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COST, AFFORDABILITY AND VALUE OF SOCIAL TRANSFERS

Introduction

If social transfer programmes are to make a meaningful impact on the living standards of the poor, a clear fiscal commitment is required. This means that implementing governments must often be prepared to increase available resources, and in some cases to redirect existing resources, towards social transfer programmes. These programmes should be financed by taxes but in low income countries, where domestic resources are limited, donor support is also needed, particularly in the initial stages. The financing of social transfers is closely linked to the political will to implement these programmes: where social transfer programmes enjoy political support at the highest levels, sufficient resources are allocated in national budgets.

The preceding briefs in this series have addressed a range of specific policy and practice issues related to the implementation of scaled up social transfer programmes. But, ultimately, before deciding to allocate scarce budgetary resources to such a programme, governments, and in particular their Ministries of Finance, will want answers to three key questions:

- How much is it going to cost?
- Can we afford it?
- Is it worth it?

How much is it going to cost?

The **cost** of a social transfer programme is determined by three factors: the **amount of the transfer** given to each beneficiary, the **scope of the programme** (the number of people receiving the transfer), and the **cost of delivering** the programme.

A recent study, by the ILO, of twelve low income countries - six in sub-Saharan Africa and six in Asia - estimated that the cost of providing a social pension in those countries would be less than 1% of GDP. It is estimated that the Kalomo pilot programme in Zambia, which targets the poorest 10% of the population of a single district, could be scaled up to national coverage at a cost of 0.3% of GDP.

Amount of the transfer

"Five shillings is not much, unless you have not got it"
Winston Churchill, 1911.

The amount of the transfer in a low-income country is determined by two criteria: its **adequacy** to meet programme objectives and its **acceptability** to stakeholders.

Costs of selected social transfer programmes in southern Africa

	Mchinji Malawi	Kalomo Zambia	Old Age Pension Lesotho	Old Age Grant Swaziland	MASAF Public Works Malawi	I-LIFE Public Works Malawi	WFP PRRO 10310 Zambia	Targeted Inputs Programme Malawi
Type of transfer	CASH	CASH	CASH	CASH	CASH	FOOD	FOOD	INPUTS
Value of transfer	average \$12/hh/mth	\$6/hh/mth + \$2/hh with children	\$28/pers/mth	\$11/pers/mth	\$10.5/pers/mth (2 months only)	\$10/pers/mth (3 months only)	\$13/pers	\$6/pers (1 transfer only)
Scope of programme	pilot scheme: 3,000 hh	pilot scheme: 2,000 hh	national 69,000 persons	national 43,000 persons	national 100,610 pers	pilot scheme: 5,787 hh	national 447,750 pers	national 1,700,000 pers
Delivery / operating costs	14%	19%	10%	15%	375%	821%	291%	16%
Targeting method	community	community	categorical	categorical	community / self selection	combined	categorical	community
Targeting criterion	poverty	poverty	age	age	poverty	food insecurity	HIV/AIDS	poverty
Eligibility	poorest 10%	poorest 10%	over 70 years	over 60 years	poor but able bodied	food insecure but able bodied	OVC or ARV patient	poorest 60%

Adequacy relates to how much should be paid for the transfer to be effective. Evidence from pilot programmes in southern Africa indicates that a relatively small transfer value can have a significant impact on poverty. Bearing in mind that significant proportions of national populations (over 30 percent in Malawi and over 60 percent in Namibia, for example) live on less than US\$1 per day, even a transfer of US\$8 a month to a household (as is provided by the Kalomo Pilot Cash Transfer Scheme in Zambia) makes a meaningful difference.

Acceptability is determined not only by financial and economic considerations but also by social norms and political opinion. While a transfer value that is too small may be rejected out of hand by policy makers, a too high value transfer - which makes programme beneficiaries better off than the poor that are excluded from the programme - might induce some non-beneficiaries to become poorer in order to qualify, thereby creating dependency traps.

Scope of the programme

The **scope** of a programme is defined by its geographic coverage (limited or national) and by the number of people receiving transfers. While programmes with national coverage generally have greater numbers of beneficiaries than more limited pilot programmes, the method of targeting used is a strong determinant of the overall size of a particular programme. Putting aside the issue of affordability (which will be discussed later), decisions regarding scope are usually based on the objectives of the programme, for example:

- Whether it is a pilot or a scaled-up/national programme;
- Whether it is intended for a specific group (such as the elderly);
- Most importantly, whether the main aim of social transfers as a macro-economic instrument is to reduce poverty, to increase equality, to promote growth, or a combination of the three.

Delivery/operating costs

The cost of a debit card-based delivery system for transfers, for example, could be recouped from interest generated on a long term deposit of just US\$3 per beneficiary, or roughly US\$0.35 per beneficiary per year at a twelve percent base interest rate.

