

Impacts of Cash Transfers in Africa on Local Economies: An Evidence Brief

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SUMMARY

Cash transfers have multiplier effects (they generate more aggregate income across the local economy than the value of the cash provided) through increased spending and production (1), and they generally do not cause inflation (2).

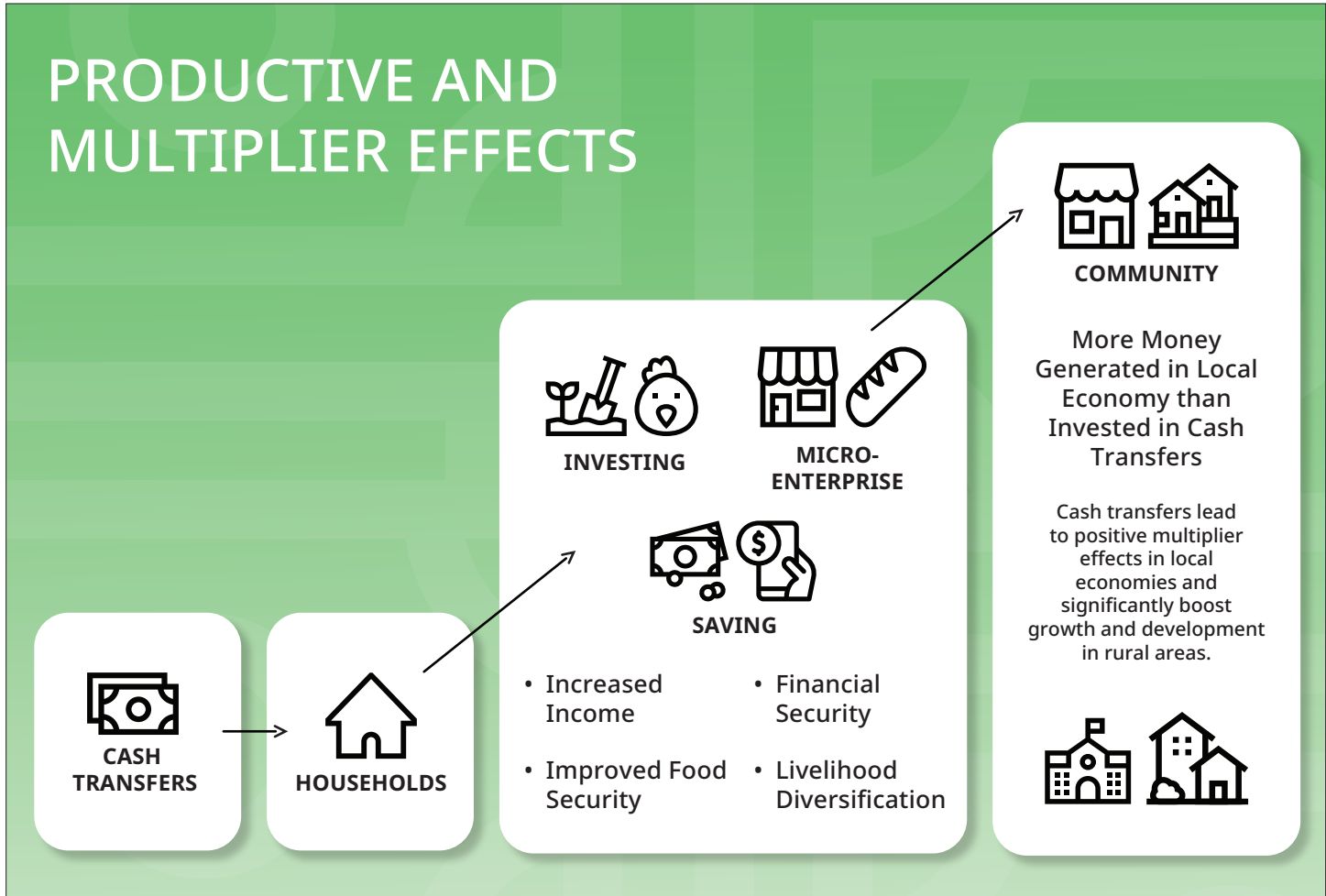


In Africa, multiplier effects range from 1.27 in Malawi to 2.52 in Ethiopia, according to Transfer Project¹ evaluations (3, 4). This means that, for example, in Malawi, a dollar transferred to cash transfer participants adds 1.27 dollars to the local economy (implying a spillover of 0.27 dollars). At the same time, the low proportion of households receiving cash transfers and the amount of the transfers are generally not large enough to have inflationary effects on local economies.



