From Protection to Production: The Role of Cash Transfer Programmes in Fostering Broad-Based Economic Development in sub-Saharan Africa

Cash transfer programmes have become an important tool of social protection and poverty reduction strategies in low- and middle-income countries. During the past decade, a growing number of African governments have launched cash transfer programmes as part of their social protection strategies.[1] Many government-led cash transfer programmes in sub-Saharan Africa originate in the social sector, where concern about vulnerable populations, often in the context of HIV/AIDS, has driven 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). As a result, the objectives of most of these programmes focus on food security, health, nutritional and educational status, particularly of children. The programmes have important and immediate impacts on reducing hunger and rural poverty.

Investments in health and education induced by cash transfer programmes generate both short and long-term economic benefits through improvements in human capital, which lead to an increase in labour productivity and employability. However, there is good reason to believe that cash transfer programmes also influence the productive dimension of beneficiary households. The livelihoods of most beneficiaries in sub-Saharan Africa are predominantly based on subsistence agriculture and rural labour markets, and will continue to be so for the foreseeable future. The exit path from poverty is not necessarily the formal (or informal) labour market, but self-employment generated by beneficiary households themselves, whether inside or outside agriculture. Moreover, most 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 and manage risk. This, in turn, can increase productive investment, increase access to markets and stimulate local economies.

Cash transfers can thus potentially serve as an important complement to a broader rural development agenda, including a pro-poor growth strategy focusing on agriculture. Cash transfers can serve not just as social protection but also as a means of promoting farm and household-level production gains. This means that cash transfers function as part of both tracks of the twin track approach – reducing hunger and vulnerability immediately, while at the same time facilitating household level investment in productive activities.

The FAO has a four-year agreement with the research programme at DFID – the From Protection to Production Project (PtoP) – to study the impact of cash transfer programmes on household economic decision-making and the local economy.[2] PtoP seeks to understand the potential productive and economic impacts of cash transfers on the rural poor in sub-Saharan Africa. It aims to provide insights into how social protection interventions can contribute to sustainable poverty reduction and economic growth at household and community levels. The project uses a mixed method approach, combining econometric analysis of impact evaluation household survey data, general equilibrium Local Economy-wide Impact Evaluation (LEWIE) models, and qualitative research methods.

[1] Some cash transfer programmes have explicit linkages to agriculture and rural livelihoods, such as the Productive Safety Net Programme (PSNP) in Ethiopia and the FAO-led Somalia cash for work programme.
[2] http://www.fao.org/economic/ptop/en/. Additional funding has been provided by the European Commission and the World Bank. The PtoP project forms part of a larger effort, the Transfer Project (http://www.cpc.unc.edu/projects/transfer), a joint collaboration with UNICEF, Save the Children and the University of North Carolina, to support the implementation of impact evaluations of cash transfer programs in Sub Saharan Africa.

The project is implemented jointly by FAO and UNICEF, with the research building on ongoing impact evaluations of government-led cash transfer programmes in seven countries (Ethiopia Tigray Social Cash Transfer Programme (SCTP), Ghana Livelihood Empowerment Against Poverty (LEAP), Kenya Cash Transfers for Orphan and Vulnerable Children (CT-OVC), Lesotho Child Grant Programme (CGP), Malawi Social Cash Transfer (SCT), Zambia Child Grant Programme (CGP) and Zimbabwe Harmonized Social Cash Transfer (HSCT)). Results from the country case studies will become available throughout 2014.

What have we found so far?

Initial results are promising. Qualitative fieldwork from cash transfer programmes in Lesotho, Ghana, Kenya and Zimbabwe[3] found that while in all cases the cash transfer programmes function primarily as a safety net, in the latter three countries they have also increased investment in household economic activities, in some cases particularly for female-headed households. In all contexts the programmes were found to increase social capital and allow beneficiaries to "re-enter" existing social networks, and/or to strengthen informal safety nets and risk-sharing arrangements. In the case of Ghana, these results were confirmed by analysis of impact evaluation data.[4] Moreover, in all four countries the cash transfer programmes allowed households to be seen as more financially trustworthy, to reduce debt levels and increase credit worthiness – results confirmed by experimental and quasi-experimental impact evaluation studies in both Ghana and Zambia.[5] In many cases, however, households remain risk averse and reluctant to take advantage of increased access to credit.

