Financing SSN Programs

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Outline

1. The macro decisions: how much to spend on safety nets?
2. How much the countries are spending?
3. Setting the benefit level at the program level: how much to pay?

Phillippe:

1. Setting the target number of beneficiaries
2. Defining the cost of starting running the program
3. Cases of program expansion

Recap from Harold's lecture: Financing of Safety Net Programs

Basic economic theory argues that financing is separate from expenditure decisions. While all taxation involves economic distortions – 'deadweight' costs to the economy – revenue collection should seek to minimize these costs as a share of revenue.

But from a political perspective, a *dedicated* revenue source may provide ring-fencing of a program as well as make the taxation more politically acceptable

Ex: The Indian state of Maharashtra financed public works from an earmarked tax of payrolls

Similar protection of a program may come from declaring an "entitlement" in which the government commits to providing a benefit to any individual or household that qualifies. Such entitlements have *first claim* to revenues

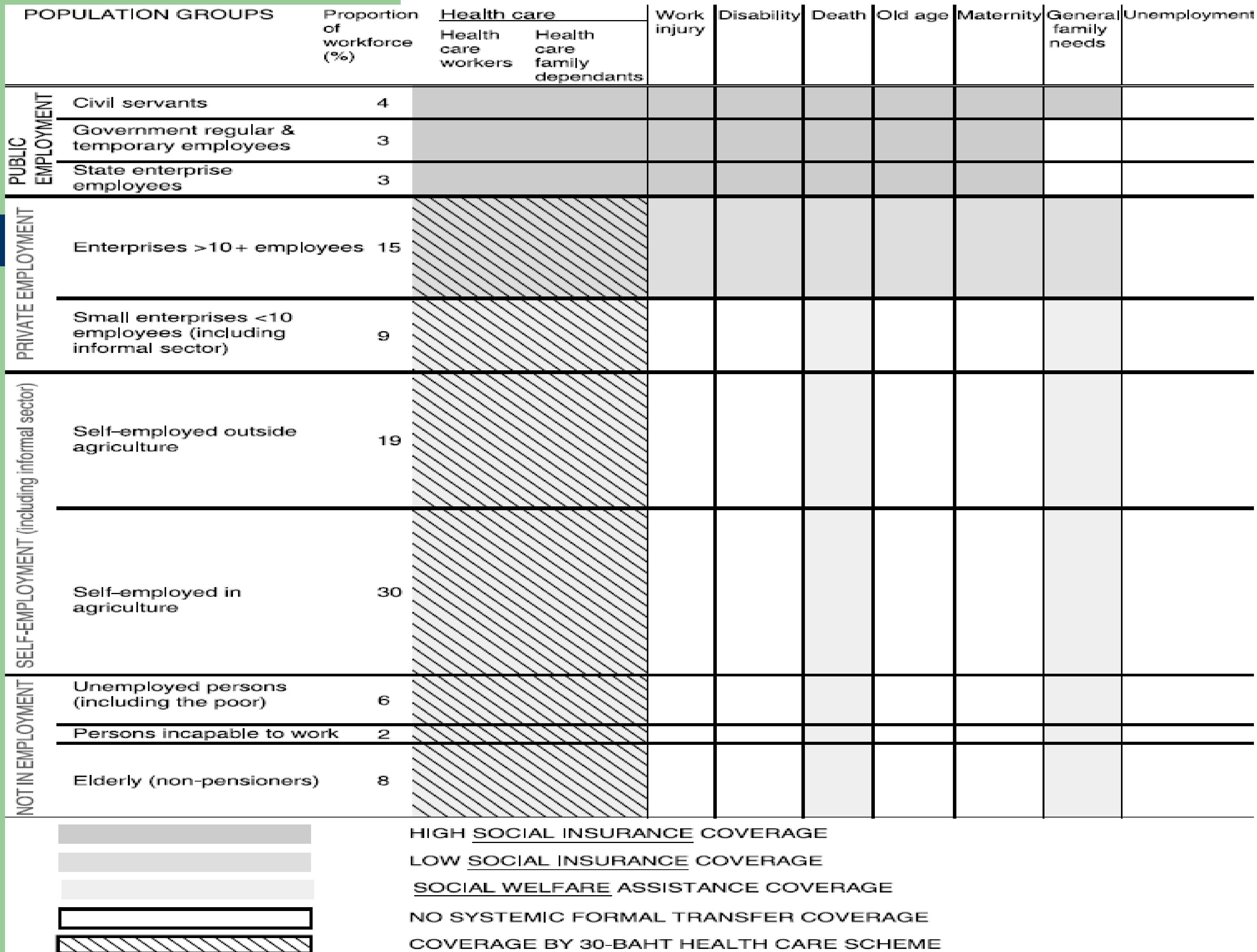
How much to spend on safety nets?

