CALP IS THE CASH LEARNING PARTNERSHIP OF OXFAM GB, SAVE THE CHILDREN UK, THE BRITISH RED CROSS, ACTION CONTRE LA FAIM INTERNATIONAL AND THE NORWEGIAN REFUGEE COUNCIL

www.cashlearning.org

THE IMPACT OF CASH TRANSFERS ON LOCAL MARKETS

A CASE STUDY OF UNSTRUCTURED MARKETS IN NORTHERN UGANDA

APRIL 2010

By Pantaleo Creti

Oxfam

Save the Children UK

BritishRedCross

ACF INTERNATIONAL

NRC NORWEGIAN REFUGEE COUNCIL

CONTENTS

LIST OF ACRONYMS

CFW	Cash for Work
DECT	Dowa Emergency cash Transfer. Concern Worldwide, Malawi
EMMA	Emergency Markets Mapping and Analysis
HSNP	Hunger Safety Net programme, Kenya
LRA	Lord's Resistance Army
NREGS	National Rural Employment Guarantee Scheme, India
OPM	Oxford Policy Management Group
PWP	Public Work Programmes
PSNP	Productive Safety Net Programme, Ethiopia.
SAM	Social Accounting Matrix

ACKNOWLEDGEMENTS

I am grateful to Emma Delo, Nupur Kukrety and Silke Pietzch for their support, helpful comments and suggestions. I wish to extend my gratitude towards Lesley Adams, Paul Harvey, Lucho Osorio, Ian Macauslan, Cecile Cherrier, Mike Albu, Ugo Gentilini and Diane Johnson for providing information as well as sharing valuable experience and knowledge. Finally, I would like to thank Nikaj van Wees, Molly Alanyo and the Uganda Action against Hunger office for their friendly welcome, valuable technical support and logistic accompaniment during the case study in Lira District.

EXECUTIVE SUMMARY

This report explores the effects of cash transfers on local markets. It tests the hypothesis that 'cash transfers to poor households lead to integration of markets in remote areas and strengthen existing well-integrated market systems'. To test the hypothesis a case study was conducted in Northern Uganda, to assess the effect of cash transfers on unstructured markets. The Northern Uganda experience represents the backbone of the report, even if findings have been complemented and enriched with the review of other experiences and recent literature. A second case study, conducted in Bangladesh, should have supported the second part of the hypothesis related to well-structured markets. The poor information received from the Bangladesh study did not permit the study to delveinto this part of the hypothesis. As a consequence, the few conclusions made on the impact on well-structured market systems are drawn from other studies and literature reviews.

The Northern Uganda case study is based upon a cash transfer project that Action against Hunger conducted in Otuke county, during the second half of 2009. The project distributed grants, equivalent to approximately US$150, to 1,500 vulnerable households. The objective was to ensure food security and to support livelihood rehabilitation. Otuke county is a rural and remote area, whose local livelihood has been strained by years of raids and civil war. This has also caused large displacements of populations into camps. At the time of the project implementation, people had returned to their villages but livelihood activities and local market dynamics were still very weak.

Conditions like the scale of the transfers, the structure and level of market integration and local availability of goods were initially assessed to predict the potential impact of the transfers on the local markets in Otuke county. The high value of the grants compared to households' income and the high level of coverage at village level indicated the possibility of market crowding effects. The case study focused on livestock markets, as most of the participants spent their grants on this sector. While livestock markets at regional and district levels were relatively competitive, local markets were weakly integrated, with only few suppliers and mostly informal transactions. The weak market integration was attributable to incomplete information and high transaction costs, due to movement restrictions, high taxation and poor infrastructures. Eventually local availability was unlikely to satisfy an increased demand that was 13 times higher than the initial stock of the target population.

The transfers produced a temporary inflation of prices at local level. This was mainly attributed to the inelasticity of supply, caused by high transaction costs and incomplete information. The inflation was also the result of inelastic demand. In fact, participants' preferences were directed towards few local products and this crowded local markets. The review of other experiences with small-scale transfers, confirms that temporary inflation could be recurrent when the size of the transfer is not negligible compared to people's income and when it covers a high proportion of the local population. The supply side information seems to be a key determinant of inflationary pressure. However, other experiences show that very often cash transfer projects operate on an insufficient scale to inflate prices in unstructured markets.

The qualitative analysis of multiplier effects showed that cash transfers had a wider economic effect on the local economy. Medium scale farmers were the main secondary beneficiaries. They invested the additional income in productive assets and livelihoods' diversification. This contributed to creating additional goods and production. The comparative analysis with other case studies shows that medium-scale farmers and local traders are the two groups that benefited more from the multiplier effects of cash transfers. Beneficiariesof projects usually purchase basic commodities from these groups because they are reachable and trusted. However, while local traders seem to be able to supply basic commodities (if informed in advance), the Northern Uganda experience shows that they can find it difficult to increase the supply of high valued commodities. Eventually, larger traders usually benefit from the following rounds of expenditures.Less evident was the gain of wholesalers and medium scale traders, who are usually the gainers in the vouchers programmes. The short-term multiplier effects analysis, however, overlooks the important long-term effects that investment on productive assets and human capital (health, education)

produce.

The case study did not produce significant evidence on the impact of cash transfers on local labour markets. The review of other experiences however, shows that cash transfers can free the time of poor households from labour, to invest in other productive activities. Therefore, cash transfers can reduce the supply of labour while increasing the demand, as poor households have more money to hire labour to cultivate their fields. In Northern Uganda, the amount of cash from the grant spent to hire labour (2.5%) and draught power (3%) was not enough to produce significant changes on labour market wages, and no clear evidence on this issue was found in the literature. The report briefly deals with the impact of cash for work projects on labour market wages and migration. In fact, to avoid market distortions CFW payments are usually set in line with existing market wages. Minimum wage payments are also used as self-targeting mechanisms. While self-targeting behaviours would be suitable to well-structured and functioning labour markets, in extremely poor contexts labour markets are so fragmented that wages can be too low and almost exploitative. In these cases, setting CFW payments to minimum wages could undermine the objectives of the transfers, which often aim to meet consumption needs.

The Northern Uganda experience shows that, despite the initial 'flash' inflation, cash transfers did not have negative effects on market integration. The increased livestock availability will make local markets more integrated and will level price fluctuations in the future. The multiplier effects show that cash transfers had a positive impact on different market actors. They did not produce simple redistribution, but they promoted investment and production. The poor information from the Bangladesh project did not allow for appropriate testing of the component of the hypothesis relative to well-structured markets. However, the review of recent experiences shows that cash transfers in well-integrated markets can improve poor people's credit-worthiness as well as diversify and increase the volume of business of local traders. In a few cases, they contributed to the reduction of prices of commodities, as the increased liquidity diminished traders' uncertainty.

1. INTRODUCTION

Cash transfers have risen rapidly up the agenda in both emergency and developmental contexts, causing different reactions and raising a number of political, financial and operational challenges for governments, donors and NGOs[1]. Proponents of cash-based approaches argue that they can be more cost-effective and timely, allowing greater choice and dignity to participants, and have beneficial knock-on effects on the local economy. Distributing cash can stimulate production and trade in agriculture, and avoids disincentive effects because, contrarily to commodity distributions, cash is unlikely to discourage local trade or production[2].

According to some authors, the extent to which these knock-on effects benefit the local economy can be easily understood and depends on 'how and what the moneys are spent on'3. The assumption is that,when cash is spent locally and on useful things, it will positively impact and have a knock-on effect on the local economy. Although this argument is likely to be true, it does not comprehensively describe and explain the socio-economic processes and interactions taking place.

The object of this studyis to explore the effects of cash transfers on the local commodity and labour markets, by testing the following hypothesis:

> ***'The effect of regular and long term[4] cash transfers to poor households leads to integration of the local commodity and labour markets in remote and less integrated market systems and strengthens the existing markets in well integrated market systems'.***

The study seeks to describe the specific changes and processes taking place in markets and to explain the overall effectthat cash brings about in markets and local economies.To answer the hypothesis the study addresses the following specific questions:

- To what extent and in which ways cash transfers stimulate production and trade and have beneficial knock-on effects for local economies?
- What is the direct impact of cash transfers on the economy of householdsin the target population?
- What are the negative or unexpected outcomes of cash transfers in local economies, in the particular context of unstructured markets?
- To what extent and in which ways socio-economic impact spreads through local economies and reaches different stakeholders? Who are the winners and the losers and why?
- What is the indirect impact on power dynamics and on social relationships at community level?

The report is structured around two case studies, conducted in Uganda and Bangladesh that assess the impact of short-term cash transfers on unstructured and well-structured markets. A oneweek field study was conducted in Uganda in the middle of November 2009, while the information on the Bangladesh project is the result of primary and secondary data collected and analysed by Oxfam GB. However, the poor and fragmented information received from Bangladesh did not allow making use of this experience throughout the different sections of the report. Literature review was used to fill the gap of information concerning the impact of cash transfers on well-structured markets.

The findings from the case studies were complemented with the review of most recent experiences and

1. ODI
2. Farrington 2006
3. Harvey 2007
4.

with personal information gathered through telephone interviews. A comparative analysis of the different studies, when possible, sought to establish and describe the common regularities and patterns among different experiences, in the attempt to generalise trends. Finally, the reportbriefly dwells upon the impact of long-term and predictable cash transfers on market prices. Despite the fact that the initial hypothesis specifically referred to the impact of 'long-term and predictable transfers',the scope of the study was later shifted to short-term cash transfers, as these represent the main interest for the commissioning agencies.

