MINISTRY OF GENDER, LABOUR AND SOCIAL DEVELOPMENT

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EXPANDING SOCIAL PROTECTION

Uganda Social Protection Financing Options Study

For the Ministry of Gender Labour and Social Development

Expanding Social Protection Programme

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This report is also available on our website at: **www.socialprotection.go.ug**

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Abbreviations

ALREP	Agricultural Livelihood Recovery Programme
BTTB	Background to the Budget
CDO	Community Development Officer
CfW	Cash for Work
DAC	Development Assistance Committee
DfID	Department for International Development
DIS	Direct Income Support
DP/DPs	Development Partner/s
EAMU	East African Monetary Union
EC	European Commission
ESP	Expanding Social Protection

FfW	Food for Work
FRA	Fiduciary Risk Assessment
FY	Financial Year
GDP	Gross Domestic Product
GOU	Government of Uganda
HIPC	Highly indebted Poor Countries
IFMS	Integrated Financial Management System
ILO	International Labour Organization
IMF	International Monetary Fund
KALIP	Karamoja Livelihood Programme
KIDDP	Karamoja Integrated Disarmament and Development Programme
LEARN	Livelihoods and Economic Recovery in Northern Areas
LG	Local Government
MDAs	Ministries Departments and Agencies
MDGs	Millennium Development Goals
MGLSD	Ministry of Gender Labour and Social Development
MLG	Ministry of Local Government
MoFPED	Ministry of Finance Planning and Economic Development
MSP	Maxwell Stamp PLC
MTEF	Medium Term Expenditure Framework
NDP	National Development Plan
NGOs	Non-Governmental Organizations
NPA	National Planning Authority
NSSF	National Social Security Fund
NTR	Non Tax Revenue
NUREP	Northern Uganda Recovery Programme
NUSAF	Northern Uganda Social Action Fund
OBT	Output Budgeting Tool
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OPM	Office of the Prime Minister
PEAP	Poverty Eradication Action Plan
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Finance Management
PPP	Public Private Partnership
PRDP	Peace, Recovery, and Development Plan
RALNUC	Restoration of Agricultural Livelihoods in Northern Uganda
RGP	Revenue Growth Projection
SAGE	Social Assistance Grant for Empowerment
SCG	Senior Citizens Grant
SPPER	Social Protection Public Expenditure Review
UBOS	Uganda Bureau of Statistics
UNHS	Uganda National Household Survey
UNRA	Uganda National Roads Authority
UPE	Universal Primary Education
URA	Uganda Revenue Authority
USD	United States Dollar
VAT	Value Added Tax
VFG	Vulnerable Families Grant
VfW	Vouchers for Work

1 Introduction

This literature review is prepared in support of a study for Financing Options for Social Protection in Uganda, and in accordance with its Terms of Reference. The purpose of the study is to develop comprehensive options for medium and long-term sources of financing and financing modalities for direct income support in Uganda. The primary focus of the study is on provision for the elderly in the form of the Senior Citizens Grant (SCG) which has been piloted since 20011.

In addition to this brief introduction, this literature review consists of five sections. Section 2 looks at current literature on financing social protection.. This section draws conclusions on potential strategies for financing direct income support, particularly grants for the elderly. Section 3 examines financing modalities and mechanisms. Section 4 provides commentary on the particular characteristics of the Southern African and the East African models as set out in Niño-Zarazúa, Miguel et al, (2010). Section 5 presents a thematic study of social protection financing in sub-Saharan Africa with examples drawn from many countries including Kenya, South Africa, Lesotho, Rwanda and Ethiopia. Section 6 briefly sets out the social protection challenges in Uganda and considers how the literature on social protection financing and the two case studies might inform social protection financing in Uganda.

The scope of this literature review is limited to social protection financing in developing countries, mostly Africa.

2 Financing Social Protection

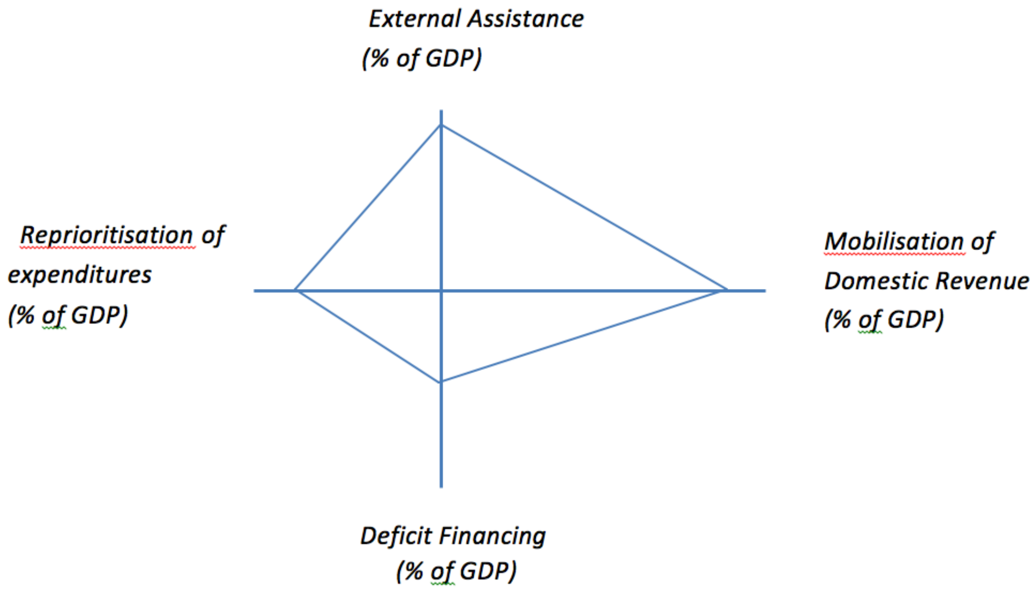
2.1 Fiscal Space

This section examines current literature on financing social protection and within this provides commentary on the particular characteristics of the Southern African and the East African models. It draws conclusions on potential strategies for financing direct income support. For the purposes of this literature review social protection is defined narrowly as "public actions taken in response to levels of vulnerability, risk and deprivation which are deemed socially unacceptable within a given polity and society" (Conway, de Haan and Norton, 2000, Social Protection: New Directions of Donor Agencies, cited in Niño-Zarazúa, Miguel, et al, 2010). That is to say, it excludes formal employer pensions whether contributory or non-contributory and complementary areas of service delivery such as health services and education.

As with any area of public finance, financing of social protection must begin with a whole-of-government analysis. Consequently, much of the contemporary literature on financing social protection begins with the concept of fiscal space which may be defined as "the room in a government's budget that allows it to provide resources for a desired purpose without jeopardising the sustainability of its financial position or the stability of the economy" (Heller, 2005). The examination of fiscal space in general takes the social protection specialist, necessarily but briefly, into a broader examination of public finance.

At its simplest, fiscal space is illustrated by the fiscal diamond: Source: WB/IMF Development Committee Interim Report, 2006 (and UNDP)

Figure 1: Fiscal Diamond



Fiscal space, the area under the diamond, can be expanded by moving any point of the diamond outwards. Three points of the diamond, Increased External Resources, Mobilisation of Domestic Resources and Deficit Financing (funded by borrowing) create new budgetary resources (albeit that Deficit Financing only increases budgetary resources in the short to medium run). The other point of the diamond, Reprioritisation of Expenditures, increases the allocative efficiency of existing budgetary resources.

Handley (Unicef 2009(2)) builds an extended model based upon Heller which introduces Seignorage (the financial benefit from creating ("printing") new money) and issues of operational efficiency in addition to the four options in the fiscal space diamond. He elaborates on the fiscal space possibilities of Deficit Financing and borrowing, introducing the possibility of creating fiscal space from debt restructuring and reduction. Under this expanded view, Handley records six principle mechanisms for the creation of fiscal space which are (1) increasing revenue from two main channels; increased economic activity, i.e. real growth in gross domestic product (GDP) and increases in the average tax yield as a proportion of GDP; (2) reallocating spending from lesser to higher priorities and from lesser to more effective and productive programmes; (3) reducing debt by writing off all or part of a country's debt stock with a view to freeing up resources that would otherwise be spent on meeting government future debt service obligations; (4) increased borrowing from either external domestic sources; and (5) increasing aid in the form of grants and concession lines; and (6) seignorage, or generating revenues by money creation.

Handley reminds us that the realization of fiscal space is dependent on sound governance and public financial management, and in particular on the credibility of budgets put forward and the strength of government institutions.

At the point where it is identified, fiscal space is sector-neutral and activity-neutral. Its allocation to a particular sector or activity is determined by budgetary priorities and is the outcome of budgetary negotiation. To establish the fiscal space for social protection is External Assistance (% of GDP)
Reprioritisation of expenditures (% of GDP) Mobilisation of Domestic Revenue (% of GDP) Deficit Financing (% of GDP)

therefore a two stage process: identification of the fiscal space; and making an effective case for its application to social protection. The second of these is a political process.

