

Helpdesk Research Report

Economic impacts of humanitarian aid

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Question

What are the economic impacts of humanitarian aid? What is the impact on the local economy? How is economic impact/gain distributed? How does economic impact vary with different modalities of aid? What is the economic impact of humanitarian aid on affected populations, e.g. on their access to credit? Identify key gaps in evidence.

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1. Overview

Humanitarian aid – whether in-kind or cash transfers – can have a significant economic impact. Potential positive effects include stimulating demand, supporting regeneration of local businesses, job creation and increased tax revenue for governments. Potential negative effects include price inflation, reduced availability of goods, and undermining of local businesses – even leading to closures. The precise impact will vary depending on the context and type of aid modality used. Given the increasing need for humanitarian aid across the world – and in particular for protracted aid stretching over months and even years – it is important to understand the economic effects of this. What impact does such aid have on prices, on availability of goods, on growth in specific sectors, on local economies and overall GDP, on different actors within local economies, on labour supply and wages, and on affected populations?

The available literature addressing these questions largely comprises reports of development agencies, NGOs and research institutions (Harvey and Bailey, 2015b). Few studies look at all aspects of economic impact (on prices, on supply of goods, on growth and so on) of humanitarian aid. Individual studies tend to focus on one or two specific effects (e.g. on food inflation) rather than give an overall perspective of economic impact. The exception is humanitarian aid given in response to the recent Syria crisis, for which

a number of studies look at a wide range of economic effects (Bauer et al, 2014; Husain et al, 2014; Lehman and Masterson, 2015).

The second major issue with evidence on humanitarian transfers is a lack of data comparing economic effects of different aid modalities. Various studies compare other effects of cash, vouchers and in-kind assistance in social protection and humanitarian contexts, e.g. on food consumption and dietary diversity (Aker, 2013; Gentilini, 2014). But it is difficult to find studies directly comparing the economic effects of in-kind assistance, vouchers and cash transfers within a single humanitarian context. This gap in evidence makes it difficult to draw definite conclusions about which modality has more positive economic effects. Moreover, far greater emphasis has been placed on assessing the impact of cash transfers (stemming from this being a relatively new approach to aid distribution) than of in-kind assistance (Harvey and Bailey, 2015b). Finally, there is also a significant gap in data that is gender-disaggregated.

The key points raised in the literature include:

- **There is little evidence of humanitarian assistance leading to inflation:** Markets in both Lebanon and Jordan have been able to respond to increased demand for food (generated by distribution of food vouchers to refugees) by increasing supply, and prices have not risen any more than before the refugee crisis (Bauer et al, 2014; Husain et al, 2014; Pongracz, 2015). The cost of house rentals in Lebanon, however, has risen as supply cannot meet demand. Evidence from other contexts indicates humanitarian assistance does not lead to price rises; where it does, localised factors can usually account for it (Creti, 2010; Bailey and Pongracz, 2015).
- **Humanitarian assistance can have a positive multiplier effect on local economies:** The large-scale World Food Programme (WFP) food voucher programme in Lebanon and Jordan has had significant multiplier effects, particularly in the food products sector (Bauer et al, 2014; Husain et al, 2014). Humanitarian aid to Lebanon has partially offset the economic losses caused by the Syrian crisis. More broadly, the size of the multiplier effect varies from one context to another.
- **Modality of humanitarian aid is a key determinant of multiplier effects:** This stems from the very diverse ways in which they engage with and impact markets, but it is difficult to draw definite conclusions about which modality has greater effects. Most of the available evidence looks at the multiplier effects of cash transfers and indicates these can be significant (Bauer et al, 2014; Husain et al, 2015; Bailey and Pongracz, 2015). Data on multiplier effects of in-kind assistance is very limited, and direct comparisons of multiplier (or indeed, other economic) effects of cash, vouchers and in-kind assistance even more so (Harvey and Bailey, 2015b).
- **Economic gains from humanitarian assistance are not evenly distributed among affected populations:** The literature indicates that often it is larger traders who benefit most from the positive economic effects of humanitarian aid (Bauer et al, 2014; Zyck et al, 2015; Mosel et al, 2015).
- **Very little evidence is available on the impact of humanitarian aid on labour supply and wages:** Cash for work programmes in the wake of Typhoon Haiyan in the Philippines did lead to reduced labour availability (as people preferred the cash-for-work schemes to their own jobs) and higher wages (cash-for-work programmes paid the minimum wage) (Humanitarian Practice Network, 2015), but this is isolated evidence from one case.
- **Provision of in-kind assistance can negatively affect local markets:** Distribution of food aid as well as large-scale purchase of bamboo for shelter reconstruction by aid agencies in Sindh, Pakistan, during the 2010 flood disaster had negative impacts on small and medium-sized

