

## About REBA

### What is RHVP?

The Regional Hunger and Vulnerability Programme (RHVP) supports improvements in policy and programme approaches to hunger and vulnerability in southern Africa with particular emphasis on the role of social protection.

### The Regional Evidence Building Agenda (REBA)

Evidence-building, together with capacity-building and policy change, is one of RHVP's three interlinked activities. The Regional Evidence Building Agenda (REBA) is a cohesive framework that has guided the Programme's cross-country evidence-related activities between April 2006 and September 2007. The REBA consists of individual case studies of 20 ongoing social transfer programmes together with thematic studies covering cross-cutting design and implementation issues. The studies were carried out by locally commissioned researchers, mostly working through national research and consultancy institutions, in the six southern African countries covered by RHVP (Lesotho, Malawi, Mozambique, Swaziland, Zambia and Zimbabwe). All the case studies involved close collaboration with the agencies – government departments and government-appointed bodies, local and international NGOs, UN agencies and communities – that were implementing the social protection schemes under review. The research was supported and guided by a core team of international mentors which included Stephen Devereux (IDS, Sussex), Frank Ellis (ODG, University of East Anglia) and Lionel Cliffe (University of Leeds) and was coordinated and managed by Philip White (ODG).

### REBA Aims

The REBA aims to support RHVP's efforts to promote improved policy and programme approaches to social transfers as a means of addressing hunger and vulnerability. REBA findings are feeding into a range of policy, advocacy and research outputs and processes, including policy briefs, best practice guidelines, national and regional learning events for policymakers, practitioners and civil society, a film series and research publications. In addition, by working through a network of national consultants, the REBA aims to increase national capacity to carry out analytical research on hunger and vulnerability within the six countries.

### REBA Thematic Briefs

This series of briefs was prepared by Stephen Devereux, Frank Ellis and Philip White, and provides a regional synthesis of findings of both the 12 thematic studies and the 20 individual case studies undertaken under the REBA. The themes explored in these briefs are those addressed in the respective REBA thematic studies, but include additional themes that have emerged during the implementation of the REBA work as being of particular interest and policy relevance.

## Social Transfers and Markets

### Overview

Social transfer schemes interact with markets in two interdependent ways:

1. They have impacts on local markets, in particular markets for food, agricultural input and output, labour and financial services.
2. They are also affected by changing market contexts, which determine the most appropriate scheme design and its outcomes.

*Impacts of social transfers on markets* are rarely properly assessed. They depend on:

1. characteristics of supply and demand in these markets, and how far food and input transfers add to consumption or substitute for commodities already traded;
2. the scale of transfers compared with corresponding volumes traded on local markets;
3. how well markets function or are integrated with markets further afield;
4. how transferred commodities, food in particular, are procured.

A complex array of primary and secondary market impacts is possible, some main ones shown in Table 1.

*Impacts of markets* are a more immediate challenge in designing a scheme. In general:

- a main aim is to address vulnerability arising from changing market conditions, in particular by *protecting food entitlements* when food prices climb;
- *transaction costs* are important and can influence appropriate forms of transfer;
- programmes ideally build in *flexibility* to vary the form and level of transfers in response to market developments, though this complicates management and budgeting;
- *cash transfers* are most effective when their level is linked on a monthly basis to prices of basic goods, especially food;
- *food transfers* are most effective in protecting food entitlements when prices of staples climb in isolated, food-deficit markets;
- *inputs transfers* can have important redistributive effects in favour of poorer farmers, but fail to protect recipients from market effects of unfavourable growing conditions;
- *public works* schemes suffer from contradictory market influences which undermine their effectiveness.

**Annex Table 1** summarises market interactions for our 20 case studies.<sup>1</sup>

1 Briefs on individual REBA case studies, numbered 1 to 20, are available at [http://www.wahenga.net/index.php/evidence/case\\_study\\_briefs/](http://www.wahenga.net/index.php/evidence/case_study_briefs/)

## Impacts of social transfers on markets

Market impacts will occur wherever transfers are either in the form of cash or substitute for commodities that recipients would otherwise purchase, sell or exchange. Their magnitude can be expected to increase to the point where they deserve explicit programming attention wherever transfer amounts are significant in relation to corresponding volumes traded on local markets, and where those markets are isolated or fragmented. Market impacts may be a deliberate objective of scheme design or occur as side-effects of scheme implementation, and in either case outcomes depend on prevailing market conditions. For example, in a food deficit market food aid can help to constrain rising food prices, benefitting all net purchasers of food, while cash transfers aimed at helping recipients purchase food might have the perverse effect of driving food prices up still further. Conversely in a non-deficit market cash transfers can benefit whole communities by stimulating trade in food and other essential commodities, while food aid may depress food prices at the expense of producers and traders, especially if not timely or well targeted. Direct transfers or subsidies of farm inputs are similarly likely to depress input prices and increase demand.

Such effects will be more pronounced in remote areas where costs of moving food in from or out to distant markets are high, or where there are other causes of market failure.

A complex array of secondary market effects is possible. Effects on maize prices can induce price changes in alternative staples such as cassava, millet, sorghum or sweet potatoes. Input subsidies will displace unsubsidised supplies, with consequences for existing suppliers, and if they lead to increased production will cause prices to fall in output markets. Transfers may raise the opportunity cost of labour, so that employers are obliged to raise wage rates to secure the labour they need. Food aid can also affect factor markets for purchased inputs, labour and finance by freeing up household labour and cash resources for investment in own-farm production. Cash transfers may stimulate rural markets for financial services, especially if they use similar delivery systems. There is concern that large-scale cash transfers can induce general price inflation, although there is little evidence for this.

