

# Productive Spillovers of Social Cash Transfers in Africa: A Local Economy-wide Impact Evaluation (LEWIE) Approach

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**Many countries around the globe**, including in sub-Saharan Africa, have implemented social cash transfers (SCTs) as a new line of attack against extreme poverty. Most African SCT programmes involve the unconditional transfer of cash to households that are both asset- and labour-poor. The stated goals of these programmes are social: to improve the welfare of the treated households by providing cash and encouraging changes in behaviour related to nutrition, education and health. But by providing poor households with cash, SCT programmes also treat the local economies of which these households are part, by stimulating demand for local goods and services. In light of the eligibility criteria for SCTs, ineligible households may be more likely than eligible households to expand their production to meet new local demand. If the local supply response is sufficiently elastic, the impacts in local economies may be expansionary rather than inflationary.

Local economy-wide impact evaluation (LEWIE) links models of treated and non-treated households into general-equilibrium (GE) models of project-area economies, explicitly capturing interactions among households. LEWIE models are estimated with microdata from baseline surveys carried out as part of a randomised controlled trials. Thus they provide the micro focus needed to realistically simulate programme impacts, and their simulations can be complemented by experimental estimates. Local impacts cannot be evaluated using aggregate (e.g. national) GE models.

To date, LEWIE simulations reveal important spillovers from SCTs in project-area economies. For example, the Zambia Child Grants Programme generates local income multipliers of up to 1.87 kwacha per kwacha transferred to poor households. Lesotho's Child Grants Programme creates a local multiplier of 2.23 per maloti transferred. Most of the spillover—0.62 per kwacha transferred in Zambia, 1.08 per maloti transferred in Lesotho—is found in households ineligible for the programme. Monte Carlo methods find that the local spillovers are statistically as well as quantitatively significant. Where data from follow-on surveys are becoming available, they confirm that these transfer programmes generate significant productive impacts. Prices play a central role in GE models. SCT programmes can potentially produce price effects that

reduce their efficiency at raising real incomes and possibly even harm non-beneficiaries. However, prices are also the mechanism by which programme impacts are transmitted from demand to production and from beneficiary to non-beneficiary households. The hope is that the local supply response to prices is elastic, so that production expands and price inflation is held in check. There is no question that cash transfer programmes have the potential to be inflationary if the local supply of non-tradables is inelastic.

We find compelling evidence that local production, particularly in project-ineligible households, expands in response to cash transfers. Having models with a fine local resolution is a prerequisite to identifying local production impacts. If the local supply is inelastic, our simulations reveal that real income multipliers diverge from nominal ones, but except in the most extreme of cases, they are always significantly greater than 1.0.

Complementary interventions may be needed to increase the local supply response. Such interventions would need to target SCT-ineligible as well as SCT-eligible households. LEWIE models can be used to simulate the joint impacts of cash transfers and productive programmes that loosen capital and liquidity constraints on local production for different household groups. Such simulations confirm that programme-interaction effects are potentially large and can significantly enhance the local productive impacts of SCTs.

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