# Policy Brief

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## Overview

This policy brief is part of a wider research project entitled 'Building the Economic Case for Investments in Social Protection'. The research aims at demonstrating the potential impacts of social protection on inclusive growth. The project is a collaborative effort between the Maastricht Graduate School of Governance at the University of Maastricht and United Nations University-MERIT, NL; the Global Development Institute at the University of Manchester, UK; the School of Social Science at the University of Makerere, Uganda; and the Expanding Social Protection Programme of the Ugandan Ministry of Gender, Labour and Social Development. This project is part of the research agenda of the Knowledge Platform Inclusive Development Policies and funded by the Ministry of Foreign Affairs of the Netherlands through the NWO-WOTRO programme.

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# *The Economic Impacts of Social Cash Transfers in Integrated and Remote Areas in Uganda* [1]

In recent years many developing countries have scaled-up Social Cash Transfers (SCT) nationwide, but few studies take account of the different circumstances in which SCTs are implemented. The recent expansion of Uganda's Senior Citizens Grant (SCG) provides an ideal case to examine the differences in economic impacts between more remote and more integrated areas. For SCTs to fully capitalise on their potential benefits, such programmes need to be accompanied by policy interventions that aim at reducing structural constraints.

Recent years have witnessed the nationwide scale-up of Social Cash Transfers (SCT) in many developing countries. Such programmes have been widely recognised as powerful tools to combat poverty, and their potential to foster socio-economic development and growth has gained much attention in recent academic literature. By increasing the purchasing power of recipient households and thus the demand for goods and services, cash transfers can contribute to the productivity of local communities (Alderman & Yemtsov, 2012).

The ability of cash transfers to boost micro- and meso-level growth has been observed in numerous studies in the sub-Saharan African context. The existence of local multiplier effects has been confirmed in several countries in the region, including in Ghana (Thorne et al., 2014), Lesotho (Gupta et al., 2016; Kardan, 2014), and Ethiopia (Kagin et al., 2014). These multiplier effects were estimated between 1.3 and 2.5 – meaning that every dollar spent on SCTs translates into an increase of total community income of more than a dollar (Thorne et al., 2016). These studies are invaluable in building the economic case for social protection and measuring aggregate impacts, but are limited in their ability to account for the heterogeneity of effects among communities.

SCTs can make important contributions to the local economy in which they are implemented, but the extent and magnitude to which cash transfers can boost the local economy depends on the latter's structural characteristics. In Uganda, as in many low-income countries, the structural differences between com-

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munities can be large: some communities are rather integrated and well-connected, while others are much more remote. These differences potentially influence the extent to which SCTs can contribute to micro- and meso-level growth.

The research from which this policy brief draws, acknowledges that the economic contribution of any social protection programme depends on the structural circumstances in which people generate their livelihoods. Among others, these circumstances include access to markets, transport and communication services, and credit facilities. Given the ongoing expansion of SCTs to structurally different geographic areas, there is a need to adopt a disaggregated lens that captures the workings of cash transfers within their wider structural context. It is essential to understand whether and to what extent the effects of SCTs depend on the structural context within which the poor live. It will allow policymakers to strengthen the potential of SCTs by placing it in a holistic framework of development policies, which also address the underlying structural constraints.

## Uganda's case study: the Senior Citizens Grant (SCG)

In 2015, Uganda announced the expansion of the Senior Citizens Grant (SCG) to 40 additional districts by 2020. The SCG is a universal social pension for all Ugandans above the age of 65,[2] which pays UGX 50,000 (ca. USD 16) every two months.[3] Its objective is the protection and enhancement of the well-being of elderly persons without a contribution-based pension. At the end of 2016, the SCG was implemented in 35 districts. It provided monthly transfers to 153,703 recipients, of which 60% are women. Each subsequent year the scheme will be expanded to five additional districts until national coverage is reached (Kuss & Llewellin, 2016).

At the aggregate level, there is already evidence on the Senior Citizens Grant's ability to contribute to growth at the micro-level through growth mediating processes and productive outcomes (for example, see Dietrich et al., 2017; OPM, 2015 & 2016; Ibrahim & Namuddu, 2014; Bukuluki & Watson, 2012; Calder & Nakafeero, 2012).