We can look at each source of fiscal space in turn to see whether it presents an appropriate method for financing social protection. However, before we do so we will first consider two related topics: first, what political space may be required in order to allocate emerging fiscal space to social protection; and second, the nature of social protection spending, and in particular the nature of spending on social transfers, and its implications for financing sources.

2.2 What kind of financing is required for social protection?

All social protection expenditures are recurrent in nature and have a tendency to grow in line with population increases and rising levels of income. Many pensions paid from the public purse are mandatory, that is to say they are unequivocally non-discretionary expenditures. Other social protection expenditures such as social pensions, child grants or disability grants, rapidly become politically entrenched and consequently, effectively if not in law, long term and non-discretionary. As a result, it is generally agreed that financing sources which are either unpredictable or volatile, or have a limited time horizon, are not suitable for financing social protection (Handley 2009: 22; World Bank, 2010:65; Holmqvist, 2010:3; and ILO, 2008:18). It is therefore advisable that countries embarking upon a long term social protection programme should be confident of secure and sustainable funding.

2.3 What sources of finance are therefore appropriate?

Here we look at the six methods of increasing fiscal space indicated above, and assess their potential for social protection financing.

Mobilisation of domestic revenue can be achieved through growing GDP itself, or through increasing tax and other revenues as a percentage of GDP. In many ways this is the preferred method of financing long-term recurrent expenditures such as social protection. In particular, income taxes, consumption taxes and trade taxes tend to grow steadily over time and automatically keep pace with inflation.

Developing countries face many challenges in improving the ratio of tax to GDP. Often these countries have only small formal sectors, and confront serious challenges in increasing the tax take from informal businesses. Some are challenged through not having the necessary competencies, or staffing levels, to establish and maintain the management information systems necessary for sound tax administration. In many countries a combination of corrupt taxpayers and rent seeking officials also undermines efforts to increase the ratio of taxation to GDP, and this can be a difficult problem to eradicate.

There are limits to what can be done using domestic revenues to eradicate poverty. Ravallion (2009) cited in Niño-Zarazúa et al (2010:19) assesses redistribution capacity in the number of African countries. He calculated the marginal rate of tax that developing countries would need to apply to the rich (those with incomes above the US dollar denominated poverty line) to eradicate the poverty gap amongst the poor (the difference between income or consumption and US$1.25 a day). At that time, he concluded that for most African countries that marginal rate is 100%, including the case of Uganda. This may have changed somewhat, in the four years that have passed because there have been changes in the ratio of poor and non-poor. Nonetheless the point remains that it is very difficult for a low income

country to eliminate poverty through internal income redistribution, although a well-managed tax administration can do a lot to reduce it. .

The mobilisation of resource revenues in support of social protection is a special case. Fiscal space may exist in the present, but future availability of fiscal space is dependent upon the size of the resource and the rate of extraction. The size of the resource is always difficult to predict and changes over time. The revenue source is also volatile for two reasons: first because production levels vary over time and second because the price of the resource also varies with the market. However, many countries have overcome this difficulty through the establishment of a Stabilisation Fund.

It is sometimes argued that taxes could be earmarked for social protection in general or social transfers in particular. This may involve the earmarking of a stream of revenue such as resource revenues, or the introduction of a new tax such as a levy or an additional 1% on VAT. From the point of view of budgetary management such arrangements are undesirable, because they create inflexibility and inhibit the free allocation of resources. Where such earmarking has been introduced (as recently in California where 1/4% was added to Sales Tax to support the Education budget) it has generally been because it was politically important to link the spending directly to the tax in order to obtain public support for the tax increase.

Reallocation of domestic spending entails the improvement of allocative efficiency. Where allocative efficiency can be strengthened in the long-term the budgetary gains have the same effect as a sustained increase in revenues. This is a viable way of financing social protection. However, there is typically not very much room for manoeuvre in reallocation of budgetary resources. A much quoted paper suggested that it is rarely more than 5% of the total (Schick et al) and it is not difficult to see why this is. Ministries of Finance speak of "discretionary" and "non-discretionary" expenditures, where discretionary expenditures are avoidable, at least in theory. Some payments such as debt service (repayment and interest) cannot be avoided and are non-discretionary; legislated subsidies or transfers to other tiers of government are equally unavoidable. Although recurrent expenditures may in general be thought of as discretionary and therefore avoidable at least in part, there are often strong political reasons why some current expenditures, such as wages and salaries, cannot easily be reduced. They are often thought of as non-discretionary in practice[1]. In fact, given the long-term tendency of many African governments to use travel and other allowances to supplement wages and salaries, there is a strong argument for including these as well.

It is useful to distinguish between reallocation between the social protection sector and other sectors, and reallocation within the social protection sector. Note in particular the Kenyan Social Protection Sector Review page 16, which notes the relative ineffectiveness of food distribution and suggests that "the government could consider reallocating resources from the General Food Distribution program to a transfer program that will provide these groups with more predictable support."

Reducing debt is postulated by Handley as another avenue for increasing fiscal space, and he had in mind the opportunities for writing off debt under HIPC and MDRI. However, many of the countries which were eligible have already reached the HIPC Completion Point and there are now less opportunities in this area. It is expected that there are opportunities for social protection financing via this route only in exceptional cases.

Borrowing whether external or domestic is another avenue for increasing fiscal space in the short to medium-term, but of course it generates a later reduction in fiscal space during the period when the debt is being serviced. It also violates the general principle of public expenditure management that countries should only borrow to invest. It is therefore not an ideal way to finance long-term recurrent social protection expenditures, although this has not prevented many Latin American countries from experimenting with loan-financed social protection (Handa et al, 2006)[2].

Increasing aid is a popular approach to increasing fiscal space in general, and has been widely used to initiate social protection programs in sub-Saharan Africa because it comes at apparently no cost. However, aid finance has a number of drawbacks. First, it can be highly volatile and that volatility cannot easily be smoothed out[3]. Bulir and Hamann (2005) found that aid was 20 times as volatile as tax revenues, and also pro-cyclical. That is to say, it has a tendency to fall when the economy contracts.

1 In fact, Heller's rough-and-ready calculation of non-discretionary expenditure is a government budget was simply to add wages and salaries to interest expense.
2 Also, Uganda has undertaken concessionary borrowing for NUSAF 1 and 2, both of which have a significant social protection element
3 because the donor community requires the flexibility to withdraw aid in order to maintain an acceptable level of accountability.

Second, whether aid comes as budget support or as project support there are significant transaction costs from negotiating the funds to monitoring, reporting and evaluation. Finally, aid often comes with conditionalities that may or may not be in line with government thinking.

Volatility of aid means that governments are rightly concerned not to embark upon large-scale and long-term social protection programs based upon short-term project aid, or indeed aid that is seen as potentially volatile because of associated conditionalities. This is the case regardless of the correctness of the conditionality. For instance, a donor conditionality that aid will be suspended in cases of major corruption is undoubtedly fair. However, in a country prone to corruption for whatever reason, this represents a significant volatility concern.

Seignorage

Seignorage offers some possibilities, but because of its limited importance is not dealt with here.
What sources of finance are therefore appropriate? In view of its lack of volatility and long term sustainability, domestic revenue is clearly advantageous if available. At one level it may be said that the source of funds is immaterial as long as government commits long term funding, but that is an incomplete answer which is pursued further in the following paragraphs.

2.4 Politics of allocating budgetary resources to social protection

It has often been observed that the allocation of budgetary resources is a highly political activity. The introduction of social transfers as a permanent and redistributive mechanism has a heightened political profile, and requires the utmost political backing if it is to be successful.

Stephen Devereux and Philip White in Social Protection in Africa: Evidence, Politics, and Rights identify three overlapping agendas that shape developments in social protection. These are first, a technocratic concern with evidence of effects, cost-effectiveness and fiscal sustainability; second, a political preoccupation with constituencies, interest groups and institutions; and a rights-based concern with universal principles and standards. This is a useful taxonomy. It is these agendas that also frame the discussion of social protection financing. The technocrats, often represented by the Ministry of Finance, seek to maintain fiscal balance and ensure that available budgetary funds are allocated with regard to the cost effectiveness of specific interventions.

Devereux and White note that the adoption of social protection programs in Africa often occurs "against the instincts of powerful national actors such as Ministries of Finance, many of which are reluctant to commit to long-term programs that they regard as fiscally unsustainable". They often exert pressure to limit financing to what is considered affordable. Political actors, on the other hand, may be pressing to expand financing for social protection in the interests of their constituents or patronage clients. Social sector ministries often fall into the third category, supporting increased finance for social protection using rights-based arguments and by reference to international norms.

