

From protection to production: The role of cash transfer programs in fostering economic activities

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Conditional Cash Transfers Programs from a Human Rights Approach

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Cash transfers embody both aspects of FAO's twin-track approach

- What is the twin-track approach to reducing hunger?
 - First track
 - Promoting livelihoods via agricultural and rural/urban development
 - Second track
 - Providing immediate access to food for the hungry
 - Third track?
 - Right to Food or Food Security Governance
 - As a basis for analysis, action and accountability
- Cash transfers
 - Promote sustainable livelihoods
 - Direct and indirect economic impacts, in short and long term
 - Provide direct and immediate support to fighting hunger
 - Promote accountability and transparency



Why should we expect economic/productive impacts from cash transfer programs?

1. People do not always make the right decisions
 - Imperfect information leading to inaccurate beliefs, combined with missing credit/savings/insurance markets
 - Private investment (spending on health and education) is lower than “true” optimal level for a given household
 - Private optimal maybe lower than social optimal

This is the classic economic justification for CCTs



But there is more..... rationale for potential impact on productive activities

2. Missing/poorly functioning markets constrain economic decisions

- Households unable to access credit or liquidity, or obtain insurance
- Difficulty in buying/selling labor, goods and inputs
- Link consumption and production decisions at household level
 - Particularly in context of subsistence agriculture

3. Households are linked via

- Reciprocal relationships, social networks
- Economic exchanges

Usually not
considered by CTs



Why should we care?

- Contribute to policy debate
 - Understand overall contribution of CT programs to poverty reduction (cost-effectiveness)
 - Political economy: more support for CT programs
 - Promote inclusion as part of rural development strategy
- Contribute to program design
 - Most programs not designed with productive dimension in mind
 - Evidence on how households spend, invest, or save can help strengthen design and implementation
 - Confront potential synergies and constraints (eg, child labor)
 - Link to graduation strategies, “productive insertion of beneficiaries” or welfare-to-work transitions



5 (+1) ways in which cash
transfer programs have
productive/economic impacts



1. Improve human capital

- Nutritional status
- Health status
- Educational attainment



enhance productivity

improve employability



Typically core objectives of CT programs
Underlying rationale for CCTs



2. Facilitate change in productive activities

By relaxing credit, savings and/or liquidity constraints

- Investment in productive activities
 - Use of labor, inputs
- Accumulation of productive assets
 - Farm implements, land, livestock, vehicle, inventory
- Change in productive strategies
 - New crops, techniques
 - New line of products or services
 - New activities (off farm wage labor, migration?)



3. Better ability to deal with risk and shocks

By providing insurance via regular and predictable CTs

- Avoid detrimental risk coping strategies
 - Distress sales of productive assets, children school drop-out, risky income-generation activities
- Avoid risk averse production strategies
 - “Safety first”, or eat first
- Increase risk taking into more profitable crops and/or activities
 - Specialization or diversification
 - Higher value crops or migration



4. Relieve pressure on informal insurance mechanisms

By regular and predictable CTs to the poorest and most vulnerable

- Reduce burden on social networks
 - Local networks of reciprocal relationships
 - In SSA, often weakened and over burdened in context of HIV/AIDS
- Rejuvenate social networks
- Allow beneficiaries to participate in social networks
- Allow non beneficiaries to redirect their resources



5. Strengthen the local economy

- Significant injection of cash into local economy
- Multiplier effects on local goods and labor markets via economic linkages
 - Size of the multiplier depends on
 - level of integration: how much of local demand is met by local products, or imports? How much of local production is for local consumption, or exported? What are labor linkages?
 - functioning of markets: what are constraints imposed by missing/shallow credit and insurance markets?



5+1. Facilitate climate change adaptation

- All five pathways related to **increasing resilience** and **reducing vulnerability** at the level of the household, community and local economy
 1. Human capital formation
 2. Change/adaptation in productive activities
 3. Better ability to deal with risk
 4. Reduced pressure on informal insurance networks
 5. Strengthened resilience of the local economy



climate change adaptation



What does this mean for CCTs in Latin America and the Caribbean?

