Humanitarian cash transfers and the private sector

Background Note for the High Level Panel on Humanitarian Cash Transfers

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Any humanitarian response involves the private sector. Aid agencies purchase commodities, rent offices, hire trucks and open bank accounts to pay staff. People affected by crisis depend on businesses and markets to purchase food and often to earn a living. What is particular about cash transfer responses is that aid agencies may engage businesses to transfer money directly to aid recipients who purchase what they need rather than receiving aid in-kind. Experience to date suggests that humanitarian cash transfers offer new opportunities for reaching people with assistance but that aid agencies need to be more sophisticated in understanding markets, using financial systems, navigating regulations and protecting beneficiary data.

The role of the private sector in humanitarian response is a somewhat divisive topic amongst international humanitarian agencies. On the one hand, the private sector is held out as a solution to improve efficiency and promote innovation, on the other it is seen as a source of profiteering that runs counter to the humanitarian mission. The reality is that international humanitarian response is not divorced from businesses and markets. However cash transfer programming is taking aid agencies into somewhat new terrain.

In delivering cash, governments and aid agencies work with banks, microfinance institutions, money transfer companies, mobile network operations and local remittance systems such as the *hawala* in Somalia and the Middle East. There remain examples where aid agencies hand out cash in envelopes for reasons of speed, efficiency and access in places where financial services have poor coverage or do not exist. Arrangements with companies to deliver money are usually negotiated by individual agencies on a project basis. However, both emergency response and social protection programmes increasingly involve longer-term arrangements.

The most effective and efficient way to make payments to disaster-affected people is always context and time specific, meaning that the payment system landscape needs to be analysed and understood on a case-by-case basis. Doing that analysis after a disaster can be time-consuming and delay getting cash to people, so there is a clear case for mapping, analysis and negotiations with possible financial service providers to be better embedded in processes of preparedness and contingency planning. There are also opportunities for global and regional payment system providers to work with agencies in developing nationally appropriate solutions. Getting the balance right between the global and the local is one of the key challenges for humanitarian actors in making the most effective use of private sector skills and expertise.

Electronic payments may offer some unique opportunities for getting money to people in humanitarian settings. Evidence on digital payments tends to find that they often require higher start-up costs compared to other delivery mechanisms but lower marginal costs over time that can result in increased efficiency if the intervention involves multiple transfers over time. They may offer higher levels of security to both beneficiaries and agencies, as well as reduced corruption risks, the ability to track funds through the system and make it easier to work at a large-scale.

This is an enormously fast-moving industry with new options and opportunities developing all the time. There are a number of developments that are changing the ways that aid agencies are working and will continue to do so. Payment companies and businesses are working with aid agencies to develop or make use of existing payment and information management solutions – ranging from large established companies such as Visa and MasterCard to smaller and newer ones such as Red Rose and Segovia.

Challenges and obstacles to more effective engagement

Speaking the same language

Perhaps the biggest initial challenge is the need for the private and humanitarian sectors to be able to negotiate with each other using mutually intelligible language. A barrier for leveraging the expertise of the private sector to better deliver cash assistance is that most humanitarian agencies are in new and somewhat unfamiliar territory. They have systems to track and report on assistance, logisticians to hire trucks, and finance officers used to getting money to staff but not to thousands of aid recipients. For these reasons and others, interventions using e-transfers in particular have typically involved more time and cost to date, though this will be reduced as agencies become more experienced with them.

A barrier to companies engaging more effectively in humanitarian cash transfer programmes is that aid agencies have short-term budgets and often ‘don’t know what they don’t know’ when it comes to payment systems and regulations. International aid agencies would have great difficulty answering the straightforward question of how many people they each assisted with cash assistance in a given year and how much they gave. (Projecting what they will do in the next year would be even harder.) Businesses are often wary of short-term planning and unclear lines of authority within the humanitarian sector, as well as unrealistic expectations that payment services should be tailored for what ultimately is not a high volume of transactions.