Analysis of data from impact evaluation studies found that cash transfer programmes in Zambia, Malawi and Kenya significantly increased investment in agricultural inputs and assets, including farm implements and livestock. While the Zambia programme led to increased production, and increased marketing of the output, the Malawi and Kenya programmes led to a greater share of household consumption acquired from own farm production. Labour has moved on-farm – the programmes in Zambia and Malawi, and to a lesser extent in Kenya, led to a shift from agricultural wage labour to on-farm activities for adults, and the programme in Ghana also led to an increase in on-farm activities. Similar results were reported in the qualitative fieldwork in Kenya, Ghana and Zimbabwe. The programme in Zambia has a large impact on participation in, and labour dedicated to, family non-farm enterprises, while in Kenya this is true for the participation of female-headed households. Finally, the cash transfers had mixed results on child labour, with a large reduction in child on-farm labour in Kenya, a switch from off-farm wage labour to on-farm activities in Malawi, and no impacts in Zambia or Ghana (though the qualitative study from Ghana reported reduced child labour).[6] The differences in impacts across countries can be attributed to a variety

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[3] OPM (2013). Qualitative Research and Analyses of the Economic Impact of Cash Transfer Programmes in sub-Saharan Africa. Ghana Country Case Study Report, PtoP project report, FAO; OPM (2013). Qualitative Research and Analyses of the Economic Impact of Cash Transfer Programmes in sub-Saharan Africa. Kenya Country Case Study Report, PtoP project report, FAO; OPM (2013). Qualitative Research and Analyses of the Economic Impact of Cash Transfer Programmes in sub-Saharan Africa. Zimbabwe Country Case Study Report, PtoP project report, FAO; OPM (2013) Qualitative Research and Analyses of the Economic Impact of Cash Transfer Programmes in sub-Saharan Africa. Lesotho Country Case Study Report, PtoP project report, FAO.

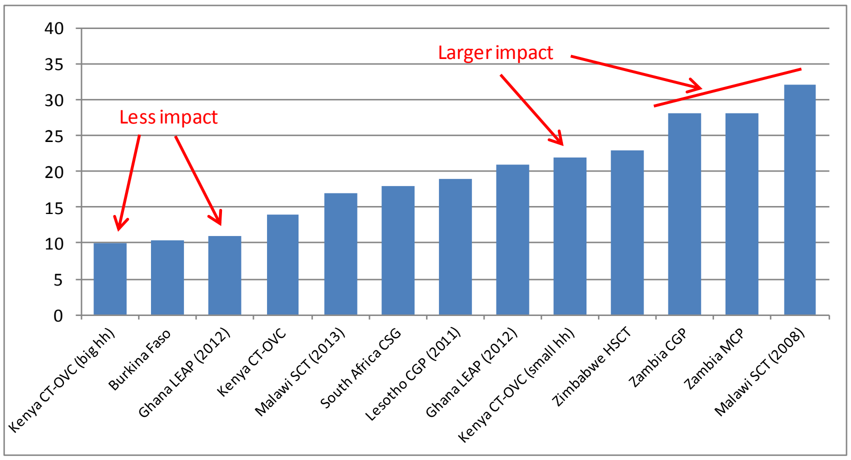
[4] Handa, Park, Darko, Osei-Akoto, Davis and Daidone (2013). Livelihood Empowerment against Poverty Impact Evaluation, Carolina Population Center, University of North Carolina.

[5] AIR (2013). Zambia's Child Grant Program: 24-month impact report. Washington, DC.

[6] Covarrubias, Davis and Winters (2012). From Protection to Production: Productive Impacts of the Malawi Social Cash Transfer Scheme. *Journal of Development Effectiveness*, Vol. 4 No.1, pp. 50-77; Ryan, Covarrubias, Davis and Winters (2013). Cash Transfer Programs and Agricultural Production: The Case of Malawi, *Agricultural Economics*, 44:365–378; Asfaw, Davis, Dewbre, Federighi, Handa and Winters (2013). The Impact of the Kenya CT-OVC Programme on Productive Activities and Labour Allocation, PtoP project report, FAO.

of factors, including the availability of labour given the demographic profile of beneficiary households, the relative distribution of productive assets, the local economic context, the relevance of messaging and soft conditions on spending and the regularity and predictability of the transfers themselves. The level of transfer as a share of per capita expenditure is a key factor, as can be seen in Figure 1.