The report first deals with the initial conditions that, to a certain extent, determine the magnitude of the impact on markets and local economies. The Uganda case study is used as a showcase to describe how to measure and interpret these factors. They refer to the amount of cash injected compared to the size of the local economy; the structure and integration of local markets; the deficit of basic commodities and services both locally and in the neighbouring regions. Section 3 lingers over the impact of cash transfers on prices. The analysis relies on the findings from the case studies but it also gives an overview of) other short-term experiences in unstructured markets. The available evidence gives only a snapshot of commodity prices and it is often limited to the project implementation period. The analysis of prices of short-term projects is generallyneitherhistorical nor forward-looking. For this reason, a chapter is dedicated to the experience of long-term and predictable safety nets and it explores the existing evidence over their lasting effects on prices in rural and remote areas. Section 4 describes the multiplier effects in the Uganda case study and it reviews the few documented experiences. The analysis interprets how the cash passes in the hands of the different local market actors, whether it is used to produce further income and production and it describes the potential winners and losers of this process. The last sections review the interaction between cash transfers and the demand and composition of labour. It accounts for how cash for work wage setting can interfere with labour salaries and migration. The step-by-step approach required to undertake a basic qualitative analysis of the multiplier effects is described in the final recommendations.

DESCRIPTION OF THE CASE STUDY

The case study is based on a field visit conducted in the middle of the cash-transfer project that Action Against Hunger (AAH) implemented during the second half of 2009 in Lira district, Northern Uganda. Two grants, totalling to UGX 480,000 (US$225), were given to 1,500 vulnerable households inOtukecounty. The intervention aimed at ensuring food security and at supporting the rehabilitation of livelihoods of returnee populations, in a context where livelihoods and the local economy had been seriously undermined by years of raids and civil strife. AAH used nutritional information to identify and select vulnerable villages within the four sub-counties (Ololim, Orum, Adwari, Okwang). Households' vulnerability criteria were adopted to guide the community-based identification and selection of participants.The grants were transferred in two instalments. The first grant of UGX 240,000 was delivered between the end of July and August; while the second distribution of UGX 240,000 took place between late November and early December 2009.The field visit was conducted in the middle of November, which was three months after the first distribution and just before the last instalment.

The local branch of Equity Bank, a commercial bank, was contracted for the cash distributions. The bank officials opened an account for each participant to facilitate the transfer of the cash grants. The decision to deliver cash grants through formal banking aimed to encourage savings and to help participants to become familiar with financial systems. The decision was also dictated by security concerns related to transporting and distributing large sums of cash and the potential risk for participants to carry large sums just after disbursement.

The amount of the grant was determined based on the objective of recovering people's livelihoods. Hence, the calculation took into account the financial investment needed to set up either agriculture or income generating activities. It was expected that participants used part of the grants to meet immediate needs and to repay debts. The transfer of funds had conditions attached, as participants had to draft business/ expenditure plans beforehand, and had to keep records of their expenditures. However, participants were

at the moment of distribution.

The project area, Otuke County, is rural and remote with no large urban setting. Because of its remoteness, livelihoods depend mainly on subsistence agriculture and extraction of natural resources. Two main conflicts have shaped the project area: the Karimojong raids and the Lord's Resistance Army (LRA) incursion. The first one, being more localised is not comparable to the second in terms of violence, magnitude and loss of human lives, but heavily impacted the assets and economy of households. The escalation of the conflict with the LRA between 2002 and 2006 led to hundreds of thousands of people being displaced in Northern Uganda. The entire rural population was displaced into camps. Presently, even if people have returned to their villages, livelihoods are strained due to the loss of productive assets (plough, oxen), lack of seeds (due to low yield and frequent drought) and most importantly the loss of livestock. Local market dynamics and capacity were still weak and development very slow.

The Uganda case study was built mainly on qualitative data, gathered through semi-structured interviews and focus group discussions with key informants and market actors. These included food security and livelihood officers, project participants, local council authorities, veterinary officers, local herders, market traders, and market tax collectors. Descriptive analysis was validated and reinforced by quantitative information. Data available from baseline surveys and post distribution monitoring provided useful insights on initial asset ownership, income of the target population, preferences of participants and final utilisation of grants. The baseline study provided an accurate characterisation of livelihood groups and their respective household economic cycles[5]. Some adjustment was made to the monitoring database, to take inconsistencyand inapplicable cases into account.Eventually, even thoughdata on market prices was collected every two weeks starting from the middle of March, issues with the standardisation and comparability of the reference items affected the reliability of prices.

2. ASSESSING THE INITIAL MARKET CONDITIONS

Cash transfers, being an external injection to the local economy, can affect local markets. The main impact is an upward pressure of commodity prices. The scale of transfers, the structure and integration of markets, and the local availability are initial conditions that can help us in predicting the magnitude of these effects. The following chapters analyse these features in the rural and remote context of OtukeCounty in Northern Uganda.

THE SCALE OF THE TRANSFER

The scale of the transfer indicates how large the cash injection is compared to the volume of cash normally exchanged in the local economy. In Northern Uganda, the amount of cash transferred with the first instalment(US$ 150,000) was probably too small to have a significant impact on local markets. However, it was not possible to compare the size of transfer with the normal cash flow in the local economy. In these contexts, rural economy is mostly informal and official statistics are weak, if not absent. Therefore, one helpful alternative was to rely on indicators like, the rate between cash transfer and household income, the geographical coverage and the percentage of the targeted population, as proxies for the scale of the transfer. Households' grants represented between 25% and 40% of the annual income for farmer groups, and up to 87% for the poorest landless group. The transfers covered, on average, 15% of the county and sub-county population; but they reached up to 50% at village level. The high value of the grant compared to the income of households and the high coverage at village level were indications of potential market crowding effects. This still depended on how markets were (un)structured and the way participants spenttheir money.

When predicting the impact of cash transfers on local markets, it is important to distinguish the scale of the project(its geographical cover),from the scale of the transfer. It is often argued that scaling-up cash transfer programmes would significantly affect markets, but this depends on the size of the transfer rather

5. Brasesco 2009

than on the scale of the project. Small pilot projects, covering limited geographical areas and conducted in short periods of time can inject considerable amounts of cash and affect local markets even more than nation-wide transfers, where the target population is scattered and receive only small amounts of cash.

MARKET STRUCTURE AND INTEGRATION

Structure and competitiveness of local markets depend on the number, size and distribution of suppliers, and the extent of their differentiation. Markets with a large number of suppliers compared to the potential buyers tend to be competitive. Competitive markets provide better information and less probability that prices are artificially distorted as a consequence of the injection of cash.

The first step before undertaking an analysis of the market structure is to identify which are the markets of interestfor the study. In general terms, this depends on what the project participants have spent money on. If the analysis is ex-ante, the decision will be based upon anticipations of the participants' behavior. The pattern of expenditure will suggest which markets and economic sectors are likely to beaffected by the injection of cash. In Northern Uganda, asignificant percentage of participants spent cash on livestock (82.6%), and on food items (60.7%). However, the amount invested in livestock (69%) was significantly more important than the amount invested in agriculture (11.8%) and other basic needs, like food items (8.2%). As a consequence, the study focused on the livestock market and its satellite economy.

Livestock market structure in Otuke County, LIRA DISTRICT – Northern Uganda

The design of a market model allowed for the identification of different types of marketplaces and transactions, and for the description of the role of the different actors in the value chain (producers, traders, middlemen, retailers). The analysis also looked at the external environment and market services in order to predict features that might distort the market.

The different types of markets and transactions. Project participants purchased livestock either through informal transactions with neighbouring farmers or through formal transactions in market places. Markets were classified as 'small', 'medium' and 'large', according to features like, the distance from the project area, the level of specialisation on livestock trading, the scale of supplies and prices. 'Small markets'are located in the main centre of the sub-county and they are not specialised in livestock trading. They take place either once or twice a week and only small numbers of livestock are traded. The absence of traders was mainly due to the lack of demand,which did not attract suppliers from other districts. 'Medium markets',also called weekly "auctions", are mainly situated in neighbouring counties[6]. They have sections specialised in livestock trading, in which the number of livestock displayedis bigger than in the 'small' local markets. For instance, the 'small market' in Patwali showed less than ten farmers selling a few goats, while the livestock auction in Apala was visited by dozens of traders and farmers displaying hundreds of livestock. In the past years, before the LRA raids decimated local stocks, weekly 'auctions' were 'large' livestock markets. Large markets' are located in other districts, the biggest ones being in pastoral regions, and are far away from the project area. These markets are characterised by bigger supplies and cheaper prices. The main 'large market' is located in Kotido and it gathers hundreds of pastoralists trading thousands of livestock. Kotido market was out of reach for theproject's participants, because of the distance, transport costs and the challenges of dealing with Karamojong traders. Nonetheless, Kotido was the source of livestock for the local traders, which supplied 'medium markets'.

