Policy International
Centre for Inclusive Growth

The International Policy Centre for Inclusive Growth is jointly supported by the Poverty Practice, Bureau for Development Policy, UNDP and the Government of Brazil.

THE TRANSFER PROJECT

One pager No. 149

April, 2012

Do Unconditional Social Cash Transfer Schemes Have Productive Impacts in Malawi?

by Katia Covarrubias and Benjamin Davis, FAO and Paul Winters, American University

In 2006, the Government of Malawi initiated the Social Cash Transfer (SCT) programme as part of a poverty reduction strategy that targeted ultra-poor, labour-constrained households. The SCT programme is an unconditional cash transfer designed to reduce poverty, hunger and starvation, and improve school enrolment and attendance and the health and nutrition of children among the poorest 10 per cent of households in Malawi. The programme currently reaches over 28,000 households and is expected to serve 300,000 households with 910,000 children by 2015. The value of the transfer ranges from US$4 per month for a household with one eligible member to US$13 per month for households with four or more eligible members. In addition, the programme offers a schooling attendance bonus ranging from US$1.30 per month for primary-school-age children to US$2.60 per month for secondary-school-age children. On average, the transfer represents just under 30 per cent of beneficiary households' per capita income.

A one-year pilot of the SCT programme was designed and implemented in the Mchinji District in central Malawi to allow for the implementation of an impact evaluation. Four control and four treatment Village Development Groups, corresponding to 23 villages and forming part of the original programme roll-out, were randomly selected to be part of the evaluation. Baseline data collection began prior to treatment in March 2007. Follow-up data on a total of 365 treatment and 386 control households were collected in September 2007 and again in April 2008, at which point the control households also began receiving transfers. These 751 households contain 1,876 children below 18 years of age, among which 1,090 belonged to treatment households and 786 to control households.

Possible productive impacts

A cash transfer programme may influence not only household consumption choices but also production decisions, particularly if households face market constraints, making production and consumption decisions inseparable. Liquidity and credit constraints, in particular, are often cited as the main factors limiting productive spending and investments and the choice of income-generating activities in poor rural households. Insurance market imperfections also limit the ability to smooth consumption across time and space. Households may take a variety of actions to hedge against risk including managing risk *ex ante* by diversifying crops or income and through *ex post* actions to cope with bad outcomes such as selling off productive assets or taking children out of school to work at home or elsewhere. Cash transfers can help to overcome such constraints and allow spending and investment that alter production and the allocation of resources, including labour.

Using data from the Mchinji District pilot, Covarrubias et al. (2012) look at possible impacts of the SCT programme in three productive dimensions: (i) investment in assets, particularly agricultural assets and livestock; (ii) changes in labour allocation, primarily as seen through changes in income-generating activities; and (iii) alterations in risk-coping strategies, including the use of child labour.

Results

They find strong and robust impacts generated by the receipt of the SCT that reveal both the productive and protective nature of the transfer. Agricultural investments resulting from the programme were observed in terms of increased ownership of agricultural tools and livestock. Households reduced participation in low-skilled activities outside the household, such as agricultural waged labour and *ganyu* work, generally associated with vulnerability in Malawi. Although due to data limitations an increased focus on household agricultural activities could not be observed by way of increased income from agriculture, the investment impacts indicate an increased focus towards household-oriented productive activities.

At the same time, given those widespread labour constraints, concern arose that households were relying on child labour to intensify their agricultural activities. This appears to be true, and the impact is stronger in the harvest season, where children increased participation in household tasks such as chores and caring for household members. This outcome, linked with the reduction of household involvement in agricultural waged and *ganyu* labour, supports the notion that adult household members increased their involvement in home-based productive work while seeking younger child household members to carry out chores and care for household members.

Finally, the results on risk-coping behaviour highlight a valuable aspect of the SCT: its protective function of reducing household vulnerability from shocks. Households often rely on short-term solutions, including taking children out of school or selling assets, which have long-term impacts in terms of household productive capacity. The SCT programme is shown to have led to a significant reduction in these negative risk-coping strategies.

Implications

These findings highlight the importance of considering, in terms of design, implementation and evaluation of social cash transfer programmes, the economic activities of beneficiary households. In the context of missing and incomplete credit, labour and product markets, cash transfer programmes, even if focused on health, education and nutritional outcomes, may have important implications for the productive activities of beneficiary households. Some of these indirect effects are positive, enabling households to overcome liquidity, credit and insurance constraints, and increase their productive capacity. However, other aspects may lead to possibly undesirable indirect effects, particularly regarding child labour, or may limit the impact on the objectives of the programme, including school attendance and enrolment.

Reference:

Covarrubias et al. (2012). 'From Protection to Production: Productive Impacts of the Malawi Social Cash Transfer', *Journal of Development Effectiveness*, Vol. 4(1), pp.50-77.