

Affordability of Social Protection Measures in Poor Developing Countries^{*}

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- Decisions on the affordability of social protection measures should be informed by an assessment of their short and medium term impacts and the economic benefits they bring at household, local economy and national economy levels. They should be taken in inclusive country level policy-making and budgetary process, based on country-specific analysis and situated within an overall national social policy framework.
- Social protection programmes constitute an affordable investment in poverty reduction and an effective stimulus to pro-poor growth - even for the poorest countries. Costs are modest relative to overall public expenditure budgets and programmes can be built up incrementally. Evidence on impact shows that even small and local programmes produce positive benefits. The possibility of starting small and building can facilitate the affordability debate by allowing programmes to be started with relatively modest initial allocations and experience from these can provide a sound evidence base for expanding programmes and funding allocations in the future.
- Donor and government actions can strengthen the affordability of social protection. Managing and reducing fiduciary risk is critical for affordability. Effective government action to improve public financial management is essential for scaling up smaller social protection initiatives and replicating them through the mainstream public service. Donor should move away from delivering social protection through their own financing and delivery mechanisms towards funding national programmes through joint financing instruments, thus supporting the capacity of government and civil society to develop national social protection policies and deliver the programmes that implement them.

Introduction

Social protection can encompass a wide range of actions, both public and private, that reduce poorer peoples’ vulnerability to events and pervading conditions that can threaten their lives and livelihoods. It is also often considered to include the provision of basic social services such as health and education. However, for the purposes of this paper, which considers the affordability of the use of public resources on social protection, we are principally concerned with that subset of actions that is:

- publicly funded and non-contributory;
- targets segments of the population identified as being particularly at risk; and

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- Involves social transfers in cash or in-kind.

Decisions on the affordability of social protection measures and on the priority and funding allocations they should receive in national or local budgets can only be properly taken through the relevant public sector policy, planning and budgeting processes of individual governments. This paper therefore does not seek to establish the affordability of any social protection measure or programme; rather it sets out to provide some ideas on how expected impacts might be assessed so that decisions on affordability and funding priority can be taken on the basis of locally specific analysis and evidence.

Long-term and sustained poverty reduction that reduces the intergenerational transmission of poverty as well as shorter term livelihood protection is the principal objective of social protection programmes. These long term impacts are usually only measurable in situations where the programmes have been up and running for significant periods of time. The targets for this paper are principally countries where such programmes are recently, or not yet, established. In such countries local evidence on long-term poverty impact will not exist. Nevertheless evidence from other countries showing quantified impacts on poverty can be used to provide broad estimates of the poverty reducing impact of specific measures and to set policy targets for social protection programmes.

Surveys of non-contributory old age pension recipient and non-recipient households in Brazil and South Africa show significantly different levels of income poverty between the two groups. The poverty headcount was nearly 7% higher in the non-recipient group in both countries (65.3% vs. 61.0% in Brazil and 43.1% vs. 41.3% in South Africa). The difference in the poverty gap was even more significant – 40% larger for the non-recipient group in Brazil and 81% larger in South Africa (Barrientos, 2003). This type of data, however, is not easily used for quantifying benefits in the context of an (*ex ante*) affordability analysis for a specific country. These types of impacts will depend on how long the programmes have been in existence, the value of the transfers involved and the level at which the national poverty line is set.

However, the long term impact on household poverty can also be seen as the cumulative effect of a range of ongoing short-term benefits arising directly from the social transfers that the household receives. This paper looks at ways of assessing and estimating such shorter term impacts as a means of informing a debate on the affordability social protection measures.

For the purposes of an affordability debate, an analysis of short term impacts has a series of advantages. Firstly the evidence is more easily gathered and the impact verified over a shorter time period and from smaller programme or project experience. Short-term impacts such as increased household agricultural production or more children in school may be seen as more relevant in influencing short-term and immediate decisions on public expenditure. A discussion of short term effects could lead a better understanding of the micro-effects at household level that contribute to both economic growth and long term poverty reduction.

Assessing the affordability of social protection measures should not be seen simply as a question of costing a particular programme and determining whether exchequer financing is available. This is particularly so where fiscal resources are in such short supply as to lead quickly to the conclusion that there is never any funding available for new programmes or policies. Affordability is really therefore a question of prioritisation between alternative uses, which can only be really answered by an analysis of relative

benefits. Any social protection measures will produce a range of benefits to households and to the economy. An affordability analysis needs to go beyond the fiscal envelope question and attempt to measure the benefits in order to make a judgement on affordability.

