



# Impacts of the Social Cash Transfer Pilot Programme (SCTPP) on the local economy in Ethiopia



Local economy-wide impact evaluation (LEWIE) simulation methods are used to assess the likely impacts of cash transfers on the local economy. When the Social Cash Transfer Pilot Programme (SCTPP) gives money to beneficiary households, they spend it, buying goods and services. As the cash circulates within wards and districts it also creates benefits for non-recipient households that can provide the goods and services purchased by beneficiary households.

This study found that each birr distributed by the Tigray SCTPP in Hintalo-Wajirat woreda generated an extra 1.52 birr via local economic linkages, for a total income multiplier of 2.52 birr. Similarly, each birr distributed in Abi-Adi woreda generated an additional 0.35 birr, for a total income multiplier of 1.35 birr.

## THE PROGRAMME

The **Social Cash Transfer Pilot Programme (SCTPP)** was launched by the Tigray Bureau of Labour and Social Affairs (BOLSA) with support from the United Nations Children's Fund (UNICEF) in the Tigray region of Ethiopia in 2011. The goal of the SCTPP is to improve the quality of life for orphans and vulnerable children, the elderly and those with disabilities, and to enhance their access to essential services such as healthcare and education. Specific objectives include contributing to the reduction of poverty, hunger and starvation, increasing school enrolment and attendance, improving the health and nutrition of children, and generating information on the feasibility, cost-effectiveness and impact of the SCTPP.

The SCTPP operates in two woredas, rural Hintalo Wajirat and urban Abi-Adi. The SCTPP provides regular and predictable monthly cash transfers of 155 birr (approximately US\$ 8.50) to the poorest labour-constrained households, with additional amounts

being given for children, disabled members and dependent elderly persons. By 2014 the programme reached 3 767 households, of which three quarters were female-headed. The pilot phase will finish at the end of 2014.

Viewed from a local economy-wide perspective, the beneficiary households represent the conduit through which cash is channelled into the local economy. The SCTPP's immediate impact is to raise the purchasing power of beneficiary households. As the cash is spent, the transfer 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 programme area, potentially unleashing income multipliers in non-target sites.

This brief is based on household and business enterprise data collected

in 2012–2013 and contributes to a wider evaluation of the SCTPP commissioned by UNICEF and undertaken by the International Food Policy Research Institute, the Institute of Development Studies and the Department of Economics of Mekelle University.

## THE LEWIE MODEL FOR THE SCTPP

The LEWIE methodology was designed to detail the full impact of cash transfers on local economies, including that on the income and productive activities of both beneficiary and non-beneficiary groups. Two separate LEWIE models were constructed to reflect the different economies of the two regions in which the SCTPP was implemented. Both models centred on the principal economic activities in which the households participated, household income sources and goods and services on which households spent their income. These, together with factors such as labour, capital, purchased inputs, and markets outside the programme



area, constituted the accounts in the model. Interactions among households within the programme area and between the programme area and the rest of the economy were modelled using the survey data. The parameters in the LEWIE model were estimated econometrically. Sensitivity analysis, combined with statistical methods, allowed testing the robustness of simulated impacts for errors in parameter estimates and model assumptions.

The LEWIE simulations assumed 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, prices of the goods produced were assumed to be determined in local markets. Finally, the model assumed nearly perfectly elastic labour supply, reflecting excess labour supply in rural Ethiopia.

## RESULTS

The LEWIE model established that each birr distributed in Hintalo-Wajirat generated an extra 1.52 birr via local economic linkages, for a total income multiplier of 2.52 birr (confidence interval, CI, of 2.09–2.80). Similarly, each birr distributed in Abi-Adi generated an additional 0.35 birr, for a total income multiplier of 1.35 (CI of 1.33–1.38). Thus, the initial transfer of 5.58 million birr in Hintalo-Wajirat and 1.62 million birr in Abi-Adi

potentially generated 14.06 million and 2.19 million birr, respectively.

By stimulating demand for locally supplied goods and services, cash transfers have productive impacts, the effects of which are found primarily in households ineligible for the transfers. This finding is not surprising given that the eligibility criteria for the SCTPP favour asset- and labour-poor households. Recipient households in Hintalo-Wajirat received the direct benefit of the transfer plus a small spillover effect of 0.02 (even smaller for Abi-Adi) per birr transferred. The non-recipient households benefited from spillovers to the amount of 1.5 birr (0.35 birr for Abi-Adi) for every birr spent. Thus, because of their ownership of productive assets, the non-recipient households benefited from the SCTPP.

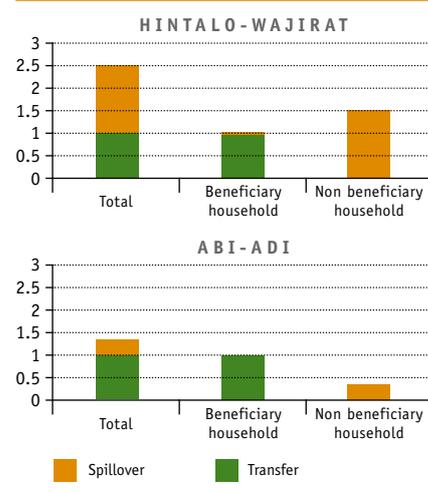
The productive impacts varied by sector. The cash transfers stimulated the production of crops by 0.2 birr per birr transferred in rural Hintalo-Wajirat. The largest positive effect was on retail, which had a multiplier of 1.35 birr in Hintalo-Wajirat and 1.25 birr in Abi-Adi, per birr transferred.

When credit, capital and other market constraints limit the local supply response the increase in demand brought about by the cash transfer programme can lead to increased prices and consequently a lower

income multiplier. Simulations incorporating such constraints generated a “real” or price-adjusted income multiplier of 1.84 birr (CI, 1.52–2.05) for Hintalo-Wajirat and 1.26 birr (CI, 1.25–1.26) for Abi-Adi.

These findings illustrate that without efforts to ensure a high supply response in the local economy, part of the impact may be inflationary rather than real. Measures to increase the local supply response can be important in order to increase the positive spillover effects of the SCTPP programme. These complementary measures should be targeted not only at SCTPP recipient households, but also at non-eligible households that provide goods and services in the local economy.

Distribution of SCTPP nominal income multiplier on beneficiary and non-beneficiary households



## REFERENCES

Thome, K., Taylor, J.E., Davis, B. and Alfani, F. 2014. Local Economy-wide Impact Evaluation (LEWIE) of Ethiopia’s Social Cash Transfer Pilot Programme, PtoP project report, FAO and The World Bank.

## FOR MORE INFORMATION & RESOURCES

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The **From PROTECTION to PRODUCTION** (PtoP) programme is, jointly with UNICEF, exploring the linkages and strengthening coordination between social protection, agriculture and rural development. PtoP is funded principally by the UK Department for International Development (DFID), the Food and Agriculture Organization of the UN (FAO) and the European Union. The programme is also part of a larger effort, the Transfer Project, together with UNICEF, Save the Children and the University of North Carolina, to support the implementation of impact evaluations of cash transfer programmes in sub-Saharan Africa.

