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Learning from cash responses to the tsunami

Issue Paper 5

Livelihoods recovery

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The tsunami had a devastating impact on livelihoods. The majority of aid provided to help people to recover and rebuild their livelihoods was in-kind. Some types of livelihoods were open to a simple in-kind response; fishermen, for instance, could be provided with boats and nets, tailors sewing machines and farmers seeds. But given the huge diversity of livelihoods, and given the difficulties in providing equitable in-kind aid, cash grants were an obvious alternative, and cash started to be provided fairly early in the tsunami response, from about May 2005.


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A fishing boat deposited on the roof of a house in Banda Aceh, February 2005

This Issue Paper looks at the use of cash in support of livelihoods recovery. Key issues to consider include:

- What are the objectives of the cash provision, and how is the cash going to be targeted?
- How much money should be provided? For how long?
- What is the appropriate balance between credits and grants?
- What complementary interventions might be necessary?

Objectives and targeting

The diversity of people's livelihoods, and the fact that the damage disasters inflict on them is not uniform, make it difficult to decide who should be targeted, and how much they should be given. Likewise, deciding on the objectives of the intervention is not easy. Should it aim to restore people's livelihoods to the point where they are able to meet basic needs? Should it seek to restore livelihoods to pre-disaster levels? Should it try to improve on the livelihood levels that prevailed before the disaster?

A key problem here is that restoring or rebuilding pre-disaster livelihoods risks reinstating pre-disaster inequalities. Thus, a critical question at the design stage is whether to provide the same grant to everyone who has been affected, regardless of what they have lost or their socio-economic status (former/current/future); or to provide support relative to what people have lost, and what they need to start up again.

This decision has important implications for how livelihood grants will be targeted. Broadly speaking, there are three main choices:

- Targeting people based on poverty or vulnerability, and giving grants only to the poorest.
- Targeting based purely on whether people were affected by the disaster, and giving the same amount to everyone.
- Targeting based either on pre-disaster livelihoods, or on the livelihoods that people want to engage in after the disaster, and providing cash assistance at levels that enable particular types of businesses to resume.

This decision in turn has implications for staffing numbers, the skills and knowledge required and financial monitoring and compliance systems. It will also have a significant effect on the time it takes to deliver assistance, and therefore achieve the goal of recovery.

This is the fifth of six issue papers which form part of a project to document learning around cash based responses to the Indian Ocean tsunami. The project was funded by the British Red Cross, Save the Children UK, Oxfam GB, Mercy Corps and Concern Worldwide. Further information and resources are available at: http://www.odi.org.uk/hpg/Cash_vouchers_tsunani.html

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Amounts and duration

A key question in providing cash for livelihoods recovery is how much money to give people, and whether to provide it as a one-off payment or as a series of staged ones. A basic choice is whether to provide the same amount to all targeted households, or variable amounts according to the type of business being supported. Providing variable amounts, rather than flat-rate grants, can be complex in terms of administration, and often requires lengthy procedures for deciding the amount that individual households receive, developing business plans and monitoring progress against these plans.

The skills and tools needed for this kind of approach include:

- Market assessments, to cost what people have requested.
- Business planning skills (e.g. identifying what items are needed to resume different types of income-generating activity).
- Determining 'viability' – is the business viable given the market conditions prevailing after the disaster? Has competition in a particular business sector increased? Has the market contracted?
- Monitoring systems and support for ailing businesses.

There are many reasons why agencies might choose to provide variable amounts, rather than a flat grant:

- Variable grants often follow from the process of assessment, which tends to try to measure what people have lost, and therefore what needs to be replaced.
- Agencies want to know what assets people plan to buy because they are concerned not to encourage unsustainable businesses.
- Agencies think that people need help in resuming income-generating activities, and that attaching conditions to grants, such as developing business plans, may help to ensure that grants are spent on viable livelihood activities.
- The provision of a flat grant to everyone may result in households spending the funds on a range of things not directly connected with livelihoods recovery. While this should be seen as a positive outcome, it might not meet a donor's requirements.