The paper does not, therefore, seek to establish costings of different social protection packages. Work has already been done in this area, which allows reasonable estimates to be made of the costs of different components of a social protection system applied nationally. These are referred to later in the paper and used to give a range of costs for some social protection intervention.

What this paper does attempt to do is to lay out some simple approaches that might be used at country level to understand, analyse and estimate some of the different impacts of social protection measures that would allow policy discussions in this area to assess affordability, not only in terms of costs versus available finance, but also from a cost-benefit analysis perspective looking both at directly attributable impacts and at benefits to be expected from social protection measures in supporting objectives relevant to other areas of public expenditure. The intention should be to attempt to assess the value of benefits envisaged from social protection measures in order to help decide from an *ex ante* perspective whether they are affordable. A similar approach will also be useful for ongoing monitoring and ex-post analysis.

Valuing direct benefits

An important component of an affordability analysis of investments in social protection programmes is to assess and judge the returns in increased economic growth attributable to such investments against the costs of the programmes. There are a number of ways in which Social Protection programmes can be seen to have a positive impact on economic growth.

Risk averse behaviour

Reducing household vulnerability to natural or economic shocks that threaten lives and livelihoods can change the investment behaviour of the poor and result in their choosing to use technologies that are riskier in the short term but more productive and profitable in the long term. Increasing productivity in this way will lead to higher household incomes and, in the aggregate, economic growth.

Using high yielding seeds and fertiliser can raise production levels by factors of four or five compared to those achieved with traditional seeds. The more productive technology is more dependent on rainfall while the lower yielding traditional seed has greater drought resistance. Over time, using the high-yield technology will produce multiples of the returns available from the low-yield variety; however, in the short term it can fail and leave vulnerable households destitute. The refusal of poor households to use higher yielding technologies, therefore, is unlikely to be the result of ignorance or passivity, but a logical choice to put short term survival and security before potential longer term gain.

Vulnerability to price volatility, monopsonistic behaviour and other failures in food crop markets can have a similarly disincentive effect on producers and can lower the value of their produce. Farmers may well choose not to invest in more productive

technologies or to expand their farms when they expect prices fall to uneconomic levels at market time or when production is high. This negative incentive will be strongest for poor households whose cash needs will require them to sell when produce prices are lowest.

A social transfer that guarantees households a minimum livelihood is likely to lead to greater use by the poor of more productive and profitable technology, which in the aggregate will lead to economic growth. Such a livelihood guarantee would also enable poor producers to avoid selling when prices are lowest and give them greater negotiation power in the market. This would reduce rent seeking by traders and raise producer prices and income increasing the value of production and resources for further investment.

The economic benefits of reducing risk aversion could be assessed by estimating:

- the number or proportion of households likely to adopt more productive technologies;
- the consequent changes in the levels of household production and net returns;
- the change in producer prices;
- the change in price volatility.

These benefits could be expressed in a value of additional economic activity and a value of increased household income - above that directly attributable to the transfer.

Equity enhances growth

Transfers to poorer households will increase overall investment productivity leading to aggregate economic growth.

The inability of the poor to invest in production limits the proportion of smaller scale and non-capital intensive investment in the economy. Given declining marginal returns to capital and the higher productivity of smaller landholdings that are characteristics of poor developing economies, a pattern of investment favouring larger and capital intensive production units tends to be less efficient and results in lower aggregate economic growth. This is borne out by cross country analysis which shows that high initial inequality is associated with lower aggregate growth. As individual and household investment ability is dependent on wealth, particularly where credit is limited, high inequality will result in less small-scale and low-capital investment (Ravallion, 2003).

Transfers that increase the ability of poor households to invest will help increase the proportion of investment in smaller and less capital intensive production units resulting in greater allocative efficiency, increased productivity at the level of the economy and aggregate economic growth.

This effect is more difficult to estimate (as it is less amenable to microeconomic analysis). Existing cross-country analysis could be used to show a relationship between inequality and economic growth. Quantifying the expected effect of the transfers on the wealth distribution and inequality would allow an estimate of impact on overall economic growth.

Ensuring minimum nutrition enhances economic activity

Transfers that ensure a minimum level of nutrition will increase the proportion of the economically active in the population leading to aggregate economic growth.