Holmqvist (2010) carried out an extensive review of external financing of social transfers in the context of political economy. He identifies a "benign" case in which there is full political ownership of social transfers in the aid recipient country. In that situation he suggests there is no political issue to discuss. A second case, where the social transfer policy is not fully owned by the partner country, is less clear. Citing a CSP/IDS/ODI discussion paper (CSP et al, 2010) he notes that a common "bypass" solution is to introduce small pilot projects of social transfers (as in Malawi or Zambia) but notes that these have not generally influenced domestic policy agendas. He asks whether temporary external financing of social transfers can be designed to stimulate the formation of policies and institutions capable of sustaining transfers in the long run, and his conclusion is mixed. He notes the limited historical effectiveness of influencing policies with conditionalities, and argues that the donor community should recognise their limitations in reshaping a political economy where it is not ripe for the introduction of social transfers.

Another interesting strand of enquiry pursued by Holmqvist is the interaction of external financing of social transfers and patronage politics. Suggesting that micro-level insecurity feeds patronage, he argues that a clearly designed social transfer system in which beneficiaries can easily know what their benefits are, reduces the risk of (or possibilities for) patronage. On the other hand, social transfer schemes where benefit criteria are not fully transparent to the beneficiaries, or where sophistication of targeting mechanisms places high demands on local administrative capacity, there is a greater risk that transfer schemes fall prey to patronage politics.

A well-governed and pro-poor, redistributive system of social transfers can reinforce political stability. McCord (2009) goes further and observes that the political situation in some countries is a trigger for the introduction of social transfers. She argues that countries are more likely to allocate domestic resources to cash transfers where there is a perceived political need to transfer resources to the poor to promote national stability and retain power. She cites the examples of Nepal, and Kenya after election violence in 2008. A similar case may be made for the social transfers introduced in newly-independent post-apartheid South

Africa[4]. In a similar vein, Niño-Zarazúa et al (2010:18) point out that many of the Southern African countries which have introduced social pensions have high levels of income inequality as measured by the Gini coefficient, and higher rates of urbanisation, and are therefore more vulnerable to political instability.

2.5 Cost and affordability of Social Protection

It has been shown above that the generation of fiscal space does not automatically benefit any particular area of spending. The question that follows is whether identified fiscal space can be used to finance social protection. In particular: what is the likely cost of the social protection initiatives envisaged? This is not a straightforward question – there are many costs beside the cost of the transfers themselves relating to set-up, delivery costs, monitoring costs and related technical assistance. Also, how can these costs be moderated? And what is "affordable"?

2.6 What is the likely cost of the social protection initiatives envisaged?

A part of the literature is dedicated to elaborating norms and international comparisons of social protection expenditure based on those norms. See for instance ILO, 2008, Can Low Income Countries Afford Basic Social Security? The ILO norms for social protection assume the following elements

- Universal basic old age (65+) and disability pensions ayt30% of GDP per capita estimated to cost between 0.6 and 1.5% of GDP
- Universal child benefit (under 14)for maximum 2 children at 15% of GDP per capita estimated to cost between 1.2% of GDP (India) and 3.6% of GDP (Tanzania)
- Universal access to health care, including health insurance)[5] estimated to cost from 1.5% to 5.5% of GDP
- Unemployment and underemployment benefit provided through access to up to 100 days of public works employment, expected to provide income equivalent to 30% of GDP per capita and estimated to cost between 0.3% and 0.8% of GDP

4 For an argument on these lines see Niño-Zarazúa et al, 2010,pp8-9
5 The insurance would constitute a part of social protection under most definitions, but the provision of health services would not

Overall the package is calculated to cost from 3.6% to 10.6% of GDP. It's findings are a basis for the Basic Social Security Floor which is currently a UN objective.

This ILO report argues that on the basis of the figures presented for a selection of African and Asian countries that social protection is affordable. However, it does assert that for many countries acceptable social protection coverage (which ILO suggests might cost 20% of total government spending) is not affordable from domestic revenues alone and requires the long-term commitment of international donors and lenders. The argument is weakened by the fact that such international financial support is assumed and that the difficulties of using aid to finance long term social transfers are not well analysed. Nonetheless, the ILO report is much cited, and use frequently as an argument for affordability in advocacy (e.g. Hanlon et al, 2010).

There are a number of difficulties with this general approach. First, it has led to a template approach to the introduction of social protection which focuses on particular elements regardless of country context and the broader framework that already may exist in terms of poverty alleviation and management of vulnerability risk[6]. Second, it adds to an already oversubscribed list of social (and related) sector targets which include health, education, agriculture, water and sanitation, and infrastructure, all of which cannot possibly be met. Hagen-Zanker and McCord (2010) make this point forcefully showing how, for many countries meeting all these targets would consume more than the total of government revenues.

International comparisons of actual social protection spending are necessarily more realistic than the targets set out above. These are presented in Weigand and Grosch, (2008). They carry out an extensive analysis of budgetary data with acknowledged methodological limitations, and report:

Mean spending on safety nets is 1.9% of GDP and median spending is 1.4 % of GDP. For about half of the countries, spending falls between 1 and 2% of GDP.

They also observe:

Some variation is apparent. Bosnia and Herzegovina, Pakistan, and Tajikistan, for example, spend considerably less than 1% of GDP, while spending on social safety nets in Ethiopia and Malawi is nearly 4.5% of GDP because international aid is counted, but would be more like 0.5 % if only domestically financed spending were counted. Other high-spending countries—Mauritius, South Africa, and the Slovak Republic—finance their safety nets domestically.

As with many writers in this field they struggle with the lack of standardisation of data across countries and the conclusions remain impressionistic rather than definitive.

We reproduce below a comparison table from the Kenya Social Protection Sector Review of June 2012 (most of which is taken from Weigand and Grosh (2008)) which gives some indications:

Figure 2: Social Protection Spending - International Comparisons

Country/Region	Year	Expenditure on Social Assistance (% of GDP)	Expenditure on Social Insurance (% of GDP)	Source
Countries				
Botswana	2004/05-2008/09	2.7-5.2	NA	Turner et al. (2010)
Ethiopia	2001/02	4.5	NA	Weigand and Grosh (2008)
Kenya	**2010**	**0.8**	**0.48**	**Table 2.1 above**
Madagascar	2002	0.9	1.2	Weigand and Grosh (2008)
Malawi	2003-2006	6.5	1.7	Slater and Tsoka (2007)
Mauritius	2001/02	5.3	4.2	Weigand and Grosh (2008)
Senegal	2004	0.2	0.9	Weigand and Grosh (2008)
South Africa	2002/03	3.2		Weigand and Grosh (2008)
Regions (No. of Countries)				
Sub-Saharan Africa (9)	Various	3.1	1.5	Weigand and Grosh (2008)
Latin America & Caribbean (25)	"	1.3	3.8	Weigand and Grosh (2008)
South Asia (5)	"	0.9	1.4	Weigand and Grosh (2008)

Source: Authors (2011) and sources cited above.

6 Echoed in CDS/IDS/ODI et al. 2010

2.7 How can social transfer costs be moderated?

There are a number of strategies for adapting the costs of a social transfer programme to the available budget in order to ensure that it is fiscally sustainable. A common approach to achieving value for money in social transfers is targeting. Targeting is the process of selecting the desired beneficiaries for a programme against defined eligibility criteria and can be categorical or community-based. Through the adoption of targeting it is possible to focus social protection interventions on specific groups such as the elderly or the poor and vulnerable. Individual programmes tend to employ eligibility criteria based on one or more of:

- Geographic criteria
- Demographic/categorical criteria (age, disability status, sex, orphanhood etc)
- Income/vulnerability level
- Nationality/residency

A pension, for example can be 'pure categorical' (or 'universal') or poverty-targeted in some way. The approach to poverty targeting could also range from means-testing, proxy means testing to community based targeting.

Poverty targeting is often employed to create greater value for money, but should not automatically be considered desirable. Although poverty targeting seems to assure value for money in any system of social transfers, the literature is replete with its many drawbacks. The first of these is that the more precise the targeting formula, the more difficult it becomes to understand at the community level. When it is not clear why one family is receiving benefits and another, apparently similar, family is not, the system is perceived as unfair or at least unclear. A second difficulty with targeting is slightly more esoteric, and has to do with political support. It is argued (Pritchett, 2005) that where a grant is universal, even though it includes both poor and non-poor, it is more likely to retain sustain political support over time and therefore continue without the level of benefits being eroded. On the other hand, since the poor have limited political influence, a benefit provided to the poor only maybe eroded over time.

Social pensions are necessarily restricted to people over a certain age. In Lesotho it is men aged 70 and over and women aged 65 and over, whilst in many countries 65 is the pensionable age for all. As with any other benefit, the costs of pensions may be moderated by selecting the benefit at a modest level that is considered affordable[7], and increasing it over time within sustainable limits. Additionally, when a social pension scheme is first introduced the impact on the budget can be toned down by gradual introduction of the pension in different parts of the country. In addition, the age for receiving social pensions can be modified, as is currently happening in many European countries, including the UK. Finally, social pensions can be varied between women and men. Social pensions are normally either fully universal or exclude only people with large publicly funded pensions. This is possible because older people are a small proportion of the overall population.