For commodity transfers procurement and delivery choices have further market implications. Food aid has historically been tied to procurement in and shipping by donor countries as a way of benefitting their domestic suppliers and serving other foreign policy objectives. Recent moves towards localising

**Table 1: Typical market effects of some common social transfer instruments**

Transfer type	Primary market effects	Secondary market effects
<b>Cash transfers</b>	<ul style="list-style-type: none"> <li>Upward price pressures, especially food staples in isolated food deficit markets (locational and seasonal effects)</li> </ul>	<ul style="list-style-type: none"> <li>Stimulate local economy and trade, especially in basic commodities and services</li> <li>Limit distress sales of assets</li> <li>Reduce labour supply; increase wages</li> <li>Increase farm and non-farm investment</li> </ul>
<b>Food aid</b>	<ul style="list-style-type: none"> <li>Reduce food prices (especially seasonal effects) depending on procurement policies</li> </ul>	<ul style="list-style-type: none"> <li>Lagged effects on food consumption and production decisions; possible producer and trader disincentives if imported; or incentives if locally procured</li> <li>Income effect can reduce labour supply, increase wages</li> </ul>
<b>Input subsidies</b>	<ul style="list-style-type: none"> <li>Reduce input prices</li> <li>Rationing at subsidised price, with market for vouchers</li> </ul>	<ul style="list-style-type: none"> <li>Private sector input supply (trader disincentives/incentives depending on distribution policies)</li> <li>Increased food production if growing conditions good (lowers input:output price ratio) with lagged effects on food consumption and production decisions</li> <li>Immediate and lagged income effect can reduce labour supply, increase wages, increase farm and non-farm investment</li> </ul>
<b>Public works</b>	<ul style="list-style-type: none"> <li>Labour market effects (raises opportunity cost of labour)</li> <li>Consumption smoothing during lean season</li> </ul>	<ul style="list-style-type: none"> <li>Reduce supply of casual labour, increase wages (perhaps)</li> <li>Reduced time spent on and output from own-farm operations (if timing conflicts)</li> <li>Improved market infrastructure (perhaps)</li> </ul>

food aid procurement in recipient countries or regions have not only reduced procurement costs but enabled those benefits to be extended to developing country producers and traders, although care is then needed to ensure that vulnerability is not created by causing shortages and raised prices in areas of procurement.

By the same token trade fairs aim to encourage traders to operate in remote rural markets, to the benefit of traders and local communities alike.

Some of the main primary and secondary market impacts that typically accompany different forms of social transfer are summarised in Table 1. These are discussed below with reference to the case studies.

## Cash transfers

While cash transfers may result in upward pressure on prices of food and other commodities for which they are most used, this effect is likely only where:

- transfers are on a sufficient scale locally or nationally; and
- markets are relatively isolated (which makes commodity supply inelastic); and
- there is a local food deficit so that household food stocks are depleted and households are dependent on purchased food supplies (which makes demand for food inelastic).

Many cash transfer programmes operate on an insufficient scale to inflate food prices. Zambia's cash transfer pilots in Kazengula and Chipata Districts reached only a few hundred households, the latter in an urban area with well integrated markets. Mozambique's Food Subsidy Programme (PSA) covers all provinces and reaches over 100,000 households, but these are mainly in urban areas and transfer levels (US\$2.70 – 5.40 per month) are extremely low. At this scale market impacts are minimal, but will need monitoring with any future replication or scaling up.

More substantial transfers are provided by the region's universal non-contributory old age grants, and concerns are sometimes expressed about their possible inflationary effects. Lesotho's Old Age Pension provides \$US29 per month to all over-70s, around 72,000 in all. While total annual disbursement is substantial at about US\$25 million, there is no evidence to suggest that this has been inflationary at either local or national levels. The pension is geographically dispersed and comprises little more than one percent of gross national income (GNI). Furthermore, markets in Lesotho are well integrated with those of the surrounding and vastly larger market economy of South Africa. Since over 70 percent of consumption

expenditure goes on imported South African goods, any local multiplier effect of the OAP is likely to be low, even in remoter highland areas. The same applies to Swaziland's Old Age and Public Assistance Grants, which together transferred US\$9 million in 2006/07, about 0.3 percent of GNI. Most of the cash (about two-thirds in Lesotho) is used to buy food, and in both countries maize prices have more than doubled in the last year. Yet in these market contexts such price trends are only minimally attributable to the respective grants, if at all, and have more to do with soaring and increasingly volatile international cereal prices.

Under certain conditions a modestly sized scheme can have substantial local market impacts. Concern Worldwide's Dowa Emergency Cash Transfer (DECT) programme in Malawi covered just two Extension Planning Areas in Dowa District. However, it proposed to inject over US\$1 million into this small area, covering 70 percent of all households therein. Moreover, the project was implemented during the 'lean season' months in this food deficit area, and local markets are among the most weakly integrated in the country. On the other hand, and in contrast to the previous season when Concern had opted for a combined Food and Cash Transfers (FACT) programme, maize was in plentiful supply in Malawi in 2006/07. A local maize market survey at project inception supported the decision to opt for a cash-only transfer, suggesting that under these market conditions traders would be willing to bring supplies into the area, there was little danger of DECT causing price inflation, and prices were more likely to fall than rise during the project period. In the event, prices fell throughout January to March 2007 both nationally and in local district markets as, with a government export ban still in place and another bumper harvest in prospect, farmers and traders sought to run down stocks held over from the previous year. The DECT evaluation concluded that the scheme had had no discernable upward or downward impact on local food prices.

