DFID Department for International Development

Briefing

SOCIAL PROTECTION BRIEFING NOTE SERIES, NUMBER 2 NOVEMBER 05

Can low-income countries in Africa afford social transfers?

Summary

Poverty targets are not being met in sub Saharan Africa – in fact poverty has been rising rather than falling in recent years. Social transfer programmes can have an immediate impact on hunger and poverty, and a wider impact on the poor accessing health and education services and on economic growth. One pilot programme in Zambia is demonstrating that small, regular transfers can increase household investment as well as current consumption on food and other goods. Such a programme, delivering $15 per month per household to the poorest 10 per cent of the population, would cost less than 1 per cent of GDP in low-income countries in sub-Saharan Africa, and less than 3 per cent of government spending (as well as a fraction of current aid flows and new aid commitments following Gleneagles). These are not insignificant expenditures, and there will be many other calls on government money, for example to create employment and improve health and education services. But social transfers can offer a relatively fast and practical way of helping vulnerable groups. They should be considered alongside a range of policy options for tackling poverty, and should not be dismissed on the grounds of affordability.

Introduction

Poverty targets are not being met in sub-Saharan Africa – the proportion living on less than $1 per day rose from 44.6 per cent to 46.4 per cent between 1990 and 2001.[1] Higher economic growth is needed as well as new thinking on how socially excluded groups such as older people, female-headed households, orphans, people with disabilities and those living with HIV and AIDs can benefit from and contribute to growth.

Social transfers are **regular** and **predictable** transfers of cash or food to poor households that are not based on contributions to insurance programmes. They include social pensions and other non-contributory cash transfers to children and poor households, but exclude social insurance programmes such as contributory pensions and unemployment insurance. It is often assumed that national social transfer programmes in very poor countries are unaffordable but, increasingly, this view is being challenged. This note addresses whether social transfers are a realistic policy choice in low-income countries in Africa that have very limited financial resources. It draws on a recent ILO study on the cost of social protection in low-income countries in Africa,[2] and concentrates on one particular social transfer model currently being piloted in Zambia.

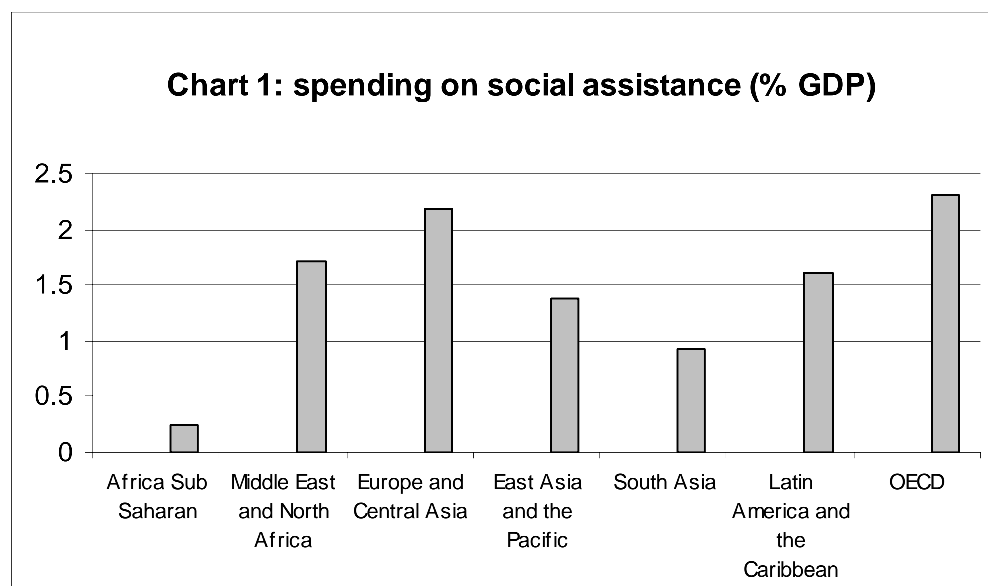
[1] http://unstats.un.org/unsd/mi/mi_worldregn.asp.
[2] *Can low-income countries afford basic social protection?* (ILO, 2004)

