Food and Agriculture Organization of the United Nations

from **PROTECTION** to **PRODUCTION**

POLICY BRIEF

# Cash transfers: their economic and productive impacts
## Evidence from programmes in sub-Saharan Africa


## KEY MESSAGES

» Evaluations of seven cash transfer programmes in sub-Saharan Africa found that these generate a broad range of social, economic and productive impacts among poor small family farmers and – contrary to common perception – do not encourage dependency.

» The cash transfer programmes in sub-Saharan Africa enhanced agricultural activities among beneficiary households (e.g. increased use of agriculture inputs and increased livestock holdings), gave beneficiaries greater flexibility in labour allocation (leading to reduced agricultural wage labour), and helped them better manage risk. Cash transfers also benefitted the wider communities through local economic multiplier effects.

» The evidence highlights the role that social protection measures can play, not just as a social policy tool to ensure basic food and other needs are met, but as a strategic investment to enhance the economic and productive potential of the poor. Even greater impacts can be achieved by linking these with agricultural interventions that address the structural constraints that limit poor households' access to natural resources, inputs, financial services, advisory services, improved technologies and markets.

## INTRODUCTION

Cash transfer programmes entail the provision of money to poor households. A common perception about cash transfers is that they encourage dependency among recipients. Concerns are often raised in policy circles that providing cash to the poor leads them to work less and to live off the transfers.

This brief summarises the findings of rigorous impact evaluations of seven government-run cash transfer programmes in sub-Saharan Africa. The focus of the evaluations was on economic and productive impacts of the programmes on beneficiaries as well as the wider communities in which they lived.

The findings are that, far from creating a disincentive to work, cash transfers among poor rural households in low income countries lead to increased livelihood activities – beneficiaries produce more, not less.

## BACKGROUND

Over the past decade, a growing number of governments in sub-Saharan Africa have launched cash transfer programmes as part of their social protection strategies. Many of these government-led programmes originated from a concern about vulnerable populations, often in the context of HIV/AIDS. This influenced the setting of objectives and targeting towards an emphasis on the ultra-poor, labour-constrained, and/or households caring for orphans and vulnerable children (OVC). The majority of these programmes are unconditional and have been designed to improve food security, health, nutritional and educational status, particularly of children. They are also designed to promote productive activities.

Most beneficiaries in sub-Saharan Africa are small family farmers who depend predominantly for their livelihoods on agriculture as well as working in rural labour markets, and will continue to do so for the foreseeable future. Moreover, the majority of beneficiaries live in places where markets for financial services (such as credit and insurance), labour, goods and inputs are lacking or do not function well. In this context, when cash transfers are provided in a regular and predictable fashion, they can help households to overcome credit constraints, manage risk better, and address other market failures. This, in turn, can increase productive spending and investment, improve access to markets and stimulate local economies.

This brief brings together the critical mass of evidence emerging from recent rigorous impact evaluations of government-run cash transfer programmes in seven countries in sub-Saharan Africa: Ethiopia, Ghana, Kenya, Lesotho, Malawi, Zambia and Zimbabwe. These evaluations form part of the Transfer Project, a community of practice created to share lessons, experience and expertise between evaluators, government programme managers and development partners. The programmes were evaluated by FAO, UNICEF and national governments. An important contribution and innovative approach of FAO was to focus on the economic and productive outcomes of cash transfers on beneficiary households *and* the broader communities in which they live. The methodology used was mixed in most of the evaluations, combining quantitative and qualitative approaches with general equilibrium modelling of local economy impacts.

## DETAILED FINDINGS: ENHANCING THE ECONOMIC POTENTIAL OF POOR RURAL HOUSEHOLDS

### Impacts on agricultural activities

The evaluations found that cash transfer programmes had a variety of impacts on agricultural activities. In Zambia, the Child Grant (CG) model of the Social Cash Transfer (SCT) programme led to a 36 percent increase in the area of worked land as well as an increase in the use of agricultural inputs, including seeds, fertilizer and hired labour. This led to an approximately 37 percent increase in the value of overall production, which was primarily sold in markets rather than consumed. The cash transfers produced an income multiplier at the household level—the increase in per capita consumption induced by the programme was 25 percent greater than the transfer itself. Overall, the grants in Zambia activated a transformative process leading to a stronger engagement of beneficiary households in capital investments for agricultural production and new economic activities.