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Figure 1. Productive and multiplier effects



1. INTRODUCTION

Social protection is prominently featured in the 2030 development agenda, and 52.4 percent of the global population is covered by at least one social protection benefit (3). Vital to national development strategies, social protection programmes can contribute to reducing poverty and inequality and can also enhance social cohesion. Nevertheless, there are disparities in coverage, both across the life course and regionally. Regional comparisons indicate that Africa has the lowest social protection coverage globally, with 19.1 percent of people covered by at least one social protection benefit (12.6 per cent of vulnerable persons are covered by social assistance in Africa), yet coverage in many countries is substantially lower (3). Social protection coverage rates among children and adolescents are among the lowest of all groups, at 28.2 per cent globally (ranging from 14.2 per cent in the Arab states and 15.2 per cent in Africa to 76.6 per cent in Europe and Central Asia) (3). At the same time, social protection programming in the Africa region has expanded dramatically over the past two decades. Many countries have invested in and expanded their social protection systems (3, 5). In fact, between 2000 and 2015, the number of non-contributory social protection programmes in the region tripled (6), and almost every African country now has at least one social safety net programme (7).

Despite the positive impacts of social protection, there remain persistent myths that cash transfers 1) are handouts, not investments and 2) that they cause inflation. The reality, backed by rigorous evidence, is that cash transfers are investments that have positive spillover effects on local economies, and they generally do not cause inflation. In fact, cash transfers can increase economic growth through various channels, including increased consumption,



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investments in human capital (education, training, and health), productive investments (in small businesses or agriculture and livestock), improved resiliency to shocks², and increases in labour supply (1).

In this brief³, we summarise the impacts of cash transfer programmes in Africa on the local economy. We review the evidence, leveraging existing systematic and narrative reviews and evidence from the Transfer Project.



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MYTH:

Cash transfers are a handout, not an investment.

REALITY:

Cash transfers are invested in human capital (education, nutrition, health, agriculture, and training). They also improve households' resiliency to shocks. Additionally, cash transfers have a return on investment when spent in local economies, generating additional income and creating a multiplier effect. These factors are drivers for economic growth.

2. WHAT THE EVIDENCE SAYS

Poverty



Cash transfers increase households' productivity and spending, and reduce monetary and multidimensional poverty⁴.

Cash transfers reduce monetary poverty as measured by **poverty headcount** (per cent of the population below the national poverty line) and **poverty gap**⁵ (severity of poverty) and substantially increase households' expenditures (on food and non-food items) in Africa (9, 10). Despite these increases in household expenditures due to cash transfers, it is important to note that cash transfers do not increase expenditures on alcohol and tobacco, according to a global review and Transfer Project evaluations in several African countries (2, 11). Growing evidence also indicates that cash transfers reduce not only monetary poverty, but also multidimensional poverty (12, 13, 14, 15).

MODERATORS: The effects of cash transfers on monetary poverty depend on design and implementation features such as the size of transfer (and whether adjusted for inflation over time), duration of receipt, payment mechanisms, and regularity of payments.

Local economies



Cash transfers have multiplier effects⁶.

When cash transfer participants receive the cash, they increase their demand for goods and services and purchase these in the local community. In this way, income generated from the cash transfers is transmitted to other community members, including many who own local businesses but do not receive cash transfers directly. Households also use cash transfers to invest in productive activities, including small businesses and agricultural production (2). Together, increased spending and productivity is how cash transfers generate additional income, creating a multiplier effect⁷. Transfer Project evaluations of government cash transfers in Africa show that **multiplier effects** range from 1.27 in Malawi to 2.52 in Ethiopia (3, 4). This means that, for example, in Malawi, a dollar transferred to cash transfer participants adds 1.27 dollars to the local economy (implying a positive spillover of 0.27 dollars). Similarly, a global review of 23 studies from low- and middle-income countries shows that, in 13 countries (including 9 countries in Africa), most cash transfers have positive multiplier effects (1). Another study in the review estimates that South Africa's Child Support Grant leads to a 0.27 percent increase in real GDP (17). In Kenya, cash transfers distributed by a non-governmental organization are estimated to have a multiplier of 2.4 (18).