Social transfers can be a cost-effective way to reduce poverty and increase human capital development and growth …

As a starting point, the cost of social transfer programmes needs to be set against the potential benefits. Well-designed social transfer programmes can have an immediate impact on poverty and food insecurity. They can also improve health and education outcomes – either by helping with the cost of using services or by making payments conditional on families using those services. There is well-documented evidence from Latin America, South Asia and Southern Africa on the impact of cash transfers on school enrolment and attendance rates.[3] Social transfers can also contribute to economic growth by protecting and building the productive assets of the poor and allowing them to take risks within businesses.

Whether resources are best spent on social transfers rather than in other areas such as schools and health clinics, will depend on local needs and circumstances. But social transfers can reach vulnerable groups quickly, and can complement health, education and growth policies by ensuring that they help the poorest.[4] A more detailed review of evidence of the impact of social transfers is available in a recent DFID practice paper.[5]

Spending on social transfers in sub-Saharan Africa is low compared with other parts of the world, including South Asia …



[3] See for example *Latin America's Experience with Conditional Cash Transfer Programmes* (Rawlings R., World Bank, 2004).
[4] *World Development Report 2006* (World Bank, draft).
[5] *Social Transfers and Chronic Poverty: Emerging Evidence and the Challenge Ahead* (DFID, 2005).

National social transfer programmes are rare in low-income countries in sub Saharan Africa and this is reflected in spending figures. Chart 1 shows social assistance spending (social assistance mainly comprises cash transfers) in different regions of the world in recent years.[6] The sub-Saharan African figure excludes middle income countries like South Africa, and mainly reflects spending on public works programmes and disaster relief.[7] We might expect the low level of spending in sub-Saharan Africa relative to developed countries where overall government spending as a proportion of GDP is much higher. But spending is also much less than in South Asia where overall government spending as a proportion of GDP is at a similar level.

A national social transfer programme in sub-Saharan African countries would cost less than 3 per cent of government spending …

What would a national programme cost for countries in sub Saharan Africa? There are many options in terms of the level of transfer, the group in the population that is targeted and the type of programme that is implemented. One pilot programme in Zambia – which is used here as an illustrative example – provides the equivalent of $15 per month[8] per household to the poorest 10 per cent of the population. The poorest households are identified by village committees, with guidance from central government on the selection criteria to be used. They are mainly headed by older people and women looking after children; 57 per cent of the beneficiaries are children, and 70 per cent of those children are orphans.[9]

The pilot in Zambia has been running since May 2004 and covers around 1,000 households. The transfer has so far been enough to increase consumption within households, while more than a third of the transfer has been invested in assets and savings.[10] It has also reduced absenteeism from school and significantly improved household nutrition.

Such a programme scaled up to a national level would cost less than $20 million in Zambia, which is 0.3 per cent of GDP and less than 1 per cent of the 2005 government budget. The same programme in Burkina Faso, Cameroon, Ethiopia, Guinea, Kenya, Senegal and Tanzania, would cost no more than half of one per cent of GDP for all but two countries (Chart 2) and less than 3 per cent of government spending for all countries except Tanzania (3.1 per cent). 1 or 2 per cent of government spending is of course still a significant proportion of expenditure, especially in an environment where resources are very scarce, but it may not be beyond the bounds of affordability.

