

	-	<ul style="list-style-type: none"> <li>▪ Benefits of trade restricted to existing formal sector</li> <li>▪ High percentage of the money injected by programme may flow outside the local economy.</li> </ul>
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### 3.2.2.4 Voucher scheme through local shops

#### 1. Selecting traders

Since the voucher is meant to restrict how people can use the aid given, it is obviously not possible to allow anyone simply to present a voucher and have it redeemed for cash. A **number of traders will be selected** who are trusted to accept the vouchers only for the purposes intended.

There is no reason to **unnecessarily restrict the number of traders** who can redeem the vouchers with the agency. Note that there may be special cases where the agency has to supply the goods directly to the traders, rather than relying on the normal market. This case is considered separately below (see box 26). For legal reasons, it may be necessary to **restrict contracts to traders** who have the required trading licences, who are registered for tax or who fulfil some other local requirements. Where a reasonably wide range of goods can be bought with the vouchers (e.g. any food items), it may also be simple administratively to restrict the number of traders to those offering a reasonably wide selection of goods. The agency could also choose to exclude any traders who do not meet other necessary conditions, e.g. hygiene, quality of goods and cleanliness of storage.

#### **Box 24. Selecting traders: some issues**

Selecting traders may not be an easy task for the following reasons:

- You may want to include small-scale traders but they do not have the financial/storage capacity.
- Small-scale traders may not even apply because they believe they are too small to qualify.
- Traders may be wary of the voucher process.
- Traders may not see the advantages of the programme for them.
- Some of the selected traders may not be trusted by the voucher-holders.

The following suggestions may help answer some of these issues:

- Try to give small-denomination voucher so that even small-scale traders can be included.
- Set-up regular repayment times for the vouchers (so that traders do not have to wait for too long before getting cash back)
- Make sure that the call for tenders is well broadcasted and understood and reaches 'all' traders (everybody can apply)
- Explain the voucher process extensively
- If security allows, give the approximate number of vouchers which will be distributed (so that traders can evaluate their potential benefit).
- Try to involve the community (and the traders) in the selection process (for greater acceptance and social control).
- The shops should be located at a reasonable distance from the community settlements/ the households.

The commercial advantages of being registered with the voucher programme may be considerable, especially where the volume of voucher trade will be high relative to the local economy. Those participating will benefit, but equally, any traders excluded could lose a lot of business. A process of selecting only certain traders for participation could therefore be a **potential area for corruption**. It is also important to include both **larger and smaller**

**business**, where this is possible, in order to avoid distorting the market. Since the idea is that the traders together have to meet the demand, there should be no reason to insist upon a minimum trading or storage capacity of any one trader. Since recipients should be given **a number of vouchers of small value**, they can shop as usual in a variety of stores for different items. There is thus little reason to limit participation to stores with a large range of choice. Nevertheless, if you need close tracking of the vouchers (e.g. due to perceived risk of diversion), limiting the number of traders can be useful.

Traders may choose not to accept vouchers, but they would have few reasons for doing this and so limiting their trade. Where vouchers are being used in a 'normal' trading system, the vouchers should **not involve any significant change** in the way traders do business. Traders normally have to anticipate demand, take a risk in buying goods before they are paid for them, pay for the transport and storage of their goods, accept the risks of spoilage or theft of goods in storage, and accept any risks in the actual retail process, including money being stolen from the store after the sale is made. There is no reason why this should be different with vouchers. The only difference is that a trader cannot take the voucher directly to the bank, but must redeem it with the implementing agency, either for cash or (preferably) for a bank transfer. It is important, especially for smaller traders who have limited working capital, that there should be **as little delay as possible in redeeming the vouchers**. It may not be administratively possible to organise this every day for all traders, but there is no reason to wait until all vouchers have been redeemed.

Traders may well ask for **an extra commission** for accepting vouchers. In principle, since accepting the vouchers is in their commercial interests and brings no extra costs, there is little justification for this. If it is possible to get the interest of a few traders in accepting vouchers, their competitors will probably face commercial pressure to follow suit. However, traders are aware that agencies frequently do not take a commercial perspective and may expect their demands to be met. In an extreme case, traders may try and form a cartel to refuse vouchers without an extra commission. The agency will then have a difficult choice: pay a limited commission; use cash (or in-kind aid) rather than vouchers; work with traders from outside the area who may be tempted by a captive market. But make sure you consider the negative effects this may have on the local markets as well as in terms of acceptance from the local community.

Criteria which have been used in different programmes are presented in box 25.

#### **Box 25. Criteria used for traders selection in different voucher programmes**

❶ In Zimbabwe, Oxfam distributed food vouchers in the food deficit time from December 2004 to February 2005. The following criteria were used for traders selection:

The **shop** should be:

- Clean with no rodents.
- Well built for food storage and protection from rain and rodents.
- Well stocked.
- Well kept (surrounding/compound).

