THE IMPACT OF THE HARMONIZED SOCIAL CASH TRANSFER PROGRAMME (HSCT) IN ZIMBABWE ON THE LOCAL ECONOMY

Local economy-wide impact evaluation (LEWIE) simulation methods are used to assess the likely impacts of cash transfers on the local economy. When the **Harmonized Social Cash Transfer Programme** gives money to beneficiary households, they spend it, buying goods and services. As this cash swirls around within wards and districts, it creates benefits for non-recipient households as well, who may provide the goods and services purchased by beneficiary households.

This study finds that the Zimbabwe HSCT generates a total income multiplier of 1.73 in nominal terms with a confidence interval of 1.42 to 2.00. Each dollar of transfer has the potential to generate 1.73 dollars of total income within the project area.

THE PROGRAMME

The Harmonized Social Cash Transfer (HSCT) is an unconditional cash transfer introduced in 2011 by the Ministry of Public Service, Labour and Social Welfare (MPSLSW) in order to "strengthen purchasing power of 55 000 ultra-poor households who are labour constrained through cash transfer". Targeted to food poor, labour-constrained households, the objectives of the programme include enabling recipient households to increase consumption above the poverty line, reduce the number of ultra-poor households and help beneficiaries avoid risky coping strategies such as child labour and early marriage. Moreover, the programme is expected to lead to improved nutritional status, health and education outcomes, as well as a reduction in violence. Eligible households receive bi-monthly unconditional cash payments that range in size from $10 to $25 per month based on household size. As of March 2014, 55 509 households in 20 districts had been enrolled, covering 247 645 individuals. The government's plan is to support 200 000 households in all 65 districts of Zimbabwe by 2015.

The immediate impact of the HSCT is to raise the purchasing power of recipient households. The value of the transfer represents approximately 20 percent of median pre-programme household expenditure. As these households spend their cash, the transfer's impacts immediately spread from the recipient households to others inside the recipient communities. Doorstep trade, purchases in village stores, periodic markets, and purchases outside the village potentially set in motion income multipliers within the district. Some impacts leak out of the project area as well, potentially unleashing income multipliers in districts where the HSCT has not yet been rolled-out.

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 recipient and non-recipient groups; how these effects change when programs are scaled up to larger regions; and why these effects happen. All of these aspects are important for designing projects and explaining their likely impacts to budget holders and other sponsoring agencies.

THE ZIMBABWE HSCT LEWIE MODEL

The Zimbabwe HSCT LEWIE models the workings of the local economy and the household economic activities within it, and the interactions between eligible households who receive the cash transfer and ineligible households who do not. Household models describe the productive activities, income sources, and expenditure patterns of eligible and ineligible households. 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 labor. 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 statistical methods, allow us to test the robustness of simulated impacts to errors in parameter estimates and model assumptions. In the simulation presented in this brief, we assume that locally-grown crops, livestock, retail, and other services, as well as labor, 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, the HSCT can potentially affect local wages. Wage effects are muted to the extent that households have an elastic supply of labor, which we assume is high to reflect excess labor supply in rural Zimbabwe. The high labor supply elasticity does not remove inflationary pressures, however, because land and capital constraints continue to limit the local supply response.

RESULTS

The HSCT generates a potential total income multiplier of US$ 1.73 in nominal terms, with a 90-percent confidence interval (CI) of 1.42 to 2.00. That is, the US$ 11.780 million provided by the HSCT as of December, 2013 has potentially generated US$ 20 379 million in project-area income.

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 HSCT favour asset and labor-poor households. Recipient households receive the direct benefit of the transfer plus a small spill over effect of US$ 0.09 per US$ 1.0 transferred. Their total income has potentially increased by US$ 12 840 million. The ineligible (or non-recipient) households benefit from spill overs in the amount of US$ 0.64 for every US$ spent, amounting to an increase in income of US$ 7 539 million since the beginning of the programme.

The productive impacts vary by sector. The cash transfers stimulate the production of crops and livestock by US$ 0.31 and 0.14 per dollar transferred. The largest positive effect is on retail, which has a multiplier of 0.60.

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 will be. 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 described above. In the case of the Zimbabwe HSCT, the real income multiplier is US$ 1.40 (CI: 1.12 to 1.63).

These findings illustrate that, without efforts to ensure a high supply response in the local economy, part of the impact may be inflationary instead of real. Measures to increase the local supply response may be important in order to increase the positive spill over effects of the HSCT programme. These complementary measures should be targeted not only at HSCT recipient households, but also non eligible households who provide goods and services in the local economy.

REFERENCES

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