Nevertheless DECT did have other market impacts, as two further surveys confirmed. One estimated the 'regional multiplier effect' of the cash transfers, and concluded that this was in excess of 2 – i.e. each dollar of cash transferred to beneficiaries injected more than two dollars of income into the local economy. By boosting beneficiaries' purchasing power, DECT stimulated local trade in maize, bread and other groceries, health care services, clothes and other items, and increased trader numbers. The other was a labour market survey, which found that the programme reduced the need for beneficiary

households to undertake casual labour (*ganyu*) to earn cash for food and other necessities, freeing up more of their labour time for work on their own fields. This reversed the normal lean-season phenomenon whereby numbers seeking *ganyu* work rise and wage rates fall, just when food prices are rising. Employers on estate farms were obliged to pay more for labourers and wage rates actually rose – a cost to employers but a benefit to all *ganyu*-dependent households in the area. The DECT programme may also have had a positive longer-term impact on financial markets in rural Malawi by demonstrating the technical feasibility and acceptability among the rural poor of mobile banking services and innovative identification and registration technologies. (Davies, 2007; Devereux *et al.*, 2007.)

## Food transfers

Large scale emergency food assistance, as well as boosting recipients' food consumption directly, can play a vital role in bringing down inflated food prices in deficit markets. Non-emergency food aid programmes have a number of different objectives, but raise the issue of possible negative impacts on local producers and traders in areas of distribution through depressing normal price levels in non-deficit markets. This depends both on their scale and on how the food is procured.

For many smaller food transfer programmes in southern Africa, it is safe to conclude that transfers are on too limited a scale and/or too thinly spread to have discernible market impacts. This category includes the Urban Food Programme in Zimbabwe, which distributes monthly food vouchers to around 2,000 beneficiaries across some 20 urban areas in Harare, Bulawayo and Gweru, or the WFP food transfers associated with the 625 Neighbourhood Care Points for orphans and vulnerable children (OVC) across Swaziland and the Food Assistance Programme for AIDS-affected families in 40 districts of Mozambique.

School feeding in Lesotho has operated on a larger scale. The programme has involved fluctuating but non-trivial volumes of food assistance, mainly maize meal, over an extended period, and one might expect at least some effects on maize and other food markets. In recent years this has been a joint WFP-Government activity in support of free school meal provision under the government's Free Primary Education (FPE) policy. Although in the past school feeding has involved transoceanic shipments landed in Durban, WFP's 2004-2007 programme, serving around 260,000

children mainly in highland areas, undertook to purchase food in South Africa or neighbouring countries whenever possible. As Lesotho normally imports more than half of its staple food requirements, this strategy was not expected to create local over-supply and risk undermining local producers, although final distribution to schools by the government's Food Management Unit has meant bypassing private traders locally. The parallel government school meals programme in lowland areas contracts local caterers who purchase the food themselves on local markets, thus supporting the local private distribution network. WFP's smaller follow-on programme for 2008-2010 will procure only through local private vendors (WFP, 2003 & 2007). It seems unlikely, therefore, that recent school feeding activities in Lesotho have depressed producer prices for food staples significantly, and they may well have stimulated local trade in a range of food commodities used for the programme. At the same time the close integration with South African markets is likely to limit any inflationary effect that procurement within Lesotho might have on food prices in local markets, though this may need monitoring in remoter highland areas. The market context for school feeding in Lesotho can be contrasted with that in Malawi in May 2007 when, following a bumper maize harvest and collapse in maize prices, WFP were criticised for approving a four-year US\$60 million school feeding programme based on the importation of US-grown, US-shipped corn-soya blend at a cost two-and-a-half times greater than that of equivalent local purchases.

A range of positive secondary market impacts can be expected from the Lesotho School Feeding Programme. Insofar as school meals and take-home rations substitute for household food expenditure, these include an income effect which can increase household cash availability for other uses including investment in agriculture. In the longer-term, productivity, growth and labour market effects may follow from improvements in educational achievement attributable to the programme. All this, however, depends on a successful roll-out of FPE in Lesotho and adequate capacity to meet expansion in demand for schooling.

## Input transfers

As farmers source mineral fertilisers and improved seeds mainly from traders, input transfers or subsidies are likely to affect those input markets. As tradable commodities the transfers also have a direct income effect on beneficiaries which can impact on labour and other markets. To the extent that they result in

increased overall input use, they also lead to lagged secondary effects on output and labour markets.

All these impacts are again scale-dependent. Several programmes involving input transfers are simply too small to influence markets noticeably. This applies, for example, to Swaziland's Chief's Fields (CFs) and Child-Headed Households (CHHH) programmes under which government provides seeds and fertilisers to OVC for use on land allocated local chiefs. The total land allocated under these programmes is around 5,000 ha, though much less is actually cultivated. With late inputs delivery and lack of community support, crop yields have been poor, and impacts on output markets are almost certainly trivial. Though on a larger scale, the Food Security Packs programme in Zambia has also been thinly spread. Initially planned as a three-year intervention providing inputs to 200,000 households each year, the programme has been maintained but at a much reduced coverage, reaching only 22,500 in 2006/07, spread evenly across all of the country's 72 districts. Yield response has again been subject to delayed delivery due to funding uncertainties, and any impacts on input and output markets in Zambia are anyway dwarfed by those of the parallel Fertiliser Support Programme.