Illustrate by way of comparison
with Sub Saharan Africa



Massive expansion of government-run cash transfers in SSA

- Approximately half of the countries of SSA have some kind of government run CT program
- Range from universal and near universal pensions and grants to community targeted transfers
- Some national programs as big and old (South Africa Child Support Grant) as PROGRESA/OPORTUNIDADES and Bolsa Escola/Familia
 - Others scaling up
 - Some pilots beginning this year



What's different between cash transfers in SSA and LAC--context

Higher risk and vulnerability



- HIV/AIDS
 - Economic and social vulnerability
- More widespread poverty
- Continued reliance on subsistence agriculture and informal economy
 - Exit path from poverty is not necessarily through the labor market
 - Less developed markets and risk, risk, risk

Weaker institutions



- Less fiscal space---donors play a stronger role
 - Dependent on bilateral, multilateral support
- Still missing consensus among national policy makers
- Weaker institutional capacity to implement programs
- Weaker supply of services (health and education)



What's different between cash transfers in SSA and LAC--design

- Universality
 - Old age pensions, child grants
- Targeted programs
 - Focus on ultra poor, labor constrained
 - Focus on OVC and other specific vulnerabilities
 - Though slowly moving towards proxy means
- Prominent role of community in targeting
- Unconditional (for the most part)
 - Soft conditions and strong messages
- Cash for work for able bodied



What is similar? Most new CTs in SSA accompanied by rigorous impact evaluation

- Malawi SCT
 - Mchinji pilot, 2007-2009
 - Expansion, 2011-2013
- Kenya CT-OVC
 - Pilot 2007-2011
 - Expansion, 2011-2013
- Mozambique PSA
 - Expansion, 2008-2009
- Zambia
 - Kalombo pilot, 2005
 - Monze pilot, 2007-2010
 - Expansion and child grant, 2010-2013
- South Africa CSG
 - Retrospective and expansion, 2010-2013
- Ethiopia
 - PNSP, 2006-2010
 - Regional minimum social protection package, 2011-2013
- Ghana LEAP
 - Pilot, 2010-2012
- Lesotho CGP
 - Pilot, 2011-2012
- Uganda, begins in 2011
- Zimbabwe, begins in 2011
- Tanzania, TASAF



So, is the topic of productive impacts relevant for CCTs in LAC?

- CCTs focus almost exclusively on one dimension of economic impacts—human capital
 - And some dimensions of risk management (particularly consumption smoothing)
- Relevance of other dimensions varies by context
 - Size of labor markets
 - Weight of household enterprises, including small holder agriculture
 - Functioning of markets
 - Share of urban population



What does the evidence say?

- Tons of evidence on human capital
 - Poverty, food security and food consumption
 - Nutrition, health and education
- Some evidence on risks and shocks
- Very little evidence on
 - Productive activities
 - Multiplier effects
 - Social networks
- No evidence on climate change adaptation



Increased investment in productive activities

- Mexico (PROGRESA/OPORTUNIDADES)
 - Increased land use, livestock ownership, crop production, agricultural expenditures; greater likelihood of operating a microenterprise
 - Yet: agricultural households less likely to comply with conditionality—time conflict
- Malawi (Social Cash Transfer program)
 - Increased on farm investment/production, decreased ag wage labor and child work off farm
 - Yet: increased child labor on farm



Positive impact on the local economy

- Brazil (Bolsa Familia)
 - increases in municipal GDP, industrial activity and tax receipts
- Malawi (Social Cash Transfer program)
 - simulations show that the SCT is nearly as efficient as the input subsidy (income multiplier of 1.47)
 - assuming credit and labor market imperfections



So what little evidence exists shows that the productive impact is relevant—even in Latin America and the Caribbean



One challenge for the future: building the evidence base

- As we have seen, few studies of productive impacts
 - Most CTs (conditional or otherwise) focus on poverty, health, education and nutrition
 - Accompanying impact evaluations pay little attention to economic/productive activities
 - Not enough data collected to carry out detailed analysis
 - True in both LAC and SSA
- But plenty of potential
 - In SSA and elsewhere



One response to potential: From Protection to Production

- FAO–UNICEF project focusing on understanding the economic impacts of cash transfer programs
 - Providing technical and analytical assistance to government agencies carrying out impact evaluations
 - Working with 8 countries in Sub Saharan Africa
 - Though we provide support to any government administered CT who requests it



Strengthen data collection and analysis in ongoing impact evaluations

- Design, pilot and supervise implementation of additional modules in household surveys
 - Analyze household economic decision making on productive activities and labor allocation; climate change adaptation; risk coping; time use and social networks using baseline and follow up data---disaggregated by gender
- Economic “linkages” questions throughout household questionnaire, as well as business enterprise survey
 - Simulate local economy impacts using village SAM/CGE models
- Integrate qualitative/quantitative design and methods
- Lead a research network on impact evaluation of CT programs in SSA



CT programs as part of a rural development strategy

- CT programs cover both tracks of the twin track approach
 - Promote sustainable livelihoods
 - Immediate assistance to fighting hunger
- CT programs can foster economic growth as well as reduce poverty and inequality
- No need to change core activities/objectives of CCTs— but document impact and maximizing synergies
- This requires reconsidering
 - How we analyze the impacts of these programs
 - Implications for design
 - How these programs fit into a rural development strategy