**Evaluated Cash Transfer Programmes in sub-Saharan Africa**

| Country | Cash Transfer Programme | Baseline | Follow-up | Number of households reached (as of September 2016) |
|---|---|---|---|---|
| **Ethiopia** | Tigray Social Cash Transfer Pilot Programme (SCTPP) | 2012 | 2014 | 3 700 |
| **Ghana** | Livelihood Empowerment Against Poverty (LEAP) | 2010 | 2012 | 192 000 |
| **Kenya** | Cash Transfers for Orphans and Vulnerable Children (CT-OVC) | 2007 | 2009, 2011 | 363 000 |
| **Lesotho** | Child Grants Programme (CGP) | 2011 | 2013 | 26 681 |
| **Malawi** | Social Cash Transfer (SCT) | 2013 | 2014, 2015 | 170 000 |
| **Zambia** | Child Grant (CG) model of the Social Cash Transfer (SCT) | 2010 | 2012, 2013, 2014 | 242 000 |
| **Zimbabwe** | Harmonized Social Cash Transfer (HSCT) | 2013 | 2014, 2015 | 55 500 |

In Lesotho, the Child Grants Programme (CGP) also led to an increase in crop input use and expenditure, including an eight percentage point boost in the share of households using pesticides. As in Zambia, the increase in input use led to an increase in maize production and, for labour constrained households, in sorghum production, as well as in the frequency of garden plot harvests. In Zimbabwe, the Harmonized Social Cash Transfer (HSCT) led to an increase in expenditure on fertilizer and in the share of households producing groundnuts, while in Malawi the Social Cash Transfer Programme (SCTP) facilitated an increase in both maize and groundnut output. Cash transfer programmes led to an increase in expenditure on seeds in Ghana, and to a decrease in Kenya, though in neither case did the transfers lead to growth in agricultural production. In both Kenya and Malawi, however, cash transfers did increase family food consumption obtained from home production.

In almost all programmes in which this was measured, cash transfers led to an increase in the ownership of livestock. The cash transfers contributed to a higher proportion of beneficiary households accumulating livestock: impacts were concentrated on small ruminants in Kenya and Zimbabwe, on pigs in Lesotho and were spread on diverse types of animals in Malawi and Zambia. No impact on livestock ownership was found in Ghana and disinvestment out of livestock production was observed in Ethiopia.

Similarly, in Ethiopia, Malawi, Zambia and Zimbabwe the ownership of agricultural tools increased.

## Impacts on labour supply

Along with an increase in agricultural activities, the programmes affected labour allocation within and outside the household. Most countries saw a reduction in casual agricultural labour. In Ghana and Zambia particularly, this was offset by an increase in on-farm labour. In interpreting these results, it should be noted that agricultural wage labour, and even many non-agricultural activities in rural areas, are often a ‘refuge’ sector which poor households engage in to survive, hedge against agricultural risk, or obtain needed liquidity. While in most cases not statistically significant, this shift from agricultural wage labour ‘of last resort’ to their own on-farm activities was observed among some sub-groups of men and women (i.e. elderly females in Malawi and adult males in Ghana) and was consistently recounted during qualitative field work in Ghana, Kenya, Lesotho, Malawi and Zimbabwe. As one elderly beneficiary said, “I used to be a slave to *ganyu* (casual labour) but now I’m a bit free.” Moreover, in a number of countries the impact varied by gender and/or age—in Malawi, for example, adult males were more likely to engage in on-farm work than adult females. Impacts on the engagement of children in work activities were also not uniform: children’s participation in family farming decreased overall in Kenya and Lesotho, for younger children in Ethiopia and for girls in Zimbabwe.

## Impacts on risk management

The cash transfer programmes improved risk management capacities, although the specific behavioural changes varied by country. Households diversified their income-generating activities by increasing their engagement in non-farm businesses (Zambia and Zimbabwe) or switching types of non-farm business (Malawi). The Kenya Cash Transfers for Orphans and Vulnerable Children (CT-OVC) led to a similar increase in non-farm businesses among female-headed households, but to a decrease among male headed households. A reduction in negative risk-coping strategies such as distress sales of assets, begging or changing eating patterns, was seen in Ethiopia, Lesotho and Malawi, probably as a consequence of improved food security, while beneficiary households in almost all countries were less likely to take their children out of school. In Ethiopia, Ghana and Malawi, cash transfers contributed to debt repayments and to a reduction in loans. With the exception of Lesotho and Malawi, cash transfers did not crowd out private remittances from family members living outside the community. Cash transfers in general reinforced existing social networks and community engagement, increasing informal transfers within the communities and participation of the poorest households in these circles.