The SCG currently serves districts that are rather integrated and others that are more remote. In integrated districts people can easily walk to the next market to sell goods and buy what they need, make phone calls, access a variety of transport services and make use of the developed infrastructure. In remote areas people have to travel long distances to reach the nearest market. They have only limited mobile phone network coverage and limited transport services available. Demand and supply of labour also vary between integrated and remote communities. These structural inequalities between different districts in Uganda are likely to influence the potential of the SCG to contribute to micro-level growth and local economy spillover.

## Exploring the link between the SCG and micro-level growth

Following the framework developed by Barrientos (2012), social transfers link to micro-level growth through two main channels: their impact on growth-mediating processes and on the livelihood activities of people living in recipient communities. Growth-mediating processes are understood as intermediate processes, which can

Notes

1. This policy brief is based on the following two papers: Kuss, Llewellin & Gassmann (2018): *The economic impacts of a social pension on recipient households with unequal access to markets in Uganda*. UNU-MERIT Working Paper Series, 2018-006. Maastricht: UNU-MERIT/MGSoG; and Kuss, Gassmann & Mugumya (2018): *The relevance of local structures for economic multiplier effects of social pensions in Uganda*. UNU-MERIT Working Paper Series, 2018-004. Maastricht: UNU-MERIT/MGSoG.

2. In the case of Karamoja: 60.

3. Note that for the rollout to additional districts, social pension receipt is limited to the 100 oldest individuals per sub-county.

enable or constrain a household's ability to engage in productive activities. Access to credit services, to transportation and to communication are considered such growth-mediating processes. Productive activities are understood as activities that affect households' growth of income, including household members' ability to engage in wage employment, in agricultural production, and in off-farm trade (Barrientos, 2012).

To gain a full understanding of the economic potential of the SCG, the analysis needs to consider the impacts for three different groups of people who live in SCG communities: 1) primary beneficiaries: old people above the age of 65 who are direct beneficiaries of the SCG; 2) secondary beneficiaries: people who benefit from the increased demand of recipients for goods and services, such as providers of goods and services; 3) tertiary beneficiaries: other community members who benefit from the improved availability of infrastructure and services in their communities.

## Differences in economic impact in remote and integrated areas

The effects of cash transfers on growth-mediating processes and livelihood activities have been found to be heterogeneous across different communities and for the three groups of direct and indirect beneficiaries.

## Primary impacts on recipients in integrated and remote communities

The literature and the analytical framework suggest a positive link between micro-level growth and the SCG for primary beneficiaries. Nevertheless, as the level of market integration determines the availability and access to services, these positive effects vary. For recipients in integrated areas, it is easier to use the SCG to engage in growth-mediating processes and livelihood activities than for recipients in remote areas. However, even in integrated areas recipients are at times unable to make use of available infrastructure and services to promote their livelihoods because of limitations associated with their old age and fragility.

*1. Primary impacts on transport:*

In both integrated and remote areas recipients are better able to afford transport services such as hiring motorbikes. However, recipients in integrated areas have an advantage since distances are shorter and services thus cheaper. By contrast, for recipients in remote areas services are much more expensive given the much longer transport distances.

*2. Primary impacts on communication:*

SCG recipients in integrated areas use their mobile phones more frequently. In contrast, the SCG does not seem to increase the use of mobile phones by recipients in remote areas. This is not surprising given the limited mobile phone network coverage in remote areas.

*3. Primary impacts on credit:*

Recipients in both remote and integrated areas are better able to access more informal credit options such as village saving schemes. Despite the availability of more formal credit facilities in integrated areas, which provide better interest rates, recipients do not appear to use them more often. These services appear to be inaccessible to most recipients because of their age, fragility, or limited bi-monthly income base.

*4. Primary impacts on wage labour:*

Recipients in both integrated and remote areas seem to reduce their engagement in wage labour activities as a result of receiving the SCG. However, in remote areas this reduction in wage labour by SCG recipients is accompanied by changes in the intra-household labour allocation as other household members are observed to increase their wage labour activities. It appears that recipient households in remote areas are more dependent on wage labour as a key source of income compared to recipient households in integrated areas.