traders (Zyck et al, 2015). Similar effects were seen from the distribution of food aid in South Sudan (Mosel et al, 2015) and Mali (Barbelet et al, 2015).

- **Vouchers can have positive and negative economic effects:** The WFP food voucher programme in Lebanon and Jordan led to economic growth (adding 1.3 per cent GDP in the case of Lebanon), but this was largely confined to the food products sector; gains were also skewed in favour of larger stores participating in the scheme (Bauer et al, 2014; Husain et al, 2014). However, retailers reported that it gave them confidence to invest in their businesses, expand and take on more staff (Bauer et al, 2014).
- **Cash transfers can have significant advantages over other aid modalities:** Cash transfers allow beneficiaries to spend money anywhere, meaning that the growth effects are more widely distributed across sectors. The key recommendation of the High Level Panel on Humanitarian Cash Transfers (HLPHCT), which reviewed a wide body of evidence, was that more unconditional cash transfers should be given (HLPHCT, 2015). To be effective, cash transfers require functioning markets able to meet demand (Harvey and Bailey, 2015b).
- **Ultimately, choice of modality will be context-specific. Market analysis is critical when deciding aid modalities in humanitarian responses:** The literature shows that economic impacts of humanitarian aid will depend greatly on the context. Factors such as size of affected population relative to overall population, duration of aid provision and targeting mechanism will all be relevant (Bailey and Pongracz, 2015). Understanding markets is essential, and there is increasing recognition of the importance of this – albeit still largely in the context of cash transfers and not in-kind assistance (Harvey and Bailey, 2015b). A number of market analysis toolkits are available.¹
- **There is negligible evidence of the impact of humanitarian aid on affected populations' creditworthiness and indebtedness:** A cash transfer programme in sub-Saharan Africa did lead to traders being more willing to extend credit to beneficiaries, but the latter were unwilling to take on more debt (Barca et al, 2015).

2. Impact on local economy

Prices (inflation) and availability of goods

The overwhelming majority of recent evidence about the inflationary effects of humanitarian aid comes from the response to the Syria crisis. A number of studies have been carried out by aid agencies. An IRC evaluation of the 2013-2014 winter cash assistance programme for Syrian refugees in Lebanon found no meaningful trend to higher prices (Lehman and Masterson, 2014). This study is significant because – unlike in most humanitarian response situations – a 'control group' was available: cash support to prepare for winter was only given to families residing over 500m above sea level so those living below this level effectively served as the control group.

WFP has been implementing a large-scale food voucher scheme for Syrian refugees in Lebanon and Jordan; this is operated through select contracted stores. An evaluation of the economic impact of the programme in Lebanon found that WFP food basket prices were higher in contracted stores in areas

¹ These include: *Market Analysis in Emergencies* (Cash Learning Partnership, 2010); *Emergency Market Mapping and Analysis (EMMA) Toolkit* (Albu, 2010); and *Market Analysis Guidance* (ICRC, 2014).

where they enjoyed a monopoly compared to stores in more competitive areas (Bauer et al, 2014). The equivalent evaluation in Jordan found that standard food basket prices dropped in both participating and non-participating stores (Husain et al, 2014). Overall, according to the Central Administration of Statistics, food inflation in Lebanon has not increased more during the refugee crisis than before (Pongracz, 2015). This is because the country has been able to meet increased demand through increased local production as well as imports. By contrast, there has been an increase in housing rental rates – the refugee crisis has exacerbated Lebanon’s housing crisis and supply cannot meet demand. Hygiene products distributed to refugees are being ‘cashed in’ by them and resold in local shops at lower prices – in some cases at 30 per cent of their recommended retail price – which is disrupting markets (Bauer et al, 2014).