## Impacts on the local economy

As well as direct beneficiaries, cash transfers generate impacts among the wider community. When beneficiaries spend the cash they receive, they transmit its impacts to others inside and outside the local economy, often to households not eligible for the cash transfer who tend to own most of the local businesses.

These income multipliers are measured via an innovative village economy model developed for FAO called the LEWIE (Local Economy-wide Impact Evaluation) model. LEWIE models were constructed for the cash transfer programmes in Ethiopia, Kenya, Ghana, Lesotho, Malawi, Zambia and Zimbabwe and found these generated nominal income multipliers ranging from 2.52 in Hintalo-Wajirat in Ethiopia to 1.34 in Nyanza, Kenya. This means that, for every Birr transferred by the programme in Hintalo-Wajirat, up to 2.52 Birr in income could be generated for the local economy.

However, when credit, capital and other market constraints limit the local supply response, the increase in demand brought about by cash transfer programmes may lead to increased prices, and consequently a lower income multiplier. The key insight is that non-beneficiaries and the local economy also benefit from cash transfer programmes via trade and productive linkages, and that maximizing the income multiplier may require complementary interventions that target both beneficiary and non-beneficiary families.

## What explains the differences in results across countries?

A number of factors account for the differences in results across countries. First, regular and predictable transfers facilitate planning, consumption smoothing and investment. Households that receive irregular and unpredictable transfers, as was the case in Ghana for example, are likely to spend the money differently. Second, the relative amount of the transfer matters. The size of the transfer as a share of per capita consumption of beneficiary households ranged from 7 percent in Ghana to almost 30 percent in Zambia. Third, the demographic profile of beneficiary households – and particularly the availability of labour capacities – also matters. Most of the evaluated cash transfer programmes, by design had a large proportion of labour constrained households, which affected the nature of economic activities a household could employ. The CG model in Zambia was the exception, with a target population of young families with available labour.

Finally, differential access to productive assets besides labour, the nature of local markets, the effectiveness of local committees in implementing a given programme, and the nature of messaging associated with the transfers, all play a role in determining the impacts of the programme. Differences in the size of the multiplier among countries, and among areas within countries, were driven by the openness and structure of the local economy, where money was spent in the local economy and the intensity of the supply of goods produced within the local economy.

## Lessons learned and policy implications

The evidence from recent impact evaluations of cash transfer programmes in sub-Saharan Africa clearly dispels the commonly held view of cash transfers and other social protection programmes as promoting dependency. The results show that, quite the opposite, transfers allow households to be productive and contribute to growth in the local economy. While cash transfers are not designed to remove people from poverty in the short-run, the results show that they do not create laziness and in fact promote productivity and have an income multiplier effect at both the household and local economy level.

Further, the evidence illustrates how beneficiary households use part of the cash to finance family farm and non-farm businesses. Cash transfers can thus serve not just as social protection measures but as a means of promoting farm and household-level production gains. These productive impacts can be maximized by improving the implementation of the programmes - in particular by ensuring regular and predictable payments - and by combining social protection with agricultural interventions.

Cash transfers and other social protection measures have proven successful in reducing hunger and poverty, in meeting basic consumption needs and in reducing some of the market failures faced by small family farmers that benefit from the programmes. However, cash transfers alone cannot address all these constraints and ensure that people make a sustainable move out of poverty. Hence, cash transfers should be linked to agricultural interventions to address the structural constraints that limit poor households' access to natural resources, inputs, financial services, advisory services, improved technologies and markets. Finally, it is critical to keep in mind potential synergies and conflicts with the original social objectives of these programmes.

## FOR MORE INFORMATION AND RESOURCES

**Please visit:** www.fao.org/social-protection/en **or write to:** social-protection@fao.org

FAO, together with its partners, is generating evidence on the impacts of social protection on poverty reduction, food security, nutrition and resilience and is using this to provide related policy, programming and capacity development support to governments and other actors. Countries include Kyrgyzstan, Lebanon, Lesotho, Malawi, Rwanda, Senegal, Zambia, Zimbabwe.



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