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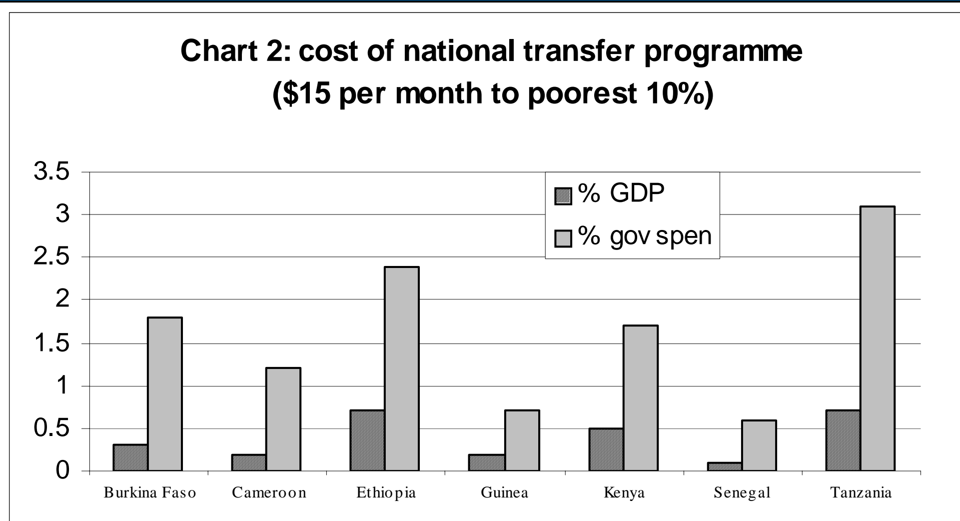
[6] From *World Development Report 2006* (World Bank, draft). The low level of spending is confirmed by in findings from *Social Protection Expenditure in Four African Countries* (ODI, 2005).
[7] The chart does not include the new social pension in Lesotho, for people over 70, and the new Productive National Safety Net in Ethiopia, which provides cash and food for work on a national scale.
[8] In purchasing power parity terms, adjusting the value in dollars to take account of the fact that it is cheaper to purchase goods in Zambia than in the USA. The value in market dollars is $6 with an extra $2 for households with children.
[9] *Pilot Social Cash Transfer Scheme, Kalomo District, Zanbia: First Monitoring Report*, GTZ, August 2005.
[10] The first round of monitoring was carried out September to December 2004. Results are awaited for a full year, including a full hungry season.



The Zambia pilot is used here purely as an example – in reality the appropriate level of any transfer, the size of the target group, and type of programme implemented will depend on local conditions and available resources. The wide variation in costs as a proportion of GDP and government spending in Chart 2 reflects the variable GDP per capita across countries and the variation in the proportion of GDP collected in taxation. Wealthier countries like Cameroon, Guinea and Senegal might, if they were to implement social transfer programmes, choose a level of transfer significantly higher than in the other countries.

Moreover, particular categories of poor people could be targeted instead of the poorest 10 per cent, such as orphans, older people, people with disabilities and single parent households.[11] Targeting all of the food insecure would require reaching roughly a third of the population of sub Saharan Africa.[12] Reaching a wider group may raise issues of what type of programme is most appropriate. For example, governments may require those able to work to provide labour in exchange for the transfer, although this would increase the cost of the transfer, per person. No judgement is made here about which groups in the population should be targeted. But a critical issue is how easily groups can be targeted – they must be sufficiently visible and easy to identify so that the administrative costs of transfer programmes are not onerous.

[11] These issues are explored in more detail in *Social Transfers and Chronic Poverty: Emerging Evidence and the Challenge Ahead* (DFID, 2005).
[12] *The State of Food Insecurity in the World 2004* (FAO).

The affordability of social pensions

One type of programme that has received a lot of attention is the social pension, to a large extent because of its ability to help other vulnerable groups in the population apart from older people – for example, in southern Africa more than 50 per cent of orphans live with older people.[13] The cost of social pensions will of course depend on the level of transfer, the age threshold, and whether the pension is means-tested in some way.

A recent UNDP/World Bank study estimates the cost of a universal pension for those 60 years and over – paid at a sufficient level to close the poverty gap[14] for everyone in the household – at 2 to 3 per cent of GDP. It concludes that such a pension is not affordable.[15] But using a universal pension to lift all members of households containing an older person out of poverty will inevitably be expensive – the majority of older people live in mixed households, and many of those households are a long way from the poverty line. The report makes the point that paying a lower level of transfer at one third of the national poverty threshold and means-testing it, would bring it into the bounds of affordability.

