

From Protection to Production: The Role of Cash Transfers in Fostering Broad-Based Rural Development

A joint FAO-ESA and UNICEF-ESARO research project

Presentation at the AfDB September 22 – Katia Covarrubias

Social cash transfers: what are they?

- ▶ Public programs transferring cash to targeted groups of households
- ▶ **Help protect poor hh by** providing them w/ resources they need to maintain a minimum level of consumption. Can also help ensure livelihoods for the very poor and assist them in shocks
- ▶ Includes needs-based social assistance, non-contributory pensions, disability transfers, family allowances, food stamps and CTs



Advantages and Disadvantages

Advantages

- ▶ Once in place, small operating costs
- ▶ Freedom to choose for beneficiaries. Less stigma
- ▶ If markets work, may strengthen retail

Disadvantages

- ▶ May be difficult for women to maintain control
- ▶ May distort preferences
- ▶ If no adjustment for inflation, can lose value and effectiveness
- ▶ Attractive to local elites and unintended beneficiaries => good controls



Social cash transfers: what do they do?

- ▶ Effective at reaching the poor
- ▶ Positive impacts on consumption (child nutritional status, diet diversity, poverty)
- ▶ Long-term impacts on human capital of children
- ▶ Incentives for increasing time in school not number of children
- ▶ For large programs, impacts on poverty and inequality at national-level

- ▶ What about medium-term impacts on households?
Disincentives to work, investments, insurance.
- ▶ What about meso-impacts at the community and regional levels? Price rises, networks, retail?



Why would they generate economic impacts?

- ▶ Environments of absent / poorly functioning markets:
 - ▶ credit / savings
 - ▶ insurance
 - ▶ goods and inputs
- ▶ Links b/w consumption and production decisions at the hh-level
 - ▶ joint decisions about consumption, market purchases and home time
 - ▶ social networks
- ▶ Injection of cash in small (sometimes not very open) economies
 - ▶ benefits sometimes higher in total than other govt transfers
 - ▶ potential for traders and producers



Why is it relevant – For programs (1)

Address concerns about:

- ▶ **Welfare dependency**
 - ▶ Can CTs enable hhs to strengthen their income-generating activities (instead of just mere hand-outs)
- ▶ **Disincentives to work**
 - ▶ Show which groups would reduce/increase their labor supply and why
- ▶ **Understand heterogeneity of impacts**
- ▶ **Micro-foundations of paternalism:**
 - ▶ “the poor may misuse their money”
 - ▶ understand behavior and hh priority-setting



Why is it relevant– For programs (2)

Show second-round effects:

- ▶ Community impacts
- ▶ The “graduation/productive insertion” agenda
- ▶ Enable the poor to use their main asset: able-bodied adult labor.

Especially relevant in LICs where resources are scarce, admin. capacity limited



Why is it relevant – For AfDB

- ▶ Understand “protective” effects of CTs as a response to the FFF crises and potentially to increased variability and shocks due to climate change
- ▶ Understand “productive” effects of CTs as one more intervention to promote local and economic development
- ▶ Compare these interventions to more classic interventions such as fertilizer subsidies or private transfers
- ▶ Assess the economic and political sustainability of investments in CT



Why is it relevant – For FAO

- ▶ CT are changing the environment in rural areas.
 - ▶ Could gains in living standards through cash transfers made sustainable through investments?
- ▶ Understand “protective” effects of CTs
- ▶ Build on ESA’s comparative advantage in understanding rural hh economies



What do we know: New evidence on productive impacts at the household-level

- ▶ **Channel 1: Labor allocation**
 - ▶ Decrease in child labor (KE)
 - ▶ Small effects on adult labor
 - ▶ Some decrease for some type of individuals : mothers of several children, unpaid workers or workers in informal sector (MW)
- ▶ **Channel 2: Investments**
 - ▶ In livestock, land, enterprises and consumption (MX)
 - ▶ NI: no impacts. Pent-up D? lack of economic opportunities?
- ▶ **Channel 3: Risk-coping: avoiding detrimental strategies**
 - ▶ Beneficiaries better able to keep children in school and maintain access to health services (NW)
 - ▶ ET: PSNP helped protect against high food prices but not enough where rains failed too.



What do we know? New evidence on meso-impacts

- ▶ **Channel 4: Transfers between beneficiaries and non-beneficiaries**
 - ▶ CTs increase consumption of ineligible in same villages (MX)
- ▶ **Channel 5: Changes in goods and labor markets**
 - ▶ Unpredictable lump-sum transfers and slow response from traders or oligopoly power caused price rises (ET)
 - ▶ Anecdotal evidence on tightened day-wage labor (ET)
- ▶ **Channel 6: Multiplier effects**
 - ▶ Dowa cash emergency transfer during lean season- multiplier linked to higher sales of small and large traders and purchases of health and education services (MW)
 - ▶ Increase in municipal GDP- industrial activity and local tax revenues (BR)



What will the research do? (1)

A. Understand methodological issues

- Critical review of hh models:
 - investment decisions in the presence of transfers
 - labor allocation decisions
 - responses to shocks
- Critical review of community impacts
 - SAM and R-SAM methods
 - New micro-simulations on impacts of FFF crisis
- Data needs

Output: Workshop by end-2010 to discuss the findings, literature review, commissioned papers



What will the research do? (2)

- A. Understand methodological issues
 - B. Add evidence on economic impacts
 - Analyze existing data from impact evaluation in Eastern and Southern Africa
 - Malawi Mchinji Social Cash Transfers
 - Kenya OVC social transfer
 - Mozambique Food Subsidy program
 - Collect new data
 - Zambia
 - Lesotho
 - Ethiopia
 - Session during UNICEF implementation workshop this week
- Outputs: Country-level papers (3) and one comparative paper to be presented at AEC (October 2010)



What will the research do? (3)

- A. Understand methodological issues
- B. Add evidence on economic impacts
- C. Develop instruments to improve data quality, support new data collection
 - Short and long versions of income / asset modules
 - Module on networks/transfers
 - Integrate qualitative/quantitative methods
- D. Support program managers and policy-makers for design and implementation
 - Direct technical assistance
 - Participation in workshop and conferences in country and regionally



Who are we working with?

- ▶ Joint project w/ UNICEF : component of “Transfer project”(UNICEF-Save the Children UK)
 - ▶ Other partners include University of North Carolina and UNDP IPC in Brasília
- ▶ World Bank: LSMS and country teams
- ▶ National and regional partners: implementing agencies

- ▶ AfDB? DfID?



Our schedule and team:

- ▶ May 2010 – March 2011
- ▶ Key dates
 - ▶ KE, MW data available now,
 - ▶ MZ later this month
 - ▶ Regional workshop in Lesotho this week
 - ▶ AEC conference October 2010
 - ▶ Methodology workshop in Kenya Dec 2010
- ▶ Four researchers at FAO (project leader, hh survey experts, gender specialist, rural anthropologist), one SP adviser at UNICEF and a research assistant, research team at UNC and UNDP-IPC

