



Impacts of the Child Grant Programme (CGP) on the local economy in Zambia



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

The LEWIE model simulations show that the CGP has a potential total income multiplier of ZMK 1.79 in nominal terms, with a 90% confidence interval (CI) of 1.73–1.85.

THE PROGRAMME

The **Zambia Child Grant Programme (CGP)**, whose goal is to reduce extreme poverty and the intergenerational transfer of poverty, forms part of the Government of Zambia's flagship social protection cash transfer programme. Implemented in 2010 by the Ministry of Community Development, Mother and Child Health (MCDMCH), the programme currently reaches 20 000 ultra-poor households with children under the age of 5 in three districts (Shangombo, Kalabo and Kaputa). The CGP transfers ZMK 60 per month to each household, which on average in 2010 represented 28 percent of monthly expenditure.

The objectives of the programme are to (1) supplement (and not replace) household income; (2) increase the number of children enrolled in and attending primary school; (3) reduce the rate of mortality and morbidity among children under 5 years old; (4) reduce stunting and wasting among children under 5 years old; (5) increase the number of households owning assets such

as livestock; and (6) increase the number of households that have a second meal a day.

Viewed from a local economy-wide perspective, the beneficiary households represent the conduit through which cash is channelled into the local economy. As the cash is spent, the transfer impacts immediately spread from the beneficiary households to others inside and outside the targeted villages. Income multipliers within the targeted areas are set in motion by doorstep trade, purchases in village stores, periodic markets and purchases outside the village. Some impacts extend beyond the programme area, potentially unleashing income multipliers in non-programme sites.

This brief is founded on baseline and follow-up household survey data collected in 2010 and 2012 in the three programme districts as part of the randomized control trial impact evaluation of the CGP commissioned by the Zambian government.

THE LEWIE MODEL FOR THE CGP

The LEWIE methodology is designed to detail the full impact of cash transfers on local economies, including that on the productive activities of both beneficiary and non-beneficiary groups. The LEWIE model for the CGP centres on the principal economic activities in which the households participate, household income sources and goods and services on which households spend their income.

Household groups in a given village are linked through local trade, and villages are linked through regional trade. The entire programme region interacts with the rest of the country, importing and exporting goods and selling labour. Interactions among households within the programme area and between the programme area and the rest of the economy are modelled using the survey data. The parameters in the LEWIE model are estimated econometrically. Sensitivity analysis, combined with statistical methods, allowed testing the robustness of simulated impacts for errors in parameter estimates and model assumptions.



The LEWIE simulations assumed that locally grown crops, livestock, retail and other services, including labour, were traded locally. Given high transaction costs with the rest of the country and abroad, prices of the goods produced were assumed to be determined in local markets. Finally, the model assumed perfectly elastic labour supply, reflecting excess labour supply in rural Zambia.

RESULTS

The LEWIE model simulations showed that the CGP had a potential total income multiplier of ZMK 1.79 in nominal terms, with a 90% confidence interval (CI) of 1.73–1.85. That is, each Kwacha transferred to poor households raises local income by ZMK 1.79.

By stimulating demand for locally supplied goods and services, cash transfers have productive impacts, the effects of which are found primarily in households ineligible for the transfers. This finding is not surprising given that the eligibility criteria for the CGP favour asset- and labour-poor households. Beneficiary households received the direct benefit of the transfer plus a spillover effect of ZMK 0.17 for each Kwacha transferred. The ineligible households did not receive the transfer but still benefited from a ZMK 0.62 increase in income per Kwacha transferred. Thus, because of their ownership of productive assets, the non-eligible

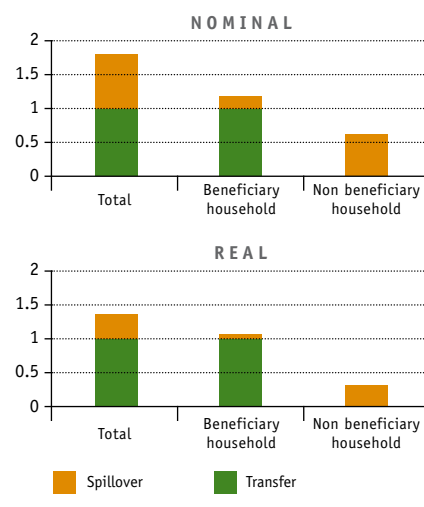
households benefited from the CGP. The impact varied considerably across productive sectors. The cash transfers stimulated the production of crops and livestock by ZMK 0.47 and ZMK 0.09 per Kwacha transferred, respectively. The largest positive effects were on retail, which had a multiplier of ZMK 1.91. Much of the impact on the value of production occurred in the ineligible households.

If local production and supply of goods do not increase sufficiently to meet the increased demand brought about by the cash transfer, the cash transfers can result in upward pressure on prices. This raises consumption costs for all households and could result in a real-income multiplier lower than the nominal multiplier. According to the CGP LEWIE, the real income multiplier of the programme could be as low as ZMK 1.34 (CI 1.29–1.39).

These findings illustrate that without efforts to ensure an adequate supply response in the local economy, part of the programme's impact may be inflationary rather than real. Even a relatively small increase in the local consumer price index can result in a smaller real income multiplier because it potentially affects all expenditures of all household groups. The higher the local supply response, the larger the real expansion in the local economy and the smaller the resulting inflation effect.

The trade-off between supply response and inflation depends on the availability of factors to produce commodities. Complementary programmes that increase the supply response (such as access to credit to invest in capital) could increase the real income and production impacts of the programme. A key finding of this study is that measures to increase the local supply response may be important if the intention is to increase the positive spillover effects of the CGP. These complementary measures should be targeted not only at CGP beneficiary households, but also at non-eligible households that provide many of the goods and services in the local economy.

Distribution of CGP income multiplier on beneficiary and non-beneficiary households



REFERENCES

Thome, K., Taylor, J.E., Davis, B., Handa, S., Seidenfeld, D. and Tembo, G. 2014. Local Economy-wide Impact Evaluation (LEWIE) of Zambia's Child Grant Programme, PtoP project report, FAO, UNICEF and The World Bank.

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Please visit: www.fao.org/economic/ptop/programmes/zambia or write to: Benjamin.Davis@fao.org



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