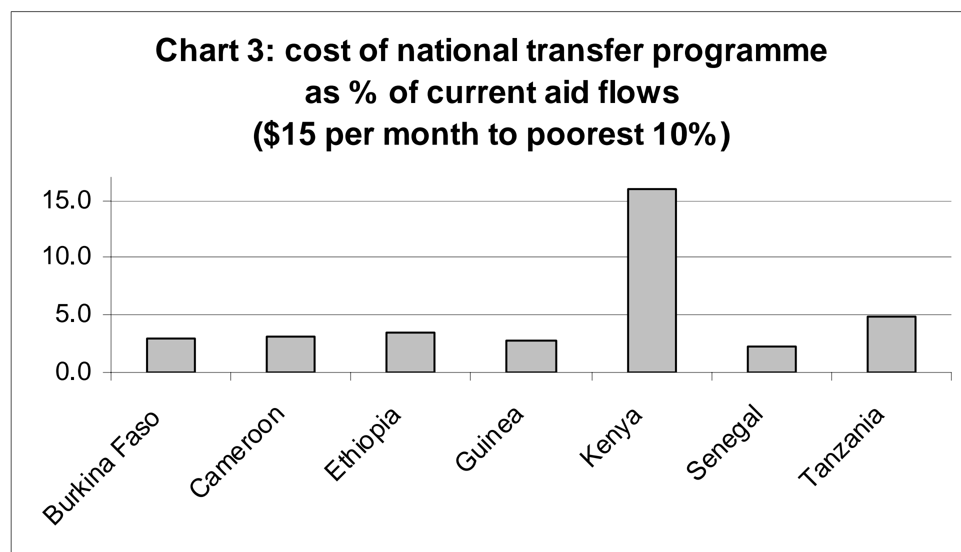
The ILO study referred to in this note estimates that a universal (i.e. non-means tested) social pension paid at $15 per month[16] to individuals who are over 65 or have a disability[17] would cost less than 1 per cent of GDP in all seven countries, and in most no more than 0.5 per cent of GDP. The Zambia pilot has demonstrated that a transfer of $15 per month, while not enough to raise beneficiaries in the pilot out of poverty, can still have a significant impact on people's lives.[18] Importantly, the projected cost of the pension in the ILO study – as a proportion of GDP over a 30-year period – either stays the same or falls; in contrast to other regions of the world, there is no 'demographic time-bomb' in sub-Saharan Africa that would result from a rapid rise in the proportion of older people in the population.[19]

A national transfer programme would cost a fraction of current aid flows …

No matter what level of government expenditure is required for a programme of social transfers, any level of spending will require resources to be diverted from elsewhere. This will be hard in an environment of scarce resources. Can aid be used to pay for social transfer programmes? As with government spending more generally, decisions on how to spend aid should, wherever possible, be country-led. Nevertheless, in terms of affordability, a national programme in Zambia transferring $15 per month per household to the poorest 10 per cent of the population would cost just 3 per cent of the $560 million in aid that it received in 2003. It is a similar story elsewhere –

[13] *Africa's Orphaned Generations* (UNICEF, 2003).
[14] Using national poverty lines.
[15] *Ageing and Poverty in Africa and the Role of Social Pensions*, UNDP/World Bank, August 2005. Countries included in the report are Burundi, Burkina Faso, Cote d'Ivoire, Cameroon, Ethiopia, Ghana, Guinea, Gambia, Kenya, Madagascar, Mozambique, Malawi, Nigeria, Uganda, and Zambia.
[16] In purchasing power parity terms, so allowing for the difference in price levels between the USA and the country in question.
[17] The proportion of people with a disability is assumed to be 1 per cent of the population.
[18] The Zambia pilot is paid per household rather than to individuals, so in fact has a lower value than the pension.
[19] The calculations use UN population forecasts and forecasts of growth based on recent trends.

the same national programme would cost less than 5 per cent of aid flows for all countries in the ILO study except Kenya[20] (Chart 3).



