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Do Cash Transfers Change Household Consumption Preferences? – Evidence from an Unconditional Cash Transfer in Kenya

by Kenya CT-OVC Evaluation Team

The Kenya Cash Transfer Programme for Orphans and Vulnerable Children (CT-OVC) is the government's flagship social protection programme, reaching over 125,000 households and 250,000 OVC across the country as of mid-2011. The programme's objective is to provide regular cash transfers to families living with OVC, to encourage fostering and retention of children and to promote development of their human capital.

Eligible households, those who are ultra-poor and contain an OVC, receive a flat monthly transfer of US$21 (Ksh 1500). An OVC is defined as a household resident aged between 0 and 17 years old with at least one deceased parent, or who is chronically ill, or whose main caregiver is chronically ill. Beneficiary households are informed that the care and protection of the resident OVC is their responsibility for receiving the cash payment, although there are currently no punitive sanctions for non-compliance with this responsibility.

The CT-OVC Evaluation Team (2012) investigates whether the programme has changed the preferences of households in terms of their consumption behaviour. It is possible that transfer income may be used differently from earned income, particularly if families behave as if the transfer income is earmarked for children, as the message of the CT-OVC emphasises. While standard economic theory would suggest that source of income is irrelevant, and there has been some evidence from developed countries that shows this to be the case, other evidence has shown the opposite—i.e. that income acquired through government assistance programmes is allocated differently from other sources of income, especially when labelled as child benefits (Kooreman, 2000). If households do indeed treat transfer income differently and spend a disproportionate share on inputs to child health, then programme effects can be larger than expected from a pure unconditional transfer that is treated as regular income and thus only has an income effect on behaviour.

Using data from the baseline evaluation survey that took place in 2007 and the follow-up survey of 2009, the Evaluation Team is able to compare both beneficiary (treated) household and non-beneficiary (comparison) households before and after the implementation of the CT-OVC. Total adjusted mean monthly spending is Ksh 1442 (US$18) at baseline among beneficiary households. Although total adjusted expenditures are almost identical across beneficiary and comparison households at baseline, the value among beneficiaries at follow-up is about Ksh 254 greater—this is consistent with the size of the transfer, which averages Ksh 300 per household in 2007 Ksh. The programme, therefore, had a clear impact on the total consumption of beneficiary families.

To evaluate the programme's impact on spending patterns, the authors use a standard difference-in-difference (DD) approach that shows that participating households had significantly higher expenditures than control households on health and significantly less spending on alcohol and tobacco. Among food groups, DD estimates show that the programme has positive effects on meat and dairy and negative impacts on tubers (mostly cassava), suggesting that households are substituting away from basic staples and increasing the diversity of their diet as income increases.

To assess whether the programme simply moves households along their total expenditure Engel curve or in fact shifts that curve, the authors compare ex-ante expected behaviours based on the impact that one would predict using cross-section baseline expenditure elasticities with the ex-post actual response of households to the programme given by a standard DD approach. The results show that in about half of the consumption categories ex-ante predicted and ex-post actual effects are significantly different, implying that programme recipients' preferences may have changed.

The authors then directly test whether the programme has induced significant changes in expenditure elasticities as measured by their associated marginal propensities to consume. This entails estimating triple interaction models to test changes in elasticity over time. The results show that the programme appears to have impacts beyond simple income effects (movements along the Engel curve) and has caused preferences to shift (a shifting of the Engel curve) for some goods, including health, transportation and communication, and alcohol and tobacco. These results suggest that the cash transfer has indeed changed beneficiaries' consumption preferences. One explanation for this result is the programme's messaging regarding the recipient's responsibilities, suggesting that punitive sanctions (also referred to as 'hard conditions') may not be necessary to induce substitution effects towards socially desirable consumption in cash transfer programmes.

References:

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