Source: ©UNICEF/UNI574305/Ushindi



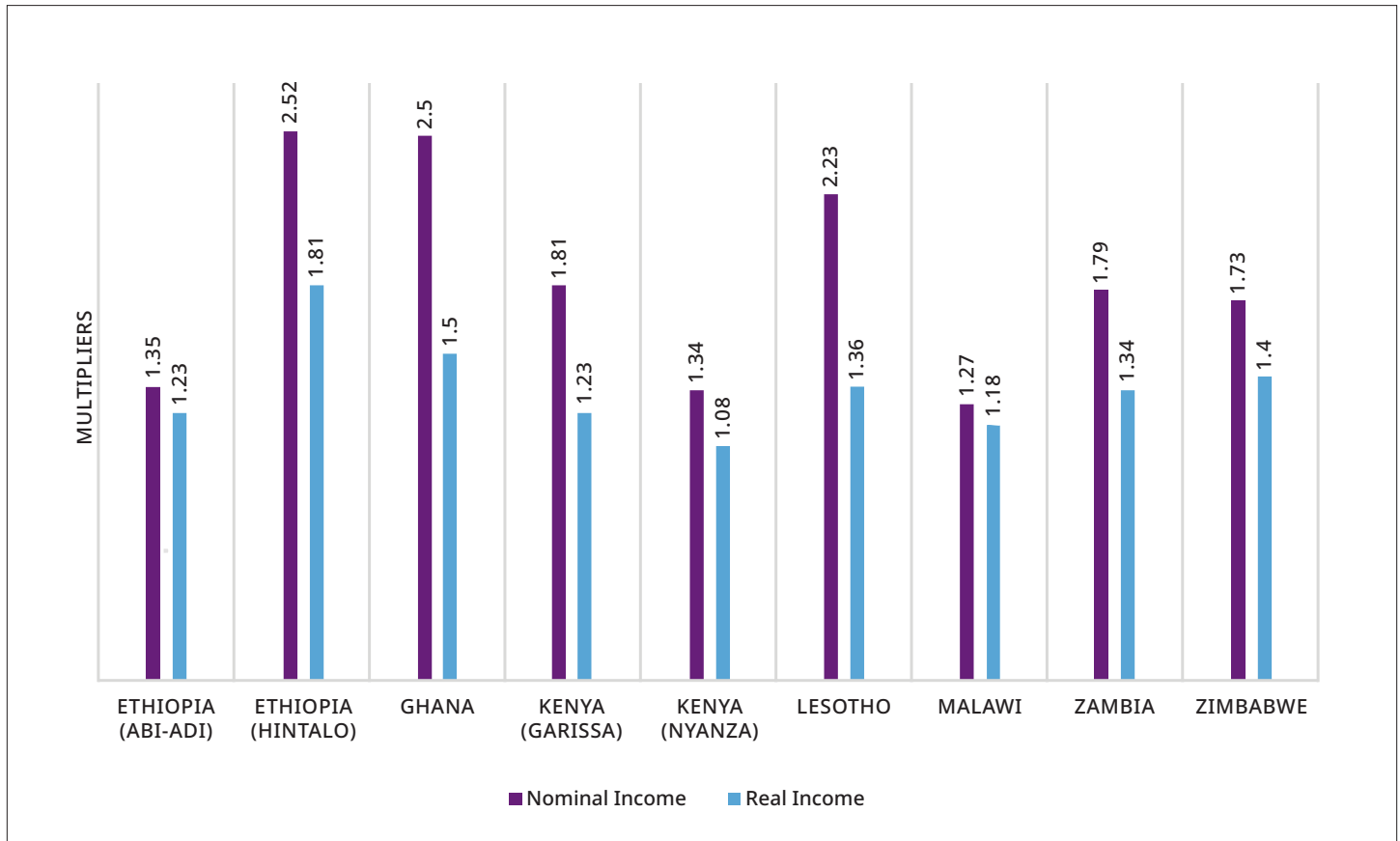
MYTH:

Cash transfers increase spending on alcohol and tobacco.

REALITY:

Evidence shows clearly that households receiving social cash transfers do not spend more on temptation goods, such as alcohol (11). Studies show that spending on these goods either does not change, or more commonly, is reduced.

Figure 2. Income multiplier effects of cash transfers in sub-Saharan Africa



Notes: Nominal income is not adjusted for inflation, and real income is the nominal income adjusted for inflation. Source: (Taylor, Thome, and Filipski 2016; Thome et al. 2016).

Through these multipliers, we see that **cash transfers have multiplier effects through retail and local production**, and this **return on investment** can be separately estimated for these sectors (1, 19, 20). Because cash transfer participants spend the majority of their cash on retail, retail multipliers are generally larger than production multipliers. The size of the production multiplier, particularly for crops, depends on how integrated the local market is with external markets—the more isolated the market, the larger the multiplier and its impact. For example, the **production multiplier** in selected African countries (estimated using data from Transfer Project evaluations) ranges from 0.51 in Zimbabwe to 2.77 in Zambia (20).

Multiplier effects reflect a combination of income spillovers, both for participating households, as well as for non-beneficiary households participating in the local economy. While participants do benefit from spillovers, non-beneficiary households tend to be better placed to benefit because they have relatively better access to labour and assets used in local production (20). For every dollar invested in social

cash transfers, cash transfer households receive spillovers ranging from negligible amounts to 0.29 cents. In contrast, non-beneficiary households gain significantly more, with spillovers ranging from 0.26 to 1.50 per dollar invested (20).



