

The Form of Transfers: Cash, Vouchers of In-Kind

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BREAD-IGC Course on Social Protection

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Changes to Local Supply and Demand

How could transfers affect prices?

ECON 101: by changing supply or demand.

- ▶ In-kind transfer of good x : \uparrow supply of good $x \Rightarrow \downarrow$ price of good x .
- ▶ Cash/voucher transfers: \uparrow demand of all non-inferior goods (via income effects) $\Rightarrow \uparrow$ prices of these goods.
- ▶ Price effects will occur only if transfers are sufficiently large with respect to the market.
 - ▶ Transfer amounts themselves are large.
 - ▶ Markets are small

Do transfers affect local prices?

Growing empirical evidence on this question.

- ▶ Typically: no.
 - ▶ Not for cash: Egger et al 2022, Attansia and Pastorino 2020.
 - ▶ Not for vouchers: Banerjee et al 2023.
 - ▶ Not for in-kind transfers: Gadenne et al 2024.

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 - ▶ Not for vouchers: Banerjee et al 2023.
 - ▶ Not for in-kind transfers: Gadenne et al 2024.
- ▶ In rural, remote areas: yes.
 - ▶ Filmer et al 2023 for cash (Philippines), Cunha et al 2018 for both cash (> 0) and in-kind (< 0) (Mexico).
- ▶ Why? In those areas local supply can't adjust fast to increases in demand, in-kind transfer may be large relative to local incomes.
 - ▶ Gadenne et al (2024) study a PDS transfer that's much smaller than Cunha et al (2019)'s in-kind transfer.
 - ▶ Rescaling the Cunha et al price effect to the smaller PDS transfer would mean a 1.6% decrease in prices - consistent with observed (non-significant) 0.6% decrease in Gadenne et al.

Price effects likely too small to detect on average, but could matter for some populations.

Equity effects of local price changes

- ▶ All price changes create winners and losers: consumers gain from a price decrease, whilst producers lose.
- ▶ Seen as rationale for in-kind transfers: by decreasing market prices they provide **pecuniary redistribution** (Coate et al 1994) - redistribution from producers to consumers.
 - ▶ May be welfare-increasing if poor households consume the good transferred in large amounts...

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 - ▶ May be welfare-increasing if poor households consume the good transferred in large amounts...
 - ▶ But in LMICs poor households often produce food items at home, whether they gain from price decreases depends on whether they're net producers or net consumers.
 - ▶ Pecuniary redistribution is feature of any policy that affects market prices, with subtle effects on households - Besley and Kanbur (1988).
 - ▶ In the Philippines, cash transfers increase prices enough to lead to negative effects on nutrition for some non-beneficiary children (Filmer et al 2023).

Efficiency effects of local price changes

Moving beyond ECON 101...

- ▶ What if private markets aren't perfectly competitive?
- ▶ Limited competition: local suppliers strategically ration supply of good x to keep prices inefficiently high (marginal cost $<$ marginal benefit).

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- ▶ What if private markets aren't perfectly competitive?
- ▶ Limited competition: local suppliers strategically ration supply of good x to keep prices inefficiently high (marginal cost $<$ marginal benefit).
- ▶ In-kind transfers, by increasing supply of x , bring supply and prices closer to competitive level.
- ▶ Efficiency argument in favor of in-kind over cash/vouchers (Coate 1989).
- ▶ Mostly theoretical argument so far...

Efficiency effects of local price changes (2)

Evidence from labor markets in line with this theory

- ▶ Employment programs (eg NREGA in India) increase efficiency when labor markets are imperfectly competitive (Muralidharan et al, 2023).
- ▶ Could the same be true in food markets?

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- ▶ Employment programs (eg NREGA in India) increase efficiency when labor markets are imperfectly competitive (Muralidharan et al, 2023).
- ▶ Could the same be true in food markets? Maybe
 - ▶ Fairly limited retail markets in LMICs (Ivaldi et al 2016).
 - ▶ Cunha et al (2019): price effects of in-kind transfers in Mexico stronger in areas with less competition.
 - ▶ Jimenez-Hernandez and Seira: in-kind transfer of milk lower price of milk in private stores, perhaps because of market power.

Efficiency effects of local price changes (3)

It may be more complicated than that!