Individuals whose minimum nutrition needs are not met, while otherwise capable of productive work, will not be able to engage in economic activity. Beyond this minimum level, and subject to diminishing returns, the amount of labour a household or an individual can apply to productive enterprise will depend on the quality and level of nutrition they can access. While hunger, weakness and frailty will stop people from working, the urgent necessity to obtain sustenance will naturally lead people to use their time and energy in searching for food for immediate consumption rather engaging in productive activities where returns are more long term. In societies, therefore, where people live below or around this nutritional threshold - the Basal Metabolic Rate (BMR) – there will be significant levels of involuntary “idleness” (Ravallion, 2003).

Social protection measures that ensure an adequate minimum level of nutrition will increase employment in terms of the number of people productively engaged and in terms of the amount of labour they can apply. In a way this is reducing what might be called the societal dependency ratio. The effects again will be aggregate economic growth and an increase in household income.

The economic benefits of ensuring a minimum nutritional threshold could be estimated by:

- establishing the number of people or households (who have labour availability and access to production opportunities) whose food consumption falls below the BMR;
- establishing the frequency and duration of their periods of under nutrition;
- estimate labour productivity rates for these periods based on those observed in similar non-food deficient households.

These benefits could be expressed in a value of additional economic activity and a value of increased household income - above that directly attributable to the transfer.

Increased investment

Transfers to the poor, particularly in rural areas, will increase the level of investment in production leading to higher household income and economic growth.

Poor households must choose at any given point the most appropriate way to use the resources available to them in order to meet their immediate needs and improve future prospects. Choices on whether to allocate resources to consumption, investment or asset accumulation will effect production and future income. The distribution of resources between these areas will be influenced by and change with the amount of resources available. Even in poor households an increase in resources is unlikely to be entirely used for consumption. If resources rise, the desire to secure future consumption needs is likely to lead to increasing proportions of household resources being allocated to asset accumulation (savings) and productive investment (Schuering, 2008) (Republic of Zambia & German Technical Cooperation, 2007)

Transfers to poor households, even those aimed at increasing consumption, will probably not be used entirely for consumption but are also likely to increase investments

in productive activity leading to higher levels of household production, income and aggregate economic growth.

This effect could be estimated by:

- using survey data to gather information on the changes in household expenditure shares on production inputs and the proportion they represent of transfer values;
- estimating, from survey data, the productivity of investments in production inputs for similar households.

Where transfers principally target incapacitated households which, because of disability, illness or high dependency ratios, are unable to engage in productive activity the positive impact on productive investment is likely to be less. However, where these households have previously been dependent on their neighbours, the transfers may well produce the positive impact among neighbours as the dependency is lessened. (Devereux and Wood, forthcoming).

Assumptions

The extent to which any of the above benefits are achieved is of course dependent on the validity of a number of assumptions, particularly about the functioning of markets and the public service, on which the expected response to a given transfer is premised. In the first place for the success of any social protection measure a basic premise must be that the state is capable of identifying and targeting the poor and efficiently delivering the relevant social transfer.

If, for example, the benefits from increased take-up of more productive technologies by farmers is to be achieved, those technologies must be available through local markets or the public service and adequate demand must exist to absorb increased production at economic prices.

Similarly if guaranteeing a basic level of nutrition is to result in increased productive work then the non-nutrition related conditions for that productive activity must exist. Access to land, productive inputs and markets for produce would be essential. The same assumptions underlie the expected returns to increased productive investments by the poor.

The efficiency with which markets and the state function differs widely between different countries and, indeed within countries and over time. The assumptions will be more or less true in different places and at different times and always subject to change. It is probable that where needs are greatest for social protection the state or markets may be weakest. It is important therefore to, where possible, base the assessment of benefits on real data collected through specific survey work or through ongoing monitoring and evaluation of existing programmes and projects – even small local ones. In this way assessments of the benefits of larger programmes are based on extrapolating the real impacts and effects that have been delivered at household level.

On the other hand the positive impacts of social protection programmes can be felt in households that are not covered by the programmes. Studies of the Mexican *Progres*a programme have shown that consumption and school attendance have risen in neighbouring non-beneficiary households due to peer and local economic effects of the programme (Ribas *et al.*, 2008). These types of collateral benefits would not be covered by the types of direct impact assessment proposed in this paper.