Livestock market chain. The supply side is mainly composed of local traders and farmers. Local traders purchase livestock, mainly cattle, from 'big markets' and sell them in 'medium markets' within the district. In general, local traders are able to supply only few cattle per week. Transportation costs and movement restrictions are the main bottlenecksfor an increase in supply. Traders usually sell livestock in 'medium markets' but, on request, can also supply to local farmers, as it happened during the project period. The

6. 'Medium markets' or 'livestock auctions' were located in Agweng (Ugur county), Apala (Moroto county) and Lamach (Erute county).

standard customers are village farmers. It is rare to find local traders dealing with goats. Local farmers, instead, supply small numbers of goats to either local markets or weekly 'auctions'. Poor farmers selllivestock as a coping strategy to cover unexpected households needs. On the other handwealthier medium scale farmers sell small livestock as part of their normal capitalisation process. This supply is seasonal and it is concentrated between the months of November and December. In this season, prices reach their peak for two reasons, animals are healthier due to the abundance of pasture, and the demand increases due to the additional income of farmers from the harvest of their cash crops.

Local farmers and, to a less extent, 'meat consumers'represented the *main actors from the demand side*. Famers' demands, as part of the restocking process, concentrate between the months of September and March. However, at the time of the project, the demand was still very weak due to the economic strain, caused by years of raids and civil conflict, and the recent repeated droughts. In the past years, big traders from Sudan were known to purchase large numbers of livestock from local villages, testifying the presence of a more vibrant economy. Butchers purchase goats from livestock 'auctions' regularly but in small numbers. For example, Olilim 'small' market had a couple of butchers that purchased on average 2 goats per week from medium markets. Local consumers purchase livestock for meat consumption during special events like weddings and religious celebrations.

The market environment. *Taxes and movement permits* – Market transactions are strongly conditioned by local taxes and movement restrictions, which raise costs and constrain movements of goods within and between districts. These transaction costs affect both the supply and demand side. The transaction process requiresalocal council letter (LC1) that certifies the name of the owner, the characteristics and the origins of the animal and it is needed to take livestock in or out of the market. Suppliers bear the costs of the LC1 letter and the 'market receipt', which is a local tax that vendors pay to access the marketplace. On the other hand, the buyer covers the expenses of the movement permit,which includes the LC1 letter and the veterinary certificate. The permit needs to be carried during the journey from the market to the final destination. Transactions carried out in local markets can be exempted from the movement certificate, when the livestock is not taken out of the village. Conversely, informal transactions do not require these certificates, although it is the norm to have local council officers witnessingthe transaction, and this implies that one should give an informal reward.Quarantine and movement restrictions - In Lira district, livestock movement was under quarantine restriction from January to October 2009, due to cases of foot-and-mouth disease. While it was possible to introduce livestock from other districts, it was not allowedto take livestock out of Lira. Not all the project's participants were aware of the terms and deadlines of the quarantine period, and this was one of the reasons for not accessing 'large markets' outside Lira district.

Market Services. *Veterinary services* -The veterinary officers provide the treatment to all livestock sold in the markets. The council sets the cost of these services, which are mandatory for the release of the movement certificate. At project level, 35% of the participants reported vaccination expenditures. This low percentage is explained by the fact that informal purchases did not undertake veterinary services, as these are obligatory only for formal transactions. The average expenditure on vaccination amounted to around UGX 13,400 per person. A total of UGX 5,109,600 ($2,690) was spent in veterinary services – equivalent to 1.8 % of the total grants.Market management- Local councils usually entrust the management of the marketplace to private contractors. They collect market fees from all vendors, which vary according to the volume and type of business. These ranged from 200 UGX per dayfor bakery products to 500 UGX per day for retailers and butcheries.Formal and informal transactions are conducted with cash and no credit is granted at any stage of the market model. Weak infrastructures and lack of transport services present other obstacles for both the supply and the demand side.

The market analysis showed that livestock markets at regional and district level were competitive with sufficient numbers of suppliers in relation to the number of buyers. Local markets instead presented few suppliers, or traders, and most of the transactions were local and informal. However, the main constraint seemed to be the weak level of integration between 'large', 'medium' and 'small' markets, which meant that surplus markets ('large markets') were not able to promptly supply an increased demand in 'small markets'.

The causes are attributable to an adverse external environment, such as movement restrictions, taxation, and the lack of good services, such as reliable flow of information and well-developed transport systems, as well as marketing networks. These factors weighed on the cost of supply and, therefore, reduced traders' rewards and willingnessto respond to the increase in demand.

AVAILABILITY

The third 'initial condition' to be assessed was the local and regional availability for the demanded commodities and services. This is particularly important when the commodity in question is food or other basic items. Covariant shocks, like droughts, can affect the whole region, causing severe and widespread food shortages. These extreme cases can make food provisioning difficult even when markets are well functioning and integrated. In the livestock market context of Northern Uganda, local availability could have compensated for the weak capacity of local traders to respond to the increased demand. The initial baseline survey shows that only 35% of the targeted population owned some livestock (cattle, goats) before the project started, with an initial population of 75 livestock for every 1,000 households (17 cattle and 58 goats). Only the first phase of the project, produced a demand of 2,734 livestock (284 cattle and 2,450 goats)that represented a 13 fold increase in the initial stock among the target population. This demand was unlikely to be entirely satisfied by local availability (local medium scale farmers).

3. IMPACT OF CASH TRANSFERS ON MARKET PRICES

THE IMPACT OF SHORT-TERM CASH TRANSFERS IN REMOTE AND WEAKLY STRUCTURED MARKETS

'Flash Inflation' in Northern Uganda

The Uganda case study shows that small-scale transfers, despite having negligible impact onprices of commodities at the national level, can produce temporary inflation at the local level. The transfercaused a 'flash' but evident inflation of livestock prices. The increased prices, mainly experienced in local markets and informal transactions, were about 10-30% higher than the expected (seasonal) ones. For instance, the average price of a standard 2 year-old goat increased from UGX 50,000 to UGX 60,000 (up-to UGX 70,000). Cattle normally valued at UGX 240,000 were sold at UGX 300,000. This inflation lasted twoweeks. It was felt only locally and it did not affect 'medium' and 'large' markets.Although, focus group discussions highlighted differences in prices between small and medium markets, these were rather attributableto the normal transaction costs between markets of different size and specialisation. In July, a goat bought at UGX 60,000 in Patwali (small market) was purchased at UGX 50,000 – 55,000 in the 'livestock auction' ofApala (8-16% less).

Inelasticity of supply – Local livestock markets were not well integrated with markets afield and suppliers were not able to promptly respond to the increased demand. The remoteness of the project area, its poor infrastructure and the enforcement of strict movement regulations increased the costs of moving livestock from distant markets (high transaction costs). These structural problems were compounded by the exponential increase of the demand compared with the normal volumes traded in local markets. The demand rose of 13 times the initial livestock population among the target group. These 'crowding' effects were even bigger because the purchase was concentrated in a short period of two to three weeks. Interviews with local traders and farmers pointed out that traders were not able to increase their supplies due to the short time and limited logistic capacities. Project participants argued that the inflation was also due to vendors' speculation. Furthermore, incomplete information on the transfer and on consumers' preferences was another contributing factor to market failure.

Inelasticity of demand - Although participants became aware of the price differentials between markets, they still preferred to purchase locally. Consumers' decisions can be attributed to the high transaction costs, which were even higher for consumers than traders. However, the preference towards local purchase was also associated to trust towards local farmers and about the origin of the livestock. Project's participants considered local animals to be healthier and of better quality, while they thought it riskier to purchase from other markets. Local preferences were also the result of incomplete market information. At the beginning, participants were not completely aware of prices in other markets and they were confused about the quarantine movement restrictions. It is likely that some degree of trauma,as a result of the past conflict, contributed towards discouraging participants from travelling long distances.

The inflation was temporary and it was not expected to further affect local prices in the future. The exponential increase of local stock will rather smoothen out and stabilise prices in the future, as local availability will be better able toabsorb changes in demand. The increased number of livestock is also expected to attract large buyers from South Sudan,who used to regularly purchase livestock from this area.

Review of other cash transfer experiences in unstructured markets.

The Uganda findings fall in line with other experiences of small-scale transfers in unstructured markets. They produced temporary local inflation, although they had negligible impact on commodities' prices at national level. These effects seem recurrent when the size of the transfer is substantialcompared to incomes of households' and when it covers a high proportion of the local population. Common features of these programmes were the high transaction costs and poor supply-side information, which make traders unable to meet the increased demand. Traders can find it difficult to suddenly respond to a localised increase in demand for certain items, especially when they are not informed in advance. This was particularly the case of expensive items (livestock) in Uganda, and goods that are not widely traded (oil and milk) in Niger. Information was a key factor in the cash transfer project that Save the Children implemented in remote locations of Ethiopia's highlands. Traders were given sufficient notice and they were able to supply grains from surplus-producing areas. There was a temporary price hike, when cash was distributed in two districts, which shared the same local market. The price remained high for few days until traders were able to respond to the increased demand[7].