*5. Primary impacts on agricultural production:*

In both integrated and remote areas some recipients manage to improve their agricultural production. However, for recipients in integrated areas it is somewhat easier than for recipients in remote areas. Recipients in remote areas face a variety of challenges related to agricultural production: it is more difficult to hire labour at an acceptable price, to gain access agricultural inputs, and to reach markets to sell the agricultural produce. A shift from subsistence farming to surplus farming is observed among recipients in both remote and integrated areas. However, the lone elderly with no household members to engage in farming activities is less likely to engage in selling agricultural produce.

*6. Primary impacts on off-farm trade:*

In integrated areas recipients are better able to engage in more lucrative off-farm trade because they can purchase higher value goods from the markets at lower costs and sell them at trading centres for a profit. Most recipients in remote areas do not have this option and opt to sell lower value items such as boiled eggs, cassava chips or vegetables.

## Secondary impacts on providers of goods and services in integrated and remote areas

People living in integrated areas are in a better position to benefit from the SCG since they are better able to make higher-value investments to respond to the increased demand of recipients for certain goods and services. In remote areas, secondary benefits from the SCG mainly occur with respect to lower-value investments

*1. Secondary impacts on transport:*

The increased demand for transport services by recipients has positive impacts on those that provide transport services in both remote and integrated areas. Boda-boda drivers experience a particularly increased demand for their services during the days when the transfer is distributed. Because ownership of transport services is less likely among residents in remote areas, these services are predominantly operated by business owners in more integrated areas. As a consequence, the secondary impacts are also concentrated there.

*2. Secondary impacts on communication:*

In integrated areas, providers of communication services benefit from the increased demand for mobile phone services by recipients. This includes providers of mobile phone credit, people offering mobile phone charging services, as well as those repairing mobile phones. By contrast, in remote areas these secondary benefits hardly occur. The demand for these services remains low given the limited mobile phone network coverage.

*3. Secondary impacts on credit:*

Because of the increased participation of SCG recipients in informal credit schemes, access to informal

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credit has become easier for everyone in both integrated and remote areas. Moreover, in integrated areas business owners are better able to participate in formal credit options like Savings and Credit Cooperative Organisations (SACCOs), which offer better credit conditions. However, in remote areas these benefits do not occur because of the lack of formal credit options.

*4. Secondary impacts on wage labour:*

For labourers in both integrated and remote areas the SCG has improved their opportunities to find work. This is mainly the result of SCG recipients reducing their involvement in wage labour and at the same time offering new wage labour opportunities.

*5. Secondary impacts on agricultural production:*

In integrated areas providers of agricultural inputs see an increase of their profits following the increased demand by recipients. In remote areas, though, agricultural input providers are largely absent. This implies that providers of inputs in more integrated areas are likely to benefit from both the increased demand of recipients in integrated as well as recipients in remote areas.

*6. Secondary impacts on off-farm trade:*

The improved engagement in off-farm trade by recipients does not seem to affect the competition among vendors. The increase of recipients' purchasing power leads to an overall increase in demand for goods. Hence, vendors' profits increase in both remote and integrated areas.

## Differences in tertiary impacts on the wider community

In both integrated and remote areas, the SCG contributes to the improvement of already existing growth-mediating and livelihood structures for all community members. However, the SCG by itself is not enough to instigate the creation of new structures when they do not already exist prior to the introduction of the SCG. Hence, community members in remote areas where fewer structures are available are less likely to access the tertiary benefits of the SCG.

*1. Tertiary impacts on transport:*

In both integrated and remote areas, the SCG has improved the availability of existing transport services – of motorbikes in particular. Hence, the entire community in both areas indirectly benefits from the introduction of the SCG in their communities. However, an increase in prices for transport services has been observed around the payment days of the social transfer. This indicates that the SCG may stimulate inflation, which has to be taken into account when measuring the tertiary benefits in the local economy.

*2. Tertiary impacts on communication:*

In integrated areas the SCG has made important contributions to the further development of communication services for community members. In remote areas, the situation has not changed after the introduction of the SCG. Respondents in remote areas feel rather disadvantaged in terms of access to such services, and the SCG seems to have widened the gap between integrated and remote areas in terms of communication services and infrastructure.