Evidence of price effects of humanitarian aid in other contexts is less detailed but supports the findings from the Syria crisis. Unconditional cash grants given to over 1.5 million people in Somalia to help them survive and recover during the 2011 famine did not result in food inflation: markets responded and people were able to buy the food they needed at reasonable prices (HLPHCT, 2015). Similarly, large-scale distribution of aid in the wake of the 2010 flood disaster in Pakistan, Typhoon Haiyan in the Philippines, and even the United States (where over \$6 billion was distributed in the wake of Hurricanes Katrina and Rita) did not lead to inflation (Bailey and Pongracz, 2015).

Where the literature does report humanitarian aid leading to higher prices, there are usually contextual factors that can account for those. A short-term cash transfer programme in Uganda, for example, led to higher livestock prices in local markets (over two-thirds of beneficiaries used the cash to purchase livestock). But this was a localised phenomenon and could be explained by the poor integration of local and wider markets, beneficiary reluctance to purchase outside of the local area and the resultant limited supply (Creti, 2010). Prices of wheat, rice, vegetables and other commodities rose in the wake of the 2010 flood disaster in Sindh province, Pakistan, but this was due to restricted supply as a result of the flood. A rise in bamboo prices, however, was substantially due to the actions of aid agencies which bought large quantities to construct water and sanitation facilities and shelters (stripping supply) and were often willing to pay well above market rates (pushing prices up) (Zyck et al, 2015).

Economic growth (multiplier effect)

The Syrian crisis has had a very detrimental impact on the Lebanese economy, but the literature indicates this has partially been offset by the positive multiplier effects of humanitarian aid. The IRC winter cash assistance programme had a multiplier effect of 2.13 (each dollar given out by the programme was equivalent to \$2.13 being put in the Lebanese economy) (Lehman and Masterson, 2014). The WFP food voucher scheme in Lebanon had a multiplier effect of 1.51 in the food products sector, and in Jordan of between 1.019 and 1.234, mostly in the manufacturing, agriculture and food products sectors (Bauer et al, 2014). A UNDP-UNHCR report on the impact of humanitarian assistance on the Lebanese economy found that it had led to additional growth of 1.3 per cent in Lebanese GDP, with the greatest rise (4.47 per cent) in the food products sector (UNDP, 2015). The overall multiplier effect was found to be 1.6.

Again while limited, evidence from other crises points to a similar positive effect of humanitarian aid on economic growth. Humanitarian aid in rural parts of Zimbabwe led to a multiplier effect of 2.59 for cash and 1.67 for food aid. Each dollar of cash assistance given during a period of extreme food insecurity in Malawi generated \$2.00-\$2.79 in indirect benefits for the local economy in northern Dowa district (Bailey and Pongracz, 2015).

This report focuses on the economic impacts of humanitarian aid. But it is pertinent to note that aid agency operations (e.g. presence of international staff) as part of a humanitarian response, can

themselves have significant economic impacts, particularly where operations are large-scale and protracted. Peace-keeping operations in Kosovo and Afghanistan, for example, were a boost to the local economy and laid the foundations for a healthier economy. An earlier review of the evidence found that, while prices of some commodities rose, this stemmed from inflation being a significant problem in those countries, rather than as a result of increased demand from peace-keeping operations (Rao, 2012).

Distribution of economic impact

While the literature points to an overall multiplier effect of humanitarian aid, this is not uniformly distributed. The WFP food voucher scheme in Lebanon includes large, medium and small sized contracted stores. The evaluation found that, while revenue in participating stores had doubled on average, the greatest increase (in some cases tripled revenue) was seen in medium-sized stores, and resulted in hire of more staff – typically increasing from three to six employees – as well as capital investments to improve/expand their facilities. Larger stores saw staff numbers increase from an average of 12 to 20 employees; they were able to invest the most in physical infrastructure (expanded floor space, increased storage capacity, etc.). By contrast, smaller stores reported much smaller gains and often lacked the capital to expand to capture a larger share of the programme. Overall, the scheme created 1,300 jobs in participating stores and led to US\$3 million capital investment (Bauer et al, 2014). In Jordan, the food voucher programme led to investment by participating retailers of US\$2.5 million in physical infrastructure, and the creation of over 350 jobs in the retail sector (Husain et al, 2014). Here too the voucher market is highly concentrated with a few dominant players.