What constitutes an appropriate amount for livelihoods recovery will vary according to whether a flat rate is being provided, or whether a variable grant is being used. Some issues should, however, be common to both approaches. These are:

- Whether people are able to meet, or are receiving help to meet, their basic needs. If not, some of the grant is likely to be spent on meeting basic needs.
- What were the main occupations in the past? What occupations will people want to resume? What were the main income sources for different wealth groups before the disaster? For the main income-earning activities, it will be necessary to estimate how much money is needed to restart a business. Consider:
  - The start-up assets required (including the cost of purchasing/building new assets, as well as the cost of rehabilitating damaged assets, such as clearing agricultural land).
  - The inputs needed (seed, labour, stock, fencing).
  - How long it will take before income starts to be earned. For some activities – trading, fish-drying – income is immediate, for others – fishing, farming – it is seasonal and for some – livestock projects, for instance – it is linked to growth and reproduction that conform to a different timescale altogether.
- The context and the challenges facing different occupations, now and in the future. Some activities may be particularly risky income-wise in the immediate aftermath of a disaster, so the value provided should perhaps include additional funds to cover the period until the break-even or profit-making point.
- The size of existing debts. If households are highly indebted, grants may be used to repay debts rather than being spent on the planned-for livelihood activities. Options for delaying or writing off the debt may need to be explored with credit providers, or the amount of any grant may need to be increased.
- Other forms of support that people may be able to obtain in rebuilding livelihoods, such as remittances.

If the agency chooses to provide a standard grant amount, these issues need to be considered in determining how much cash provides a reasonable

Setting the value: what's needed to start a chicken project?

A grant request was presented to an agency in Aceh for 30 chickens plus the other materials needed to start a chicken project. The grant application form shows that modifications were made by the agency's field officer: the price per chicken was deemed too low, so the unit cost was increased, and the number of chicks to start the project was reduced to 15. The beneficiary ended up receiving ten chicks, of which only two survived for the next cycle.

average level of support to the wide range of livelihoods activities liable to be present within the target group. If the agency decides to provide variable grants, the amount provided will vary according to the type of business being proposed.

The table below summarises the strengths and weaknesses of providing variable or flat-rate grants.

There are also choices to be made about the timing of grants. Should they be a one-off payment, or a series of payments? And how long does support need to continue? The main trade-offs here are again between simplicity and control. A one-off payment is likely to be simpler, but staged payments may enable the agency to engage more deeply with the process of business recovery.

Loans and grants

A key question to consider is how cash grants for livelihoods recovery interact with the micro-finance and credit sector. What is the appropriate balance between grants and loans? Do grants risk undermining the long-term sustainability of loan-based micro-finance institutions, whose loan portfolios might already be struggling to cope with the effects of the disaster? There was heated debate over this in the tsunami response, with micro-finance providers concerned that grants might undermine the performance of loan portfolios that were already struggling to cope with the impact of the tsunami. However, it is also possible to argue that grants make a positive contribution by enabling people to restart livelihoods, thereby enabling them to repay debts and re-enter credit markets. The key here appears to be close coordination between agencies providing grants and loans, and a clear distinction between the two. It is important to avoid the perception that loans are not expected to be repaid, since this may undermine future credit provision. It may also be possible to explore links between cash grant projects and longer-term micro-finance provision, for instance by helping grant beneficiaries to make links with loan providers.