Specifically in relation to social pensions the drawbacks of various eligibility criteria include:

- Limiting geographic scope: not always politically feasible and can be difficult to implement in a context of weak national ID and other administrative systems.
- Increasing age threshold: possible and creates clear savings, but reduces the progressiveness of the programme.
- Excluding public and private pension holders: possible but may be difficult to implement without a single database, and potentially damaging from a political and social cohesion perspective. It depends on national assessment of likely response. It is often observed that wealthier pensioners are less likely to register for the programme anyway.

7 at a lower level than the proposed ILO norms of 30% of GDP per capita.

2.8 Means-testing of any sort:

1) often error-prone leading to inclusion of the non- poor and the exclusion of large numbers of the poor. 2) prone to corruption and fraud leading to loss of public support for the programme/government; 3) disincentivises investment by beneficiaries in productive activities; 4) realatively expensive (perhaps 20-30% of the value of transfers would need to be spent in administration); 5) likely to be viewed as arbitrary at local level leading to public resentment; 6) exclusion of influential and opinion-leading members of society may lead to loss of political support over time. Value for money and overhead costs

Value for money begins with appropriate institutional arrangements. Economies of scale can be achieved when multiple social transfer programmes are harmonised and housed under one roof. Savings can be made on administrative processes, database development and management, as well as monitoring and evaluation.

Cost-effectiveness must be constantly monitored to ensure ongoing value for money and to eliminate waste and fraud. This requires a budgetary and accounting system that shows clearly the operational costs associated with transfers, and to the extent possible demonstrates the operational cost related to each type of transfer separately. This enables judgements about the cost effectiveness of the different types of transfers and in the medium-term enables government to achieve the optimal poverty alleviation outcome for the budgetary resources it has made available.

The National Audit Office report, commenting on DFID operations, remarked on the relative cost effectiveness of the transfers themselves and operational costs as follows:

Transfer programmes are demonstrating important characteristics of good value for money in terms of positive benefits for recipients, but significantly weaker management of key cost drivers means the Department has not optimised value for money.

The report also made a number of recommendations in key areas of value for money analysis which can usefully be included in any social transfer management system:

- There should be comparative cost-benefit analysis between transfers and other programme design options, to support stronger business cases.
- Assessments should examine whether increasing the transfer values or changing the mix of programme components may transform household poverty more, e.g., by stimulating productive investment.
- Stronger and more consistent analysis of the costs of managing transfer programmes is needed as they move to full roll-out, and examination of trade-offs in cost between tighter targeting and higher administrative costs.
- All key indicators should have baselines, and consistency between indicators used in internal monitoring and those used in external evaluation.

2.9 The meaning of affordability

"Affordability" is not a particularly helpful concept. It is a matter of judgement and country context. The much quoted ILO report on affordability referred to above maintained that social protection was affordable with donor support. That itself is a major qualification. Indeed, its suggestion that social pensions might be 30% of GDP per capita is unaffordable for many low income countries. DFID has considered programmes to be affordable when implemented nationally because the cost of transfers lay within 0.3% and 0.5% of GDP or 2% of government budgets (National Audit Office, 2011).

The National Audit Office report cited above took another tack. It cited research undertaken in 2011 using 2006-07 data to show that there were shortfalls against social protection commitments as high as 93 per cent in five African countries, including 88 per cent in Kenya and 75 per cent in Ethiopia. This suggests that the commitments being made were not affordable in practice.

Fiscal space has been defined above as the room in the government's budget that allows it to provide resources for a desired purpose without jeopardising the sustainability of its financial position or the stability of the economy. If government spending already exceeds 50% of GDP (as in Lesotho or France) is any new spending affordable? The answer cannot be definitive – it will depend upon the social system adopted in the country concerned. However, even if overall levels of government spending are not sustainable, who is to say that it is social protection that is or is not affordable, as opposed to, for instance, infrastructure spending, hospital running costs or the maintenance of foreign embassies? Often all that is known is that overall spending levels are unaffordable.

The affordability of individual interventions or activities is in the end a matter of political prioritisation, and often a response to a perceived political need or threat. McCord (2009:3) notes that "countries are more likely to allocate domestic resources to cash transfers where there is a perceived political need for the government to transfer resources to the poor to promote national stability and retain power (Nepal and Kenya) and where governments do not want cash transfer programming to be vulnerable to donor policy shifts and funding fluctuations (Kenya)." She goes on to say that in Kenya, Malawi and Zambia, national decision-makers felt "it was legitimate to allocate a limited share of GDP to cash transfers, in order to address the needs of a tightly defined and limited target group representing the "deserving poor"… it was argued consistently that such provision for the "deserving poor", was morally appropriate, and the cost, estimated at between 0.5 and 1% of GDP was considered "affordable". (p4)
Affordability is often considered by examining expenditures as a percentage of GDP or as a percentage of total government expenditures. However, in a growing economy it is helpful to explore what percentage of the annual increase in revenues might be required for a new initiative in order to steadily build up to a targeted level of intervention. Such an approach avoids taking funds away from other activities directly and is therefore less politically problematic. In this respect social protection initiatives have an advantage because they lend themselves to gradual build-up, and that build-up can be paused and restarted as required (unlike for instance the development of a hospital or a dam).

An important factor in determining the cost of direct income support programs is the level of the transfer. In planning and projections it is sufficient to use estimates based upon a benchmark such as absolute poverty threshold or relationship to GDP per capita. However, once a transfer level is set it is important to monitor the amount against poverty thresholds, inflation, and food prices. If the policy is to maintain the level of transfer against the yardstick by, say, annual adjustments the possibility of such fluctuations will have to be taken into account using a sensitivity analysis.

If government finances social protection, can local government contribute? A UNDP study (UNDP/UNCDF, 2010:62 et seq.) indicates that it should not for several reasons including, first that local governments in the poorest regions of a country are likely to have the most need of social protection, but a correspondingly weak revenue base. For wealthier regions the opposite would hold. Second, if local governments finance their own safety nets (and determine benefit levels) they can be adversely affected by "welfare migration". Those most in need of benefits may migrate to jurisdictions will migrate to wherever benefits are most generous. This may lead to competitive reductions in benefits in a "race to the bottom".

A third reason for keeping social protection spending central, the report argues, is that safety nets often require "counter-cyclical" funding – i.e., social protection expenditures may need to rise when the economy is in a downturn and fiscal resources are declining. Central or national financing would generally be better able to cope with counter-cyclical stresses. Fourth, local governments are not wellplaced to finance safety net programmes particularly in low-income developing countries, where most local governments have narrow and weak own-source revenue bases (whether due to economic circumstances or by law) and are dependent on intergovernmental fiscal transfers.

Finally, central governments should be expected to finance locally managed and locally implemented safety net programmes where local governments are legally mandated to provide such services. In these cases, it is incumbent upon central governments to ensure that safety net services are financed, on the basis of the general principle that mandates should not be unfunded.

- For redistributional and equity purposes, safety nets managed by local governments require some kind of earmarked or ring-fenced financing mechanism. In most countries with multilevel safety net programmes, financing is passed from the national level to subnational units using some form of earmarking. This ensures that the subnational units provide a minimum safety net, which is consistent with the reasons for financing safety nets at the national level.
- A possible exception to the rule that local government should not finance social protection might be the case of public works.
- In the view of the authors there is a critical role for local government in the social transfer process, which includes support to the identification of beneficiaries, engagement with any concerns or grievances that they might have, and support for the resolution of local difficulties. Importantly, local government staff can ensure that any necessary linkages are made with other local programmes and initiatives.

3 About financial modalities and mechanisms

Financial modalities and mechanisms are intricately tied to institutional arrangements. In particular, dedicated agency models hold out more possibilities than arrangements where transfer programmes are housed directly within a government ministry. The balance between centralised and decentralised operations also has a major impact on financial modalities and mechanisms. Finally, where transfer programmes are jointly financed between a government and a donor or a group of donors, there needs to be an arrangement for the financial modalities of aid. It becomes necessary to choose from general budget support, sector budget support, basket funding or one of a variety of project modes.
The main criteria for selection of financial modalities include the maximisation of managerial efficiencies and the minimisation of fiduciary risk, whether through error or fraud. A number of principles follow from this:

the transfer programme should be controlled through a strong accounting system capable of regular reconciliation and timely reporting financial systems to be:

o operated by skilled personnel who can be held accountable for error and mismanagement
o subject to annual audit and occasional fiduciary risk assessment
o as far as possible aligned, or shadow aligned[8], with government systems

- the institutional arrangement must provide for upward accountability to the funders of the programme, whilst minimising their administrative burden
- jointly financed social transfer programmes, usually involving a donor and government, require a Memorandum of Understanding and agreed Joint Financing Arrangements which may be quite detailed specifying bank accounts, financial flows, account signatories, financial reporting systems and audit requirements.
- the use of cash should be reduced to a minimum since it is vulnerable to misuse and theft; banking systems should be preferred wherever possible.

In social transfer programmes the disbursement mechanism is critically important. There are a range of possibilities which include decentralised cash-based systems; centralised systems which utilise traditional banks and bank transfers often with a network of local payment agents; and mobile phone banking systems which also use local payment agents for those clients who do not have access to mobile phone banking.