Box 1. Pilot safety net in Niger

In Niger (2008), cash transfers approximately equivalent to $120 were distributed to 1,500 very poor households in the most food insecure villages of Tessaoua district. The project targeted approximately one-third of the population in the targeted villages during the 'hunger gap'. This represented one-third of the annual household income, but it was not significant compared to the size of the wider local economy. While no inflation of prices for the staple food was detected, the inflation of some items, like milk and oil, anticipated possible bottlenecks in the supply chain and traders were not prepared to respond to an increased demand for such items. The transfer doubled the households' income during the project period. Beneficiaries improved and diversified their diet. They reduced the reliance on coping mechanisms – such as credit, migration, or sale of animals – and reduced the daily labour in the fields of better-off households. This gave them more time for land preparation and it lead to an important increase in their crop's yields. Cash transfers also had some positive effect on local trade and the development of certain livelihood sectors, as well as a knock-on effect on the local wage rates. The impact would have been even greater if the transfers were regular and predictable.[8]

7. Adams 2005
8. Save the Children 2009

Many other times, short-term cash transfersoperate on an insufficient scale to inflate food prices, evenin unstructured markets. In **Zambia**, cash transfer projects between 2003 and 2008 did not produce any inflationary effect on input prices, nor distorted local labour markets[9]. Similarly, Oxfam GB's short-term cash grants in Zambia, in response to reduced crop yields and targeting up to 13,500 households, had no inflationary effect on local economies. Price trends followed expected seasonal patterns and participants were able to access basic items, mostly food, at reasonable prices[10]. Also ACF's cash for work project in **Somalia** (2004-5) highlights that traders were able to respond adequately to the increased demand, and that livestock and basic items were available in sufficient quantities. Apart from seasonal price fluctuations, abnormal price inflation was not noted[11]. In other cases, the potential effects of significant cash injections in localised and food deficit areas werelevelled out by the surplus availability in the neighbourhoods (**Malawi**)[12].

Box 2. Mixing cash and food in Swaziland.

In Swaziland (2007-8), cash transfers equivalent to the market price of half-food ration combined to food aid were distributed to 6,200 households. The local food prices temporarily increased up to 37%. This was more than the 5-7% inflation predicted by an initial market survey. However the evidence is inconclusive as to what proportion of this inflation was attributable to the cash injection[13]. On the other hand, stock of food and non-food commodities in shops and local markets did increase, confirming that supplies were responsive to increased demand. This reflected the market survey prediction that markets would have responded fairly well to a cash injection[14].

Cash transfers in well-structured markets usually do not cause relevant effects on prices. In these market conditions, the amount distributed is usually negligible compared with the volume of cash circulating in the local economy and the supply chain absorbs better any fluctuation in demand (Haiti 2004-05, Indonesia 2006). In the Bangladesh case study the transfers did not affect the local prices of staple food. The prices followed the seasonal trends and maintained the different price patterns among geographic areas. Traders and project participants attributed these differences to the transaction costs in the transport of the staple items along the value chain. In a few other experiences, cash transfers contributed to knockingdown prices of commodities by improving trading conditions (i.e. credit services). For instance, the availability of cash in the hands of consumers reduces the need for credit transactions and it lowers traders' uncertainty. The reduced risk is passed onto the consumers in terms of better prices. In these circumstances, evaluations of projects found that cash transfers boost the food and non-food stocks in shops and local markets, mostly suggesting an improvement of market conditions (Red Sea State, Nepal).

THE IMPACT ON MARKET PRICES OF NATION-WIDE SAFETY NETS

Nationwide cash transfer schemes, reaching significant numbers of people, can have broad effects on commodities, labour and service markets. However, the effects of social welfare transfers, like social pensions, seem to be negligible, as the amount transferred is small compared to the cash flow in the local economy and to households' incomes. The level of concern riseswhen nation-wide safety nets target chronically poor areas characterised by remote and poorly structured markets. The following paragraphs provide a brief review of the impact on market prices of the Ethiopia Productive Safety Net Programme (PSNP), and the Kenya Hunger Safety Net Programme (HSNP).

9. Schubert 2004
10. Harvey 2006
11. Mattinen 2006
12. Ellis et al. 2009
13. Devereux et al. 2008
14. De Matteis 2007

Productive Safety Net Programme (PSNP), Ethiopia.

Ethiopia's Productive Safety Net Programme has since 2005 replaced food emergency responses with multiannual, predictable resource transfers to address the underlying causes of poverty. The PSNP assists 8 million rural inhabitants, which represents nearly 10 percent of the Ethiopia population, through public works and direct transfers for those groups unable to work (disabled, elderly etc.)[15]. The peculiarity of the programme is that, depending on the grain availability in the market, participants can choose between food and cash. The PSNP has been under heavy scrutiny for the impact of the global food prices on households' purchasing power. The real value of the cash transfer drastically dropped in 2008 due to the volatility of global prices. Even if the project increased the value of the transfers by 33%, this was not enough to keep track with a food price inflation of about 80%[16].

Several studies have tried to determine the specific contributionof the safety net transfers on the inflation ofmarket prices. The first evidence highlighted an inflationary pressure in the 'cash' project districts, especially in remote and food deficit areas. A study observed that the seasonal fall in prices, expected between December 2005 and February 2006, did not occur. Districts' officials assumed that the programme was creating demand to which the market could not respond. However, the study also pointed out possible speculation among farmers due to the imminent elections, and high prices for staples were also found in surplus-producing areas[17]. Another study conducted at the end of the first year raised similar concerns. Interviews with traders suggested that food prices were subjected to high volatility, but also that 'normal' price seasonality dominated over the influence of the PSNP. In those regions where only cash transfers were delivered, local traders benefited from increased sales, and they responded to the increased purchasing power by increasing the prices of food and other basic commodities. The authors acknowledged the possible transitional nature of the problem, as traders would have adjusted their volumes to the increased demand, but they also warned about the short to medium term implications for household food security[18].

Successive studies on market prices show that the injection of cash did not affect market prices in the longrun. Districts, where only cash was distributed, did not show tangible differences inprice patterns compared to those where only food was distributed[19]. A more recent study analysed monthly data on cereal prices over 12 years, comparing price movements for areas included in the PSNP with those outside the programme. The study found that prices have converged between PSNP and non-PSNP districtsover time, and that this convergence began well before the introduction of the programme. Thesefindings suggest that the impact of cash transfers in non-integrated PSNP is not the dominant driver of these price movements over time. Instead, the observed convergence in prices suggests either that the effect of in-kind transfers dominates or that the convergence is caused by other factors, such as improved road infrastructure. Given that markets, on average, were integrated, the study suggests that the convergence is caused by other factors, most likely infrastructure improvements[20].

Hunger Safety Net Programme (HSNP), Kenya

The Hunger Safety Net Programme (HSNP) is an unconditional cash transfer programme targeted at the chronically food insecure. The goal of the HSNP is to reduce extreme poverty in Kenya. The purpose is to support the establishment of a government-led national social protection system delivering long-term, guaranteed cash transfers to the poorest and most vulnerable 10% of Kenyan households. The project is divided in two phases. The principal objective of Phase 1 is to implement a cash transfer programme in the arid and semi-arid land districts of Northern Kenya, making regular cash transfers to 60,000 households

15. Referred to nominal GDP 2008 – World Bank.
16. Oxfam 2009
17. Kebede 2006
18. Devereux et al (2006)
19. Save the Children 2008
20. Rashid et al. 2009

every 2 months for 3 years. Phase 2 aims to roll out the HSNP under a national social protection system addressing the needs of 1.5 million Kenyans, with Government of Kenya and donor funding.

The monitoring process of the Hunger Safety Net programme will take place regularly after the start of the project. It will include quantitative analysis of price trends and qualitative information from households and traders. Initialfield test monitoring, in two project areas where payment had recently started, already indicated inflationary pressure on prices[21].The sub-locations monitored were quite remote, and people did not have a lot of choice on where to access basic goods. Traders, vegetable sellers in particular, did seem to be inflating prices as a result of the transfers. This was confirmed during interviews with participants, non-participants and traders. The strict level of targeting - mainly elderly people -leavesa high level of exclusion among poor households, which would be affected by an inflation of commodity prices. These initial concerns about price inflation will need to be confirmed from the regular monitoring of price trends. The risk of qualitative information is that, as prices have already undergone a threefold increase in the last couple of years in the region, it can become difficult for interviewees to disentangle and objectively identify the causal factors of inflation.

4. IMPACT OF CASH TRANSFERS ON PRIMARY BENEFICIARIES

In Otuke county, livestock restocking is a gradual process in which different rearing systems, like that of chicken, goats and cattle are closely intertwined. Poor farmers start purchasing a young goat that is kept for reproduction with the purpose of increasing the size of the herd. Once the herd reaches 6-7 goats, a few of them are sold to purchase a young cow. With this system it is possible to increase the stock of cattle without a massive investment in terms of money. Before the cash transfer, poor farmers were struggling to start this capitalization process with the small revenues from cropping activities. Project participants used the transfer to accelerate this traditional strategy. The majority, more than 60%, purchased an average of three goats, while another 20% was able to purchase cattle. In fact, the main step of capitalisation is to purchase goats. However, goats do not generate additional income, as goats' milk is not used for food purposes and they are not sold for income – unless there are emergency needs. As a consequence, this livestock capitalization process did not produce an immediate tangible increase of households' income.

The economic impact will be felt starting from next cropping season, at least for those who were able to purchase cattle. Animals for traction will be used for land cultivation and this will increase the surface area cultivated. In fact, local farming system suffers from low land utilisation rather than land availability. Lack of manpower limits the capacity to cultivate optimal farming surfaces. The availability of animals for traction ensures an increase of cultivated land and significantly improvesagricultural production. The full economic impact is therefore likely to be observed in a couple of years, when most of the participants will have concluded their livestock accumulation cycle and will have access to animal traction.