- ▶ So far we've assumed in-kind transfers and private markets are for the same good x .
- ▶ But in practice the transferred good may be an imperfect substitute for the private good.
- ▶ This makes price effects hard to predict.
- ▶ In Chile, Atal et (2023) find that public pharmacies increase prices in private pharmacies.
 - ▶ Because public provide low-quality goods, private pharmacies specialize in higher quality goods and charge higher prices.
- ▶ Entry/exit of private suppliers makes things even more complicated.
 - ▶ Parts of India: private retailers also sell PDS goods \Rightarrow increase private competition?
 - ▶ Dominican Republic: vouchers can only be redeemed in some shops (Busso and Galiani 2019) \Rightarrow decrease private competition?

Administration and Implementation

Economists as plumbers (Duflo, 2017)

In-kind, cash, vouchers - what works in practice?

- ▶ Considerations outside of simple conceptual framework may matter substantially for beneficiary experience.
- ▶ In particular: political economy/administration issues means government implementation is far from perfect.
- ▶ Recent work shed lights on these issues ... sometimes at the extent of external validity (hard to generalize).
- ▶ But excellent evidence is growing on transfer administration 'details' that could matter.

Social cost of provision (1)

What is the cost to society of providing 1 unit of utility to beneficiaries via in-kind, cash, or transfers?

- ▶ Delivering cash/vouchers to households likely cheaper than delivering food, esp. if corruption is a concern.
 - ▶ With caveat that many households in LMICs are unbanked, though that is changing fast.
- ▶ Experiments with policy makers often provide detailed evidence on administrative costs, grounding comparison in fact.
 - ▶ And provide nuance: Margolies and Hoddinott (2015) consider four different cash vs kind RCT, find cash is 2-4 times cheaper.
 - ▶ But admin. costs of Rastra in Indonesia are 4% of total cost, extremely cost-effective (Banerjee et al 2023).

Social cost of provision (2)

Social cost \neq budgetary costs.

- ▶ In-kind transfers often implemented with producer subsidies \Rightarrow including those would change costs of in-kind transfers.
- ▶ Benefit to household \neq government cost, especially for in-kind.
 - ▶ Shapiro (2019) finds that recipients in Kenya prefer in-kind transfers to their cash equivalents, sometimes much more.
 - ▶ Perhaps because economics of scale/missing markets: transfers are of agricultural inputs and services, which households cannot purchase at same price as the government.

Comparing budgetary costs is useful, but may miss part of the picture. Surveying beneficiaries useful complement.

Targeting

- ▶ In practice, minimizing inclusion and exclusion error is a key focus of policy.
 - ▶ No obvious difference in cash vs in-kind vs vouchers in theory..
 - ▶ But in practice, implementation matters.
- ▶ Banerjee et al (2023): compare in-kind (status quo) and vouchers in Indonesia.
 - ▶ Some (small) differences in line with standard model.
 - ▶ But targeting differences matter a lot more: vouchers a lot more likely to be received by intended beneficiaries (poor), because in-kind transfers are 'shared' locally by many.
- ▶ Technology means targeting may be easier for cash or vouchers - good ?

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- ▶ Technology means targeting may be easier for cash or vouchers - good ?
 - ▶ As long as the government's targeting rules are well designed and local communities do not have welfare-relevant information (Alatas et al 2012).
 - ▶ And vulnerable households are not excluded by the new technologies (Muralidharan et al 2023 on biometric ID requirements for the PDS in India).

Competition between in-kind providers

- ▶ In theory, competition between providers of in-kind/voucher transfers could increase beneficiary experience.
 - ▶ Evidence for healthcare in the UK (Gaynor et al 2016).
- ▶ Logic extends to food transfers in LMICs (esp. if corruption is a concern).
 - ▶ Banerjee et al (2019): increasing numbers of suppliers bidding for delivery of rice transfers decreases operational costs and prices.
 - ▶ Busso and Galiani (2019): increasing number of retailers where households can redeem vouchers lowers price and increases quality.
- ▶ But implementation is complicated, esp. for in-kind: need system to track where households take-up the good.
 - ▶ 'Portability' of in-kind transfers introduced in India from 2019 thanks to electronic system, effects still unknown.

Conclusion: open questions

- ▶ Why do people value in-kind more than cash? Far from a full answer yet.
- ▶ General equilibrium price effects: where do they matter and why? Could in-kind transfers also affect price risk?
- ▶ Effects of transfers on private markets (competition, entry & exit) are very poorly known, and could matter.
- ▶ Does optimal form of transfer vary with level of development?
 - ▶ Eg insurance value relevant in contexts with large price risk, poorly integrated markets \Rightarrow less important as countries develop?
 - ▶ Structural change over development changes the nature of jobs (Bandiera et al 2022), optimal tax policy (Bachas et al 2023) - also the optimal form of transfer?