Cash and crises financial literacy series

'*Cash and Crises*' is a series of financial literacy audiographics brought to you by CashEssentials, a private sector initiative with a social mission to support the relief and development community in understanding how cash is managed for society in times of crisis.

Episode III

Multiplier Effects

Let's start with a short reality check and look at economic 'multiplier effects' in humanitarian settings

Mohammed Taha was busying about his one-pump gas station in Lebanon's Bekaa valley last year when a young girl, a Syrian refugee, walked in and shyly asked him to fill an empty plastic bottle with kerosene. She paid with a handful of Lebanese pounds, part of a monthly cash payment made during the winter months by the UN to buy fuel for cooking and heating.

As well as directly benefiting her and her family, such payments provide a welcome boost to local businesses like Mohammed's. "The cash these poor Syrians get every month has transformed them from passive recipients to active consumers," he said while stuffing the money into his satchel. "They are really

> "*Humanitarian cash interventions set in motion income multipliers that benefit the local economy*"
>
> Overseas Development Institute
> May 2015

According to the Overseas Development Institute, most humanitarian cash transfer multiplier effects range from 1.5 to 2.5, meaning that an injection of $1 million of cash would generate additional income of $1.5 million to $2.5 million for the national and local economy.

But what exactly are 'multiplier effects' in the humanitarian context?

Basically, the term is used by economists to describe the process by which an increase in spending produces an increase in aggregate local consumption and national income greater than the face value of the original input. The economic effects ripple through the market, multiplying the value of the original cash grant as the money recirculates through the hands of multiple merchants and multiple consumers. This can happen in up to five or more cycles of economic activity.

These effects are felt at two levels and in three ways:

Levels

At the macro-economic level, electronic payments generate multiplier effects which benefit the national economy, but whose effects are not felt locally and not nearly to the same extent as when using other forms of payment. This is largely because merchants have to pay a commission on each and every digital transaction leaving less money to recirculate. Also, profits accrue at national or international level to Financial Service Providers and wholesalers who are usually far from the affected area.

At the local level, however, the multiplier effect is tangible and immediate. Mostly this is because
• cash is immediately available for the next transaction
• no infrastructure is needed to complete the transaction
• and no third party needs to be paid

The net effect of this 'virtuous circle' is that more and more – though diminishing – value in terms of economic impact is generated each time the banknote passes hands, the benefits of which accrue to local host communities as well as the grant recipients themselves.

Ways

In terms of 'ways', Multiplier Effects exert direct, indirect and induced economic impacts.

Direct effects include increase in sales, employment, and income as a direct result of the purchase of goods and services by cash transfer recipients.

Indirect effects include the changes in sales patterns, employment opportunities, and income generated by intermediaries in other businesses as aid money is re-spent elsewhere in the value chain, for example on accountants and lawyers.

And Induced effects reflect how recipients contribute to knock-on economic benefits for host communities through, for example, expansion of markets for locally-produced goods and/or increased demand for services.

And what of multiplier effects using different mechanisms of distribution?

In most circumstances, unconditional, multi-purpose cash transfers tend to have significant advantages over other aid modalities as they allow beneficiaries to spend money anywhere, meaning that the

Summary

> *"Multi-purpose cash allows multiplier effects to be more widely distributed across sectors."*
>
> Bailey and Pongracz
> 2015

- Cash transfers create economic value beyond the face value of the original input, as cash recirculates through the local economy
- Cash generates local – rather than national or international – multiplier effects
- Cash usually exerts a greater multiplier effect than other modalities of aid distribution