The baseline study associates livelihoods groups and their wealth to livestock ownership, since different levels of livestock ownership correspond to different levels of household vulnerability and income. The project definitely took a large number of the local population out of the poorest and most vulnerable condition (no livestock ownership).

The cash injection also accelerated the economic transformation process that otherwise would have taken several years. Goats represented important savings and, despite the low initial generation of income, they

21. McAuslan personal communication

are of key saving for further capitalisation as well as to deal with unexpected and urgent needs. Lastly, direct consequences of livestock ownership are, a better diet and improvedagricultural revenues.

5. SPILLOVER EFFECTS ON LOCAL ECONOMY

MULTIPLIER EFFECTS

The effects of cash transfers go beyond the immediate impact on households' consumption and market prices. Cash transfers can produce indirect effects that can either strengthen or weaken the programme objectives. These indirect effects are considered positive when moneyis invested either in productive inputs creating short-term income or in assets that generate longer-term development. The effect of cash transfers may therefore spill over from the target population to the whole local economy.

The analysis of multiplier effects consists of following the steps through which cash passes from the hands of the project beneficiaries to other market actors. While project monitoring usually stops at the first round of expenditures – that is 'how beneficiaries spend money ' – the multiplier analysis follows the cash up to the second and the third round of expenditures. The analysis seeks to understand whether the cash remains in the local economy, and whether additional goods and services are created to meet the additional demand.

The principal method used to calculate and quantify multiplier effects is the Social Accounting Matrix (SAM) that classifies and quantifies the financial flows among different economic actors in the region. The SAM is notoriously difficult to construct and it requires accurate income and expenditure data that is often not gathered through project baselines and monitoring. Simplified methods have been suggested to make it suitable for the context where quantitative data is lacking. A qualitative approach to the multiplier analysis would maintain the framework, while adapting the level of analysis to the information, tools and capacity available at field level.

QUALITATIVE ANALYSIS OF MULTIPLIER EFFECTS IN NORTHERN UGANDA

The analysis of the multiplier effects in Northern Uganda was conducted through focus group discussions with project participants and the local market actors, identified through the market model. Cash transfers yielded wider economic effectson the local economy, as project participants spent their money on local goods and services. Medium scale farmers[22] were the group that most benefited from the initial spending of project participants. Medium scale farmers gained extra income, by selling more livestock (20-50%) at a better price (10-30%). It is likely that 50% of the first round of expenditures passed through the hands of this group.Farmers were probably more accessible and trusted than large traders, while local traders were not able to respond to the increased demand. This helped medium scale farmers to accelerate their own capitalisation process. They spent the increased income to cover basic needs and to increase their productive assets, by purchasing more cattle from large traders. In a few cases, they were also able to further diversify their livelihoods, shifting from livestock rearing to more profitable activities (like fruit cultivation). Conversely, small scale farmers (not project's participants), did not have enough stock to sell to the project participants, hence they did not benefit much from the immediate multiplier effects of the project.

Local traders did not benefit from the project participants' expenditures as much as one would have expected. They were not able to increase their supplies and they benefited onlyfrom the increase of price.

22. Medium scale farmers were better-off group, as they were ahead in the livestock capitalization process. They owned up to 20 goats and therefore they were in the conditions to sell up to 50% and more of their stocks.

Instead, large traders had substantial gains, despite the fact that only a small proportion of the project participants' expenditures went to them. In fact, large traders benefited from the following rounds of expenditures from medium scale farmers and local traders. Eventually, local authorities gained almost 3% of the cash injection in the form of taxes and service fees. They were planning to open new local livestock markets (Okwang) to meet future demand (and get more income from formal exchanges)

ECONOMIC IMPACT ON LOCAL MARKET ACTORS – THE EXISTING EVIDENCE ON THE MULTIPLIER EFFECTS.

This chapter summarises the evidence on the multiplier effects of cash transfers. The studies refer to different types of transfer schemes, from the nationwide conditional transfers in Latin America to emergency short-term responses in Africa and South Asia. While some of these studies quantify the multiplier effects through Social Account Matrices, others focus on the qualitative analysis of how benefits spill over the local economy.

In rural Mexico, a study on the economic impact of PROGRESA[23], found that non-eligible households in the project areas had significantly higher consumption and assets than similar households in non-project areas, showing that everyone in the project area benefited from the positive effects[24]. In the same country, the 'Social Account Matrix applied to the PROCAMPO[25] transfers estimated multiplier effects between 1.5 and 2.6 times the amount transferred[26]. In Malawi, using a similar, but simplified methodology, the multiplier effects of the DECT cash transfers were estimated between 2.02 and 2.45[27] This means that for each dollar transferred an additional income of over $2 is generated in the local economy. This occurs as beneficiaries spend their cash locally, through local businesses, and this produces not only redistribution of incomes but also increased production and trade.

The Malawi study on multiplier effects describes how the local market actors benefit from the cash injection. On average project's participants spent moneys on maize (61 percent) and on other food items (71 percent). The other significant category was medicine and health care with 5% of the total grant expenditures.Medium scale farmers were the main secondary beneficiaries from the initial spending by primary beneficiaries. They were more accessible and likely to sell their crops directly to consumers than large scale farmers. Conversely, smaller farmers were likely to see theirproduces run out more rapidly than medium scale farmers, limiting their sales to consumers. Also village and small traders were among the gainers in the initial round. This is because project recipients purchased a large proportion of their consumption needs from these groups, who, in turn, sourced their produce from larger traders and farmers of all scales. Beneficiaries spent only a small proportion of their cash transfer with large traders; however, the total gain for this group is much larger. In fact, in the following rounds, they had important exchanges with small traders and farmers. Wholesalers are the ones that received less income from the project.

In Nepal, local markets had enough supplies to meet the increased demand produced by WFP public work projects[28]. Most of the cash transfers were spent in local markets (74%), of which 14 percent were within the same village. Only 1.1 percent was spent outside the district. These expenditure patterns imply that the multiplier effects remained within the local economy. Cash transfers did not produce big differences in thefood expenditure between participants and non-participants. However differences were significant in non-food items; participants' expenditure in education was 75 percent more than non-participants. The cash transfers had a more positive impact on the businesses of small village traders compared to

23. Progresa / Oportunidades is a government social assistance program in Mexico is designed to target poverty by providing cash payments to families in exchange for regular school attendance, health clinic visits, and nutritional support.
24. Barrientos 2006
25. PROCAMPO programme was introduced by the Mexican Government in 1994 as a compensatory cash subsidy programme targeted to the producers of the crops affected by the NAFTA trade liberalisation treaty.
26. Sadoulet et al. 2001
27. Davies et al. 2008
28. Majorano Sarapo 2010

bigger traders. The volume of businesses increased among village traders 55 times more than among bigger traders. In the project areas, most of the traders were able to procure more stock and to increase the variety of products in their shops. This increased volume of trade concerned mostly existing traders, as there were no new traders entering local markets. Small village traders were able to meet the increased demand almost as efficiently as bigger ones in the local markets. The positive effects on quantities and varieties of food available in the markets were still present almost 2 months after the cash distribution.

6. THE EFFECTS OF CASH TRANSFERS ON LABOUR MARKET

In Northern Uganda, cash transfers did not produce any significant effect on the labour market because the transfers were very late in the planting season. Even if a few participants spent part of the grants to hire casual labour (2.5%) and draught power for land preparation (3%), the increased demand was not enough to produce significant changes in local wages. Secondary effects on the local labour market may occur in the future, as the increased availability of oxen for traction might affect the demand for labour as well as the capacity to further invest in own-farm production. Despite the fact that the case study did not provide enough evidence, other experiences show that cash transfers may affect the demand and composition of the labour market. The report briefly reviews the evidence on the effects of cash transfer on the demand of labour and the potential impacts of cash for work projects on local markets, wages and migration.

CASH TRANSFERS AND THE DEMAND FOR LABOUR.

Recent experiences have shown that cash transfers can free time from labour to invest in other productive activities. In Niger, cash transfers reduced the need to work in the fields of better-off households. This gave project participants more time for land preparation and it brought about an increase in their crop's yields. Agricultural inputs alone would not have helped the poorest households to increase their food production, without freeing people's time to work in their own fields[29]. In Malawi, cash transfers reduced the supply of labour. The beneficiaries became less dependent on income from traditional labour (ganyu) and they used the additional free time to either work on their own small farms or they stayed unemployed[30]. Similarly, in Sri Lanka, cash beneficiaries reduced their engagement in casual labour over the implementation period. The project evaluation argued that, if labour were used as a coping strategy, freeing up an economically active work force to invest in livelihood activities would have had a positive impact[31].
In South Africa, social transfers supported the participation of the poor in labour markets. Workers receiving cash transfers put more effort into finding work than those in comparable households not receiving grants – and they were more successful in finding employment[32]. Other studies explain this effect by suggesting that social grants mitigate social risk and reduced liquidity puts constraints on poor households, encouraging migration in the search of job. Effects on the demand for labour were also observed in Zambia, where the injection of cash created new forms of labour exchange, as destitute and labour constrained households were able to rent labour and draught power to cultivate their fields[33].