In addition, the **trader** should:

- Be able to read and write.
- Have good record keeping skills.
- Have good relations with community members.
- Have the capacity to stock food.
- Be a honest person!
- Be located at a reasonable distance from the community settlements/ the households.

❷ In 2002, the ICRC implemented an urban voucher programme in the West Bank. The traders

contracted for the programme met the following criteria:

- Possession of a trading licence.
- Own a retail outlet which had the capacity to sell a range of household items.
- Present references from the Ministry of Supply.
- Financial capacity to accept bank transfers.

⑤ In 2006, Save the Children implemented a cash and food voucher programme in **Banda Aceh** (Indonesia). Participating vendor criteria were the following:

- Are enthusiastic.
- Stock and sell rice, oil and sugar (the three items included in the food vouchers).
- Have adequate storage.
- Have adequate security.
- Have or will open a bank account.
- Have an official business license.
- Have a business relationship with reliable suppliers.

The evaluator of the programme however highlighted that although these criteria helped meeting the programme's needs, some vendors were deterred from applying because **they feared they would not meet the criteria**.

Sources: Oxfam (2006) ; ICRC (2003); Cole (2006).

## 2. Contract with traders

Once participating traders have been selected, a contract should be signed with each of them and kept by each involved party. Such an agency-trader contract should include the following:

- **Reimbursement process** (conditions and payment timetables).
- **Commission** that may be paid by the agency, if any.
- **Tasks/ responsibilities** of each partner (supply, storage, distribution, reimbursement, verifying validity of vouchers).
- **Sanctions** if contract is not respected or where there is dishonesty.
- For commodity voucher, it also needs to include **the price at which each commodity will be sold** to voucher-holders and at which traders will be repaid (to achieve the desired quantity of items that beneficiaries should receive).
- The **quality** of the items sold (if this may be an issue with commodity vouchers).

As with all contracts, it is a good idea to **get specialist advice** before signing any contract (lawyer, logistics and/or administration).

A decision needs to be taken about the **responsibility for verifying the validity of vouchers**. This should be the responsibility of a trader, just as they are responsible for making sure the money they are paid is genuine. However, money is always difficult to forge and all traders are familiar with it and how to check it. Discussions could be held with traders to discuss how this problem can be minimised. One way is for the trader to insist on seeing an ID (national ID card, agency beneficiary card, etc.) for each voucher, which is then checked off against lists given to all the traders indicating the ID of each recipient according to voucher serial number. This would be more time consuming for traders. Use of a national ID card may prevent recipients from getting help with their shopping, even where they were infirm, if they did not feel confident in giving the card to someone else: an agency beneficiary ID card would be more easily entrusted to a relative or friend. Local solutions to these problems should be found: in

most cases, if the redemption period is relatively short, and the design of vouchers changes with each payment, the risks of forgery should be low.

It is possible to maintain a control of vouchers by using an **encashment list**. In this system, each trader receives an ‘encashment list’, which is a list of all the voucher numbers with the corresponding names of the voucher holders (an example of such encashment list is presented below as well as in [annex 17](#)). Each time a voucher is redeemed, it is checked off on the list. This process is however time consuming, may not be understood by traders and may even be a security risk for traders in some specific contexts (traders may be asked to show the list and give a percentage accordingly).

An example of the MoU signed between ACF and the selected traders in the voucher for seed programme in Indonesia can be found in [annex 27](#).

### 3. Sensitisation with traders and voucher recipients

**Sensitisation** on the process and use of the voucher should be conducted at least three times before the actual voucher-use: ❶ when the project is first presented to the population, ❷ when lists are validated and ❸ when the voucher is distributed to the beneficiaries. Make sure to have **sample vouchers** which they can see and handle. Depending on the size of groups, organising role play may be helpful in making the process easier to understand. Always leave enough time for people to ask questions.

The information conveyed includes:

- **How much** is each voucher worth?
- **Which items** can be purchased with the vouchers?
- How much of each item can be purchased? What price will goods be sold at?
- In **which market or shops** can the vouchers be spent?
- **How to use the voucher** when buying goods? (If the voucher has more than one part, which part should be kept by the beneficiary, which one given to the trader?)
- For how long can the voucher be exchanged (**validity period**)?

Meetings are also needed **with traders** to make sure that they understand the system: what people can buy with the vouchers, how to handle the vouchers and how reimbursement will work. Apart from the above, traders will also need to know how and when they will be reimbursed.

Finally, ensure that your staff convey the **same information** and has a **set of answers to frequently asked questions** which will be raised.

Make sure that traders/retailers **pass the information on** how voucher should be exchanged to all their employees.

Once traders have been selected and have signed their contract, further sensitisation should be done to make sure all the steps of the process have been accepted and traders have understood their tasks and roles. It is a good idea to visit as many participating shops as possible from time to time during the programme to check that there are no problems with the voucher use.