- Start with a strategy that actually prioritizes among different objectives
    - Is it “all citizens have a right to…” type of thing?
    - Is it about addressing the basic needs of chronic poor?
    - Is it about assisting the transitory poor deal with shocks?
    - Is it about increasing social mobility through investing in next generation’s schooling and health?

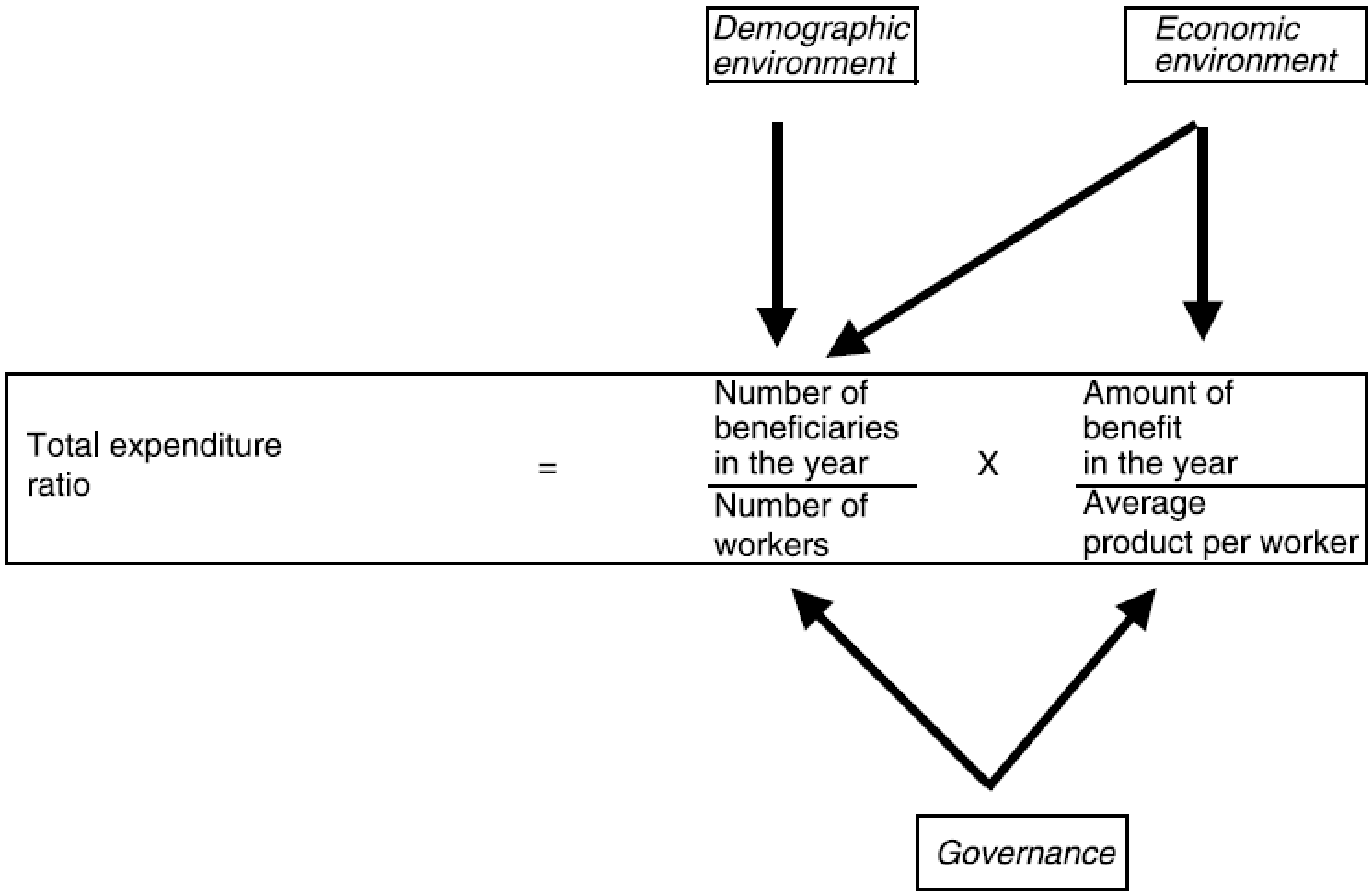
How much to spend on safety nets?

