PtoP from PROTECTION to PRODUCTION

RESEARCH BRIEF

IMPACTS OF THE CHILD GRANTS PROGRAMME ON THE LOCAL ECONOMY IN LESOTHO

THE PROGRAMME

The objective of **Lesotho's Child Grants Programme (CGP)** is to improve the living standards of Orphans and Vulnerable Children (OVC) so as to reduce malnutrition, improve health status, and increase school enrolment among OVC. The CGP seeks to accomplish this via an unconditional cash transfer targeted at poor and vulnerable households. The programme's immediate impact will be to raise the purchasing power of the beneficiary households. The LSL 1 440 transfer represents an average of 22 percent of the income of the treated households, every quarter the programme transfers LSL 3.3 million to 2 299 households.

As the recipient households spend their cash, the transfer's impacts immediately spread to others inside (and outside) the treated villages. Doorstep trade, purchases in village stores, periodic markets and purchases outside the village potentially set in motion income multipliers within the treated clusters. Some impacts leak out of the project area, potentially unleashing income multipliers in non-recipient locals.

The local economy-wide impact evaluation (LEWIE) methodology is designed to understand the full impact of cash transfers on local economies, including on the production activities of both beneficiary and non-beneficiary groups, how these effects change when programmes are scaled up to larger regions and why these effects occur. All of these aspects are important for designing projects and explaining their likely impacts to government officials and other sponsoring agencies.

THE LESOTHO CGP 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 productive activities, income sources and expenditure patterns. In a typical model, households participate in activities such as crop and livestock production, retail, service and other production 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 by local trade and villages are linked by regional trade. The whole 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, allow us to test the robustness of simulated impacts for errors in parameter estimates and model assumptions. In the simulation presented below, we assume that locally grown crops, livestock, retail and other services, as well as labour, are tradable across villages within each cluster. The household survey documents trade in crops and livestock with neighbouring villages and outside the cluster. Given high transaction costs with the rest of the country and abroad, it is reasonable to assume that the prices of these goods are determined in village-cluster markets.

The assumption that villages cannot freely import wage workers from outside the cluster is reasonable where transportation is expensive, unreliable or non-existent.

In this case, programmes can affect local wages. Wage effects are muted to the extent that households have an elastic supply of labour, which we assume is high and reflects excess labour supply in rural

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Lesotho. However, the high labour supply elasticity does not remove inflationary pressures because land and capital constraints continue to limit the local supply response.

RESULTS

The pilot CGP generates a total income multiplier of LSL 2.23 in nominal terms, with a 90 percent confidence interval (CI) of 2.08 to 2.44. That is, the LSL 3.3 million transfer programme produces a LSL 7.4 million increase in project-area income. However, if supply constraints are binding, higher demand may put upward pressure on prices. This would raise consumption costs for all households and could result in a real-income multiplier that is lower than the nominal multiplier. In the case of the Lesotho CGP, the real income multiplier is LSL 1.36 (CI: 1.25 to 1.45).

These findings illustrate that without efforts to ensure a high supply response in the local economy, part of the impact may be inflationary rather than real. 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 by all household groups.

PRODUCTION MULTIPLIER FOR	BENEFICIARY	NOT BENEFICIARY
Crop	0.03	0.15
Livestock	0.02	0.26
Retail	0.07	0.52
Services	0	0.08
Other Production	0	0
TOTAL	**0.13**	**1.01**

By stimulating demand for locally supplied goods and services, cash transfers have productive impacts. These effects 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. Recipient households receive the direct benefit of the transfer plus a small spillover effect of LSL 0.15 per LSL 1.0 loti transferred. Their total income increases by LSL 3.79 million (LSL 3.42 million in real terms). The ineligible households benefit from spillovers amounting to an increase in income of LSL 3.59 million (LSL 1.08 million in real terms) with each transfer.

The productive impacts vary by sector. The cash transfers stimulate the production of crops and livestock by LSL 0.19 and LSL 0.28 per loti transferred. The largest positive effect is on retail, which has a multiplier of LSL 0.60. The service sector also benefits (LSL 0.08). As can be seen in the table below, the productive multipliers are much larger for non-beneficiary households, which gain 89 percent of the productive multiplier.

Increasing demand stimulates these four sectors by putting some upward pressure on prices. The higher the local supply response, the larger the real expansion in the local economy and the smaller the resulting inflation level.

Measures to increase the local supply response may be important in order to increase the positive spillover effects of the CGP programme. These complementary measures should be targeted not only at CGP beneficiary households, but also non-eligible households that provide goods and services in the local economy.

REFERENCES

Taylor, J.E., Thome, K. & Filipski, M. 2012. Evaluating Local General Equilibrium Impacts of Lesotho's Child Grants Programme, PtoP project report, FAO and The World Bank.

FOR MORE INFORMATION

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

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