Some agencies are concerned about the profit motive of payment companies looking to expand their services and they worry that payment systems may not meet donor reporting requirements. A broader critique is that aid agencies and donors have been operating in their own separate world of standards and reporting, and transferring money brings them into the real world where companies transferring payments follow well-established regulations related to data, accountability and showing that money reaches recipients. Aid agencies recognise that they need to do more to bring in people with the right expertise and capacity to negotiate effective contracts, partnerships and agreements with private sector providers.

Understanding the regulatory environment

Aid agencies usually engage companies to deliver money. They also engage companies to drive trucks with food, but a key difference is that the truck driver does not have the list of recipients and does not distribute the aid. Transferring information about recipients has raised concerns about privacy and data protection. While aid agencies have raised concerns about sharing their data with companies, the reality is that payment companies are the ones who usually have standards in place. It is the humanitarian agencies that are troublingly behind the curve when it comes to how they protect sensitive information – routinely storing beneficiary data without safeguards. This is a weakness highlighted by cash transfers (and not caused by it). Work is being spearheaded by a few aid agencies to develop standards and guidance.

Another difference is that the rules that govern transferring money are not the same as those that apply to transferring food. Regulations require that those sending and receiving money must know their customer – i.e. the Know Your Customer (KYC) regulations. This could raise identification requirements for aid recipients if certain payment systems are used, compared to if aid agencies distributed other forms of assistance. With payment companies running checks to prevent fraud, money laundering and support for terrorism, it is inevitable that aid agencies will operate in areas where those requirements result in barriers for reaching people with cash assistance through those channels. There are particular concerns and challenges relating to the protection of civilians, particularly in conflict, such as whether recipient data could be shared with governments in ways that compromise the safety and security of beneficiaries.

Challenges related to KYC, regulations, accessible payment systems and data protection are important but also resolvable, and should not be used as an excuse for not providing cash and assistance and utilising appropriate payment systems. Entire industries have arisen to solve the challenge of getting money to people, and aid agencies do not have a competitive advantage in developing systems to do this. At the same time, the humanitarian system lacks the capacity to strategically navigate these issues and needs to turn to, or bring in, appropriate expertise.

Being realistic about financial inclusion

Giving people money can link them to financial systems that can be used after a humanitarian intervention. However, this is rarely a priority for humanitarian interventions, and making it one would potentially have trade-offs for cost and speed. Overall the evidence on improved financial inclusion is mixed and limited (Dalberg, 2012; Lesher and Sossouvi, 2014; Murray, 2013; Smith et al., 2011; Vincent, 2010; Zimmerman and Bohling, 2013). It suggests a need to temper optimism that one-off transfers in conflict and disaster settings will ‘automatically’ result in such gains, but also suggests there are opportunities. These are greatest when agencies use existing payment systems that are easily accessible to beneficiaries and that engage people with these systems over time (Murray, 2013). At the same time, serious efforts to link people with financial systems will require investment rather than assuming that this will be a spill-over benefit of humanitarian cash interventions.

Opportunities

The debate so far has tended to focus on aid agencies working with financial service providers to deliver cash but there is also scope to explore potential private sector roles in wider processes of beneficiary and data management including registration, targeting and monitoring. The Electronic Cash Transfer Learning Action Network (ELAN) has recently been launched by Mercy Corps to facilitate joint work between agencies and the private sector around e-transfers. Experience to date shows need to invest time in advance of emergencies to build relationships and identify areas for collaboration.

As the scale of humanitarian cash transfers continues to increase and private sector payment systems continue to develop there will be growing opportunities for government and aid agencies to work with financial service providers in making payments to disaster-affected people as efficiently as possible. Doing this better requires aid agencies and payment providers to get better at talking each other’s language. Aid agencies need to develop the right set of skills to be clear about their requirements, analyse the corporate landscape both globally and locally, negotiate good deals and get the balance right between competition and partnership.

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