First, disbursement modalities must be strong and resilient against both error and fraud. This is important both for the effectiveness of the system and to maintain the confidence of funders, whether they be donors or government. Second, and in spite of the above, it is inevitable that there will be some fraudulent activity as well as error in an operation such as the one proposed for Uganda which aims to deliver a pension to 1.3 million people. It is therefore imperative that there should be a strong monitoring and audit system that can catch those errors and fraud, and that the system should respond rapidly and fully to audit findings. Without this, the system will rapidly lose the confidence of stakeholders and the
8 By shadow alignment we mean a system that copies government procedures in form, but which is subject to additional controls and safeguards in order to counter fiduciary risk

8 By shadow alignment we mean a system that copies government procedures in form, but which is subject to additional controls and safeguards in order to counter fiduciary risk

public. Many of these ideas are discussed in Van Stolk & Tesliuc (2010). Needless to say, the audit system should be robust, regular and independent.

There is a discussion within Uganda concerning the role of local government in the disbursement of social transfers including the SCG. However, central disbursement has a number of advantages that are decisive. They include:

- banks (including mobile money systems) are specialised in the handling and distribution of money. They can be held accountable for the provision of the service and use of these systems will strengthen rural banking.
- centralised disbursement enables a central relationship with a banking system, which facilitates secure transfer of funds, nationwide reporting and effective account reconciliation. By contrast local government disbursement would require a more vulnerable cash system, and financial reporting would tend to be fragmented
- a centralised accounting and disbursement system can be more effectively managed by a small and highly skilled team
- There is also a discussion as to whether local governments should finance social protection. In Uganda, this is not practical since local government's own revenues are quite small. Even so, it is likely that the districts with the greatest need would be the least able to finance a system of social transfers.

4 The Southern Africa and Middle Africa models

Building upon the rich literature on social protection financing, Miguel Niño-Zarazúa and his colleagues (Niño-Zarazúa, Miguel, et al, 2010) have identified what they term the Southern Africa and Middle Africa models of social protection. This commentary on their work is specifically required by our Terms of Reference.

They identify a number of countries in southern Africa (South Africa, Namibia, Mauritius, Botswana, Lesotho and Swaziland) where social protection takes a number of forms including grants for the elderly, disability grants and children's grants and are paid for almost entirely from domestic revenues. Taking this characteristic along with others they present this as the Southern African model of social protection. They contrast this with a Middle Africa model of social protection which is primarily financed by donors. However, financing is not the only characteristic differentiating their models.

Other factors that play a part are indicated in Figure 3:

Figure 3: Characteristics of the Southern Africa and Middle Africa models

Feature	Southern Africa Model	Middle Africa model
Financing	often fully financed by government	donor-financed; limited financing from governments;
Conditionality	evolved around unconditional categorical grants for children & elderly	varied: but grants conditional on use of social services or work effort
Delivery	largely delivered by public agencies	diverse delivery: NGOs, public agencies, for-profit providers
Donor influence	weak donor influence	strong donor influence
Political commitment	enshrined in legislation; political commitment	projects not policies; lack of political commitment; limited institutionalisation
National income & national capacity	countries have higher economic. development; revenue collection capacity; service delivery capacity	lower income countries; low revenue capacity
Organisation	government run	strong involvement of community organisations in management and implementation
Focus	focus on broader population	focus on extreme poverty

Source: adapted from Niño-Zarazúa, Miguel, et al, 2010

Whilst Niño-Zarazúa et al have correctly identified two different arrangements of social protection, further analysis is required to draw useful conclusions. The first point to make is that the geographical characterisation of the models is not helpful: it is either redundant in the sense that the characteristics have little to do with geography, or it is misleading in suggesting that geography is a source of causality[9]. It is also not helpful to refer to the Middle Africa arrangement as a "model". As well as implying some kind of ideal, the word "model" implies a modeller, and the fragmentation of social transfers seen in Middle Africa has arisen because of the absence of any such modeller. The outcome in Middle Africa, which "lacks the coherence of the Southern Africa model", is better described as a muddle than a model, and that largely because of the multiplicity of actors and the influence of individual donor projects.

9 the geographical relevance is sometimes taken to extremes such as "most of the experimentation with pure income transfer programs has been in the South of Middle Africa" p12

In short, Niño-Zarazúa et al have identified a number of interesting characteristics of social transfer programmes but have not succeeded in drawing a sound analysis from them. In the view of the authors of this report the arrangement of social transfers in the countries they discuss derives primarily from three factors: first, these are low-income countries with limited budgetary resources and many urgent priorities; second, they have no pressing political crises or threats of political instability to drive a reprioritisation of funds to social transfers; and third, they have long-standing relationships with donors, and donor influence has been a significant factor in the emergence of social transfers (resulting in the fragmented, pilot-dominated social transfer landscape). Other factors can be added but they all emanate from these three. For instance, the fact that these countries are low-income countries is associated with relatively low government capacity and the inability to easily coordinate social transfers to overcome the fragmentation that has arisen.

The question of whether these programmes in Middle Africa constitute a "short-lived donor fad or the beginnings of the construction of a sub-regional welfare regime" (p23) should not arise. The initiatives are more than simply a "donor fad". They are a concerted effort by the donor community to demonstrate to low income countries that social transfers are effective and affordable. Importantly, they are not the beginnings of a sub-regional (geography again) welfare regime. Many of the reasons that Niño-Zarazúa et al consider this may be the case themselves derive from the donor community itself, such as for instance the Livingstone process. They are also not "green shoots", since green shoots grow organically, and are not imported. By contrast, the countries of the Southern Africa model were not donor influenced. The social transfer programmes they established were national responses to different and concrete political contexts. Those programmes did not therefore require political embedding. The political drivers enabled the prioritisation of budgetary resources in an environment where budgetary resources were, in any event, more plentiful.

Niño-Zarazúa and his colleagues have identified some interesting characteristics which can be useful in our consideration of social transfer lessons for Uganda. However, the analytical overlay they have presented is not helpful, and has the potential to mislead.

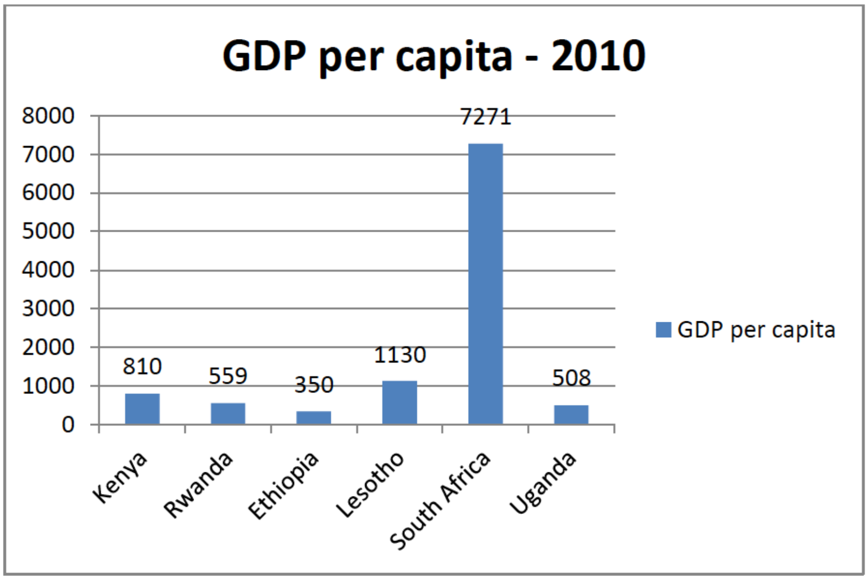
5 Emerging themes in Social Protection in Southern Africa

5.1 The countries

The contexts of the countries from which many of the examples are drawn differ both from Uganda and amongst themselves, and the lessons they generate must be treated with caution. Some of the key differences are highlighted below. Since the purpose of this study is to derive lessons which may assist decision-makers in Uganda, we start with the end in mind. That is to say, the issues emphasised are those which have greater relevance to Uganda.