Assessing the complementarity benefits of social protection

Resources used to finance Social Protection measures could equally be used to finance other critical areas of public expenditure – and *vice versa*. When deciding to allocate funds to social protection measures the impact of not allocating those funds to other areas of expenditure will be examined. It is important that such an opportunity cost analysis also takes into account the contribution that social protection measures can, in some cases, make to delivering services and achieving impacts that are the objectives of other public expenditure programmes. There are a number of ways that social protections might do this.

Social protection and emergency relief

Social protection programmes involving cash or food transfers to households at risk of livelihood shocks, such as drought and famine, reduce the need for and cost of emergency relief.

Household food insecurity arising from natural disaster, economic shock or progressive deterioration in market conditions is a regular occurrence in poor developing countries. Affected households have little choice but to respond by consuming existing reserves and by consuming or selling productive assets such as livestock and seeds. Where emergency responses are slow or inadequate, families may abandon their land and other fixed assets in search of food. The impact of the shock has multiplied beyond a short-term shortage of food to a destruction of productive capacity which will prolong the threat to livelihoods and require a costlier and more long-term response.

By ensuring a basic level of livelihood social protection measures will directly reduce the impact of the shock and thus protect household reserves and productive assets. People will not be displaced and when conditions improve they will be better placed to rebuild productive activity. The human and economic cost to the economy and to households will be less and recovery will be faster. Where the need is greater, the ability to expand the delivery systems already in place will shorten emergency response times, while monitoring and targeting systems are likely to provide the reliable early warning information that is critical to a rapid response.

From an affordability perspective the existence of social protection programmes reduces the cost of emergency response and recovery programmes and, where livelihood insecurity is chronic or a regular event, may well be cheaper in absolute terms.

A comparative cost benefit analysis between emergency relief and social protection measures could involve:

- Comparison of the actual costs of emergency relief and recovery programmes over the previous decade with the estimated costs of a social protection programme covering the same beneficiaries;
- Estimate the difference in post shock economic recovery paths with and without social protection measures and quantify economic cost.

Public works and labour-based infrastructure investments

Transfer programmes that involve food or cash for work, as well as supporting livelihood security, are infrastructures investment that build physical and natural capital, raising productivity in the economy.

Some safety net and employment guarantee programmes require beneficiary households that have available labour to work on public works programmes as a condition for receiving transfers. Typically these public works are in areas such as rural access, environmental protection and social infrastructure such as classrooms and health facilities. They represent additional public investments above and beyond those financed by public expenditure programmes in the individual sectors.

The value of these infrastructure investments can be estimated by quantifying the works completed under the social protection programme and applying unit costs for similar works in the relevant sector investment programme.

Social protection and access to services

Transfer programmes increase the take-up by the poor of public services and improve the effectiveness and impact of resources spent on them.

Social protection programmes may be targeted and use conditionality to achieve specific policy objectives – such as increasing female attendance at school, immunisation rates or the take-up of agricultural technologies. In such cases receipt of the transfer is dependent on the beneficiary household using the service.

While many basic services in poor developing countries are nominally free accessing them can involve significant costs for poor households. School attendance can critically reduce the labour available to a household while distance to health facilities and the need to purchase drugs and medical equipment can put health services beyond the reach of the poor. Traditional approaches to service provision which focus principally on supply-side investments are likely to be subject to diminishing returns in terms of increasing access for the poor unless these access barriers are addressed. Cash transfers to the poor can be an effective demand-side measure by compensating for lost income and direct costs associated with accessing services.

The added value in increased access to basic services of social protection programmes could be estimated by:

- measuring rates of service usage with and without social protection programmes;
- establishing the difference in marginal cost to sector budgets of increases in service use with and without social protection programmes.

Cash transfers

Cash transfers are more efficiently delivered than subsidised or free goods and services and provide a more efficient response to poor households' multiple needs.

The public sector in many developing countries strives to provide a range of subsidised or free services or goods from agricultural inputs to subsidised water or energy supply. The procurement and distribution of goods through the public sector requires high levels of financial and policy management and is often fraught with efficiency and effectiveness problems ranging from corruption in procurement to inappropriate

targeting, elite capture and lack of logistical capacity in distribution. In addition it requires diverse sectors across government to have the capacity to identify and target the poor. Service provision, such as water and electricity supply, which usually depends on cost recovery, can face financing difficulties where budgetary provision for subsidies becomes inadequate. The benefits to poor households are also somewhat reduced as the provision of pre-defined benefits does not permit them the flexibility to themselves choose their priority areas of expenditure and respond to changing needs.