A national programme for all countries in sub-Saharan Africa would cost just 3 per cent of agreed additional aid to Africa …

Even if existing aid flows and government resources generally are not used to fund social transfer programmes, there is still the option of using scaled up aid. The annual cost of a Zambia-style programme *for all low-income countries in sub Saharan Africa* (not just Zambia and those in the ILO study) is estimated at $760 million.[21] This is just 3 per cent of the agreed $25 billion increase in aid to Africa agreed at Gleneagles. In an environment of scaled up aid, there are few excuses for donors and partner governments to dismiss large-scale social transfer programmes on the grounds of affordability.

But, governments need to make policy choices …

In the context of limited resources, governments must always find the most cost-effective way to meet their objectives. If the target is to reduce chronic hunger, for example, appropriately targeted social transfers should be considered. In the absence of these programmes, DFID and other donors currently pay for emergency relief for the chronically food insecure, which is less effective in reducing poverty because it is unpredictable, and generally much more expensive. Spending on humanitarian assistance to Africa was $2.8 billion in 2003, and much of this went to the chronically food insecure rather than to those suffering from unpredictable crises.[22]

[20] The higher proportion for Kenya is mainly a result of lower aid flows per capita: $13 in 2002, compared to, for example, $35 in Tanzania and $63 in Zambia.
[21] *Poverty reduction through targeted cash transfers in sub-Saharan Africa* (ILO, forthcoming). Administrative costs are assumed at 25% - which is above the normal range for social transfer programmes - to take account of additional costs of community targeting on a national scale.
[22] Precise estimates are not available.

If the objective is to improve education outcomes for poor people, for example, the government may consider abolishing user fees for the poor. It can then decide whether social transfers can play a role in helping the poorest that still do not have access because of additional costs, such as the cost of children attending school rather than going to work. But, regardless of the objective, social transfers need to be considered more than they have been in the past, as one of a range of programmes that can reduce hunger and poverty and deliver wider benefits on human development and growth. If target groups can be located, and secure payment methods found, social transfers offer a quick and practical way of delivering benefits to the poorest groups.

Above all, social transfers should not be dismissed on the grounds of affordability …

Social transfers have historically been a lower priority in low-income countries in Africa than investments in health, education and growth. But the importance of social transfers is starting to be recognised. For example, the recent report for the Commission for Africa recommended the large-scale implementation of social transfers as one of its main spending items.[23] On the ground, a national social pension has been introduced in Lesotho and there are several pilot programmes starting or about to start in other countries. The case for transfers has been strengthened by the Gleneagles agreement on scaled up aid, though there are, of course, many different ways that aid can be spent. But this note argues that large-scale social transfers may be affordable even without scaled up aid.

Donors and partner governments need to ask fundamental questions about how government spending and aid is being used to address poverty in Africa. Social transfers need to be considered for both their immediate impact on poverty and as a vital complement to policies on health, education and growth if the poorest are to benefit. Above all, social transfers should not be dismissed on the grounds of affordability. Decisions, of course, rest with partner governments and it is important that the incentives for governments of low-income countries are understood. In particular, social transfer programmes are a political commitment that requires long-term funding. The onus is on donors to make aid flows more long-term and predictable to support any such commitment.

[23] The Commission for Africa estimate it would cost US$2 billion a year immediately, rising to US$5 to 6 billion a year by 2015 to provide cash transfers and other forms of social protection to all orphans and vulnerable children in sub Saharan Africa.

Links to some useful social protection resources:

Social Protection Team inSight page: Please check our team inSight pages for more information and access to the virtual social protection library.
World Bank SP: http://www1.worldbank.org/sp/
International Labour Organisation (social protection):
http://www.ilo.org/public/english/protection/about/index.htm
Asian Development Bank SP: http://www.adb.org/SocialProtection/default.asp
Chronic poverty website: http://www.chronicpoverty.org/
International database on social assistance programmes:
http://www.chronicpoverty.org/pdfs/SocialAssistanceDatabase%20Version1%20April2005.pdf

A database on DFID social assistance programmes can be found on the inSight page of the Social Protection team.

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