Complementary interventions and activities

Cash grants may provide useful support to people rebuilding their livelihoods, but they should certainly not be seen as sufficient. People may still need technical assistance to develop and sustain small-scale businesses and enterprises. This could involve a wide range of complementary interventions, such as help with developing and implementing business plans, vocational training,

Advantages and disadvantages of direct payments

Decision about the value	Strengths	Weaknesses
The grant is the same for every household, or is adjusted for household size	Simplicity – reducing the administrative and implementation burden for staff and potentially increasing the speed with which grants can be disbursed Equitability – the amount people receive is not linked to pre-crisis livelihoods Inclusivity – flat-rate grants may be less likely to exclude groups such as labourers and the economically inactive, who might also benefit from a lump-sum cash transfer for non-business needs Transparency – providing the same amount to everyone removes a potential corruption risk, as staff do not have decision-making power over how much assistance people will receive	Some households may receive more or less than they need for the particular business that they are planning.
The value is set according to what people plan to buy, but with a ceiling or maximum amount	Each household is assisted according to the value they have lost (retroactive insurance) Linking grants to business plans may make it easier to provide complementary support to households in developing small-scale enterprises	Administratively complex Not likely to be quick: requires a lengthy process of application, approval and disbursement Perpetuates inequalities and may disadvantage those who have lost incomes, rather not assets (e.g. labourers)

Mixing grants and loans

Save the Children's Emergency Economic Assistance (EEA) intervention in Aceh included three basic 'products': cash for work, cash grants for vulnerable households and a cash grant/loan mix for others. Save the Children decided to provide loans early in the recovery phase. There were a number of reasons for this decision:

- To develop beneficiaries' financial management skills and confidence in working with the formal credit sector.
- People were already taking out loans from informal money lenders (at very high interest rates), and Save the Children wished to reduce dependence on this source of credit.
- Save the Children wanted to introduce group savings schemes.
- Monitoring impact was thought to be easier with loans than grants.

The design was relatively complex, offering either a combination grant and loan or a straightforward grant.

- The combination grant and loan was for asset replacement, up to a maximum of IDR10million (around $900), and/or working capital loans (maximum IDR3m). The mix was 60% grant and 40% loan, and there was initially expected to be a ceiling on the loan element of $200. The idea was to reduce people's loan commitments to a manageable amount – whatever was requested over and above the $200 ceiling would be in the form of a grant. Beneficiaries had 12 months to repay the loans, at commercial rates.
- The grant, of IDR3m (around $270), was for vulnerable households – mostly widows and elderly-headed households – who would not qualify for the grant/loan product. The payment was made into the individual's bank or cooperative account. Pure grant beneficiaries were required to make regular weekly savings.

Applicants for both a pure grant and a grant/loan required a business plan. Beneficiaries were organised into groups of individuals pursuing similar ventures; the main purpose of these groups was mutual support, with the grant/loan group members acting as guarantor for the loans that each had taken out. The cooperative bank partner was responsible for assessing the business plan for the grant/loan products, and for ensuring that beneficiaries made their repayments. Business development support – a particular strong point of the intervention – was sub-contracted to a specialist Indonesian agency.

As of March 2006, Save the Children had provided 2,419 cash grants and 2,056 grants/loans. Informal reports from programme managers suggested that repayment was below expectations, and that some beneficiaries were confused about exactly what had to be repaid and what was a pure grant.

support in developing and accessing markets, or assistance in procuring key assets (fishing boats, for instance). The list could be practically endless, as developing sustainable livelihoods is the very essence of longer-term development programming. For present purposes, the point is that cash grants should be seen as one potential tool in a wider process of assisting people to recover and rebuild livelihoods following disasters.

Livelihoods recovery in the tsunami response

In the early stages of the tsunami response, agencies sought to help households to regain pre-tsunami livelihoods levels, or better. The types of objective discussed included:

- Replacing lost assets.
- Getting income-generating activities going again.
- Supporting recovery to a certain, specified level (so that households could meet basic needs, for instance, or assisting a small business to the point that it made a profit).
- Supporting recovery to the level at which people were living before.
- Supporting recovery to an ideal state, such as a sustainable livelihood.

