PtoP from PROTECTION to PRODUCTION

RESEARCH BRIEF

IMPACTS OF THE LEAP PROGRAMME ON THE LOCAL ECONOMY IN GHANA

THE PROGRAMME

The **Livelihood Empowerment Against Poverty (LEAP)** programme provides cash transfers to extremely poor households with the goal of alleviating short-term poverty and encouraging long-term human capital development. LEAP eligibility is based on poverty and having a household member in at least one of three demographic categories: having orphans or vulnerable children, elderly poor, or a person with extreme disability unable to work. A unique feature of LEAP is that beneficiaries are also provided with free health insurance through the National Health Insurance Scheme (NHIS).

Funded from both general revenues of the Government of Ghana and the U.K. Department of International Development (DFID), LEAP is managed by the Ministry of Gender, Children and Social Protection and implemented by the Department of Social Welfare. As of June 2013, the LEAP programme reached over 70 000 households and provided benefits to 177 500 individuals across the ten regions of Ghana. At the time of data collection for this study in 2012, households received GHS 8–15 per month (paid bimonthly), depending on the number of eligible beneficiaries per household, which represented an average of 11 percent of beneficiary household consumption. The transfer value was subsequently tripled in 2012. Payments to beneficiaries have been irregular and LEAP households did not receive a steady flow of predictable cash with which to smooth their consumption. Over the 24-month evaluation period between May 2010 and May 2012 households received only 20 months' worth of payments. A long gap in cash payments to households in 2011 was followed by a triple payment in February 2012 to settle arrears.

Viewed from a local economy-wide perspective, the beneficiary households represent the conduit through which cash is channelled into the local economy. The programme's immediate impact is to raise the purchasing power of beneficiary households. As the cash is spent, the transfers' impacts immediately spread from the beneficiary households to others inside and outside the targeted villages. Income multipliers within the targeted areas are set in motion by doorstep trade, purchases in village stores, periodic markets and purchases outside the village. Some impacts extend beyond the project area, potentially unleashing income multipliers in non-target sites. The local economy-wide impact evaluation (LEWIE) methodology is designed to detail the full impact of cash transfers on local economies, including on the productive activities of both beneficiary and non-beneficiary groups, how these effects change when programmes are scaled up to include larger regions and why such effects occur. All of these aspects are important for programme design and for explaining their predicted impacts.

THE LEWIE MODEL FOR THE LEAP PROGRAMME

A LEWIE for a cash transfer programme begins by nesting household farm models for eligible and ineligible households within a region of interest. The household models describe each group's production activities, income sources and expenditure patterns. In a typical model, households participate in activities such as crop and livestock production, retail and service provision, as well as in the labour market. These activities and household expenditures are modelled using data from household surveys.

Household groups in a given village are linked through local trade and villages are linked through regional trade. The entire project region interacts with the rest of the country, importing and exporting goods and selling labour. Interactions among households within the project area and between the project area and the rest of the economy are modelled using the survey data. The parameters in the LEWIE model are estimated econometrically. Sensitivity analysis, combined with Monte Carlo methods, allows testing the robustness of simulated impacts for errors in parameter estimates and model assumptions.

The Ghana LEAP LEWIE analysis focused on the 11 districts in Brong Ahafo, Central and Volta regions from which data were collected on LEAP beneficiary households in 2010 and 2012 as part

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of the impact evaluation commissioned by the Government of Ghana. Data on LEAP control households were taken from a matched subset of the ISSER/ Yale national household survey, while data on households ineligible for the LEAP programme were taken from the full 2010 ISSER/Yale baseline.

The LEWIE model is built for treatment and control villages and includes eligible and ineligible households for inclusion in the LEAP programme. The simulations presented below assume that locally grown crops, livestock, retail and other services, including labour, were traded locally. Given high transaction costs with the rest of the country and abroad, it is reasonable to assume that the prices of the goods produced were determined in local markets. A nearly perfectly elastic labour supply (η=100) was assumed, which reflects excess labour supply in rural Ghana. This can be expected to lower inflationary pressures from the programme by limiting wage increases, although it does not remove inflationary pressures completely because land and capital constraints may continue to limit the local supply response.

RESULTS

The LEWIE model simulation showed that the LEAP programme can potentially generate large local multipliers. Specifically, LEAP has a potential total income multiplier of GHS 2.50 in nominal terms, with a 90 percent confidence interval (CI) of 2.38–2.65. That is, each cedi transferred to poor households can potentially raise local income by GHS 2.50. However, if supply constraints are binding – that is, if local production or supply of goods do not increase sufficiently to meet the increased demand brought on by the cash transfer – then the result can be upward pressure on prices. This would raise consumption costs for all households and could result in a real-income multiplier that is lower than the nominal multiplier. According to the LEAP LEWIE, the real income multiplier of the programme could be as low as GHS 1.50 (CI: 1.40–1.59).

These findings illustrate that, without efforts to ensure an adequate supply response in the local economy, part of the programme's impact may be inflationary rather than real. Even a relatively small increase in the local current price index (CPI) can result in a smaller real income multiplier because it potentially affects all expenditures of all household groups. The higher the local supply response, the larger the real expansion in the local economy and the smaller the resulting inflation effect.

Eligible households receive the direct benefit of the transfer, while ineligible households would receive the bulk of the indirect benefit. Of the GHS 2.50 nominal income multiplier, ineligible households would receive GHS 1.2 for each cedi given to eligible households, while the eligible households receive the value of the transfer plus an extra GHS 0.29, for a total of GHS 1.29. Beneficiary households thus would benefit both directly and indirectly from the transfer programme.

The impact of the LEAP programme varies considerably across sectors. The cash transfers stimulate the production of crops and livestock by GHS 0.27 and GHS 0.16 per cedi transferred, respectively. The largest positive effects are on retail, which has a multiplier of GHS 0.78. The trade-off between supply response and inflation depends on the availability of factors to produce commodities. The LEAP programme is already integrated with the provision of social services, particularly the NHIS. Complementary programmes that increase the supply response (such as access to credit to invest in capital) could increase the real income and production impacts of the programme.

A key finding of this study is that measures to increase the local supply response may be important if the intention is to increase the positive spillover effects of the LEAP programme. These complementary measures should be targeted not only at LEAP beneficiary households, but also at non-eligible households that provide many of the goods and services in the local economy.

REFERENCES

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FOR MORE INFORMATION

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