CASH FOR WORK PROGRAMMES AND LABOUR MARKET WAGES

Cash for work programmes can cause labour market distortions and affectlabour migration. In order to

29. Save the Children 2008
30. Ellis et al. 2009
31. Mohiddin et al. 2006
32. Samson 2009
33. Schubert 2004

minimise these potentially negative effects cash for work payments are usually set in line with existing market wages. If salaries are set too high, they can draw labour out from other sectors and induce an increase of the local wages. The India national rural employment guarantee scheme (NREGS) is an example of wages set at the prevailing local market levels. This scheme provides 100 days of employment on rural public work projects at a minimum wage rate. The low wages also used as self-targeting mechanism[34]. Evaluation of the NREGS argues that it smoothened seasonal fluctuations in labour demand and, therefore, it stabilised wage rates[35].

On the other hand, setting cash for work wages to the low local market rates may be not an option in extremely poor contexts. In many sub-Saharan countries, labour markets are highly unstructured, and the wages in the most poorly paid sectors are extremely low, at the point of being exploitative[36]. For this reason, the Ethiopia PSNP did not align its cash for work wages with local prevalent market rates, as this might have compromised the programme's objective of meeting the basic food needs.

Very oftencash for work wages are set at the minimum market rates because they can produce self-targeting effects. Evidence from Kenya showed that when the wage was increased non-poor inclusion errors also increased. Similar arguments have also been made on the basis of findings from the Maharastra Employments Guarantee Scheme (MEGS) in India, where non-poor participation increased significantly after the increase of the cash for work wages. While self-selective behaviour might apply in well functioning labour markets, this is not always the case in unstructured and segmented markets. Furthermore, the marginal value of labour varies considerably within and between households, depending on the amount of labour available in the household, and access to productive assets such as land etc.[37] As an example, the low wages used in the Malawi cash for work programmes were unable to perform a self-targeting function adequately. In fact, cash for work employment was attractive to the less poor as a form of secondary income for households which are not labour constrained[38].

The main concern about setting cash for work wages below market rates is that they might not meet the basic consumption needs. One of the justifications when setting low wages is that cash for work schemes engage people only for a few hours a day. This provides sufficient time for participants to dedicate to other types of complementary activities that generate additional income in order to cover the gap between the wage and the needs for subsistence. However labour constraints, usually single/female headed households, are likely to experience severe difficulties in closing the gap between what they earn with public works and what is required to meet household consumption needs[39]. Single adult (usually female) headed households are less able to source additional incomes from elsewhere, as they use most of the remaining time on household duties. Furthermore, although men and women are paid the same wage on public work programmes, women's earnings in the labour market are lower than men's, and even returns for the same task are likely to be lower for women, meaning that they receive lower returns for the same hours of work[40].

Eventually, a further risk of setting cash for work projects wages arbitrarily (i.e. higher than normal rates), is that they may inhibit normal migration patterns. This would affect employment and wages in both place of origin and place of destination across the country. However, evidence frompublic work programmes in Malawi shows that, despite the fact that extremely different ranges of wages were set, they did not produce any significant impact in terms of labour migration in search of cash for work employment, neither did it lead to an increase of wages in labour market. This was explained by the fact that these programmes often target labour constrained households, which are not very mobile. They are likely to be involved in

34. Murgai and Ravallion 2005
35. Shariff 2009
36. Clay and Barret 2005
37. Barret and Clay 2009
38. Chirwa et al. 2004
39. Chirwa 2004
40. Chirwa 2004

alternative traditional employment and in low return coping activities (gathering firewood etc.,) rather than moving to more remunerative sectors of the rural economy [41].

7. THE EFFECTS OF CASH TRANSFERS ON FINANCIAL MARKETS

Cash transfers can increase liquidity and contribute towards restoring of livelihoods and enable participants to repay debts and re-enter credit markets. In Bangladesh, the cash for work programme helped the beneficiaries to get food items on credit from local grocery shops. Participants highlighted that they found it easier to access credit, as shopkeepers knew that they would be able to pay with the salary from the cash for work activities[42]. In Sri Lanka, WFP cash for work projects increased participants' liquidity and this seemedthe main factor driving market improvement. Cash availability allowed project participants to payoff their debts and reduced the amounts purchased on credit. The increased cash flow allowed traders to replenish their supplies.[43]

In the Red Sea State, local trading revolved around credit systems, where even the poorest families can access credit from merchants. They are considered as high credit-risk actors and they pay the cost with higher purchasing prices. Cash transfers played a positive role in the rural economy relying on credit. Cash transfers helped poor consumers to pay back debts and to bargain for better prices for their goods. Transfers also helped merchants as they reduced the risk of operating in chronically poor areas. The effects of fairly small transfers were felt for about two years in the form of better prices for poor consumers, healthier accounts for local merchants and some increase in the volume and choice of items in local shops[44].

Cash transfers can also increase the chance of beneficiaries becoming eligible to microfinance institutions. In Brazil, where beneficiaries of cash transfers are in many areas provided with a magnetic card to access their benefits from banks or post offices, it was noted that possession of these cards facilitated access to credit from financial institutions. The entitlement to regular and reliable transfers made beneficiaries credit-worthy[45].

On the negative side, cash grants can also undermine the credit market and culture. In particular, short-term and unpredictable grants can give mixed signals and an incentive to free riding. The main problems are attributable to absence of links between grants and microfinance agencies. Mixing grants and loans causes confusion among beneficiaries that result in a high incidence of repayment delinquency and mixed signals to beneficiaries. In general, these problems become manifested when agencies fail to clearly separate grants from loans, and are exacerbated by the difficulties of targeting (who should receive grants, who loans).

A cash transfer project can also undermine microfinance institutions (MFIs) when they are involved in cash disbursement, without previous assessment of their logistic and financial capacities. In Uganda microfinance groups, formed by farmers and small traders were under pressure to accept new members from cash transfer programmes to their saving schemes. This was mainly dictated by agencies having to meet their project objectives (increase number of people with saving accounts)without a proper appraisal of the financial institutions capacity to absorb and manage an exponential increase of members[46].

41. Chirwa et al. 2004
42. Oxfam GB 2010
43. Majorano Sarapo 2010
44. Bush 2007
45. Barrientos 2006
46. Oxfam GB, Kitgum, Northern Uganda. Creti 2009

Close coordination between relief agencies and MFIs and proper sequencing of grants and loans can help in reducing these problems. Initial assessment can help to understand capacity, strategies in place and not to undermine others work.

8. CONCLUSIONS

The review of short-term cash transfers in unstructured markets shows that even small-scale cash injections can produce temporary inflation of local commodities. This seems recurrent when the size of the transfer is significant compared to household incomes and when it covers a high proportion of the local population. The inflationary pressure is mainly attributed to high transaction costs and asymmetric information, which make supply inelastic. Asymmetric information and transaction costs also influence consumers' choice such that, when narrowed to a few commodities purchased locally, they can temporarily overcrowd local markets.

Incomplete information was one of the key factors for the temporarily inflation in Otuke livestock markets. Information becomes important when projects require participants to spend the moneyin a short lapse of time. The unexpected rise of demand for certain goods can create a 'surprise' effect for traders, who can find difficultyin supplying more goods in such short notice. In unstructured markets, traders can also find little reward in increasing the supply, given the short duration of the demand. Incomplete information concerns both the project'sand the market conditions, and it creates a 'surprise' effect also for project participants. They are asked to make important decisions, and significant investments, in short time and without full awareness of the market conditions. In these conditions, the behaviour of participants tends to be adverse to risk and it shelters under local purchase of traditional goods. This is particularly the case in livelihood support projects, where the level of investment can be quite significant. In Northern Uganda, the massive preference for livestock purchase instead of alternative off-farm income generation activities probably reflected a tendency to traditional and safer investment. Livelihood diversification would have required a longer-term approach with more regular and predictable support.

The first part of the hypothesis aimed to test that 'cash transfers to poor households leads to integration of the local commodity and labour markets in remote and less integrated market systems'. The short-term nature of the cash transfers in Northern Uganda made it difficult to properly test the hypothesis.Market integration is a rather long-term process, especially when related to structural conditions. However, the initial 'flash' inflation did not seem to translate in to negative effects for market integration. On the contrary the increased local livestock availability is expected to make local markets more integrated and to smoothen price fluctuations. The increased stocks (>13 times) among the target population are likely to attract bigger traders in the future. In one sub-county, the local council authorities were planning to open a specialised 'livestock' market as a consequence of the expected increased supply and demand in the future.

The hypothesis was also tested by looking at the multiplier effects and at how the cash injection impacted other local market actors. The main secondary beneficiaries were 'medium-size' farmers that were able to supply livestock to project participants. At least, fifty percent of the first round of the project expenditures passed through the hands of 'medium-size' farmers. They spent cash for immediate needs (local), to purchase more livestock (district / regional) and to diversify livelihoods (local). The investment attitude of medium-size farmers will increase incomes and produce new goods in the future. Local traders benefited from the better selling price (10-30%) but they were not able to increase their stock and supplies. Big traders benefited from the third round of expenditures (from medium scale farmers and local traders), and in a small way from direct expenditures of project beneficiaries. Eventually, the high taxation level, made local authorities earn up to 3% of the initial expenditure. This will probably improve services (veterinary, infrastructure) and marketing conditions (new specialised local markets). In general, the impact of the cash transfer was broader than the effects on the income and consumption of project participants. The cash

flow had a positive impact on different market actors and this did not result in a simple redistribution of cash among groups, but it produced investment and increased local supply.