The cost of providing a social transfer programme is determined by the cost of delivering the transfer and the efficiency of the programme's management. Direct comparisons of operating costs are difficult; nevertheless, the table overleaf illustrates that the type of transfer has a strong influence on the operating costs of a social transfer scheme. Moreover, different delivery mechanisms for the same type of transfer also have a significant bearing on operating costs.

Unlike food or agricultural input transfers, the delivery cost of cash transfers is not dependent on the size or value of the transfer. However, expanding the scope of a social transfer programme will have an impact on the overall delivery costs, irrespective of the type of transfer and the delivery mechanism.

Can we afford it?

While in most western countries expenditure on social transfers is equivalent to fifteen percent of GDP and the world average is seven percent, sub-Saharan African countries spend less than two percent of their GDP on social transfers.

Significant social transfer programmes, which make a meaningful difference to the lives of the poor, are already undertaken by poor countries. Take Lesotho's old age pension for example: introduced in 2004, the scheme entitles every person over 70 years of age to a monthly non-means tested and non-contributory pension of M200 (about US\$25). Significantly, the Government identified the means of financing the old age pension, which costs M145 million a year and consumes nearly half the budget of the Ministry of Health and Social Welfare, without the need to appeal for donor support.

"Where there's a will there's a way"

Evidence from Lesotho and Swaziland (which has also recently introduced an old age grant scheme) shows that where political will exists, social protection becomes affordable. Looking beyond southern Africa, India's national rural employment guarantee scheme is a striking example of political will for social transfers on a massive scale in a country with extensive poverty. In each of these countries, the commitment to social protection has been a home-grown initiative and realisation. Conversely, other evidence, for example Malawi's late-1990s National Safety Net Programme, suggests that, where social protection initiatives lack national ownership, such programmes are rarely viewed as affordable by the host government.

Civil society can play a crucial role in building political will from below. South Africa's commitment to social protection owes much to the determination of civil society to get social protection onto the national political agenda.

Limiting ambitions

On affordability, the key question should be not "can we afford it?", but rather "what (or how much) can we afford?" In poor countries, small budgets will inevitably limit the needs that can be met through government programmes. But even in rich countries the scope and magnitude of social transfer schemes are subject to resource constraints. In Europe, ageing populations have forced governments to raise the eligibility age of pensions. In southern Africa, Lesotho took the decision to provide a relatively large pension amount (US\$25) but set a high eligibility age (70 years) in order to make it affordable. Swaziland, on the other hand, decided on a low eligibility age (60 years) to widen access, but set the pension level much lower (US\$10).

Making better use of existing resources

The introduction of a national social transfer programme need not incur additional budgetary expenditure. Once priorities have been set, existing budgetary expenditures can be reviewed, rationalised and consolidated to provide the necessary resource base for a comprehensive social transfer programme.

The extent of the existing resource base upon which to build comprehensive social transfers may be grossly underestimated:

- Substantial resources are currently absorbed in many southern African countries by humanitarian appeals that have little or no impact on levels of chronic hunger and vulnerability.
- Even though social transfers may not yet be a high priority expenditure item on government budgets, an array of such initiatives already exists in most countries.
- Effective comprehensive social transfer programmes may reduce the level of other government and donor expenditures, such as emergency food aid, strategic grain reserves or fertilizer subsidies, thereby freeing up additional resources to expand the coverage of the social transfers or to increase their value.

Increasing domestic revenue

A recent World Bank stock-take in Malawi revealed that the government, with the support of its donor partners, spent over US\$500 million between 2003 and 2006 on humanitarian responses and social transfer type activities. This sum alone would have provided sufficient funding to give every household in the country US\$5 per month over that period.

Inadequate tax revenue characterises most poor countries' fiscal situation. In Malawi, only 5% of the population pays income tax and domestic revenues cover less than half of public expenditure.

While fundamental revisions in a country's revenue system need to be considered to ensure long-term sustainability and greater self-reliance, a number of less radical measures can be implemented in the short-term to secure additional budgetary resources for specified, high priority expenditures.

Emphasis should be focused on pro-poor revenue-generating mechanisms which target the better-off members of society. Fuel levies are not particularly pro-poor. Alternative targets for ad hoc levies which would have stronger redistributive effects include luxury goods (such as private motor vehicles), alcohol, hotel accommodation or air travel. Even the introduction of a specific "pro-poor" or "anti-poverty" tourist tax, if properly promoted, might encourage rather than discourage international visitors.

As with all ad hoc levies, collecting the revenue is more straightforward than ensuring that the revenue is channelled and utilised for the intended expenditure. In Malawi, a safety net fuel levy has netted an estimated MK1.95 billion (US\$14 million) but none of this has yet been channelled to its intended purpose. Transparency, proper accounting and auditing are clearly critical. Accountability for social protection spending can be built from below using community and participatory budget tracking methods.