Following the 2010 floods in Sindh province, Pakistan, and the humanitarian response to these, larger traders and wholesalers saw profits increase hugely² while medium and small-size traders lost business (Zyck et al, 2015). While this was due in part to other effects of the crisis, e.g. tightening of credit arrangements, it was also due to aid agencies which preferred to buy from large traders/wholesalers. The provision of in-kind assistance (food, construction materials) by agencies to affected people also meant a decline in customers for medium and small-size businesses – forcing many small shops to close. The same study noted that some agencies/NGOs did carry out interventions to support local markets, e.g. providing interest-free loans to small businesses, but on the whole ‘aid agencies tended to work around rather than with markets’ (Zyck et al, 2015, p. 13). In the Uganda cash transfer programme referred to earlier, local traders benefitted initially from the increased demand for livestock, but they lacked funds to invest in stock, meaning that overall it was medium-sized and larger traders who benefitted the most – because they were able to use the additional income to invest in productive assets and livelihood diversification (Creti, 2010).

The humanitarian response to both the 2010 Pakistan floods (Zyck et al, 2015) and the Mali conflict (Barbelet et al, 2015) saw the rise of a ‘new’ class of agents, who acted as middlemen between agencies and large traders/wholesalers. Often these were people with no prior pedigree of trading in that sector; rather, they were able to understand and follow aid agency procurement procedures. Aid agencies operated in accordance with their own standards and procedures for tendering and procurement – often very alien to the business culture of Sindh or Mali – meaning local traders could not engage with them directly. Having won contracts, agents often passed them on (‘subcontracted’) to established traders at reduced rates.

² ‘One wholesaler in Sukkur explained how during the floods his daily sales had increased from 500–1,000 rupees to 100,000– 150,000 rupees’ (Zyck et al, 2015, p. 12).

Labour supply and wages

Very little evidence is available on the impact of humanitarian aid on labour supply and wages. Cash transfers following Typhoon Haiyan in the Philippines constituted one of the biggest humanitarian cash-based interventions to date (an estimated \$338 million) (Humanitarian Practice Network, 2015). One of the principal modalities used was cash for work. Some aid agencies implemented blanket cash for work programmes, open to anyone. The Philippines Government required that public works programmes, including cash for work, pay the minimum wage. Many government and private sector employees preferred to work on aid agency schemes for this reason, or because the work was seen as easier than their current job. Some businesses complained that they lost employees and were no longer able to source labour due to the impact of the programme on a small island economy. Similarly, skilled labourers such as carpenters undertaking boat repair complained that aid agencies were inflating costs for labour and goods, and unskilled cash for work employees were being paid the same or sometimes more than skilled labour (Humanitarian Practice Network, 2015). A mapping of the impacts of food aid found that this did not appear to create dependency or present strong disincentives to labour (Margolies and Hoddinott, 2012). More research is needed on the impact of humanitarian aid on labour supply and wages.

3. Impact of different aid modalities

The limited evidence suggests that economic impacts of humanitarian aid do vary depending on the modality used. But there is no systematic comparative evidence of economic effects of cash, vouchers and in-kind assistance (Harvey and Bailey, 2015b). The pros and cons of three types of aid modality, identified as most relevant from the literature review, are considered here: in kind assistance (e.g. food, household goods); vouchers (expenditure restricted to specified goods or services); and unconditional cash transfers. On balance, cash transfers were found to have the most benefits, as reflected in the conclusion of the High Level Panel on Humanitarian Cash Transfers that the question should be: ‘why not cash?’ and ‘if not now, when?’ (HLPCT, 2015).