- Considerations for the overall budget envelope include:
  - Other social protection schemes (Social insurance!)
  - Level and structure of poverty
  - Tax base (informal sector…)
  - Underlying distribution of productive ability (exiting poverty…)
  - Institutions for private provision
  - Quality of public service delivery
  - The nature of shocks affecting the country
  - Politics

SPL coverage map: case of Thailand



Basic Framework



Strategies for financing expanding coverage

- Pensions (or social security) is self-financing (contributory) part of the Social protection system
- Affordability and incentives
  - Affordable contribution levels
  - Link with health/disability insurance where feasible
  - Voluntary pensions in rich countries exist due to tax treatment, but irrelevant for informal sector workers – a substantial matching contribution or subsidy form the government is needed to overcome high discount rate and liquidity preference

Steps in setting key parameters for contributory scheme with government subsidy

MCT

↓

TBL = x % of MCL

↓

CR/PL = $

↓

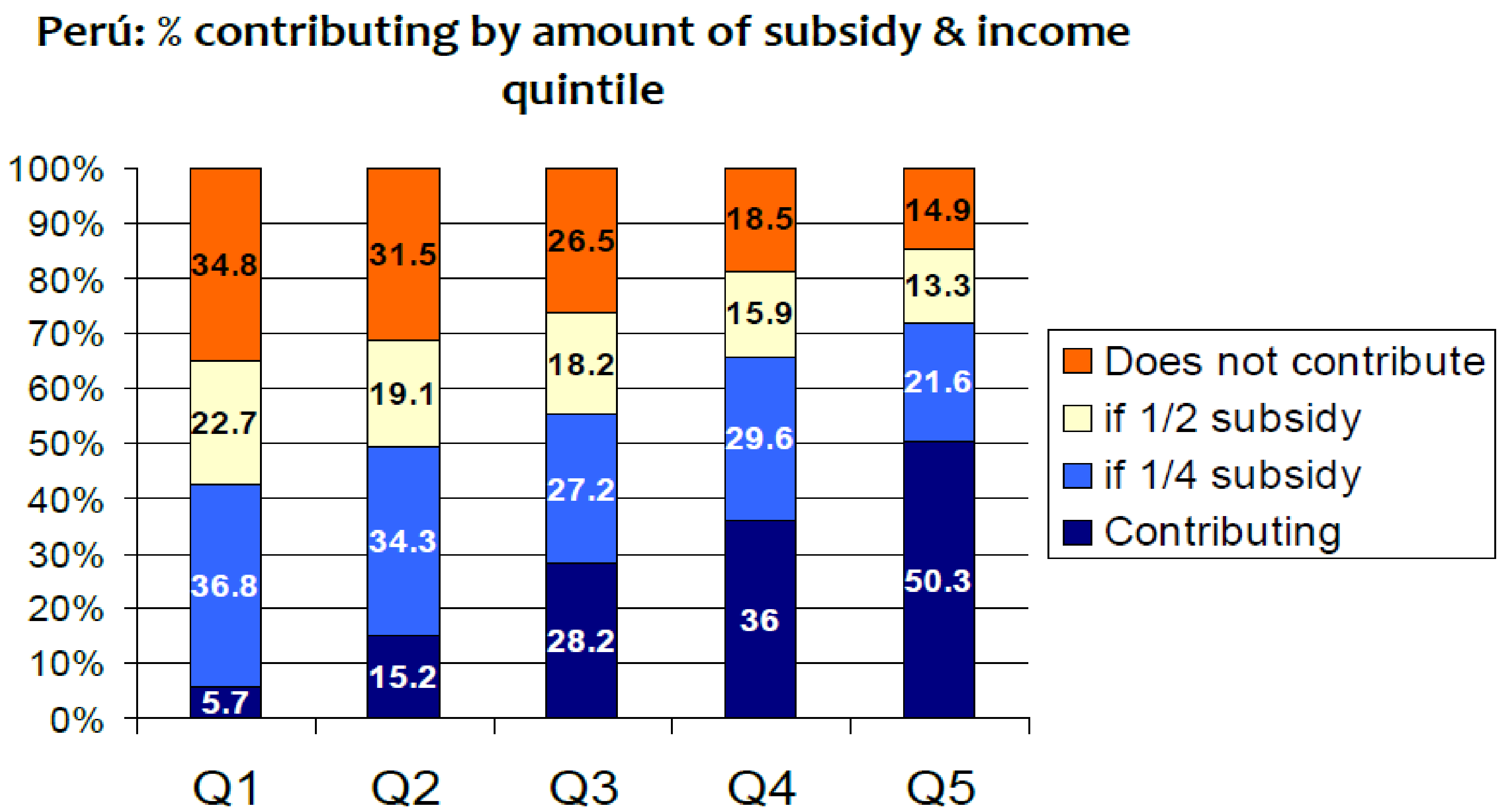
AP = % of PL

↓

SR = 1-AP → CT - # workers → BR - $

- MCT – minimum consumption target
- TBL – target benefit level
- CR – contribution rate
- PL – premium level
- AP – ability to pay
- SR – subsidy rate
- CT – coverage target
- BR – budget requirement