A comparative analysis of the multiplier effects with other cash transfer programmes confirms that medium-scale farmers and local traders are the main second round beneficiaries of cash transfer projects. Medium scale farmers are also the group that would make most profit from direct cash transfers, compared to small and big scale farmer groups[47]. Local traders, instead, seem to play an important role in supplying food and non-food primary items to project participants. In Northern Uganda, local traders had less secondary benefits compared to other projects. This is probably due to the difficulty in increasing the supply of high value goods, like livestock, in markets that are not well-integrated.The other examples also confirm that large traders benefit significantly from the third round of expenditures. Wholesalers and medium scale traders instead are the groups that gain less from the cash transfers,despitethey are usually the main secondary beneficiaries in vouchers programmes. Long-run benefits are often overlooked in the short-term multiplier analysis. However, the spending patterns indicate that along with short-term investments, cash is also spent on productive assets that produce long- termbenefits, and on health and education.

The second part of the hypothesis is aimed to test that 'cash transfers to poor households strengthen the existing markets in well integrated market systems'. The poor information received from the Bangladesh case study did not permit appropriate development of this component. However, the review of other studies show that well-integrated markets have more developed services and cash transfers seem to positively affect access of poor households to financial services. Cash transfers had a positive impact in reducing liquidity constraints of poor households and in improving their access to credit. Cash transfers also had apositive impact on local traders by reducing their risks. The improved liquidityallowed local traders to replenish and diversify their stocks. Cash transfers in well-integrated markets seem to improve poor people's credit-worthiness, diversify and increase the volume of business of local traders and, in some cases, contribute to the reduction of commodity prices, as the increased liquidity decreases traders' uncertainty in trading with poor households.

The Uganda case study did not demonstrate particular impact on the demand and composition of labour. In Uganda, cash transfers were late in the cropping season and only a small percentage of project participants were able to use the grants to employ labour for land preparation. The review of other experiences shows that cash transfer can have important effects on labour markets. Cash transfer frees time for poor households so that they can engage in their own productivity activities. In these cases, cash transfers reduce the supply of labour from poor households and, at the same time increase labour demand, as poor, and labour constraint households are able to employ people for land preparation. The other area of concern is the effect that cash for work interventions can have on labour wages. The approach to align cash for work payments to the minimum wage ratesused also as a self-targeting measure,seems to be suitable in well-structured labour markets. Poor structured labour markets (rural and remote regions in sub-Saharan Africa) present wages that are at too low and even exploitative. In these contexts setting salaries to the minimum market levels could undermine the objectives of the cash for work schemes.

47. Sadoulet et al. 2001

9. RECOMMENDATIONS

ASSESSING THE INITIAL CONDITION AND MINIMISING THE EFFECTS ON PRICES.

Project analysis needs to take into account the 'initial market conditions'. The scale of the transfer, market structure and integration, and local/regional basic needs' deficit can help to predict the potential impact of cash transfer on commodity prices, hence to take measures to minimise any negative effect.

Box 3. How to measure initial conditions?

The scale of the transfer can be expressed as the proportion between the amount of cash injected and the volume of cash normally flowing in the economy. Very often, it is difficult to quantify the volumes of business in the local economy. In these cases, proxy indicators can be used to approximate the scale of the project. These include the rate between cash transfers and households' incomes or expenditures, the geographical coverage and the % of targeting.

Market integration can be measured through historical analysis of prices for specific commodities and services. If the patterns for commodity prices move proportionally in different areas – it means that markets are integrated.

Market structure and competitiveness can be assessed through market model's analysis. These models allow for identification of the number of actors at each position in the supply or value chain (producers, traders, middlemen, retailers and importers), external environment, market services and prediction of features that might distort markets.

It is important to include price inflation into the project's design. This can be achieved by referring to historical prices (rather than current ones) when setting the budget. The historical analysis of prices helps to distinguish short-time inflationary pressure from normal trends. Agencies and donors should allow more budget flexibility to vary the cash transfer levels in line with historical prices of commodities and services. This would pass the risk of price changes from beneficiaries to the cash providers. The higher historical prices could be considered as the worst case scenario for setting the budget allocation. The difference between normal prices and worst case scenarios would be part of a contingency budget-line.

Consider different transfer options in the project design. Food and cash may also be combined so that cash is provided after the harvest when food supplies are plentiful, and food is provided in the lean season when food prices are rising. The alternative would bethe use of vouchers valid for a fixed basket of food items and basic needs. Transfer recipients may find all three types of transfer useful at different times of the year (rural areas in particular).

Agencies and donor guidelines should develop and include recommendations and guidance on how the project design document should incorporate this risk of price inflation. There is a general lack of guidance in the existing practical guidelines available for field practitioners. Donor and agency guidelines should provide guidance on how to deal with these issues in the project design phase.

Agencies should consider working on the supply side of the markets. High transaction costs and asymmetric information seem to be the two main causal factors of price inflation. While lowering transaction costs, often due to poor infrastructure, can be long-term business, improving the information can be a quick and effective way to reduce the temporary inflation caused by cash transfers. Informing traders (both large and small scale) on the potential increased demand and involving them in negotiations prior to the introduction of cash transfers, can reduce the 'surprise effect' on the supply side. Better information and

negotiations can be accompanied with initiatives in support of the capacity of local traders. Experiences with vouchers to boost the capacity of traders to supply specific items have given successful outcomes (Pakistan).

IMPROVING THE MONITORING OF MARKET PRICES AND BETTER UNDERSTANDING OF CAUSAL FACTORS OF INFLATION.

An accurate monitoring of prices requires particular attention in defining and standardizing the characteristics of the commodities in order to avoid comparing different types of goods.

Box 4- Recommendations to monitor commodities prices (Bangladesh).

The price of commodities in the market can be monitored weekly to record any change in their price and availability. These commodities need to have consistency in the way that they are monitored:

- Standardise the items (monitored items need to have the same characteristics, quality, variety, etc.)
- Visit the same trader(s) each time;
- Be sure to use the same unit and quantity each time
- Be sure that the quality of each product is the same each week
- Monitor prices on the same day each week

Another issue to take into account is the likely difference between expected prices and real prices. In market places, where prices are the result of bargaining between sellers and buyers, interviews with market actors can reflect 'expected' prices rather than real ones. In these cases, it can be helpful to crosscheck information with consumers and other market actors.

In many cases the price trends are qualitatively assessed through interviews with local traders and project participants. The responses can be biased by particular preconceptions, like that of traders inflating prices against beneficiaries. Furthermore, the fact that prices have had a significant increase over the last years can make it difficult for local actors to disentangle the causal factors of inflation.

MEASURING THE MULTIPLIER EFFECTS

Follows a 'flexible' step-by-step guidance that practitioners can use or adapt to assess how cash spreads and impacts on the local economy. Although, most of this information is normally available through monitoring and evaluation processes, the traditional analysis usually stops at 'what primary beneficiaries spend the money on'. Following the cash flow would help us to understand who else benefits from the transfer, if cash remains in the local economy and if it helps to produce more goods and services. The level of information varies according to analysis needs, capacity and data availability.

Project baseline: markets mapping and building a market model.

Initial mapping permits identification of which markets are affected by the beneficiaries' expenditures. It is about predicting which commodities and services the cash is likely spent on. Once the key markets are identified, a descriptive model can be developed for each market. The EMMA tool provides guidance on how to develop a market model for rapid assessment. In the Uganda case study, the market model was

used as a monitoring tool to describe the effects of cash transfer on local market actors. A market model consists of identifying the following aspects:

- All the players in the market chain from the primary producers to the consumers. Market chain players are considered to be those that are involved in trading and/or adding value to a particular product.
- The key external factors impacting on the market chain. These factors may be physical (such as infrastructure and natural resources); policies (such as legal frameworks and tariffs); practices (such as corruption and local customs) or attitudes and beliefs (such as consumer trends and beliefs about women's roles).
- The market services needed for the market chain to function and develop effectively(e.g. banking, insurance and credit, transport, business development).

Monitoring the use of cash transfers.

This information is collected on a sample of the targeted population and it gives an indication on the expenditure patterns. Monitoring can also help to identify main markets (if not yet done with the baseline), potential secondary beneficiaries and to understand if cash flow remained in the local economy. This information should, at least, include questions like:

- What commodities and services the cash has been spent on?
- How much has been spent for each item/service?
- Where and from which market's actors, the goods and services have been purchased from? (farmers, local traders, local shops, wholesalers, etc.)
- What is the origin of the purchased products? (local vs. imported)

Secondary rounds of expenditures:

It is an attempt to describe the direction of the cash flow (where trader provisioned their extra-supply – how secondary beneficiaries spent the extra income). It is possible to conduct focus group interviews (or sample interviews) with local market actors and other secondary beneficiaries. The interviews should help to get the following type of information:

- What product or service did the 'local market actor' provide to the project's participant?
- Where 'local market actors' provisioned the extra-supply?
- By how much did their business / activity increase?
- How they spent / invested the extra income? (Third and following rounds of expenditures).