The countries reviewed were necessarily limited in number and information was obtained from secondary literature and some telephone interviews. The countries were Ethiopia, Kenya, Lesotho, Rwanda and South Africa, although reference is made to other countries where the authors found it relevant. In considering the findings it is important to record some key differences between these countries, particularly in GDP per capita, and the composition and level of government revenues. The following graphs indicate the position, and Figure 4 shows relative GDP per capita:

Figure 4: GDP per capita in the review countries

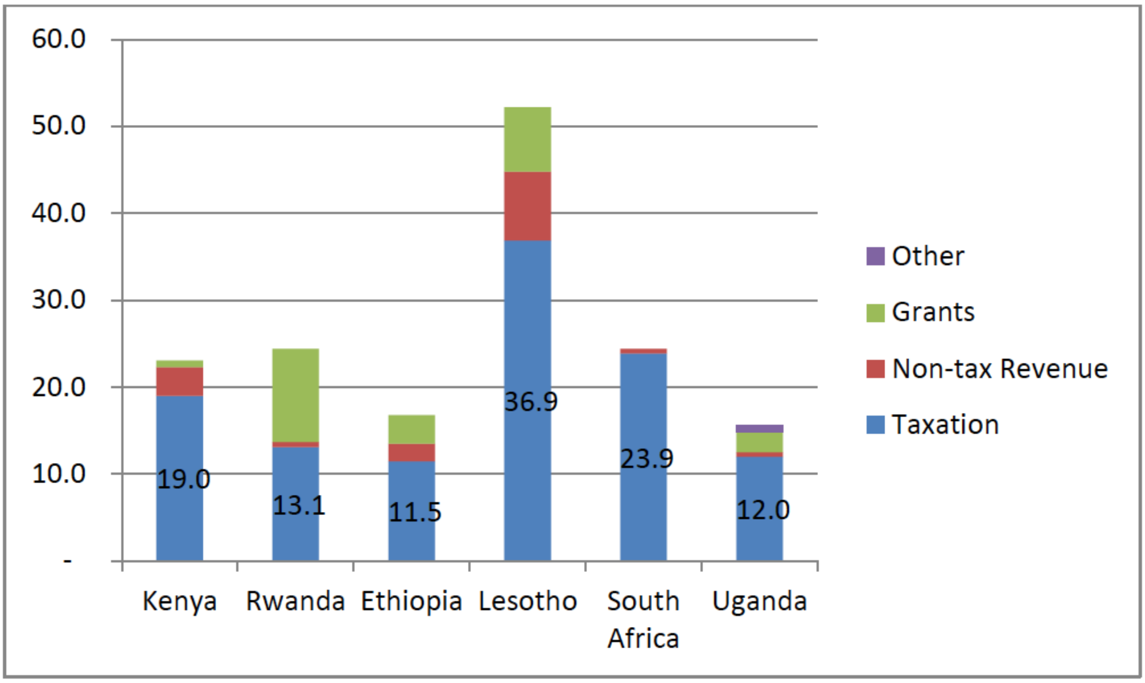


Source: IMF database

Amongst these Uganda is clearly in the lower income category, with only Ethiopia having a lower GDP per capita. Rwanda's GDP per capita is 10% higher, Kenya is 60% higher and Lesotho's figure is more than double that of Uganda. This will clearly influence choices.

The countries also have varying revenue structures and differing levels of revenue (measured as a percentage of GDP). Figure 5 below shows the position in 2010. In the review sample only Rwanda and Ethiopia collect taxes (in blue) at levels similar to Uganda, whilst Kenya, Lesotho and South Africa collect substantially more. Taking domestic revenues overall including non-tax revenues (NTR) and grants, Uganda has the lowest level of all at 15.6% of GDP. This is in part a result of the lower levels of grants received in Uganda in that year at only 2.3% compared with 3.3% in Ethiopia and 10.7% in Rwanda.

Figure 5: Revenue structure and levels in the review countries -2010



Source: IMF – various reports

In addition to the differences which can be portrayed numerically, the countries differ in their histories and have diverse political and cultural environments. All of these have affected choices.

Analytical work on social protection in low and middle income countries is often made more difficult by the absence of a formal social protection sector, and it has had its impact on this study. In particular, the absence of formal sectors has meant that in practice social protection initiatives have not benefited from central oversight and coordination and have been fragmented and haphazard. The implications for this analysis operate at two levels: first, the analysis itself is hampered because there are few opportunities for direct comparison between countries on social protection spending, and the comparisons that are made here are either piecemeal or not directly comparable for one reason or another. Secondly, both the allocative and operational efficiency of social protection financing are hampered by this fragmentation. Allocative efficiency is undermined because there are a multitude of uncoordinated decision-makers, and there is little consolidated financial monitoring information to guide allocation decisions. Operational efficiency is undermined because the economies of a coordinated approach are not secured.

For the most part we confine ourselves to a narrow view of social protection which includes direct income support and public works initiatives for poor and vulnerable families, although we acknowledge related areas of spending conventionally defined as social protection such as civil service pensions (whether or not the recipients are deemed to be poor or vulnerable). The main study does not consider social insurance (although it is generally considered as an element of social protection) and it is therefore not considered here.

5.2 The themes

5.2.1 Learning lessons

This section of the report looks at lessons that may be learned from social protection in other countries of sub-Saharan Africa. The experience is indeed instructive. However, Uganda can also learn from its own short experience of social protection, and it is likely that lessons learned in-country will prove of equal or greater value. Where relevant we have drawn upon Ugandan examples as well.

5.2.2 Context matters

The first lesson that we learn from the literature review is that context matters and there is no standard approach. This observation occurs frequently in the literature, but is worth repeating and emphasising here. The countries that introduce social protection have widely varying political and economic backgrounds, and different levels of government revenue (as demonstrated in the charts above). They also have different needs and priorities. Uganda will forge its own path of social protection.

5.2.3 General feasibility

The survey of countries in sub-Saharan Africa demonstrates that social transfers are feasible in LICs – they exist not only in middle income countries like South Africa and Lesotho, but in lower income countries like Kenya and Rwanda with donor assistance, but also with financial support from government. Because social protection is not viewed as a formal sector, data are not formally collected in a way that is easily comparable. However, some examples will suffice. In Kenya social protection accounts for approximately 2.3% of GDP, with civil service pensions accounting for 1% and other formal pensions accounting for 0.5%. Other social protection interventions account for 0.8% of GDP and are financed 71% by donors and 29% by government. Rwanda is a poorer country than Kenya but still social assistance and social insurance accounts for 2.8% of government spending (or about 0.7% of GDP). In the 2009/10 budget 43% was donor financed. The Ethiopia Productive Safety Nets Programme (PSNP) is something of an outlier because it is a very large programme entirely financed by a donor pool fund. There is little evidence that government is preparing to finance it after its current expiry in 2014 (National Audit Office, 2011: p41).

5.2.4 Political drivers

Social protection interventions can be developed in a variety of political environments. However, advocates of social protection must gain a good understanding of the prevailing political mood and forces in assessing what forms of social protection might be most likely to succeed, and what constituencies might exist to support them.

Quite separate from the moral imperative, a major advantage of providing for vulnerable groups is that it can help to ensure political stability. Consequently, we notice that there is often a significant step up in social protection initiatives in countries with high Gini coefficients such as South Africa or the countries of Latin America.

Political crisis or instability may not be a necessary precursor of broad-based or universal social transfer programs, but it has often been a significant catalyst. We have already noted earlier in this report that social protection was stepped up in Nepal after the Maoist insurgency and in Kenya after the electoral crisis of 2008. In the Seychelles, a pension scheme was extended to all older people as part of progressive social policies introduced by the Seychelles People's United Party after the coup d'état of 1977 (Camplinget al, Social Policy in the Seychelles, 2009, cited in Niño-Zarazúa et al, 2010); many commentators have made connections between the introduction of widespread social transfers in South Africa and the need to contain expectations in the post-apartheid economy where employment continues at rates of 25% (Statistics South Africa, 2013); an example much closer to home is the expansion of social transfers to the vulnerable and the introduction of old-age pensions on a limited basis in Kenya following the post-election riots of 2008. Lesotho and Mauritius are two of the few countries in Africa which have introduced a universal pension without the catalyst of political unrest or fear of the same.
Political instability of this nature does not currently exist in Uganda. Therefore, the motivation for the

introduction of broad-based social transfers must be achieved through advocacy based on its social and economic benefits, its potential to support future political stability, and its relative affordability.

Political circumstances may be a catalyst for the introduction of social protection initiatives but they also can influence the form that they take or their geographical distribution. In Ethiopia, the very large public works programme that now exists was developed in response to the political imperative of moving people away from a chronic dependence on food aid, which became an embarrassment to the government. In Uganda, the array of social protection initiatives in the North spearheaded by OPM/NUSAF was in significant part an effort to ensure political and social stability in a region scarred by conflict.

Finally, social protection initiatives can confer electoral advantage and secure political backing for this reason. In Lesotho the universal pension has regularly featured as an electoral issue, and it may influence voting patterns outside the ranks of the immediate beneficiaries.

5.2.5 Policy Issues and Value for Money

Social protection programmes in Africa do not follow standard models. However they typically display a range of interventions targeted towards the elderly, the disabled, orphans and vulnerable children, internally displaced people, and other vulnerable groups. They almost all include a pension scheme for civil servants. Many countries have a health insurance scheme to which government contributes. In countries with higher per capita incomes, the range of programmes tends to be more comprehensive. South Africa, for instance has a universal pension for all over 60, and a universal Child Support Grant for all children up to 18[10]. In countries with lower incomes social protection programmes are more piecemeal. In 2010 Kenya for instance had an OVC programme with 412,470 beneficiaries, a means-tested programme for the elderly with 33,000 beneficiaries[11], a Hunger Safety Net Programme for food deficit families in specific areas with approximately 289,000 beneficiaries[12]; other smaller programmes covered people with disabilities, provided urban food subsidies etc. (Republic of Kenya, 2009).