Indications of willingness to take up

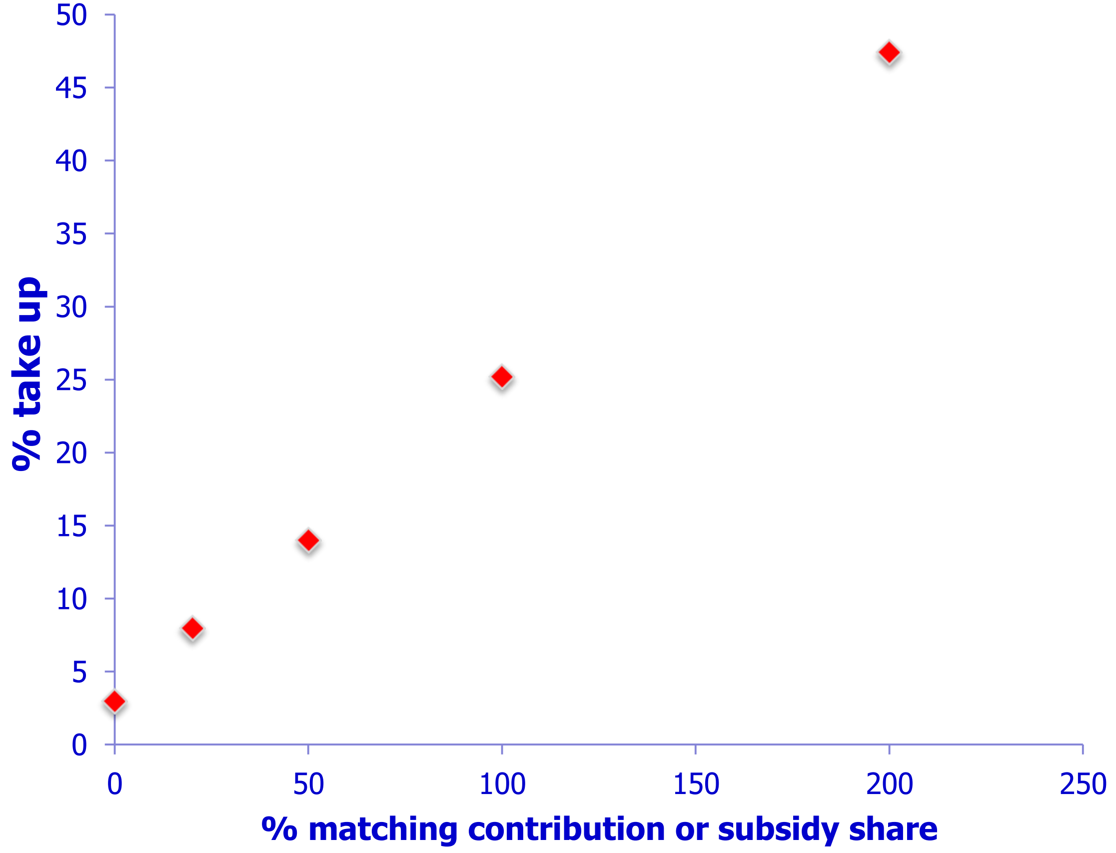


Source: Pages (2011)