Figure 1. Cash transfer as percentage of per capita consumption



When beneficiaries receive the cash transfer they spend it. The transfer's impacts are then transmitted from the beneficiary household to others inside and outside the local economy, more 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, called the LEWIE (Local Economy-wide Impact Evaluation) model, developed for the PtoP project.[7] LEWIE models constructed for the cash transfer programmes in Kenya, Lesotho, Ghana, Zambia and Ethiopia generated nominal income multipliers ranging from 2.52 in Hintalo-Wajirat in Ethiopia to 1.34 in Nyanza, Kenya, as seen in the blue bars in the Figure 2.[8] That is, for every Birr transferred by the programme in Hintalo-Wajirat, up to 2.52 Birr in income can 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 the cash transfer programme may lead to increased prices, and consequently a lower income multiplier. Simulations incorporating such constraints find that the "real" income multiplier can be significantly lower than the nominal income multiplier. Differences among countries, and among areas within countries, are driven by the openness and structure of the local economy, where money is spent in the local economy and the intensity of the supply of goods produced within the local economy. The key insight is that non-beneficiaries and the local economy also benefit from cash transfer programmes via trade and production linkages, and that maximizing the income multiplier may require complementary interventions that target both beneficiary and non-beneficiary families.

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[7] Taylor (2013). A Methodology for Local Economy-wide Impact Evaluation (LEWIE) of Cash Transfers, PtoP project report, FAO and The World Bank.

[8] Taylor, Kagin, Filipski, Thome and Handa (2013). Evaluating General Equilibrium Impacts of Kenya's Cash Transfer Program for Orphans and Vulnerable Children (CT-OVC), PtoP project report, FAO and The World Bank; Kagin, Taylor, Alfani, and Davis (2013). Local Economy-wide Impact Evaluation (LEWIE) of Ethiopia's Social Cash Transfer Pilot Programme, Draft PtoP project report, FAO and The World Bank; Taylor, Thome and Filipski (2012). Evaluating Local General Equilibrium Impacts of Lesotho's Child Grants Program, PtoP project report, FAO and The World Bank; Thome, Taylor, Kagin, Davis, Darko Osei, Osei-Akoto and Handa (2013). Local Economy-wide Impact Evaluation (LEWIE) of Ghana's Livelihood Empowerment Against Poverty (LEAP) Program, Draft PtoP project report, FAO and The World Bank.

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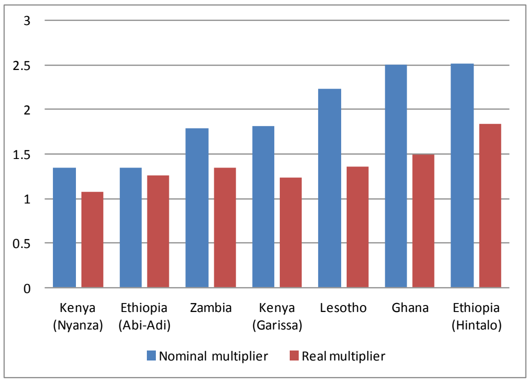
Figure 2. Cash transfer income multipliers (LEWIE model)



Our policy impact

The findings of the project are being developed into communication products and activities aimed at reaching a broader audience and raising awareness on the economic benefits and opportunities of cash transfer programmes. These products include photo stories of beneficiaries, videos and animations, video and radio interviews, infographics, briefs and articles, all of which have all been shared on FAO and partners' media outlets and social media channels.

The project, besides producing analyses, publications and policy briefs for the global development community, is having a direct impact on the policy debate in regional initiatives such as CAADP, as well as in each of the seven countries, through its collaboration with governments and UNICEF. In obtaining approval for our collaboration with the government of each country we initiated discussions on the links between cash transfer programmes and economic development, and more specifically, rural livelihoods. To date we have presented results to relevant ministry and programme officials, civil society, and development partners in Ghana, Kenya, Ethiopia, Lesotho, Zambia and Zimbabwe. Analysis carried out by the project has fed into discussions on both current programme design, future complementary interventions to maximize economic impacts, as well as larger policy discussions on the link between cash transfer programmes, social protection and agricultural and rural development initiatives. PtoP research is much in demand by DFID and other donors as part of their efforts to provide value for money for their relatively large investments in cash transfer programmes in sub-Saharan Africa.

PtoP website: http://www.fao.org/economic/ptop/home/en/
PtoP Multimedia page: http://www.fao.org/economic/ptop/multimedia/en/

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