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Inflation and local food prices

At the same time, **cash transfers generally do not cause inflation or increase local food prices.** This is because the proportion of households receiving cash transfers is low (generally less than 10 per cent of the population), and the amount of a social protection cash transfer is not large enough to have inflationary effects on local economies (2). Exceptions may occur in isolated communities where markets are poorly integrated and where supply-side constraints exist.

A cross-country analysis using Transfer Project data from Lesotho's Child Grant Programme, Malawi's Social Cash Transfer Programme, Zambia's Multiple Category Targeting Grant, Zambia's Child Grant Programme, and Zimbabwe's Harmonized Social Cash Transfer demonstrates that cash transfers largely had no inflationary effects on the prices of ten key consumption items (2). Outside of Africa, another study reviewed 46 studies on 11 cash transfer programmes from eight Latin American countries and Pakistan, and also finds that cash transfer programmes do not cause inflation in local economies (21).

MYTH:

Cash transfers lead to inflation.

REALITY:

Cash transfers do not cause inflation in local economies. This is because coverage rates for cash transfer programmes are low and because amounts transferred are too small to cause inflation.

3. KEY TAKEAWAYS

- Cash transfers reduce monetary and multidimensional poverty and increase households' spending and productive capacity.
- As cash transfer recipients increase their demand for goods and services, they spend cash in the local community, generating additional income and creating a multiplier effect.
- Non-beneficiary households tend to be better placed to benefit from spillovers because they have relatively better access to labour and assets used in local production.
- Cash transfers generally do not cause inflation.
- Cash transfers can increase economic growth through various channels, including increased consumption, investments in human capital (education, training, and health), productive investments (in small businesses or agriculture and livestock), improved resilience to shocks, and increases in labour supply.



5. METHODOLOGY

The evidence summarized in this brief is drawn mainly from systematic reviews, narrative reviews, and meta-analyses, with a focus on Africa, as well as impact evaluations conducted by the Transfer Project in Africa. For outcomes where there exist reviews but there are gaps in the evidence from Africa, we draw on global reviews and evidence. For outcomes where systematic reviews and meta-analyses were not available, we draw on evidence from individual studies, identified through searches in PubMed and Google Scholar.

Definitions:

- **NARRATIVE REVIEW** – examines many studies on a single topic and narratively synthesizes the findings to draw more generalizable conclusions. Narrative reviews may be traditional narrative reviews or systematic reviews.
- **SYSTEMATIC REVIEW** - comprises a systematic search of the literature, involving a detailed and comprehensive search strategy. Systematic reviews synthesize findings on a single topic to draw generalizable conclusions.
- **META-ANALYSIS** – uses statistical methods to combine estimates from multiple studies to synthesize data and develop a single quantitative estimate or summary effect size. Meta-analyses are often performed as part of systematic reviews but require a large enough number of studies examining similar interventions and outcomes.
- **IMPACT EVALUATION** – an evaluation which uses rigorous methods to determine whether changes in outcomes can be attributed to an intervention (such as a cash transfer). Impact evaluations may use experimental (where treatment and control conditions are randomized at the individual or community level) or quasi-experimental methods to identify a counterfactual (what would have happened to the treatment group had they not received the treatment).



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REFERENCES



ENDNOTES

- 1 Established in 2008, the Transfer Project is a collaborative network between the United Nations Children’s Fund (UNICEF), the Food and Agriculture Organization of the UN (FAO), University of North Carolina, national governments, and local research partners. Its goals are to provide rigorous evidence on the effectiveness of large-scale national cash transfer programmes in sub-Saharan Africa and the Middle East and to use this evidence to inform the development of cash transfer and social protection policies and programmes via dialogue and learning.
- 2 Resilience is broadly defined as the capacity to better prepare, cope, and adapt to shocks, including those at the community (covariate) and household/individual (idiosyncratic) levels (8).
- 3 This brief is one in a series of briefs examining impacts of cash transfers on different domains, including poverty, health, education, gender equality, and adolescents. Briefs were commissioned by UNICEF and funded by the William and Flora Hewlett Foundation.
- 4 Multi-dimensional poverty is a complementary measure to monetary poverty. It measures deprivations along various dimensions, including education, health, and access to basic services.
- 5 The poverty gap measures the extent of poverty. In other words, it measures how far poor households find themselves from the poverty line by measuring the distance (in monetary value) between household income/ expenditure and the poverty line.
- 6 Multiplier effects are defined as increases in income at the community level above and beyond the initial value of cash transfer injection, due to increase in consumption demand.
- 7 The size of the multiplier depends on what economists refer to as “the marginal propensity to consume.” This is proportion of the transfer that is consumed (rather than saved). Poor households tend to have a larger marginal propensity to consume than richer households, and so cash transfers targeted to poor households are expected to have large multipliers. Similarly, because of this difference in the marginal propensity to consume, redistribution from rich to poor households can stimulate aggregate demand and economic growth.

