanisms

Cash payments were also made through formal financial institutions, mainly banks, and existing welfare payment mechanisms. Two methods were used:

- Payment into individual or group accounts.
- Payments by the bank directly to individuals, without opening accounts (for example payments made in a bank branch on production of identification).

The second option was used by the Swiss Development Corporation (SDC) in Aceh in its Cash for Host Families project. WFP in Sri Lanka distributed vouchers to recipients which could be redeemed at a bank.

The most obvious consideration in deciding whether to use formal financial institutions is whether reliable institutions still exist. The tsunami's effect on banks was similar to its effect on communities in general: some areas were severely hit by the tidal wave, and some escaped with very little damage. It was therefore possible that the

Government payments

In Sri Lanka, government payments were made for funeral expenses, resettlement and basic needs. An unconditional transfer was also made, paid in four instalments. The government required all beneficiaries to open an account in the People's Bank (if they did not already have one), and paid all funds into this account. Regular payments of Rs200 per week were also made through an existing system for making welfare payments (Samurdhi).

The regional government in Tamil Nadu also provided a range of payments. Compensation for deceased family members was paid by cheque, and beneficiaries were required to open bank accounts. Monthly cash transfers for basic needs were delivered directly through the government administration. In Indonesia, the government tried to provide monthly cash transfers to displaced households through a scheme known as JADUP. Cash disbursement was done through the government authorities at each level, with village leaders responsible for distributing the cash to beneficiaries in the villages. In practice, both the delivery of the cash from national to local government and its receipt by disaster-affected households was extremely patchy.

Resources and references

Aheeyar, M. (2005) *Cash Delivery Mechanisms in Tsunami Affected Districts of Sri Lanka*, HPG Background Paper, http://www.odi.org.uk/hpg/papers/BGP_SriLanka_cash.pdf.

Creti, P. and S. Jaspars (2006) *Cash Transfer Programming in Emergencies*, Oxfam, http://publications.oxfam.org.uk/oxfam/add_info_024.asp.

Doocy et al. (2006) 'Implementing Cash for Work Programmes in Post-tsunami Aceh: Experiences and Lessons Learned', *Disasters*, vol. 30, no. 3.

Internet resources

BRCS developed a checklist for paydays on cash for work when disbursed directly. BRCS payday checklist (direct disbursement): http://www.odi.org.uk/hpg/tools/Tools_CFW_Payday_checklist_BRCS_SL.doc.

BRCS developed a checklist for cash for work paydays when cash is disbursed through a bank or post office: http://www.odi.org.uk/hpg/tools/Tools_CFW_Payday_Checklist_through_bank_BRCS_SL.doc.

Oxfam Sri Lanka produced various forms for registering beneficiaries, recording attendance and cash disbursement. These tools have been modified slightly. Oxfam Sri Lanka registration tools: http://www.odi.org.uk/hpg/tools/Tools_Oxfam_SL_cash_transfer_payment_formats.xls.

infrastructure (including banks) may have been completely destroyed in one village, while in a neighbouring village it was left completely untouched. In the early stages of the response, banks and post offices compiled inventories of damage to their branches, and made plans to rehabilitate their services. This information was made available to interested agencies.

Agencies used group bank accounts when cash was being paid to a group of individuals. Mercy Corps adopted this approach at first in its Community Cash Grant programme in Aceh, but later switched to using individual accounts. Many agencies in India used group accounts as a conduit for cash grants because this took advantage of the pre-existing structure of 'self-help groups' for revolving funds and loans provided by the government and other agencies. In India, group accounts are thought to protect funds from unscrupulous moneylenders or relatives. In Aceh, by contrast, group payments are not a traditional concept. Opening individual accounts can take time, though banks may be able to speed the process up. In some contexts, people may already have bank accounts. In Sri Lanka, 93% of people registered for one Helvetas project already had a bank account.

Using banking systems creates a particular set of challenges during the registration process. Banks are likely to require rigorous checking of identity documents in order to reduce the risk of payment errors, for which they might be held liable. SDC found that the bank it was using to disburse cash in Aceh was meticulous in checking identity documents, to the point of photocopying ID cards. Issues arose because of the different spelling of names on registration lists and ID cards, typing errors in database entries, people not having ID cards and people having more than one ID card. While these issues could be seen positively as accountability checks, they may also delay disbursements. Many payments in the SDC project were rejected, and claimants were referred back to the registration agents.

Conclusions

Choosing which mechanism to use for transferring cash to people clearly has to be a context-specific judgement, assessed on a case-by-case basis. It is not, therefore, possible to make hard and fast recommendations about which mechanism is likely to be most appropriate. It is however important to explicitly assess the costs, strengths and weaknesses of as wide a range of options as possible, ideally as part of a pre-disaster contingency planning exercise.

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