In addition, there are public works transfers where monies are paid in exchange for work on a public project. These types of interventions are not mutually exclusive, for instance, public works opportunities are often reserved for members of vulnerable families.

The system in Ethiopia is more homogenised than many, focussing on one large public works programme, the PSNP referred to above.

Targeting is a policy option which is often selected to maximise value for money, and many types of targeting are used in African social protection systems. They include categorical targeting, community-based targeting (CBT), means testing, and dependency ratios. Higher income countries like South Africa have greater capacity for effective means testing and it is used widely. Proxy means tests have been used in Kenya, but a recent review (Republic of Kenya, 2012) reports that potential beneficiaries see these as being "no more accurate in targeting the poor than good luck or an act of God". CBT is commonly used in low income countries. A draft World bank report (World Bank, 2013) cites a 2011 study's assessment (OPM & IDS, 2011) of the effectiveness of these methods which concluded that the CBT approach was:

> the most effective for identifying the poorest households. Beneficiary households in CBT areas were 50 % more likely to be poor (falling below the 51 % relative poverty line) than non-beneficiary households compared to 14 % more likely in the social pension areas and 17 %

10 Both are means-tested, but the thresholds are relatively generous
11 This has since increased significantly
12 The HSNP figure had approximately 60,000 direct beneficiaries; the figure shown is for direct and indirect beneficiaries

in the dependency ratio areas. The performance of the dependency ratio approach was undermined by implementation errors, as 30 % of households receiving the benefit were found not to be eligible (while 23 % of eligible households were not covered). The targeting accuracy of the social pension was very high, demonstrating the relative ease of applying the age-based criteria (96 % of beneficiaries were eligible and 83 % of eligible households were covered by the programme).

Targeting requires additional effort and expense and Kenya's experience bears this out. Under Kenya's orphans and vulnerable children programme (CT-OVC) targeting and enrolment continues to be a lengthy and relatively inefficient paper-based process and the real operating costs are yet to be determined. This has limited the programme's ability to consolidate the programmes objectives in some areas and scale-up rapidly in others (DfID, 2012). This is consistent with Uganda's own experience in the vulnerable families programme, and is an important factor to take into consideration in examining the relative costs and benefits of different approaches.

Poverty targeting has not always achieved its value for money promise. A study of the OVC-CT found that although the programme targeted the poorest fifth of orphans and vulnerable children, only 24 per cent of actual recipients fell within this group. This is in spite of the fact that the OVC-CT has received significant technical support and has high administrative costs (HelpAge International, 2012).

Universal systems, such as the pensions system in Lesotho, do not of course raise these issues in the same way. However, the Kenya review notes that the presence of an elderly person in a household is not strongly associated with poverty in the programme's operational areas (Republic of Kenya, 2012:45).

Levels of benefit vary significantly. In middle income South Africa pensions are $130 per month for all citizens aged 60 years and over, and the universal Child Support Grant is worth $30 per child. In Lesotho the pension is worth only $36 a month, and is provided only to citizens of 70 years and older. The average value of the transfers provided by Kenyan social protection programmes is much lower than either, and varies from an estimated US$3 to US$15 per person per month (World Bank, 2013). On average, the transfer values provided by predictable safety net programmes in Kenya were from 12% to 20% of the absolute poverty line in 2010.

Social Protection schemes have often been introduced gradually. In South Africa the Child Support Grant was introduced in 1998 to cover children below the age of seven, and it has steadily been extended (Niño-Zarazúa et al, 2010). The Kenyan schemes are slowly being expanded. Nepal's social pension started at the age of 75, reduced to age 70 in 2008 and now discussion is underway to reduce the age of eligibility to 65 (HelpAge International, 2012).

5.2.6 Legal framework

In some countries social protection is enacted at a high level. The Constitution of Kenya at Article 43 (3) states that "the State shall provide appropriate social security to persons who are unable to support themselves and their dependents". In other countries social protection is not included in the constitution or legislated, but brought in at policy level only, or in national planning. It is not clear whether there is a correlation between the level at which social protection is enacted and the quality of social protection provided.

5.2.7 Sources of financing and fiscal sustainability

Section 3 above noted that social transfers require a permanent and predictable source of funding. Middle income countries like South Africa and Mauritius are indeed providing financing for social protection from tax revenues (Niño-Zarazúa et al, 2010) but a number of low income countries including Malawi and Zambia are introducing pilot schemes with relatively short term donor funding. Such pilot schemes have generally not tended to develop any sustainable result (Institute for Development Studies, 2010:2). In other countries such as Kenya and Rwanda (and indeed Uganda) donors are making relatively long term commitments to the development of national programmes.

A report from the UK National Audit Office (National Audit Office, 2011) emphasised concerns about the financial sustainability of cash transfer programmes (mostly in sub-Saharan Africa). It noted that country governments were funding transfers in only two of the countries they examined: Zambia and Kenya. In Ethiopia and Bangladesh and in some programmes in Kenya it was unclear how the programmes might be sustained in the long term without continued donor support.

Securing budgetary resources is assisted by their incorporation within national development plans, but is more likely to be achievable where the transfers in question are legislated as they are in Kenya. In June 2011, a motion for a universal pension of KSh 2,000 for everybody over 60 was passed by the Kenyan Parliament and in May 2012 a new policy on social protection was passed as an Act of Parliament (HelpAge International, 2012).

Donor financing raises additional questions of aid modality. Where each donor has a separate project, fragmentation has resulted. Pooled funds or multi-donor funds can produce more manageable social protection programmes, and the more successful examples of Ethiopia's PSNP and Rwanda's Vision 2020 Umurenga Programme are discussed further below in the context of coordination.

Where government and donors are both involved in financing social protection there is a clear tendency for governments to finance civil service pensions as a first preference. Programmes for vulnerable people tend to be funded by donors in the low income countries of sub-Saharan Africa. Unlike other social protection initiatives, pension schemes and health insurance can be financed by contributions.

5.2.8 Institutional and management issues

In all countries studied the Ministry of Finance has played a major role in expanding social protection budgets. This is inevitable since social protection programmes create long term financial commitments. The implementing ministry is often the ministry responsible for social development. Kenya provides a typical example where the National Steering Committee for Social Protection, chaired by the Ministry of Gender, Children and Social Development (MGCSD) provides overall strategic direction for social protection. The committee is supported by a Social Protection Secretariat, which is currently located within the MGCSD. However, a report (Republic of Kenya, 2009) notes that the Secretariat "is currently weak as its role is still evolving". Social protection initiatives are often housed in relatively weak ministries (Institute for Development Studies, 2010:2, World Bank, 2013:43) and are therefore not very effective in advocating for increased resources or timely release of funds.

Programmes often have strong donor oversight where donor funds are being used. In Kenya the duties of the HSNP Secretariat include preparing work plans, establishing mechanisms of coordination, regularly reviewing programme progress and managing fiduciary risk. At the national level, DFID, the main programme funder to date, has played a key role in programme oversight and in contracting with the lead agencies responsible for implementing different components of the programme. Although the secretariat is based within the social development ministry, the staff are short-term contractors financed by DPs. This undermines the sustainability of the structures, with the consequent risk that programme systems and procedures, and the staff who operationalize them, may easily be lost (Republic of Kenya, 2012).

Local government often plays a critical role, but it is only in Rwanda that it plays a central role. The administration of all benefits in Rwanda in decentralised under the supervision of the Ministry of Local Government, Good Governance, Community Development and Social Affairs (Andrews et al, 2012).

The countries display a variety of disbursement methods. Lesotho is still using the Post Office which is spread throughout the country. Kenya uses many methods[13] including agency banking[14], but is steadily moving towards more high-tech systems and the according to a DFID survey the CT-OVC cash transfer process through Equity Bank using an electronic smartcard encrypted with biodata has proved extremely successful with little in the way of reported loses or significant delays15. Nonetheless electronic systems don't necessarily guarantee good reporting. In Kenya the Hunger Safety Net Programme has been using electronic systems since 2008 but at July 2011, standard management reports were still under development (NAO 2011).

Timeliness of payments is monitored on a regular basis in all programmes, but payments are reported to be frequently late in both Ethiopia and Kenya16 (World Bank, 2012; Gilligan et al, 2008). This lack of timeliness and predictability is compounded by poor information flow regarding the timeliness of transfers. A recent review of the Kenyan Older Persons Cash Transfer found that beneficiaries were frequently unaware of the payment schedule and did not know when payments were due (World Bank, 2012). Gilligan et al (2008) found that the impact of the Productive Safety Net Programme (PSNP) in Ethiopia was negatively affected when households received low or irregular transfers. The PSNP has established a performance target for the timely delivery of PSNP transfers: for PSNP cash and food transfers it is that 75% of transfers delivered to beneficiaries within 45 days after the end of the month to which the transfer applies for each of five out of six months (MINALOC/World Bank, 2012).

