PtoP from PROTECTION to PRODUCTION

RESEARCH BRIEF

IMPACTS OF THE CT-OVC PROGRAMME ON THE LOCAL ECONOMY IN KENYA

THE PROGRAMME

The objective of the **Cash Transfer for Orphans and Vulnerable Children (CT-OVC)** programme in Kenya is to encourage fostering and retention of OVC within families and communities, and to promote human capital development. Reaching approximately 150 000 households as of December 2012 with a fixed bi-monthly transfer of KSh4 000, the CT-OVC provides a significant infusion of cash into Kenya's rural economy. The programme's immediate impact is to raise the purchasing power of the beneficiary households. The value of the transfer represented an average of 14 percent of the expenditures of beneficiary households in 2011.

Viewed from a local economy-wide perspective, the beneficiary households are the conduit through which cash is channelled into the local economy. As the cash is spent, the transfers' 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 project area, potentially unleashing income multipliers in non-target sites.

The local economy-wide impact evaluation (LEWIE) methodology is designed to detail the full impact of cash transfers on local economies, including on the productive activities of both beneficiary and non-beneficiary groups, how these effects change when programmes are scaled up to include larger regions and why such effects occur. All of these aspects are important for programme design and for explaining their predicted impacts.

THE KENYA CT-OVC LEWIE MODEL

A LEWIE for a cash transfer programme begins by nesting household farm models for eligible and ineligible households within a region of interest. The household models describe each group's production activities, income sources and expenditure patterns. In a typical model, households participate in activities such as crop and livestock production, retail, service provision and other activities, as well as in the labour market. These activities, as well as household expenditures, are modelled using data from household surveys.

Household groups in a given village are linked through local trade, and villages are linked through regional trade. The entire project region interacts with the rest of the country, importing and exporting goods and selling labour. Interactions among households within the project area and between the project 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 Monte Carlo methods, allows testing the robustness of simulated impacts for errors in parameter estimates and model assumptions.

The Kenya CT-OVC LEWIE analysis focused on the six rural districts in the programme's evaluation area of the Phase 2 scale-up. For this analysis two regions were defined. Region 1 included four districts in Nyanza Province in the west and Region 2 comprised two districts in the east, Garissa and Kwale. Each village had three types of household: eligible households, ineligible households with OVC and other ineligible households.

In the simulations presented below, it was 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, it is reasonable to assume that the prices of the goods produced were determined in local markets. A nearly perfectly elastic labour supply (η=100) was assumed,

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which reflects excess labour supply in rural Kenya. This can be expected to lower inflationary pressures from the programme by limiting wage increases. It does not remove inflationary pressures completely, however, because land and capital constraints continue to limit the local supply response.

RESULTS

The analysis showed that the CT-OVC generated local multipliers significantly greater than 1.0. This means that each KSh transferred raised income in the project area by more than one KSh. The multipliers differed in the two regions. In Region 1 in the west there was a total nominal income multiplier of KSh 1.34, with a 90 percent confidence interval (CI) of 1.32 to 1.37. That is, each KSh transferred to poor households raised local income by KSh 1.34. The multiplier was higher in Region 2: KSh 1.81 (CI: 1.75–1.88). The KSh 34.92 million transfer programme produced a KSh 46.79 million increase in income in Region 1 and the KSh 10.64 million of transfers in Region 2 raised total income there by KSh 19.26 million. However, if supply constraints are binding, higher demand can put upward pressure on prices. This would raise consumption costs for all households and could result in a real-income multiplier that, although significantly greater than KSh 1.0, is lower than the nominal multiplier. This real income multiplier of the programme could be as low as KSh 1.08 (CI: 1.07–1.10) in Region 1 and KSh 1.23 (CI: 1.15–1.30) in Region 2.

These findings illustrate that, without efforts to ensure a high 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 current price index (CPI) can result in a smaller real income multiplier because it potentially affects all expenditures of all household groups.

The difference in total income multipliers between regions was due to a number of factors. The share of out-of-region expenditures for households in Region 2 was less than half that of Region 1. The size of the total multiplier is dependent on the transfer increasing demand for goods and services in the region; increased purchases outside the region do not raise the local income multiplier because the income earned by businesses making those sales accrues to households outside the region.

Eligible households received the direct benefit of the transfer, while ineligible households received the bulk of the indirect benefit. Spillovers were largest in Region 2, where ineligible household nominal income rose by KSh 0.23 per KSh transferred to the eligible households. **Spillovers also created a positive feedback for eligible households,** raising their income by an additional KSh 0.05 per KSh transferred. Thus, in Region 2, the **beneficiary households benefited both directly and indirectly from the transfer programme.**

Impacts of CT-OVC varied considerably across sectors and regions. The cash transfers stimulated the production of crops and livestock in Region 2 respectively by KSh 0.08 and KSh 0.02 per KSh transferred, but the impact on these sectors was small (KSh 0.01) in Region 1. The largest positive effects were on retail, which had multipliers of KSh 0.80 and KSh 0.98 in Regions 1 and 2, respectively. The higher the local supply response, the larger was the real expansion in the local economy and the smaller the resulting inflation effect.

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 CT-OVC programme.** These complementary measures should be targeted not only at CT-OVC beneficiary households, but also at non-eligible households that provide goods and services in the local economy.

REFERENCES

Taylor, J., Kagin, J., Filipski, M. Thome, K. and Handa, S. 2013. Evaluating general equilibrium impacts of Kenya's cash transfer programme for orphans and vulnerable children (CT-OVC), PtoP project report, FAO and The World Bank, Rome.

FOR MORE INFORMATION

Please visit: http://www.fao.org/economic/ptop/programmes/kenya/en **or write to:** ptop-team@fao.org

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