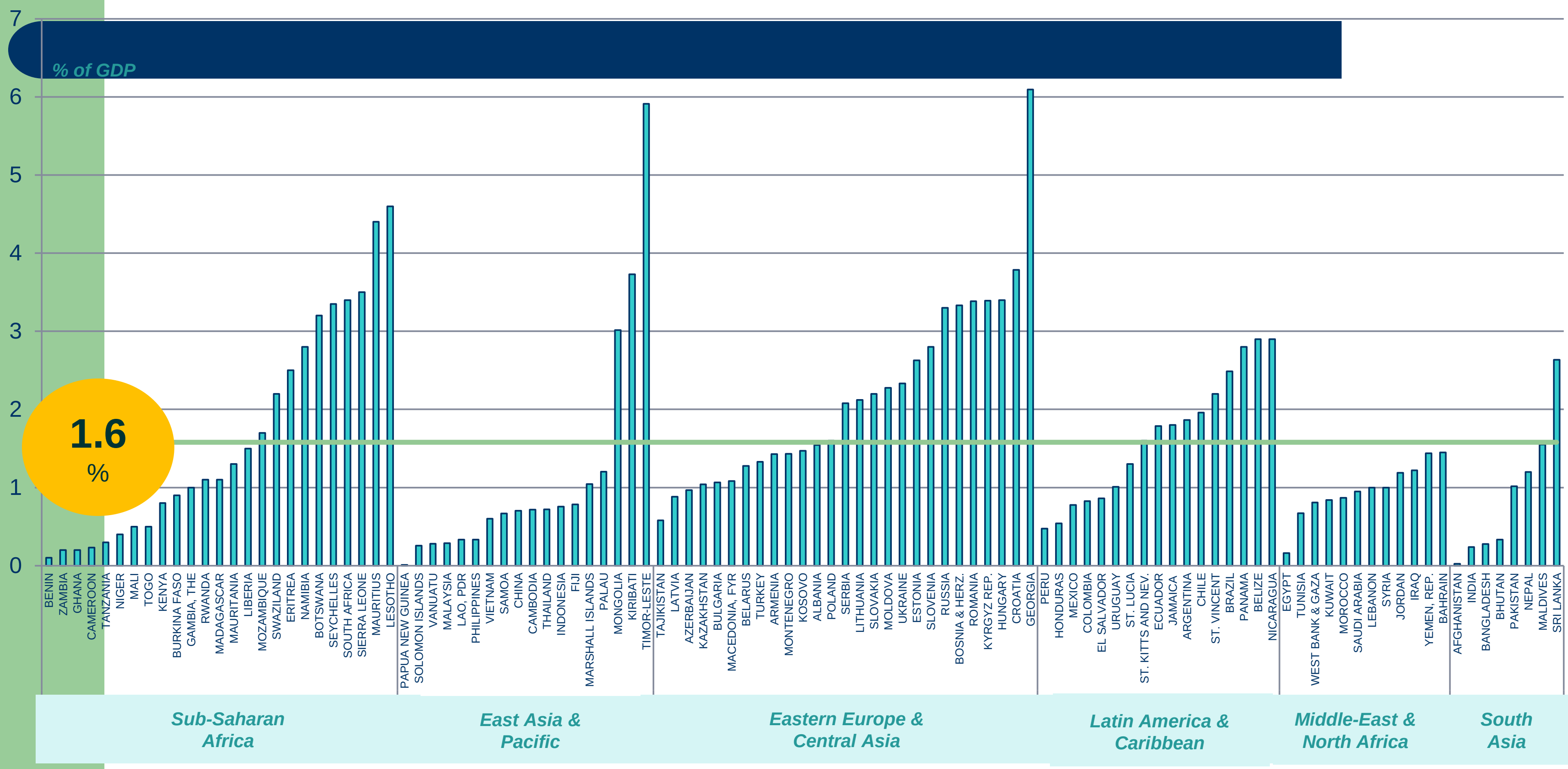
Self-financed, self expanding social security system is an illusion….

Duflo et. al. (2005) tested the take up elasticity for US low income workers, but similar studies have not been done for developing countries

Palacios and Sane (2012) find 23% take up with a 1:1 match with early data from India. Number of sons and land ownership are negatively correlated. Women are much more likely to join.