*3. Tertiary impacts on credit:*

In both integrated and remote areas, the number of low-level credit options, such as village saving groups as well as individuals a person could borrow from has increased. This leads to better access to financial and credit services for the wider community. Moreover, in integrated areas the increased demand for high-level credit facilities improves the quality of these services. However, given that such formal credit facilities are rarely available in remote areas, the SCG seems to result in a similar widening of access inequality as observed in the case of communication services.

*4. Tertiary impacts on wage labour:*

In both integrated and remote areas, a structural change in the labour market is associated with the SCG, resulting in more wage labour opportunities for all community members. On the one hand, the reduced labour market activity of recipients causes a drop in labour supply. On the other hand, SCG beneficiaries' ability to offer paid work increases the demand for labour. This change is seen as particularly important in remote areas, where there is a stronger reliance on wage labour as the main source of livelihood, and limited alternative sources to earn an income.

*5. Tertiary impacts on agricultural production:*

In integrated areas an increase in agricultural input shops is noted as a result of the increased demand for agricultural inputs by recipients from remote as well as integrated areas. In remote areas input sellers are still absent.

*6. Tertiary impacts on off-farm trade:*

In both integrated and remote areas existing weekly markets and trading centres have improved and diversified the goods available because of the improved purchasing power of recipients. Moreover, in both areas new temporary markets are emerging particularly on SCG paydays. In integrated areas, new weekly markets have opened since the introduction of the SCG. The growth in the availability and diversity of goods is not only due to the increase in purchasing power and thus demand of SCG recipients. Cash transfer beneficiaries are also starting their own trading businesses, which boosts the supply of goods and services.

## Policy implications and recommendations

SCTs generate local multiplier effects and are able to contribute to the objective of inclusive growth through various transmission channels. Growth-mediating processes and livelihood outcomes are strengthened with SCTs. All parties benefit: direct programme recipients, providers of goods and services, and the wider community. The findings of the Ugandan case study further support the evidence-base on local economy spillovers of cash transfers. Hence, the expansion of the SCG to all individuals aged 65 and above in all districts is highly recommended. SCTs that target more productive groups have even stronger potential to contribute to economic growth. The Ugandan case shows that SCTs have the potential to contribute to micro- and meso-level growth. However, in the case of social pension, the age and fragility of the recipients sets natural limitations. Expanding SCTs to other, potentially more productive groups of the population will be particularly important for remote areas in order to better tap into the promotive function of SCTs. In the Ugandan context this means that the government should reconsider introducing a social cash transfer aimed at poor families.

SCTs can help improve existing infrastructure and services. Yet, in structurally disadvantaged, remote areas, where infrastructure and services are less developed, SCTs cannot fill this gap. Additional policy interventions are needed to close the gap between remote and integrated areas. In order to fully materialise the economic benefits of SCTs in remote areas, they need to be combined with other development policies. There is a need to identify and introduce structures and services that support micro- and meso-level growth, particularly in areas where they are absent. This will reduce existing inequalities in opportunities between people living in remote and integrated areas, which may otherwise be widened by the market dynamics influenced by transfers. Hence, the recommendation is to invest in infrastructure and services in remote areas. Extending mobile network coverage across the country will benefit both SCT recipients and non-recipients.

SCT evaluations need to adopt a more differentiated approach that takes into account the context in which SCTs are implemented. The findings from the Ugandan case study suggest that a disaggregated lens towards studying the impacts of SCT interventions is crucial. Nationwide programmes often cover areas with unequal structural conditions, and aggregate measures are insufficient to understand the context-specific dynamics and consequences unleashed. This can help to uncover future routes for policymaking and policy-coordination, and strengthen the potential of SCTs as instruments for inclusive socio-economic development.

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The United Nations University – Maastricht Economic and Social Research Institute on Innovation and Technology (UNU-MERIT) is a research and training institute of United Nations University based in Maastricht in the south of the Netherlands. The institute, which collaborates closely with Maastricht University, carries out research and training on a range of social, political and economic factors that drive economic development in a global perspective. Overall the institute functions as a unique research centre and graduate school for around 100 PhD fellows and 140 Master's students. It is also a UN think tank addressing a broad range of policy questions on science, innovation and democratic governance.

INSIDE:

# Policy Brief

## *The Economic Impacts of Social Cash Transfers in Integrated and Remote Areas in Uganda*

Analysing the differences in the economic impacts of SCTs between more remote and more integrated areas

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