Input Trade Fairs (ITFs) aim to improve smallholder access to purchased inputs where markets have failed, and to kick-start those markets. In Mozambique, the FAO-supported ITFs focus on remote flood or drought affected areas where seeds are scarce and low purchasing power and high transport costs keep traders away. Poor farming households receive vouchers which they can exchange for inputs and implements at a fair which is widely advertised to input vendors, while vendors are guaranteed a market of a predictable size at a stated date and location. The hope is that once ITFs bring traders and communities together in such areas, regular market activity will continue. The ITFs are well attended, and appear to stimulate trade beyond the voucher exchanges themselves. However, they have so far been thinly spread across the country. Over the five years to 2006/07, 323 fairs were held in 240 districts, providing 266,000 recipients with vouchers worth US\$2.6 million. This is an impressive achievement, but fairs are one-off events not repeated in any given location, and there is little to suggest any sizeable cumulative or sustained market impact at present levels of activity.

The Input Subsidy Programme (ISP) in Malawi, in contrast, has been of a scale capable of major market impacts. ISP coupons extend an effective fertiliser

subsidy of almost 70 percent to around half of all farming households. Providing 131,000 tons of subsidised fertiliser at a cost of US\$51.4m in 2005/06, and 173,000 tons costing US\$73.2m in 2006/07, this is a very large programme. Accounting for displacement of full-price market sales, incremental fertiliser use of 52,000 tons in the first year and 79,000 tons in the second has been attributed to the programme, with overall use rising by a third from its 2004/05 (pre-ISP) level (Dorward *et al.*, 2007, Annex A). One critical ISP impact has been on private input suppliers, who in 2005/06 were bypassed by the scheme and suffered a precipitous decline in their share of the fertiliser market from 87 to 41 percent. This was highly damaging to the sector, not just due to the exclusion, but because subsidised supplies made trading in the residual non-subsidised market much more risky. In 2006/07 private suppliers were given exclusive rights over subsidised seed delivery, as well as some share of fertilizer deliveries which gave them 52 percent of the market – still way below their previous long run share.

On the output side, Malawi saw maize output rising from a five-year mean of 1.55 million tons (2001-05) to 2.72 million tons in 2005/06 and 3.22 million tons in 2006/07. Although this was partly attributable to excellent growing conditions in these two seasons, econometric analysis suggests that the 2005/06 ISP may have contributed 300-400,000 tons to the rise in output that year (Dorward *et al.*, 2007, Annex B). These successive bumper harvests had a strongly depressive effect on maize prices. From a peak of over MK50/kg in February 2006, average retail maize price fell to under MK20/kg in May-August 2006, rising only very moderately during the lean-season months of September-December 2006 before falling to MK14/kg in June 2007, a new low for recent history. This benefitted food-deficit households who were net buyers of maize, at a cost to the better-off who were net sellers.

The ISP, like DECT, contributed to a tightening of the rural labour market. Beneficiaries who sold their coupons or used subsidised in place of full-price fertiliser experienced an immediate cash benefit from the scheme, reducing their need to resort to *ganyu* work during the 2005/06 and 2006/07 growing seasons. Increased harvests of maize and tobacco in 2006 and 2007 replenished household food stocks and brought in more cash, which reduced *ganyu* labour supply further in the following growing seasons. Case study respondents reported *ganyu* wage rates two or three times higher than normal in some areas in 2006/07. Again, this had a redistributive effect in

favour of poorer households at the expense of larger farmers who hire labour.

A complex array of other secondary and lagged market effects can be expected from the ISP, the net effects of which depend on many contextual factors including climatic and policy developments. Increased food security and incomes among poorer households may stimulate rural markets and increase own-farm investment, the latter benefitting also from greater availability of household labour. Lower average maize prices may encourage switching to other crops, with knock-on effects on associated markets and on maize price stability. ISP implementation has set back the development of private input trading networks, nurtured from non-existent beginnings in the late 1980s, and has reasserted the role of the agricultural marketing parastatals, with uncertain consequences for future input and output markets. Managing these impacts in the interests of longer-term social protection and development goals will be a challenge for government, one which like the ISP itself will inevitably be strongly politicised.

## Public works programmes

Public works programmes (PWPs) can directly affect markets in three ways: the transfers of food, cash or inputs that they provide in exchange for work can affect commodity prices, the employment opportunities that they offer can affect labour markets, and the infrastructure that they create can in principle improve market penetration and integration. In Malawi, although many PWPs of different designs – recently mostly cash-for-work – have been implemented since the Malawi Social Action Fund (MASAF) was created in 1995, with an investment of around US\$240 million during 2003-2006 alone (World Bank, 2007, Table 3.2), surprisingly little is known about their effects on markets. These impacts depend both on the form and level of transfer and the time of year in which they take place. Many coincide with the lean season, when need is greatest. At this time of year they have maximum potential for impacts on food and labour markets, since cash payments are largely spent on food and labour demands for both *ganyu* labour and own-farm operations are at their highest. Even so, actual transfers typically comprise less than half of PWP costs, and coverage across the country has in general been relatively thin, with one estimate suggesting that just 6.5 percent of households participated in a PWP at least once during 2001-2003 (*ibid.*, Table 3.2). Moreover employment is normally very short-term. For example one of the largest PWPs, MASAF's Local Authority Managed Projects,

provides US\$0.30 for a 4-hour working day and guarantees 2.5 months of employment or about US\$22 in total. MASAF's Conditional Cash Transfer programme provides a higher daily rate but limits employment to just 10 days. At their present scale and geographical spread, PWP impacts on food and labour markets in Malawi are probably minor.