Spending on non-contributory SSNs



In most countries, spending on safety nets is modest

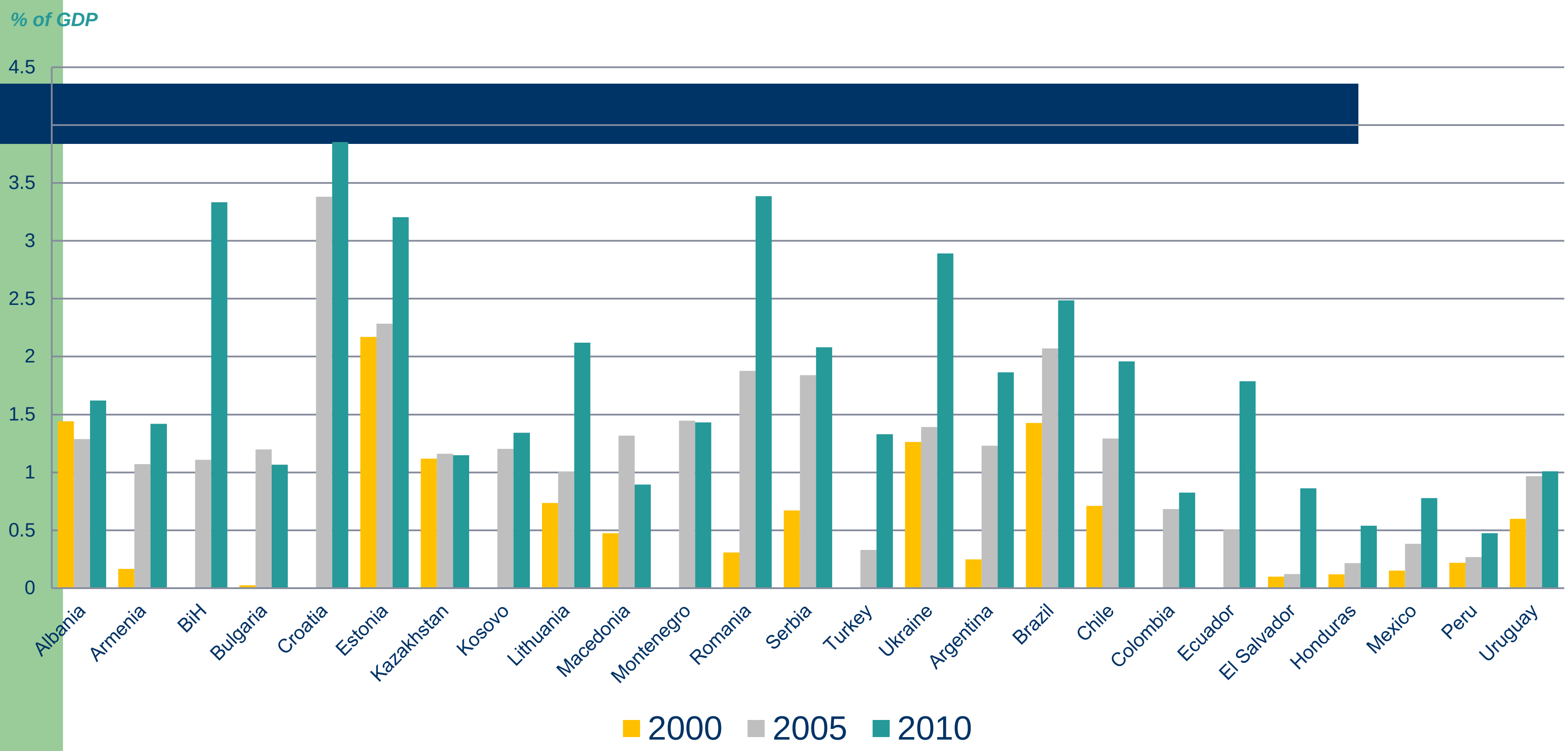
Governments is low and middle income countries spend 1.6% of GNP on safety nets, with the share rising on average with income. It is 1.9% for middle income countries and 1.1% for poorer countries.

For 2/3 of countries this spending is about 1-2 % of GDP

2% of the GNP of a low income countries is, of course, far less then the same share of a middle income country and has to be allocated over a larger share of poor individuals, hence the need for selectivity

In many low income countries the majority of this spending is by NGOs and donors although there is a trend to putting more of SN spending on budget.

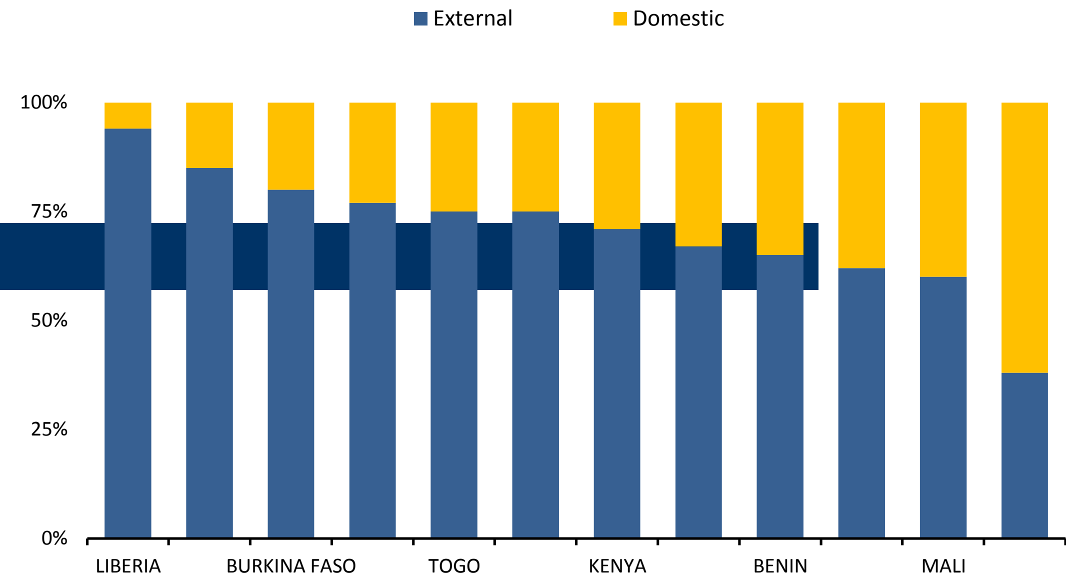
… spending is growing



Is the 1.6% level appropriate? It depends...

