

The Impact of In-kind and Cash Transfers on Local Prices

by Jesse M. Cunha,¹ Giacomo De Giorgi² and Seema Jayachandran³

Governments are often reluctant to make welfare payments to poor households in the form of unrestricted cash transfers, favouring instead in-kind transfers of goods or services, such as food aid or public housing. One rationale for making in-kind transfers is that they encourage consumption of the 'right' things, such as healthy food. On the flipside, cash transfers are typically less expensive to administer, and cash can provide recipients with greater freedom over purchasing choices. Another important but often overlooked aspect of this policy trade-off is that transfer programmes can affect local prices. Both cash and in-kind transfers make recipients better off, which can increase their demand for goods and, in turn, has an effect on prices. However, in-kind transfers also increase the local supply of goods, which can drive prices down. We have recently empirically measured the differential price effects of cash and in-kind transfers, and have demonstrated how they affect the recipient communities (Cunha, De Giorgi and Jayachandran, 2012).

Theoretically, several aspects of the local economy will influence the price effects of cash and in-kind transfer programmes;

first, price effects will be larger when the local economy is isolated from the larger economy, implying that prices are set by local—rather than regional or national—supply and demand; second, the price effects will increase with the increasing size of the transfer; and third, the price effects will be larger, the higher number of transfer recipients in a locality.

More specifically, we studied Mexico's food aid programme, *Programa de Apoyo Alimentario* (PAL), which satisfied all three of the aforementioned criteria. PAL targeted poor, rural and geographically isolated villages. In these villages, over 90 per cent of households were eligible for the transfers of either food or cash which were equivalent to about 10 per cent of household income. We used data from a two-year experiment run by the Mexican government designed to compare different policy options. Villages were randomly assigned to one of three groups: families that received a monthly transfer of beans, powdered milk, canned fish, and other foods; families that received the equivalent amount as a cash transfer; and as a comparison group, families that did not receive any transfers.⁴

Our main finding is that cash transfers did not affect prices, while in-kind transfers caused price deflation. This is not particularly surprising: cash can be spent on any goods, whereas the price effects of in-kind transfers are concentrated on the particular goods transferred. Overall, these price changes had only a minimal impact on households' welfare.

However, the story is different when we look at the most isolated villages, those with limited access to outside markets. In these remote villages, we find mild price increases under cash transfers and very large price decreases under in-kind transfers relative to cash transfers.⁵ One reason for these larger effects appears to be that the PAL transfers are a larger percentage of supply in these less-integrated markets. We also find some evidence suggesting that the large price effects in remote villages occur because there are fewer stores in these areas, and thus less competition. In remote areas, the price changes created an indirect benefit (or cost) to households which was comparable in size to the direct benefit of receiving the food or cash. Since most poor people live in more isolated areas,

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Photo: Maria Luiz Aquilante, 2009 IPC Photo Competition. Market in Tlacolula, Mexico.

these findings highlight the need to understand the potential price effects of redistributive welfare programmes targeting poor households.

Importantly, changes in local prices are neither universally good nor bad for households, because poor people in developing countries are often involved in the production as well as the consumption of food. While lower prices increase the purchasing power of net consumers of food, they also reduce the income of food-producing households. Indeed, programme administrators can use the pecuniary externalities of transfer programmes to target either net producers or net consumers of food. In the PAL experiment, we find that

food-producing households are better off under cash transfers (they sell their crops at higher prices) and worse off under in-kind transfers (they sell their crops at lower prices).

The main lessons from our work are that the format of government transfers can have important implications for local prices, particularly in geographically isolated areas, where many of the world's poorest people live. Furthermore, these lessons are just as relevant for in-kind food transfers as for any other type of in-kind transfer that can affect local supply and demand, such as fuel, education services or housing. ■

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Cunha, J.M., G. De Giorgi and S. Jayachandran (2011). 'The Price Effects of Cash Versus In-kind Transfers', *NBER Working Paper*, No. 17456. Cambridge, MA, National Bureau of Economic Research.

1. Cunha: Naval Postgraduate School, Graduate School of Business and Public Policy.
2. De Giorgi: Federal Reserve Bank of New York
3. Jayachandran: Northwestern University, Department of Economics.
4. Cunha (2014) shows that both in-kind and cash PAL transfers led to similar increases in overall food consumption, but that in-kind transfers of some items were extra-marginal and led households to consume more of the transferred goods than they would have under a cash transfer of equal value.
5. Remote villages in our setting are more than a 30-minute drive to the nearest market.

The Impact of Short-term Cash Transfers on Unstructured Markets: A Case Study in Northern Uganda

by Pantaleo Creti¹

This article explores the effects of short-term cash transfers on unstructured markets. It is based on a case study (Creti, 2010) commissioned by the Cash Learning Partnership (CaLP) of a short-term cash transfer project conducted by Action against Hunger (AAH) in northern Uganda in 2009. The project's objective was to ensure food security and support livelihood rehabilitation of returnee populations. Cash was transferred to 1500 vulnerable households in two instalments, each equivalent to USD150. The project was conducted in a rural and remote area, where livelihoods had been strained by years of raids and civil war, which caused large displacements of people into camps. At the time of the project implementation, people had returned to their villages, but livelihood activities and local market dynamics were still very weak.

This article explores some of the factors that can help predict whether and how short-term cash injections can affect unstructured markets, with a focus on

the potential effects of inelastic supply and demand on prices, and the multiplier effects on the local economy.

Methodology

The case study was built mainly on qualitative data, gathered through semi-structured interviews and focus group discussions with key informants. The mapping of relevant market systems allowed for the identification of key market actors and access to infrastructure, services and other external factors influencing the market systems. Descriptive analysis was validated and reinforced by quantitative information. Data available from baseline surveys and post-distribution monitoring provided useful insights on initial asset ownership, income of the target population, beneficiary preferences and the use of cash.

Potential impact of cash transfers

To predict the impact of the cash transfers on the local economy (Ellis et al., 2009), factors such as the scale of the transfers, local market structure, level of market

integration, and local availability of goods were assessed.

Scale: Transfers represented between 25 and 40 per cent of the annual income of local smallholder farmers, and up to 87 per cent for landless households, the poorest livelihood group. The project reached, on average, 15 per cent of the population at county level, and up to 50 per cent in the targeted villages. The high value of the transfers compared to households' income and its high coverage at village level signalled potential market crowding effects. However, the lack of official statistics and the informal nature of the local economy made it difficult to measure the amount of cash injected by the project against the local cash flow at normal times.

Market: The main effects of the cash transfers were found in the livestock market system, which became the focus of the case study. The amount beneficiaries spent on livestock represented 69 per cent of the total transfer and was significantly