Malawian PWPs have involved a range of asset creation activities, some designed with markets in mind. The current Special Government Public Works Programme, for example, aims to improve transport infrastructure to ease smallholder access to markets and economic services. As elsewhere in Africa, high transport costs are a major constraint to rural markets in Malawi, and one might expect PWPs to have made a positive difference. However, there has been a general failure to demonstrate the value of assets they create, and a tendency to assume without justification that the hoped-for benefits will automatically follow. Several studies have shown that PWP-generated assets are often 'white elephants, unstrategically selected and uncoordinated with broader development initiatives' (McCord, 2005:9) and without proper provision for maintenance.

## Other transfers

A number of other social transfer initiatives can have positive market impacts. Zimbabwe's Small Livestock Transfers (SLTs) and Mozambique's Education Materials Fairs (EMFs) both aim to stimulate trade, working on the same principle as ITFs. The SLTs give beneficiaries vouchers for purchasing small stock (mainly goats, chickens and guinea-fowl) from local livestock owners, but also oblige them to multiply up the stock and 'pass-on' a portion of the increase to other needy households so that the trade stimulation effect is sustained. Though small in scale so far, the intention is that this scheme will eventually reach over 600,000 beneficiaries in 22 districts of Zimbabwe. Likewise EMFs, which provide school-aged children with vouchers which can be spent on a range of educational materials, have so far been implemented only at a pilot scale, but if scaled up could boost trade in these and related commodities in Mozambique and increase demand for education. Swaziland's School Bursaries scheme, which enables schools to provide free education to OVC, has also expanded demand for education and like EMFs may thereby have eventual positive impacts on the wider economy.

Finally, though not public sector social transfers, some community or commercial savings schemes

can affect markets in ways that have positive social protection impacts. In Lesotho, burial societies have multiplied in type and number since the advent of the AIDS pandemic and now operate at all levels, from unregistered kinship-based arrangements through community or work-based societies to large commercial enterprises. As few families do not belong to at least one society, the aggregate value of subscriptions and payouts nationwide must be substantial. The societies have greatly expanded the market for funeral-related services including insurance, and could pave the way for other rural financial services such as banking or micro-finance associations. The Kupfuma Ishungu Rural Micro-Finance Programme (KI-RMFP) in Zimbabwe, which uses an internal savings and lending (ISAL) model to promote improved rural livelihood

## Impacts of markets on appropriate design of social transfers

A more direct challenge for social transfers is the potential for local markets to determine the most appropriate scheme design and to influence scheme outcomes. Social transfers are often designed to address vulnerability arising from changing market conditions, in particular by stabilising recipients' food entitlements in the face of rising food prices. In southern Africa such adverse price movements occur in extreme form following periodic drought-induced crop failures, but are also a regular, seasonal source of hunger and vulnerability with many households forced to sell food at harvest time (when prices are low) to meet cash needs for essential purchases, and then buy food during the lean season (when prices are high) to meet consumption needs.

Transaction costs are also important. In areas poorly served by markets, not only do households tend to face higher prices of commodities they want to buy and lower prices for those they want to sell, but also higher time and money costs of reaching a market. For this reason, where food is delivered closer to recipient homesteads, food deficit households may prefer food or inputs to cash transfers despite other attributes of cash that they might consider advantageous. Preferences have been observed to vary according to season (food during the pre-harvest lean season, inputs at planting time, cash at other times) but also tend to be gendered (with a greater preference for food amongst women and cash amongst men).

A general design principle is that transfer programmes should support rather than undermine local markets,

while protecting the poorest and most vulnerable from adverse market movements. Programmes that build in some flexibility to vary the form and level of transfers in response to market developments offer potential gains in both of these areas, but this level of responsiveness is likely to come at a cost in terms of additional management and logistical burdens and budgetary uncertainties.

## Cash transfers

Cash transfers can help households both minimise the need for post-harvest sales and make lean-season purchases, and give beneficiaries the maximum possible degree of choice over what goods or services they can obtain with their transfer in local markets. For recipients, the single most important drawback is that they are put at the mercy of those markets, in terms both of market prices and physical market access. A particular problem is the often unpredictable changes in the food purchasing power of the cash amount that has been set. When maize prices rise steeply in response to a shortage or general price inflation, the food equivalent of the transfer plummets as does the protection from hunger that it affords its recipients.

Four of our five cash transfer case studies have seen beneficiaries' food purchasing power fluctuate with changes in maize prices. The Zambia cases are variants of the Kalomo Pilot Social Cash Transfer Programme which set the monthly transfer at a level equivalent to a 50kg bag of maize, and have already seen some upward revision of the basic monthly transfers since their inception. However, these pilots have not so far encountered a situation of steeply rising maize prices, when quarterly or monthly transfer adjustments might need to be made to protect recipients from hunger. The values of the OAP in Lesotho and the Old Age and Public Assistance Grants in Swaziland have been eroded of late by the rising price of South African maize-meal. In Lesotho this was partly offset by increasing monthly payments from M150 to M200 as an election pledge in early 2007, though there has been no revision since. Maize price changes in Mozambique have so far made little difference to the food value of the PSA transfers, as they are in any case equivalent to only about two days worth of food purchases.

The Malawi DECT programme and its predecessor FACT were unique in adjusting cash transfer levels not just by household size at the start of the programme, but thereafter by maize price on a monthly basis so that food entitlements would remain constant. With the unexpected fall in maize prices in early 2007, DECT found itself reducing monthly

transfer levels substantially from their original value, a move which was unpopular with beneficiaries and widely misunderstood. Many felt that a floor should be placed under such declines so that purchasing power over other basic items would remain intact. Reduced payments also meant that DECT came in substantially under budget, whereas FACT overspent its budget due to unexpectedly high maize prices. In essence, the implementing agency absorbed the effects of maize price variation rather than the target group, but a recommendation of the DECT evaluation was that transfer levels should reflect prices of a basket of essential goods, rather than just maize which with falling prices comprised a declining proportion of beneficiary purchases.