Cash transfers delivered directly to households bypass inefficient procurement systems; and electronic cash distribution systems, which are rapidly becoming more widespread, are fast and effective. Cash transfers allow families to judge needs, choose expenditure priorities and accumulate reserves for lean periods. Targeting of cash transfers, while still an issue, is simpler in that a single targeting process can be used. Elite capture will be more difficult as cash transfers must unequivocally target the poor while other state supplied benefits such as agricultural inputs or enterprise supports frequently go to the better-off. The demand for accountability from the target group, especially through political processes, is also likely to be stronger leading to increased oversight and less opportunity for corruption.

Estimating the value of efficiency improvements of this type is difficult because of the variety of different processes involved in delivering publicly funded benefits. In particular the value of additional flexibility for households in choosing how to use resources, although significant at household, is difficult to estimate in aggregate.

However, efficiency improvement could be measured, for example, by:

- estimating, through public expenditure analysis, the unit cost, including the cost of targeting, of procuring and delivering specific agricultural inputs (seeds, tools, fertilisers or livestock) to household level;
- establishing prices for similar items in local markets through survey or transfer pricing analysis.
- assessing the value of allocative flexibility could be undertaken by:
 - determining from HBS analysis the proportion and level of household expenditure allocated to paying for subsidised (cost recovery financed) services such as water and energy across different income groups;
 - estimating the cash saving a household makes by reducing its level of spending on these services from that observed in one income group to that of a lower income group, for both a subsidised service scenario and a cash transfer scenario;

or:

- estimating, from survey data the number of occasions in which beneficiary households judge that a public service provided good received, or offered, has not been desired or productive;
- applying the capital values of the item(s) in local markets to estimate the capital value¹

Cash transfers provide another additional value in terms of the multiplier effect in the local economy. Purchases made with the additional household income increase demand for locally produced goods and services and increase incomes for others. Analysis of the market effects of the Dowa Emergency Cash Transfer (DECT) project in Malawi

estimated that the multiplier effect in local markets was between 2.00 and 2.79, implying that the increase in economic activity caused by the cash transfers was well over twice their value (Devereux *et al.*, 2007).

Cost, available finance and affordability

Overall availability of public resources will be a key factor in deciding whether the costs of specific social protection measures are affordable. The impacts of social protection measures are achieved in the medium to long term. Although it can be expected that these impacts will improve the affordability of the programmes as incomes and economic activity rise, it is essential that financing is affordable and sustainable within existing and future resource envelopes.

Cost

As the use of social protection measures in a universal or systemic manner is still relatively rare in poor developing countries, hard information on costs is somewhat limited. Nevertheless using existing analysis and experience it is possible to arrive at reasonable estimates of the range of costs for different types and scales of intervention.

1. The ILO has estimated that in a sample of sub-Saharan African countries:
 - a universal basic child benefit scheme would cost between 1.7% and 3.4% of GDP;
 - a universal basic old age pension scheme would cost between 0.7% and 1.3% of GDP;
 - an employment guarantee scheme covering 10% of the working age population would cost between 0.4% and 0.7% of GDP.
2. The DECT project in Malawi met food shortages for 11,000 households in Dowa district during 5 months in 2006 and 2007 by providing a monthly *per capita* cash transfer of USD 2.20. Scaling this up and including a 15% targeting and delivery cost we can say that:
 - to cover the food needs of the 833,000 Malawians (6.3% of the population) who suffered from food insecurity over the same period would cost under 0.5% of GDP;
 - to provide the transfer to the same families throughout the year would cost under 1.2% of GDP;
 - to provide the transfer to 10% of the population throughout the year would cost over 1.8% of GDP.
3. The Productive Safety Nets Programme in Ethiopia cash and food for work to the 10% most long-term food insecure households. The programme provides a monthly cash or food transfer to the value of USD 3.43 per head for a six month period each year. Households unable to provide labour to the public works programmes also receive the transfers. The programme costs 1.7% of GDP - this includes the costs of non-transfer related inputs for the public works. (World Bank, 2006)

Finance

Putting the cost figures in perspective, total government revenue, including grants, is 23.2% of GDP in Malawi and 19.1% in Ethiopia. Revenue though is on an upward trend as a proportion of GDP, growing between 1996 and 2006 by 7.1% and 4.3% of GDP respectively (World Bank, 2008). Tax revenue in sub-Saharan African countries has risen as a proportion of GDP by more than 20% since 1980 to a current level of over 18% of GDP. Performance in low-income countries on domestic revenue growth, though, has been below this and a number of studies have shown that increases of between 1% and 4% of GDP are possible (Gupta & Tareq, 2008).