Estimates show that national social transfer programmes in sub-Saharan Africa modelled along the Kalomo pilot in Zambia would cost between three percent and five percent of current aid flows. A Kalomo type programme to all countries in sub-Saharan Africa would cost only three percent of additional aid agreed to at the Gleneagles G8 Summit in 2005.

External assistance

Governments of low income food insecure countries may view donor enthusiasm for social transfers simply as a means of

transferring financial responsibility for poverty onto them. But, while successful social transfer programmes do require predictable on-budget resources, this does not necessarily equate to a reduction of donor support. Indeed, despite restrictions on the duration of funding commitments, several major donor agencies already provide budget support to comprehensive social transfer programmes in Africa.

Donor support for sustainable social transfers

A limited funding cycle is sometimes raised as an obstacle for donors to provide long term support to on-budget social transfer programmes to ensure their sustainability. One way in which donors could make a meaningful contribution to the sustainability of such programmes is to finance the delivery costs through a trust fund lodged with a commercial bank. In this model, the donor would establish an interest bearing account with a commercial bank, and the interest generated by the account would fund the annual delivery costs of the social transfer programme. The capital amount would remain intact and there could even be an arrangement by which the recipient country would pay this back over a period of time. This hypothetical example illustrates two variations of the model:

	Scenario 1	Scenario 2
Total value of transfers	US\$50.0 million	US\$50.0 million
Delivery cost as a percentage	10%	15%
Delivery costs in value	US\$5.0 million	US\$7.5 million
Prevailing interest rate	12%	10%
Capital amount needed to cover delivery costs	US\$42.0 million	US\$75.0 million
Annual repayments of capital amount over 10 years	US\$4.2 million	US\$7.5 million

Is it worth it?

Given the compelling evidence on the benefits of social transfer programmes, it is difficult to justify not implementing social transfers on the basis of cost. These benefits significantly reduce the net cost of social transfer programmes.

Brief 2 in this series, which discusses the impacts - or benefits - of scaled-up social transfer programmes, emphasised that social transfers not only reduce poverty but also stimulate economic growth, reduce income inequality and conserve fiscal resources. Evidence from the Lesotho old age pension shows that investment in social transfers complements investments in other social services and thus promotes capital accumulation. In Namibia, social transfers have enabled beneficiaries, especially women, to gain employment and have stimulated local markets. In Botswana, social transfers have reduced income inequality and fostered economic growth. In Zambia, social transfers have provided the means for the poor to engage in income-generating activities.

Investing in predictable social transfers triggers a strong virtuous cycle. By reducing poverty and increasing economic growth,

investing in social transfers today not only reduces the need for social transfers in the future but also, through generating increased tax revenues, makes future programmes more affordable.

Far from being a competitor for scarce budgetary resources, social transfers are an essential complement to other social and economic public investments. Investing in social transfers helps to ensure that investments in health, education and economic growth are more effective. Rich countries spend more on social protection not only because they can afford to but because they

recognise that such expenditure is an essential ingredient for economic growth and social stability.

Social transfer programmes also conserve fiscal resources. For example, the positive household impacts - better health and nutrition - mean that children in households receiving social transfers should do better in school, and thus reduce the fiscal cost associated with the need for the unsuccessful to repeat school grades. These children are less likely to face debilitating sicknesses in old age due to their better nutrition, thus reducing the cost of health care related to ageing.

In conclusion

Low income countries continue to face large scale poverty and inequality. Predictable social transfers provide a critical tool for improving the living standards of vulnerable groups. In order to maximise the benefits of social transfers, governments in these countries need to make a long-term commitment to financing such programmes. Taking into account the considerable benefits that accrue through comprehensive social transfer programmes, this can be done at a net cost of less than one percent of GDP.

When considering whether or not to invest in social transfers and broader social protection, national-level decision-makers should reflect not just on the costs of making such a commitment but also on the benefits that social transfers provide, and on the relative prioritisation of poverty and hunger reduction within the government's agenda. Perhaps the starting question for any national debate on social transfers is: "Can we afford **not** to provide social protection?" Predictable social transfers should be seen for what they are: an investment in the future which will continue to pay dividends.

Donors also have to assess how they expect to make the most significant impact on poverty, in the light of the resources that they currently allocate to annual humanitarian responses, as well those that they have committed to development programmes. For the poorest countries, donor support is likely to be required before a national social transfer programme can be implemented. However, donor support should not equate to "donor-driven": successful social protection initiatives depend on national ownership and national commitment.

Series coordinators
John Rook & Nicholas Freeland

Contributing authors
Stephen Devereux
Nicholas Freeland
Sheshi Kaniki
Judith Matthis
Angela Penrose
John Rook
Michael Samson
Bridget Sleaf
Koy Thomson
Katharine Vincent
Philip White

Editing
Anthony Warmington
String Communication

Design and typesetting
CLEARIMAGE

FOR MORE INFORMATION
advocacy@rhvp.org
www.wahenga.net/advocacy