## Food transfers

For beneficiaries, the advantage of food transfers over fixed-rate cash transfers is that they provide food entitlements which are market independent. In common with variable-rate cash transfers such as DECT, the burden of food price risks is borne by the implementing agency rather than recipients. Food transfer recipients in southern Africa have thus been insulated from the recent rises in maize-meal prices that have proved so costly to those on a fixed cash allowance. Protecting target groups from price risks in this way is a very worthwhile objective of any social transfer programme, but for implementing agencies it means reduced ability to budget accurately for programme costs.

The Zimbabwe Urban Food Programme is a rather extreme example of this budgeting problem, as the implementing agency ActionAid had to deal with accelerating hyperinflation and a vast and widening gap between official and market exchange rates for the Zimbabwe dollar (Z\$). To cut costs the programme switched from direct food distribution to a voucher system in which two large retailers exchanged beneficiaries' vouchers for a monthly grocery basket, redeeming vouchers from the scheme at an agreed Z\$ price within a limited time period. The intention was to keep the external cost of each basket to £9, but equivalent Z\$ prices had to be negotiated monthly with the retailers with a view to likely inflation during the month, while the exchange rate used to purchase local currency had to be negotiated monthly with the Reserve Bank, based on – but some way below – current market rates. With the Z\$ price of the basket increasing by over 200 times between January 2006 and April 2007, the result for ActionAid was a progressive erosion of the purchasing power of their external budgetary resources, forcing a substantial cut in beneficiary numbers. In this case, therefore, burden of food price inflation was ultimately borne

by those eligible households that were excluded from the programme as a result.

Food transfers also have an income effect where they reduce household need to purchase food or where transfers are sold. This is not independent of local food prices, and will rise in food-deficit markets where prices are high. Most food transfers produce an income effect as well as additional consumption – indeed this is recognised in the design of, for example, the Lesotho School Feeding Programme – although there have been no assessments of the balance between the two. As with other transfers, a portion of this incremental income may be used for farm or non-farm investment.

## Input transfers

Input transfers also provide recipients with a degree of independence from price levels in local input markets, though this is less vital from a social protection perspective than the equivalent insulation that food transfers afford. As with food transfers, a direct income effect will follow from displacement of purchases and (for poorer households) sales of transferred inputs. The Malawi ISP, for example, saw a thriving market for fertiliser vouchers developing, albeit with prices well below their nominal value.

The social protection impact of input transfers hinges more crucially, however, on the production increases that they elicit. These depend on incremental input use, accounting for displacement of normal input purchases, as well as on timing of delivery, weather, complementary inputs, extension advice and a range of other factors. The portion of incremental output not absorbed by additional household consumption provides a further income effect which is subject to output market prices in the following year. If the scheme is large enough to influence markets then a more complex set of scheme-market interactions arises. Malawi's bumper maize harvests of 2005/06 and 2006/07, boosted by the ISP, meant that households had to buy less maize and could sell more, on top of the dramatic fall in maize prices which benefitted all net consumers. The rise in *ganyu* wage rates that also followed provided a further boost in real incomes for poorer households. These income effects can in turn have positive dynamic impacts on livelihoods by boosting farm and non-farm investment.

If well managed, input transfers can thus amplify the benefits recipients gain from favourable growing conditions, both directly and via markets. If they are large, they can also, as we have seen, affect markets in ways that have redistributive impacts.

This may be defensible on social protection grounds, even if inefficient and disincentivising to commercial production when it leads to over-supply of domestic food markets and profitable export markets are unavailable. But the weakness of input transfers is exposed when growing conditions are unfavourable. Not only do they fail to insulate recipients from weather-induced food output fluctuations on their own farms, but recipients are then at the mercy of spiralling food prices in local markets because other farms in the vicinity are likely to have faced similar growing conditions.

## Public works

Unlike input transfers, public works are considered to provide a 'countercyclical' safety net by offering employment and transfers at times of stress when food prices are high, with the effect of smoothing consumption and preventing distress sales of assets at the same time as creating community assets. They are also in principle 'self-targeting' in that by offering a wage (in cash or kind) somewhat below prevailing market rates, only the poorest and neediest will apply.

The experience of PWPs in Malawi suggests that these putative advantages can in practice remain unrealised. Apart from shortcomings in their asset creation record, problems have arisen because of contradictory market effects. Implementation during the lean season means that they tie up household labour at times of peak labour demand for own-farm operations, which may well depress productivity among beneficiary households and perpetuate the very sources of vulnerability they are designed to address. This is a particular danger when, as has occurred in Malawi, PWPs have been seen as a response to chronic poverty and are implemented at scale every year regardless of market conditions. The self-selection principle has also not worked well. At times of stress, schemes are over-subscribed even at below-market wage rates, and the lower the PWP wage is set the less efficient the scheme becomes at transferring income. In practice wages are often set above market rates and jobs are rationed by other means, leading to targeting errors.

## Other transfers

From our remaining case studies, two in Zimbabwe can offer insights into ways that schemes are attempting to adapt to prevailing market contexts. By transferring productive assets, the Small Livestock Transfers scheme is providing recipients with a means of livelihood promotion that could help insulate them

from hyperinflation effects more sustainably than food aid or farm inputs, providing animal diseases can be controlled. The Rural Micro-finance programme has proved innovative in several ways, for example by tailoring its basic ISAL model to the needs of AIDS widows and OVC, and shifting to asset-based savings. Unfortunately for both of these projects, and many others studied, monitoring of impacts has been weak, so that useful lessons on market impacts and interactions tend to go unlearned.