Aid flows have also been increasing. Disbursed annual per capita ODA to sub-Saharan African countries has risen from USD 29 in 1993 to USD 41.7 in 2005. Implementing a transfer similar to that in the DECT programme mentioned above for the poorest 10% of a country's population would incur an annual cost in the region of USD 3 *per capita*.

The levels and trends of revenue growth would seem to imply that financial affordability should not be a binding constraint to financing modest but significant social protection programmes. Other considerations are also likely to have a significant impact on financing decisions.

Social protection programmes can be built incrementally over time from smaller pilot programmes and initiatives. This approach can reduce the immediate financing implications of a decision to proceed with a national programme and allow time for fiscal allocations increase in parallel with the accumulation of evidence on benefits and impact and growing political support. A recent review of social cash transfer pilot schemes in Zambia proposes such a phased scaling up of pilot initiatives into a national programme over 5 years. The coverage of the programme would increase from some 13 000 households in 5 districts in 2008 to 252,000 households in all 72 districts of Zambia in 2013. Based on an average monthly transfer of just under USD 12 to each household this programme would cost in the region of 0.023% of GDP in the first year rising to about 0.4% in 2013² (Devereux & Wood, forthcoming).

Some trends in aid may facilitate the allocation of resources to social protection programmes. The increasing use of programme aid modalities, such as general and sector budget support, and the growth in the proportion of aid reflected in government budgets provides flexibility a greater degree of government discretion over spending choices which could be used to prioritise social protection expenditures.

A number of factors have combined to provide a renewed focus on agriculture as a priority expenditure and policy area for development. This emphasis is shared both by donors and developing countries and is reflected in the 2008 *World Development Report* (WDR) and in the African Union (AU) commitment to increase agricultural expenditure as a proportion of overall government budgets. Finding appropriate instruments for public expenditure in support of agricultural and rural development has been a problem over recent decades which have contributed to the decline in priority given to the sector. Cash transfers and other social protection measures directed to the rural poor function as investment support for agricultural production and could be financed from increases in aid and public expenditure in this sector.

Social protection measures could also be seen as appropriate and efficient instruments for using aid flows aimed at mitigation of and adaptation to climate change and for cushioning the impact on vulnerable groups of food and fuel price rises. In a recent paper

on policy responses to food and fuel price rises the IMF expresses the opinion that targeted transfer programmes, in an integrated social safety net, can reach the poor more effectively than other policy instruments such as tax decreases or price subsidies (IMF, 2008). Aid flows aimed at addressing these issues could be seen as a financing resource applicable to social protection.

The affordability debate

Establishing publicly funded social protection programmes involves deciding to direct significant public resources to poorer and more marginalised segments of the population. This target group is unlikely to be influential in national policy-making or public resource allocation decisions – as relative political exclusion is another likely dimension of their poverty. Non-poor interest groups may well oppose or seek to reduce social protection provision on ideological grounds if it is perceived as reducing expenditure in areas that benefit them, as raising taxes or as conflicting with their interests in other ways. The difficulties that political economy issues may bring to affordability debates may be lessened by:

- ensuring the availability of evidence and analysis of the systemic and aggregate economic benefits of social protection;
- demonstrating the effectiveness of social protection as an instrument for the implementation of national poverty reduction policies; and
- promoting a broad-based dialogue on financing social protection that allows the opinions of the poor and their representatives to be heard.

Linking specific sources of revenue to social protection measures could also facilitate affordability. In many poor developing countries revenue from natural resource use is allocated to local development expenditures. Well targeted cash transfers to the poor could be a relatively simple, equitable and transparent use of these resources. In Brazil an example of a similar approach is where funds from the sale of illegally logged timber, seized by the state, are allocated to finance the *Bolsa Familia* programme.