Impact on secondary beneficiaries:

At this level the information requires capturing the change in expenditures and incomesof secondary actors, as a consequence of the cash transfer. This type of analysis can be more complex and time consuming. However, qualitative analysis through focus group discussions can estimate average expenditures (incomes) for each category. This would give an estimative idea of how cash transfers impactother local actors, in terms of income or expenditures, investments, and productions.

Table 1 – Information needed to measure the multiplier effects.

Type of Information	When?	How?	Example of Questions
STEP 1. Livelihood groups income / expenditures			
Income / expenditure patterns of livelihood groups	Baselines	Households' surveys	Level of hhs expenditures / income in normal time or the previous month by livelihood groups and market actors.
	Baselines	Focus Groups	Livelihood mapping using HEA methodology
STEP 2. Markets Mapping			
To identify the key markets that are affected by cash transfers	Baselines (ex-ante)	HHs' interviews, FGD, key informants	What are the markets systems for the commodities and services that project participants most needs?
			Which markets the target group is planning to spend cash on?
	Monitoring (ex-post)	Sample interviews	Which items cash has been spent on? How much has been spent for each group of commodities / services?
Develop key market models	Baselines or Monitoring	FGD and interviews with key informants, local market actors, project beneficiaries.	Where (location on the map) and how (what activities and roles) different groups are involved in the market system?
			Which pathways (or chains) in the market are most important in meeting beneficiaries' needs?
			What forms of infrastructure and types of supporting services are especially important?
			What are the rules, regulations, social norms or practices that are affect the performance of the market system?
STEP 3. Use of the cash transfer			
1st round of expenditures - beneficiaries expenditures patterns	Post-distribution monitoring	Sample interviews with project's beneficiaries	What commodities and services the cash has been spent on?
			How much has been spent for each item/service?
			Where and from which market's actors, the goods and services have been purchased from? (farmers, local traders, local shops, wholesalers, etc.)
			What is the origin of the purchased products? (local vs. imported)
2nd and following rounds of expenditures	Post-distribution monitoring	Sample interviews (or FGD) with market actors	What product or service did the 'local market actor' provide to the project's participants?
			Where did 'local market actors' provision the extra-supply from?
			By how much did their business activity increase?
			How they spend / invested the extra income? (Third and following rounds of expenditures)
STEP 4. Impact on primary and secondary beneficiaries			
Local market actors	Monitoring or final evaluation	Sample interviews (or FGD) with market actors	Level of expenditures / income of the main market actors compared to before the project and normal time.
Changes in the market system environment and services	Monitoring or final evaluation	FGD and interviews with key informants, local market actors, project beneficiaries.	Change in the number of actors (traders) in the values chain
			Change in the volume of businesses and type of goods in the market
			Change in the price of markets commodities and services
			Change in availability and accessibility of market services

BIBLIOGRAPHY

Acacia Consultants Ltd. 2005. "External Evaluation Report: DFID/Oxfam/NOVIB Funded NGO Consortium Response to Drought in Togdheer, Sool, Bari/Nugaal Regions".

Adams L., Kebede E., (2005) "Breaking the poverty cycle: A case study of cash interventions in Ethiopia". HPG Background Paper, ODI Overseas Development Institute.

ACF 2007. "Implementing Cash-Based Interventions". A Guideline for Aid Workers. ACF Network

Barrett, C., S. Holden and D. C. Clay (2004) 'Can Food for Work Programmes Reduce Vulnerability?' in S. Dercon (ed.): Insurance Against Poverty, Oxford University Press.

Barrientos A., Sabates-Wheeler R., (2006). "Local Economy Effects of Social Transfers".IDS University of Sussex.

Brasesco F., (2009) 'Enlarging existing knowledge about direct cash transfer projects in support of returnee livelihoods: the case study of Otuke County, Northern Uganda'.AgrisMundusMSc – October 2009

Bush J., Ati H, A, (2007). "Oxfam's Cash Transfers in the Red Sea State – A Consolidation of Learning". Oxfam GB

Chirwa, McCord, Mvula, Pinder (2004). 'Study to inform the Selection of an Appropriate Wage Rate for Public Works Programmes in Malawi',

Creti, P. and S. Jaspars (2006) "Cash Transfer Programming in Emergencies"Skills and Practices. Oxfam Publisher, Oxford.

De Matteis A., (2006) "Aid or Trade? Relevance of market functioning for cash-based interventions.The case of Turkana". Oxfam Nairobi.

Devereux, S; Sabates-Wheeler, R; Tefera, M; and Taye, H (2006)."Ethiopia's Productive Safety Net Programme: Trends in PSNP Transfers within Targeted Households"– Final Report. IDS and Indak International, Sussex and Addis Ababa

Davies S., Davey J. (2008) – "A Regional Multiplier Approach to Estimating the Impact of Cash Transfers on the Market: The Case of Cash Transfers in Rural Malawi" - Development Policy Review, 2008, 26 (1): 91-111

Ellis F., Devereux D., White P., (2009). "Social Protection in Africa". Edward Edgard Publishing

Farrington, J., Harvey, P. and Slater, R. 2006. "Cash Transfers in the Context of Pro-Poor Growth".Discussion paper for OECD/DAC Povnet Risk and Vulnerability Task Group. Paris: OECD.

Gelan A. (2006)."Cash or Food Aid? A General Equilibrium Analysis for Ethiopia". Development Policy review, 2006, 24 (5): 601-624

Gilligan D. O., Hoddinott J., Taffesse A. S., (2008) "The Impact of Ethiopia's Productive Safety Net Programme and its Linkages". IFPRI Discussion Paper 00839, December 2008

Harvey, P. (2005) "Cash and Vouchers in Emergencies".Humanitarian Policy Group Discussion Paper. London: Overseas Development Institute

Harvey, P. 2007. "Cash-based Responses in Emergencies".Humanitarian Policy Group Briefing Paper 25. London: Overseas Development Institute, January.

Harvey P., Marongwe N., (2006). 'Independent Evaluation of Oxfam GB Zambia's Emergency Cash-Transfer Programme'. Humanitarian Policy Group, Overseas Development Institute.

Kebede E., (2006) "Moving from Emergency Food Aid to Predictable Cash Transfers: Recent Experience in Ethiopia". Development Policy Review, 2006, 24 (5): 579-599

Levine S., Crosskey A., (2006). "Can pastoralism be brought back to life? Towards a safety net and way forward for North East Turkana". Report prepared for Oxfam GB

MajoranoSarapo F., (2010). "More than roads: using the markets to feed the hungry in Nepal". World Food Programme, unpublished.

Mattinen, H. and Ogden, K. 2006. "Cash-based Interventions: Lessons from Southern Somalia", Disasters30 (3): 297-315.

McCord A. (2008) "The Social Protection Function of Short-Term Public Works Programmes in the Context of Chronic Poverty". In Barrientos A., &Hulme D., (2008). "Social Protection for the Poor and the Poorest: Concepts, Policies and Politics". Palgrave Studies in Development.

Mohiddin L., Tchatchua L., Campbell J., Sharma M. (2006)."Cash Transfer Pilot Project Sri Lanka" – Joint Evaluation Report – WFP, Oxfam GB, IFPRI.

Murphy, S., and McAfee, K., 2005. "U.S. Food Aid: Time to Get it Right?"Institute for Agriculture and Trade Policy.

Parker, S., W., Skoufias Emmanuel., (2000). 'The Impact of Progresa on Work Leisure, and Time Allocation'. International Food Policy Research Institute

Rashid S., Teffesse A. S., (2009). "Grain Markets and Large Social transfers: An Analysis of Productive Safety Net Programme in Ethiopia". Paper prepared for presentation at the International Association of Agricultural Economists Conference, Beijing, China, August 16-22, 2009

Sadoulet, E., De Janvry, A., Davis, B. (2001) "Cash Transfer with Income Multipliers: PROCAMPO in Mexico". World Development Vol. 29, No 6, pg. 1043-56

Samson M. (EPRI) (2009). Social Transfers and Pro-Poor Growth – in promoting pro-poor growth: social protection – OECD 2009

Sen, A. (1976) "Famine as failures of exchange entitlements", Economic and Political Weekly Vol. XI, No 31-33, pp. 1273-1280

Sen, A., 1981, 'Poverty and Famine: An essay on Entitlements and Deprivation'. Oxfrod, Clarendon Press.

Save the Children (2008). "Cash, Food and Risk – A Review of the Productive Safety Net Programme". Ethiopia, unpublished.

Save the Children (2009) "How cash transfers can improve the nutrition of the poorest children. Evaluation of a safety net project in southern Niger." Safe the Children

Scandizzo, P., Gaiha, R., & Imai, K. (2007). 'Does the Employment Guarantee Scheme stabilize the incomes of households in rural India?'

Schubert, B. and Goldberg, J. 2004.'The Pilot Social Cash Transfer Scheme: Kalomo District, Zambia', GTZ, Lusaka.

Shariff A. (2009) 'Putting People to Work: What can we learn from India's Mass Employment Scheme?' International Food Policy Research Institute New Delhi, India

Waal, A., de 1989. "Famine that kills: Darfur, Sudan, 1984-1985". Oxford Clarendon Press.

World Bank (2001) "Word Development Report: 'Attacking Poverty: Opportunity, Empowerment, and Security". Washington DC

World Bank. (2009). "World Development Report: Reshaping Economic Geography". Washington D. C.