## Lesson learning on market interactions

### Lessons for cash transfers

- The case studies found no evidence to support the notion that cash transfers have an inflationary effect on general price levels in the local or national economy.
- The case studies support findings from elsewhere that when food is relatively plentiful in local markets, or where markets are well integrated with larger markets further afield, cash transfers to very poor households are unlikely to produce damaging food price inflation.
- Cash transfers can however have important pro-poor market impacts, stimulating the local economy, raising local wage rates and creating a demand for financial services. This effect seems less pronounced in Lesotho and Swaziland where a large proportion of transfers are spent on food and other imports from South Africa.
- A main use of cash transfers is to purchase food. Food price rises depress the food entitlement provided by a fixed cash transfer, often dramatically. In southern Africa there is a strong case for cash transfers to include a premium linked on a monthly or quarterly basis to the price of maize, and possibly of other essential goods too (for example using a consumer price index for the poorest quintile or decile). This requires close monitoring of main markets in all scheme locations. For nationwide programmes where spatial food price variations are large, there may also be a case for varying transfer rates by province or region. It also requires a capacity for flexible budgeting by the implementing agency – a better option than leaving target groups to bear price risks.

## Lessons for food transfers

- When food deficits cause extreme seasonal food price inflation in poorly integrated markets, cash transfers become inefficient at protecting entitlements and may push prices up further. This situation was not encountered during any of our case studies, but is one in which short-term food assistance to meet subsistence needs of the most vulnerable and to help limit the price rise is appropriate. A mixture of food and variable cash transfers, though administratively more demanding than just food or just cash, can combine the best of both and the drawbacks of neither.
- Food aid is often criticised for depressing food prices, and thus producer and trader incentives, when imported into an area where marketable surpluses are already available and/or markets are not well integrated. A market-sensitive approach to food procurement and distribution can yield critical benefits while avoiding these damaging effects. WFP's recent moves in this direction are very welcome, though unfortunately still limited in the case of US-donated food aid.
- While insulating beneficiaries from local food price fluctuations, food transfers require price risks to be borne by the procuring agency. With increasing food price volatility on world and regional markets, this is problematic even for large agencies such as WFP. For smaller agencies unpredictable project costs can force a severe scale-down in coverage. Flexibility on the part of donors can mitigate these problems.

## Lessons for input transfers

- Large scale input transfer programmes have market impacts which are multiple, dynamic and complex. The Malawi ISP has highlighted the consequences of bypassing and thus undermining a nascent private input supply network, as farmers switch from full-price to subsidised inputs. For a subsidy, the use of vouchers helps to limit costs and leakage across borders and to non-needy groups, although misallocation and sale of vouchers means that some leakage remains.
- With favourable growing conditions and good management, input transfers can boost food production, bring down food prices and improve food security. Recipients experience an income effect both immediately from the initial input distribution and later from the increased output. Wage rates are likely to rise, as is farm and non-

farm investment. These impacts are redistributive in favour of poorer households who normally buy food and undertake casual labour, and at the expense of larger farmers who sell food and hire labour. National surpluses may be costly to store or export, lowering programme rates of return. A main weakness of input transfers is that poor growing conditions often affect recipients and non-recipients alike, exposing both to the food-deficit market conditions that ensue.

- Input trade fairs offer potential gains from the stimulation of markets for a wide range of inputs and implements, but these tend to be one-off gains limited to times and locations of the fairs unless, combined with other initiatives, they lead to effective demand being sustained beyond the fairs themselves.

## Lessons for public works

- In principle, PWPs intervene in labour markets to smooth consumption and prevent distress sales of household assets during times of acute food stress by providing employment with wages in cash or kind, set at levels so that only the poorest households with able-bodied members will apply. They can also create infrastructure that improves the functioning of local markets.
- Despite some significant achievements, experience suggests that these gains are often elusive because a) PWP demands for labour tend to conflict with peak labour demands for agriculture; b) during times of stress the reduction of wages required to balance supply and demand for places on schemes is such as to sacrifice the efficiency of transfers, so in practice self-targeting is replaced by job rationing; and c) assets created on works tend not to be sufficiently coordinated with broader development initiatives or properly maintained, so do little to improve market integration.
- Transfers provided under PWPs (cash, food or inputs) have the potential to affect markets like any other transfers, but these market impacts have not been assessed in any detail in our focus countries. Since PWPs are spread thinly across the country and offer only very short-term employment, it is unlikely that such impacts are very significant.

## Lessons for other transfers

- Like input trade fairs, trade fairs of other kinds can stimulate trade and bring longer-term benefits

in their respective sectors, but demand tends to be limited to the times and places that fairs are held.

- Livestock transfers offer the additional prospect of benefits that are inflation-proof and sustainable, as stock can be multiplied and a portion passed on to others, but demand husbandry skills, grazing/feed and veterinary supplies/services which need to be provided for.
- Community-led initiatives such as burial societies and ISAL-based rural micro-finance can demonstrate a capacity for growth, innovation and sustainability, stimulate trade and play an important asset protection or promotion role amongst members. As contributory schemes they may exclude the poorest, and function less well in situations of rapid inflation.
- School bursaries increase demand for education amongst excluded groups such as OVC especially if well targeted, but care is needed to ensure that there is sufficient school capacity (buildings, teachers, equipment etc) to meet the additional demand, and that bursary levels adequately cover the incremental costs that schools incur.