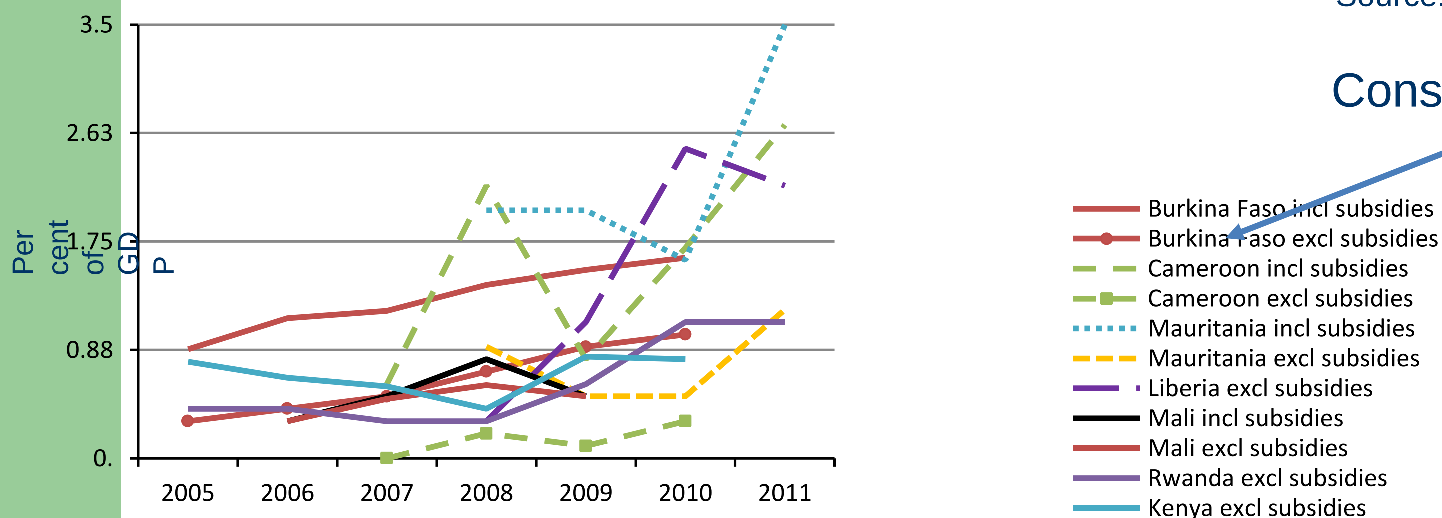
Spending in Africa

Large External Financing



Source: Gentillini et al, 2014

Considerable volatility



Source: Monchuk, 2014

Grosh et al (2008) do highlight some correlates of safety nets spending, with no statistically significant linkages (

Factor	Safety Net Spending as % of GDP	Social protection spending as % of GDP	Social sector Spending as % of GDP
Per capita GDP (PPP)	0.0768	0.5045**	0.5460**
Gini coefficient	-0.1104	-0.3410**	-0.2686*
Voice	0.0678	0.2294**	0.2607**
Ethnic fragmentation	0.1628	-0.0204	-0.0972
Democracy	0.1733	-0.0533	0.1907
Attitudes about inequality	0.1234	-0.1694	-0.1559

Such patterns, however, are a weak starting point

The data is often misleading since local government expenditure in decentralized systems is often excluded as are NGO programs. One study identified 123 cash transfer programs from 35 African countries. Only a third of these were solely funded by the government; half had no government support at all.

Moreover, the nature of the overall system is not conveyed by budgets. A well integrated systems may look rather different than an uncoordinated set of small programs even if the expenditure levels were the same.

What has been spent or what is being spent is not a strong argument for what should be spent.

In some cases a government may declare a floor or minimum – for example, India aims for at least 2% of GNP – but this is notional.

How much countries should spend on safety nets?

- No answer.
- Costing models (UNICEF-ILO, CEDLAC etc.) rely on highly hypothetical assumptions
- To develop

At the program level: How much to pay?

- Basic question
- No simple answer:
  - Result of an iterative process of program design
  - Benefit level: maximize desired program outcomes: smallest transfer needed to achieve the desired improvement in the targeted outcomes
- Function of
  - available budget,
  - administrative capacity
  - political constraints
- Hence setting the benefits will be program specific

Cash transfers

Type of program	Benefit level depends on:
Guaranteed minimum income	Eligibility threshold – income of beneficiary household
Last resort programs	Poverty gap/ Cost of an adequate food basket
Food stamps	Food poverty gap
Family allowances	The cost of raising a child
Heating allowances	Seasonal increase in the heating cost during cold season
Social pension	Poverty line Minimum contributory pension