Attempts to restore livelihoods saw some agencies developing complicated projects which tried to judge the amount of cash grants on an individual basis according to past livelihoods. This meant that those who were wealthier or had more capital-intensive livelihoods before the tsunami received larger grants. Despite agencies' best intentions, funding was deeply inequitable. The Disasters Emergency Committee (DEC) evaluation of the tsunami response concluded that:

> *In Sri Lanka and India there has been an issue of proportionality between fishermen who receive large amounts to replace lost assets like boats (costing anywhere between £380 and £2,500), compared with farmers and petty labourers who only receive minor support (£40 to £65). At the bottom of the scale, women receive even smaller amounts for cot-*

tage industries such as sewing or processing agricultural products (Vaux, 2005: 37).

Very few agencies provided a flat-rate grant, which might have been simpler, quicker and more suited to agency skills and capacity at the early stages of livelihoods recovery. Only one agency – the British Red Cross (BRCS) in Aceh – provided the same value cash grant to everyone for livelihoods recovery, and no agencies adopted this approach in Sri Lanka or India. There were also concerns that aid agencies throughout the tsunami-affected countries provided inadequate support to enable businesses to succeed under their livelihoods recovery grants.

As noted above, the question of the balance between grants and loans was a thorny one in the tsunami response. One study in Sri Lanka found that the tsunami inflicted significant damage on micro-finance institutions and their members (Aheeyar, 2005). Some institutions responded by writing off loans, using grants received from donors. Cash transfers received by tsunami-affected people were used to repay existing debts and to restart livelihood activities. However, there were concerns in some areas that uncoordinated cash interventions were affecting the credit culture and the commitment of micro-finance clients to repaying their loans.

Conclusion

The complexity and variety of ways in which people make a living means that cash support may be particularly appropriate in assisting people to rebuild their livelihoods. The fact that cash can be spent on a wide variety of needs means that people can make their own decisions about what to invest in and whether to rebuild previous livelihoods or establish new ones. Cash grants should not be seen as all that is needed to enable people to re-establish successful livelihoods, but they be an important tool.

Flat-rate grants: the BRCS in Aceh

The British Red Cross Society (BRCS)'s cash programme in Aceh provided a relatively generous flat-rate grant of about $1,000 per household (considerably higher than most other agencies provided). The rationale for providing a flat-rate grant was that doing so was in line with the agency's principles of egalitarianism and non-discrimination. BRCS staff argued that the tsunami had wrought devastation and suffering regardless of wealth, in which case their programme should avoid discriminating against some groups because they had more than others before the disaster.

The programme contained a series of steps to try to control what people spent the money on. Beneficiaries were required to list what assets they wished to purchase with the grant; these lists were checked thoroughly to ensure that they did not exceed the value of the grant, that the quantities stipulated made sense and that the prices were correct. A wide range of categories of expenditure was allowed, including spending on education, assets and services. Grants were divided into four activity periods, with payment made in four tranches after a process of verification and approval. This administrative complexity meant that the total time from first to final payment was between two and nine months, with the majority of payments being made in four months. Arguably, by introducing such a complex system the programme diluted some of the potential advantages that accrue from the relative simplicity of flat-rate grants.

Resources and references

Aheeyar, M. (2005) *Cash Grants and Microfinance in Livelihood Recovery: Experiences from Tsunami-affected Areas of Sri Lanka*, HPG Background Paper http://www.odi.org.uk/hpg/papers/BGP_SriLanka_cash_mfinance.pdf.

Helvetas Sri Lanka (2006) *Cash for Livelihood Restoration Project, Sri Lanka, Report on Impact Monitoring Pilot Project*.

Vaux, T. et al. (2005) *Independent Evaluation of the DEC Tsunami Crisis Response*, Valid International.

Internet resources

A form to identify the routine costs incurred by households:
http://www.odi.org.uk/hpg/tools/Tools_Livelihoods_recovery_householdcosts.doc.

A form to identify the items households need for different types of activities:
http://www.odi.org.uk/hpg/tools/Tools_Livelihoods_Recovery_ResourceTable.doc.

A form to identify the likely revenue, costs and risks associated with different businesses:
http://www.odi.org.uk/hpg/tools/Tools_Livelihoods_recovery_IGA_Revenue&Expenses.doc.

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