

# Food Security Policy Impact Analysis

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## 7. Valorisation Addendum

The research contained in this dissertation is relevant to the debate surrounding the relative merits of cash and food transfers with the goal of supporting policy analysis and policy design of national safety nets as well as international humanitarian and international aid.

Utilizing data collected from the context of Iraq, where the largest universal food subsidy and rationing mechanism remains operational to this day, specific facets of the questions surrounding the effectiveness of cash versus food transfer modalities – such as the valuation of food subsidies, differential consumption responses due to alternative transfer modalities and the estimation of food demand parameters in the presence of subsidies and rationing – are explored.

The results of the analysis presented in this thesis are directly relevant to a lively debate currently being held in Iraq among practitioners, policy makers, academics and parliamentarians. Despite the reliance on data from Iraq, the methodological approaches and suggestions contained within this dissertation extend its relevance to contexts well beyond Iraq to many developed and developing countries that continue to grapple with important questions surrounding effectiveness of cash versus food transfers. The decades-old literature on the cash-out puzzle in the United States remains active to this day and many international organizations and donors have caught onto its relevance for their important work in humanitarian emergencies and in development contexts.

As humanitarian organizations such as WFP and others have expressed goals to increase their cash and voucher activities, donors have asked difficult questions regarding the cost effectiveness of different transfer modalities. For example, the UK's Department for International Development (DFID) very recent Humanitarian Reform Policy committed to prioritize cash over vouchers and DFID is currently exploring possibilities for Value for Money analysis of "Multi-Purpose Cash Transfers" in the context of humanitarian crises.

This dissertation develops and applies a stylized nutritional cost effectiveness analysis approach specific to cash and food vouchers. This approach extends the methods currently applied by the World Food Programme (WFP) in assessing the relative merits of in kind transfers and food vouchers. This simple yet theoretically sound approach would enable WFP and other organizations to extend their comparative cost effectiveness analysis to cash transfers.

Food subsidies and rations are a form of income transfer, thus making its proper valuation important to economists and food security analysts alike. This dissertation sheds light on important aspects of estimating the transfer value of a food subsidy, particularly where price opinion data is utilized. Although non practitioners rarely consider the type of price data, economists are often concerned with the type of price data to utilize in welfare analysis. Given the difficulty to collect accurate and comprehensive price data during household budget surveys, this thesis finds that many surveys resort to asking for price data directly from the survey respondents – many of these instances are also in contexts where food subsidies and rationing existed. Yet we find that using price opinion data in the context food subsidies and rationing likely biases the estimated transfer value of the subsidy. That the valuation decreases with increasing wealth is found to lead to wrong conclusions about poverty trends over time.

This dissertation also explores the debate surrounding cash and food transfers in light of evidence for the “Cash-out Puzzle” that has accumulated over the course of 40 years from the United states. By recasting the evidence for the “cash-out puzzle” in terms of demand elasticity rather than marginal propensity to consume find that food demand due to food assistance is, on average, unit elastic, and with much less variance than the estimates of marginal propensity to consume. Estimating the same for Iraq produces a food assistance demand elasticity of 1.03 and with subnational elasticities, including for rural and urban communities and across wealth deciles all

essentially the same and not significantly different from the national average – leading to the conclusion that the underlying driving influence for the “cash-out puzzle” is essentially constant.

This dissertation highlights an important, yet commonly overlooked difference between cash transfers, food vouchers and in kind food transfers. The latter have traditionally been criticized for being patronizing and blind to the preferences of its recipients. While this is a fair and reasonable critique of in kind food baskets, it is not fair to extend this critique to value based food vouchers, which offer the recipient the flexibility to acquire the food that they prefer.

The “cash-out puzzle” is not so puzzling for in kind transfers as it is clear how they induce greater food consumption even when not desired or required. Yet, for food vouchers, the “cash-out puzzle” is indeed perplexing, as the underlying reason behind the seemingly irrational choice to consume more food despite the freedom to do otherwise simply cannot be explained by the widely accepted theories currently at our disposal.

The evidence presented in this dissertation allude to the possibility that this may be a result of a previously undocumented failure of Engel’s Law. Whether that is the case and whether it may extend to other forms of income transfer will define the challenge of research to come.

Finally, the food demand parameters estimated in this dissertation are a valuable tool that can be further utilized in important policy analysis in Iraq. The Iraqi Tariff law, passed by the Iraqi parliament, yet never put into full practice due to fears of uncontrolled price inflation is a clear candidate for further research. In addition, the identification of Giffen behavior in relation to the subsidized staples, similar to that observed by recent research in China, suggests that this form of behavior may be more common than currently documented – a proposition that merits further research.