### General lessons for social transfers

- Pilot programmes and national programmes that are very thinly spread need to be evaluated in terms not just of their actual local market effects, which are rarely properly assessed and may in any case be barely perceptible, but also of their likely impacts on markets at the national scale were they to be scaled up or widely replicated. This is not just a matter of simple extrapolation, as broader issues need to be factored in related to national marketing and social protection policy, cross-border and regional trade, relations between government and private traders. Econometric work is needed to assess these likely effects in specific southern African contexts.
- Social transfer programmes are most effective when markets are well-integrated and responsive, and if well designed can help markets to function better and increase participation by beneficiaries and non-beneficiaries alike. It follows that there are strong complementarities between social transfers and longer-term public action to improve the physical infrastructure and information and communication systems upon which markets depend. A prerequisite for success is that

governments promote rather than undermine relations of trust with private traders, in particular making sure that where they do intervene in food markets, they do so in a manner which is transparent, based on established criteria, timely and subject to proper accountability.

- Choices about when and where social transfers are needed, details of scheme design, adjustments during scheme implementation and evaluation of scheme impacts all require monitoring of food prices in local markets. A basic nationwide market information system producing regular, frequent and timely reports for main markets is essential. Schemes may then need a supplementary, more detailed monitoring system for project areas before and during scheme inception. Ideally this would include areas with and without the transfers so that the two can be compared to isolate effects of the transfers from other market effects.

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**Annex table 1: Summary of market interactions of REBA case study projects 2006-07**

No. & Country	Scheme	Market Interactions
1 Malawi	Dowa Emergency Cash Transfer	Cash transfer levels reduced in response to maize price fall. Transfers stimulated local trade in food, other groceries, clothes, medicines. Local multiplier effect put at 2.1.
2 Zambia	Social Cash Transfers: Kazengula & Chipata	Small scale pilots with no evidence of significant market impacts. Cash transfer levels raised in line with maize price increases.
3 Lesotho	Old Age Pension	No evidence of inflationary effects at local or national levels. Cross-border and domestic markets well integrated. Local multiplier effect probably low. Grant value eroded by inflation.
4 Mozambique	Input Trade Fairs	Stimulates local market supply for agricultural inputs, implements and other commodities in remote areas in short and possibly longer term.
5 Malawi	Input Subsidy Programme	Significant impacts on input and output markets. Fertiliser use rose 34% between 2004/05 and 2006/07, though substitution for full-price purchases accounted for more than half of this. Heavy displacement of private suppliers in 2005/06, partially corrected in 2006/07. Decline in supply of and increase in rates for <i>ganyu</i> labour. With 2 good seasons and bumper harvests, maize price declined to MK14/kg in June 2007 – new low for recent years.
6 Swaziland	Old Age Grant	No evidence of inflationary effects at local or national levels. Cross-border and domestic markets well integrated. Local multiplier effect probably low. Grant value eroded by inflation.
7 Mozambique	Food Subsidies Programme	Scale too small for significant market impacts. Value critically subject to maize price – now equivalent to only 2 days of household supply.
8 Zimbabwe	Urban Food Programme	Scale too small for significant market impacts. Hyperinflation as rationale for physical deliveries then vouchers: risks borne by AAI. Possible move to cash and credit card mechanism.
9 Mozambique	Food Assistance Programme	Food basket unaffected by prevailing prices – WFP bears cost of price rises. Scale too small for significant market impacts, and WFP moving to local procurement.
10 Zambia	Food Security Pack	At original scale (200,000 farmers), input & output markets likely to be moderately affected. At present scale (20,000 farmers) significant market effects unlikely. (Fertiliser Support Programme much more influential.)
11 Malawi	Public Works Programmes	Some impacts on food markets of formerly widespread FFW projects, but implementing during lean season minimised adverse affects. More recent predominance of CFW might have inflationary effects, but these modest at present scale. Value of CFW transfer sensitive to maize price changes.
12 Mozambique	Education Material Fairs	Temporary stimulation of local market supply for clothes and educational materials (average vendor sales of US\$143). Little impact on wider scale.
13 Lesotho	Burial Societies	Significant expansion of market for funeral services. Effects on commercial insurance providers through influence on service norms and competition, leading to hybrid insurance products.
14 Swaziland	Neighbourhood Care Points OVC	Significant market impacts of NCPs unlikely. Delivered food may protect beneficiaries from maize price rises.
15 Swaziland	School Bursaries for OVC	Increased demand for school places has strained supply for some schools, especially as bursaries do not cover full costs.
16 Swaziland	Chiefs' Fields for OVC	Do not compensate for inter-seasonal fluctuations in food production. Largely unsuccessful in terms of agricultural production and market effects minimal.
17 Swaziland	Farm Inputs for Child-Headed HHs	Scale too small to have significant effects on input and produce markets. Leakage to surrounding farms likely. Do not compensate for inter-seasonal fluctuations in food production.
18 Zimbabwe	Small Livestock Transfers	Stimulates local demand for small livestock and some other commodities, supporting prices and trade opportunities. Overall market expansion through multiplication of stock. Provides beneficiaries with a hedge against inflation and helps protect assets.
19 Lesotho	School Feeding	Significant potential for effects on food markets, depending on how food sourced – move to local procurement can help obviate adverse effects. Protects school children and families from food price fluctuations.
20 Zimbabwe	Rural Micro-finance	Positive impacts on local rural markets – most savings used for trade.

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