In-kind assistance

In Pakistan, following the 2010 flood disaster in Sindh province, aid agencies provided cash transfers but also substantial in-kind assistance, notably food and materials to reconstruct homes (esp. bamboo). As noted earlier, aid agencies’ large-scale purchases of bamboo at above market rates stripped the market of supply – with negative impacts on medium and small traders in particular. A similar impact was seen from the provision of long-term (up to 20 months) food assistance: this reduced demand from local shops, forcing many out of business (Zyck et al, 2015). A second critical factor was credit: many small businesses depended on credit from suppliers up the chain to replenish their stock: reduced custom meant they could not pay back suppliers, who in turn were unwilling to extend credit to small businesses (fearing it would not be paid back).

There is some isolated evidence that the distribution of food aid (sorghum), as part of the humanitarian response to conflict in South Sudan, destroyed the sorghum market in parts of the country (Mosel et al, 2015). Aid sorghum found its way into the market, pushing out local suppliers and lowering prices.³ Distribution of food aid in Northern Mali was one of the factors blamed for the reduced trade in millet:

³ ‘Most sorghum traded on the markets in Juba is now aid sorghum, with 50kg bags selling for as little as SSP 30–50, depending on the location. Most sorghum comes from the UN House PoC site and the Tong Ping site... According to WFP, the amount of food aid coming back to Juba is around 600 tonnes (compared to over 10,000 tonnes or more being distributed)’ (Mosel et al, 2015, p. 23).

local traders were very resentful toward aid distributions, seeing these as ‘stealing clients away’ – food aid was distributed directly to their main consumers, bypassing them in the process (Barbelet et al, 2015).

Whether in-kind assistance is procured locally or externally can also determine its economic impact. In general, aid procured externally does very little to benefit the local economy. Goods procured locally, however, can promote growth and job creation, but – as seen above – distribution of gains is not uniform, often skewed towards large traders (Bailey and Pongracz, 2015). Another factor to consider is the *utility* of in-kind assistance to beneficiaries: where goods are seen as not addressing priority needs, there is a risk that they will be discarded or sold (Pongracz, 2015), potentially leading to a glut in the market and deflation. This phenomenon was seen with hygiene products distributed to refugees in Lebanon – they were resold, leading to a drop in market prices (Bauer et al, 2014).

Vouchers

Vouchers restrict beneficiaries to buying specified types of goods or services, notably food. By increasing demand for goods, they can serve as a stimulant for economic growth – as clearly seen with the WFP food voucher scheme for refugees: in both Lebanon and Jordan, the programme had strong economic multiplier effects, leading to increased revenue for businesses (as well as tax revenue for governments) and job creation. However, not surprisingly, these effects were most pronounced in the food products sector. By requiring beneficiaries to only use pre-selected participating stores, the scheme also ended up skewing the benefits towards certain stores, in particular larger stores in areas where there was little competition (Bauer et al, 2014).

These could be considered as disadvantages of the voucher modality, but the evaluation of the WFP programme highlighted a number of benefits. Firstly, the voucher scheme gave retailers confidence to make capital investments, expand their operations, take on more staff and offer a better range of goods – they knew there would be customers. This was stated clearly by merchants in focus group discussions (Bauer et al, 2014). Secondly, it supported the food supply chain in remote areas and in high-risk areas of the country that have high refugee concentrations but face insecurity. Ordinarily, retailers might have been reluctant to operate in such remote/risky areas, but the knowledge that they would have regular clients encouraged them to invest and recruit staff. One study identified retailer confidence to expand operations as the main advantage of voucher schemes over cash (Pongracz, 2015). However, it also questioned why they would not invest in their shops if they knew refugees would be getting regular cash transfers – since they know food will be a main expenditure item, so long as they provide good service they can be sure of customers from the large refugee population.

Cash transfers

The High Level Panel on Humanitarian Cash Transfers (HLPHCT) drew evidence from over 200 resources and studies, including randomised control trials which evaluated the effectiveness of cash transfers (HLPHCT, 2015). Its conclusion was that cash transfers do not lead to inflation, they generate positive impacts on local economies, and they support livelihoods by enabling investment and building markets through increased demand for goods and services. The Panel’s key recommendation was for more unconditional cash transfers to be given. Indeed, it said the question should always be asked ‘why not cash?’ and ‘if not now, when?’ (HLPHCT, 2015).