In Ethiopia, information contained in fortnightly updates on the status of transfers caused the government to prioritize the timeliness of transfer payments, while analysis of bottlenecks revealed the need to keep banks in remote areas better informed to improve their cash flow and to set a schedule for the release of funds at the national level (MINALOC/World bank, 2012).

Costs vary amongst the countries, but there is a natural tendency for universal programmes to have lower costs in relation to the amount of transfers. Lesotho estimates that costs of its universal pension are approximately 8% of the transfer amount. Overheads are higher (to 20%) on targeted systems such as CT OVC in Kenya. Currently, the overheads for that program are 19% of the budget, which is consistent with international benchmarks for this type of programme.

Many countries report difficulties of coordination, often as a result of multiple donor interventions and the resultant array of parallel systems. The Kenya Social Protection Sector Review of 2012 reports that safety net programmes are fragmented and uncoordinated. There are currently over 19 of these programs in Kenya implemented by over a dozen different agencies. In Lesotho a review by the NGO CARE in 2006 identified more than 30 official programs, along with several ad hoc programs run by local governments and NGOs. They commented that existing survey data did not allow an analysis of who is adequately covered, who is missed, and who receives benefits but is not poor.

card-readers, mobile telephones, and bar-code scanners for bill payment transactions (Republic of Kenya, 2012:61)

Rwanda boasts an undeniably government led programme in which donors are required to align their activities with government strategy (Andrews et al), and the Productive Safety Nets Programme of Ethiopia has managed to bring donors together in a single group, and develop pool funding mechanisms. In a step towards harmonisation in Kenya, the main channel for DFID funding of the OVC Programme has been the World Bank Trust Fund which provides a simple and cost-effective arrangement for DFID to engage with the Programme.

13 Between 2005 and 2010, a total of KSh 17.8 billion (US$137 million approx.) was channelled to beneficiaries through these different delivery models. Of this, 41 % was delivered through food aid mechanisms, 29 % through banks, 11 % through district treasuries, 10 % through the post office, 6 % as disbursed through agents, and 4 % through e-wallets including mobile network platforms and the agency model that uses smartcards (Republic of Kenya, 2012:59).

14 The agency banking model was introduced in Kenya through the Banking Act Amendment of 2009, whereby banks are authorised to appoint agents to provide limited banking services such as deposit-taking and withdrawal services. Banking agents are usually equipped with a combination of POS, Despite the government-led nature of Rwanda's programme, fragmentation persists and improved coordination remains a major concern. A World Bank evaluation notes that the overlaps between the Vision 2020 Umurenge Programme (VUP), Fond d'Assistance aux Rescapées du Genocide (FARG) and Rwanda Demobilisation and Reintegration Commission (RDRC) require urgent attention, commenting that:

> These overlaps are most obvious in the areas of direct support transfers, housing support, and income-generating activities which should be the main responsibility of other sectors rather than a core focus of the social protection sector. In practice, however, these do not fall squarely inside of any one sector and therefore tend to continue to be monitored mainly under social protection. Each of these programmes is implemented entirely separately, with separate uncoordinated funding streams, different target populations, and different mechanisms for selecting beneficiaries.

In any social protection scheme, benefit fraud is likely to be an issue. It is no different in Africa. In 2012 the responsible minister in Lesotho revealed that in the previous year the number of pension fraudsters had risen to 11,568 and that the government had lost M81 million or about $8.4 million (Lesotho Times, 2012). He also noted that over the years younger people have falsified their ages or paid bribes to receive the pension and some people had continued to receive the pension after the rightful beneficiary had died. The report also revealed that some officials had manipulated the pension scheme to line their pockets. In order to strengthen benefit integrity in Kenya there have been (1) renewed efforts to strengthen the targeting systems used by the three weakest programmes; (2) the upgrading of the complaints and grievance procedures throughout the NSNP; (3) investments in programme MIS and a single registry that will improve payroll controls, thus making it simpler to prevent double-dipping and to minimize the potential for ghost beneficiaries; and (4) the introduction of two-factor authentication for all payments in the NSNP (Republic of Kenya, 2009).

Monitoring and evaluation systems often reflect an overall lack of coordination. The Kenya Social Protection Review noted that social protection programmes allocate between 0.3 and 7.0 % of their budget to monitoring and evaluation costs. However, few programmes have complete and operational MISs and M&E systems, and although most use the same broad performance indicators, the measurement of these objectives is not standard. M7E systems are often patchy.

5.3 Pensions specific issues

Among the countries we looked at, South Africa and Lesotho have universal pensions. South Africa manages this very comfortably since it has a per capita income in excess of $7,000 per annum, placing it in the upper middle income category, as well as tax collections of almost 24% of GDP. The case of Lesotho, whose pension was introduced in 2004, is more surprising. However, it is, also more relevant to Uganda in view of the closer levels of income - $1,130 per capita compared with Uganda's $508. Although it has only just squeezed into the lower middle income category (threshold – $1,125 per capita) Lesotho manages a universal pension for all men aged 70 and over, and women aged 65 and over, at a rate of M350/month in 2012 – approximately $3717. On this basis, the old age pension in Lesotho took 3.6% of total expenditure in the fiscal year 2009/10. During the 5 year period 2005/06 - 2009/10, old age pension accounted for 3.3% of total expenditure, equal to 1.6% of GDP.

There is a different approach to catering for the elderly in Kenya and Rwanda. Kenya's Older Persons Cash Transfer (OPCT) reaches 33,000 people aged 65 and over living within poor or vulnerable families. It provides K Sh. 2,000 per month, which is around $24/month and, although financed fully by the Government of Kenya, represents an almost negligible percentage of GDP18. Help Age in a recent Pension Briefing (HelpAge Kenya, 2012) acknowledge that this level of transfer would be difficult to maintain in a universal rollout, but propose that they might follow the Nepalese example of introducing universality at a higher age and steadily reducing. They calculate that to make the current model of the OPCT universal – KSh. 2,000 to people over 65 – would cost 1.34 per cent of GDP, which would be around 5.8% of government expenditures.

In Rwanda there is no direct provision for the elderly. There are a number of social transfers which may include elderly citizens including genocide survivors, households affected by HIV/AIDS.

6 Lessons for Uganda

There are implications for Uganda from the presentation of principles of financing social protection, and from the sub-Saharan African experience. In particular social protection programmes are long term and politically difficult to modify or reverse. As a result they require long term, non-volatile, sustainable financing sources. The best option is always domestic tax revenues, and long term aid commitments can support this.

Many of the lessons to be learned from other sub-Saharan experiences have already been taken into account in Uganda, and particularly in the implementation of the SCG. In view of the poor experience of pilot programmes in sub-Saharan Africa, the SCG has always acted as the first phase of a national programme. Recognizing budget limitations and the need to develop consensus, it has sought to introduce social pensions gradually and at the same time, through the ESP advocacy component, to develop an evidence base for expansion. The ESP is seeking support for stronger legislation, to supplement the commitments already made in national plans. Donor support is (potentially) long term subject to GoU commitments

There are some inherent difficulties in the Uganda social protection programme which reflect the experience of neighbouring countries. The first is the lack of coordination in social protection initiatives which is recorded in evaluations on Kenya, Rwanda and Lesotho.

The second is the relative lack of influence of MLGSD within government which reflects similar situations in its sister ministries in other countries. There are no easy solutions, but at the heart of any solution is capacity. Capacity can be imported temporarily as Technical Assistance, but long run capacity development requires strong personnel and systems, and disciplined control of any new initiatives. There are no obvious examples of strong coordination, but it is easier to coordinate where funding is mostly from government and there are fewer donor projects as in South Africa.

There are limits to what can be learned from other countries which have developed systems which respect their own political and social context; their available revenue sources; and their levels of national income. There is no single approach, and it is vital to discover what works in Uganda; what is acceptable to Ugandans, and what Uganda can afford. There is no substitute for diligence in developing national evidence, advocacy and national consultation.

Annex 1: Terms of Reference for this Literature Review

Literature review of international experiences in financing social protection activities: this will assess relevant literature on financing social protection. The consultant will inter alia answer the following questions

- What does available literature on social protection financing reveal about potential strategies for financing direct income support; and
- How might this inform direct income support financing in Uganda over the short (1-5 years) medium (5-10 years) and long (10+ years) term?
- What are the differences in the Southern Africa model of financing direct income support and the East African model?
- Assess one country in Southern Africa and one in East Africa to analyse how they have funded direct income support. What are the lessons for Uganda?

Note: the final bullet point was subsequently amended because specific countries could not be agreed. It was agreed that that part of the report should be thematic and refer to the sub-Saharan experience of financing social protection, using examples from appropriate countries.

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About The Expanding Social Protection Programme

The Expanding Social Protection (ESP) Programme is a Government of Uganda initiative under the Ministry of Gender, Labour and Social Development. The development objective of the 5 year Programme is to embed a national social protection system that benefits Uganda's poorest as a core element of the country's national policy, planning and budgeting process.

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