Where fiduciary risk is high, affordability will be questionable and questioned. While providing social transfers directly to poor households can be seen as a means of avoiding inefficiencies in other types of public service provision, they are also at risk where public financial management is weak. Corruption, for example in targeting benefits or in procurement for in-kind transfers, will reduce the effectiveness and efficiency of social protection, undermining its affordability. The recent review of pilot cash transfer schemes in Zambia found that petty corruption is the most significant risk due to the high Volume of small payments in such schemes. It also found that, although fiduciary risk had been assessed as substantial, actual corruption in the five pilot schemes had been negligible (Devereux and Wood, 2008). This was felt to be due to:

- operating procedures specifically designed to reduce fiduciary risk;
- the involvement of all actors, including communities, in implementing and monitoring the cash transfers;
- the small scale of the pilots and the close attention of donors and NGOs to their implementation.

Minimising fiduciary risk in larger and national social protection programmes will be more challenging. Effective measures to improve public financial management will

strengthen the affordability of social protection and are essential for up-scaling smaller initiatives and replicating them through the mainstream public service.

Donors too can improve affordability. In many countries donors and foreign NGOs have initiated social protection schemes as small stand alone projects. In some cases these are directly administered by the external partner using their own management structures and systems. Where they are implemented through public sector bodies special financing instruments are established and the financing partner frequently defines the policy objectives, the types and levels of transfers, the targeting strategies and the delivery mechanisms. With a number of donors involved in the area, the resulting proliferation of different approaches can result in inefficiencies due to the duplication of efforts because of the existence of separate and different targeting and delivery mechanisms for different projects – sometimes in the same Ministry and involving the same target group. Different policy objectives and levels of benefits between programmes can be a source of misunderstanding and conflict.

By supporting the development of nationally defined social protection policies and programmes; and funding them through joint financing mechanisms, donors can reduce the financial and transaction costs of social protection while helping develop the capacities and institutions that will be essential if small scale and locally-based initiatives are to be successfully scaled-up and replicated into national programmes.

Conclusions

Decisions on the affordability of social protection measures and on the levels of public resources to be allocated to them should be taken in inclusive country level policy and budgetary decision-making processes. They should be based on country-specific analysis of need, target groups and expected impact. They should be taken within the context of an overall social policy framework.

The affordability debate should be informed by an assessment of the expected short and medium term impacts of the proposed measures and the economic benefits they bring at household, local economy and national economy levels. This type of analysis will allow a greater understanding of the short term responses that underlie and produce the long-term sustained impact on poverty that is the overall objective. It will also permit a better cost-benefit type analysis of the necessary budgetary allocations.

It is important to be realistic when making assumptions on the ability of the public service to target and deliver social protection measures; and in relation to economic impacts of social transfers which are based on assumptions on the functioning of input, produce and labour markets. Unrealistic expectations will inevitably result in underperformance undermining support and affordability arguments about future financing. Using real survey information on delivery, impacts and market responses gathered at household level from existing programmes, even small and locally-based ones, is probably a more realistic basis for assessing impacts that attempts at modelling responses.

Systematic gathering of information and evidence of impact is essential. There is already significant information available in many countries from small existing programmes, economic and public expenditure data, poverty monitoring exercises and Household Budget Surveys. Specific impact studies on small programmes or first initiatives should be undertaken and where new programmes are established, mechanisms

for ongoing analysis and review of delivery and impact should be put in place from the beginning.

Social protection programmes can be built up incrementally. Evidence on impact shows that even small and local programmes produce positive benefits. The possibility of starting small and building can facilitate the affordability debate by allowing programmes to be started with relatively modest initial allocations while evidence from these can provide a sound basis for discussions on expanding programmes and funding allocations.

A clear national approach to social protection is critical. A single national policy defining the objectives of social protection, then types of social protection measures to be used, the definition and targeting of the beneficiary groups and the management and delivery strategies should inform all social protection initiatives. Without such a unifying framework it will be difficult to build the various initiatives that already exist and are likely to emerge into a national social protection system.

Donors have an important role in supporting and participating in the development of national social protection frameworks. This will involve supporting the capacity of government and civil society to develop social protection policies and to plan, finance, deliver and monitor the programmes to implement them. It will also involve moving away from delivering social protection through donor specific financing and delivery mechanisms towards funding national programmes through joint financing instruments.

Notes

- 1 Also where goods provided have had to be sold at a discount in times of food shortage. The difference between the discounted price and the “normal” or economic market price could be considered the flexibility value of cash.
- 2 It should be noted that the proposed programme fully rolled out in 2013 is estimated to cover 10% of the population of Zambia. The 2008 Living Conditions Monitoring Survey indicates that 51% of Zambians live below the food poverty line and that 67% of the rural population live in extreme poverty.

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