One of the benefits cash transfers have over vouchers is that beneficiaries can spend the money where they please on whatever they want (Harvey and Bailey, 2015b). The positive market effects are thus distributed across more sectors than, for example, food vouchers which mostly impact the food products

sector (as seen in Lebanon with the WFP food voucher scheme). Another advantage of cash transfers is that merchants get paid promptly; by contrast, vouchers have to be collected and redeemed. From the aid agency perspective, cash transfers are easier to administer and often more cost-efficient than in-kind assistance; advancements in technology are making targeting and transfer of money to beneficiaries ever easier. Fears that people will 'waste' money by not spending on priority needs have proven unfounded (Harvey and Bailey, 2015b): evidence from the IRC winter cash assistance programme, for example, showed that people spent most of the money they were given on food (Lehman and Masterson, 2014).

There are a number of key requirements for cash transfers to be effective: in relation to economic impact, the most important is that there be functioning markets able to respond to the increased demand for goods following cash provision (Harvey and Bailey, 2015b). There will also be public goods, e.g. education and healthcare, which beneficiaries might not prioritise and hence for which alternative modalities such as conditional cash grants would be more appropriate.

Importance of market analysis

The above review indicates that the economic impacts of different aid modalities will vary greatly depending on context. Where markets are elastic and able to respond to increased demand for food through increased local production or increased imports, cash transfers or conditional vouchers could be appropriate. Cash transfers give beneficiaries greater choice, but vouchers give retailers confidence to make capital investments (Bauer et al, 2014). In countries where markets are not fully functional and cannot meet demand, cash/vouchers would likely lead to shortages and inflation (Bailey and Pongracz, 2015). Whether or not in-kind assistance will have a local multiplier effect depends, firstly, on whether goods are procured locally or externally (RHVP, 2006; Bailey and Pongracz, 2015). Goods procured locally could have multiplier effects depending on where they are sourced: purchase through large traders could, as seen, negatively impact markets, while use of market support interventions could have the opposite effect. Other factors to bear in mind are the size of the beneficiary population relative to the overall population (Barca et al, 2015), duration of humanitarian interventions, and effectiveness of targeting. In sum, the evidence suggests that understanding of context and of markets is critical.

There is increasing recognition of the importance of market analysis in designing humanitarian response interventions. However, the focus is largely on market analysis in relation to cash transfers – far less attention is paid to the likely economic impacts of in-kind assistance (Harvey and Bailey, 2015b). Several prominent experts suggest this imbalance needs to be redressed, particularly since cash transfers – despite expansion in use of these over the past decade – still account for less than 6 per cent of total humanitarian spending (Harvey and Bailey, 2015; HLPHCT, 2015). A number of market assessment tools have been prepared by various aid agencies. These include: *Market Analysis in Emergencies* (Cash Learning Partnership, 2010); *Emergency Market Mapping and Analysis (EMMA) Toolkit* (Albu, 2010); and *Market Analysis Guidance* (ICRC, 2014).

While the principle of 'do no harm' is well-established in the context of development assistance, and is applicable in relation to humanitarian assistance and local markets, the next step would be to design humanitarian interventions so as to proactively *support* markets (Henderson, 2013). This is the subject of a separate helpdesk query report (Carter, 2015).

4. Impact on affected populations

In many developing countries, localised trade (between customers and local shops, and between local shops and suppliers) is often based on credit; this in turn is based on trust, built up through regular

interaction over years (Zyck et al, 2015). Crisis situations can disrupt livelihoods, displace people and/or lead to closure of local businesses, all of which affect people's ability to purchase goods on credit. Cash transfers and vouchers could be expected to increase the creditworthiness of beneficiaries: if traders know their customers will be receiving regular cash/vouchers they could be more willing to extend them credit to purchase goods. Evidence on this is, however, extremely limited. One isolated study of cash transfers in sub-Saharan Africa found that beneficiaries were seen as more creditworthy by local retailers for precisely this reason, but in general people were reluctant to use credit because they did not want to increase their indebtedness (Barca et al, 2015). Overall, more research is needed on the impact of humanitarian aid on affected people's economic situation, specifically creditworthiness and indebtedness.

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- Cash Learning Partnership: www.cashlearning.org

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