Conditional cash transfers

Type of "grant"	Benefit level depends on:
Education grant or scholarship	Opportunity cost of the time spent by the child in school (child labor earnings) Direct costs of schooling
Health and nutrition grant	Opportunity cost of the time spent by mothers on health checks / nutritional education
Supply incentive	Cost of improved service (wages, material costs)

Workfare

Wage level	depends on
General case	Below wage level for unskilled workers Often, the number of days provided by an individual worker are rationed
	If higher than wage of unskilled labor, need add'l targeting mechanism to ration the demand

In-kind transfers

Type of program	Benefit will depend on
School feeding programs	Cost of the food bundle + Logistical costs
Food ration rationale: to reduce the food poverty gap of beneficiaries	Same rationale as for last-resort programs + logistical costs

Example: Education Grant estimation, Honduras PRAF

- **Direct cost of schooling**.
  - According to data from the Survey on Expenditures and Livelihoods (May-July 1999)
  - the direct costs of sending a child under 13 years to school are:
  - Matriculation fees, including fees for parent associations, 5.79 Lempiras per year.
  - Books, texts, uniforms and other school supplies, 240.56 Lempiras per year.
  - Lunch money, snacks, transportation and other costs, 25.55 Lempiras for 10 months.
  - This results in a total of **L.501.85 per year**
- Opportunity cost of children's time.
  - Time spent working. The contribution of children aged 6-12 years old to the total number of hours worked by all household members is approximately **3.25%.**
  - The average household income in the area of intervention of the Project is 31,669 Lempiras per year. This implies that the contribution of children between the ages of 6 and 12 years is **522.53 Lempiras per year**.
  - In beneficiary households, there are an average of 1.66 eligible children, which indicates that the lost income per child that goes to school is approximately **326 Lempiras per year**.
- Total cost is **828 Lempiras per child per year**.

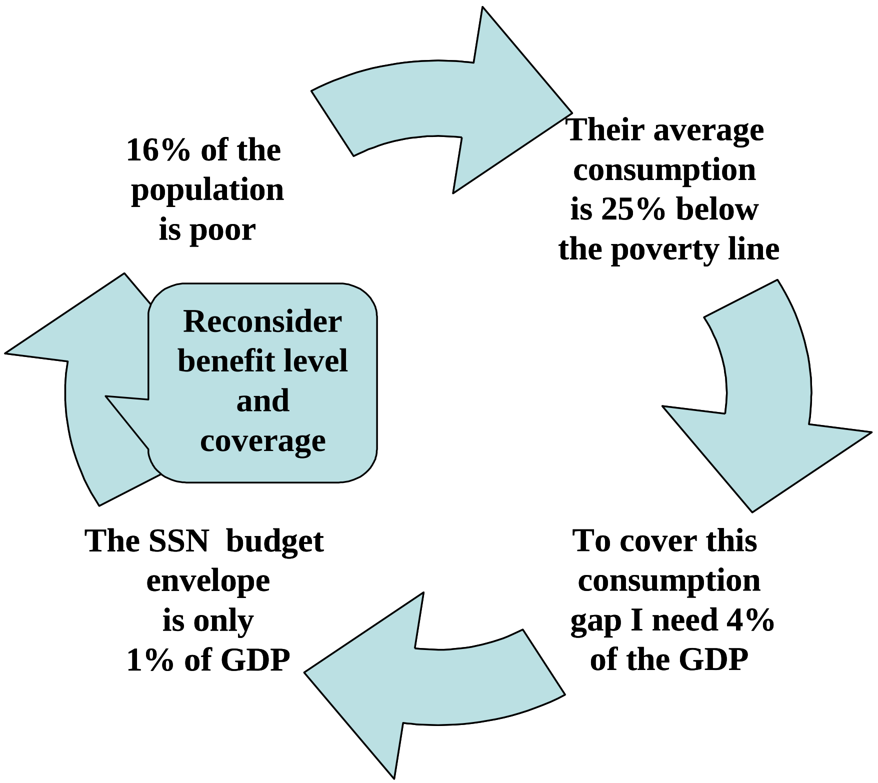
Source: IFPRI 2000

Benefit level in practice
Result of a trade-off

Given budget, determine benefit level and program coverage

Benefit level should be:

- ❑ neither too high to generate dependency,
- ❑ nor too low to lack impact



Benefit levels in practice
Comparisons are difficult

- Comparative evidence is scarce
- Comparison across programs and countries is difficult. Such information is presented as:
  - Level of benefits expressed in local currency, when variable formulae presented at a table
  - Level of benefits in comparable purchasing power (USD PPP)
  - But generosity is a relative concept, differs from country to country
  - In relative terms: % of min wage, average wage, poverty line, unemployment benefit, social pension
- Our preferred measure:
  - Generosity = benefit / consumption of beneficiary household

From ASPIRE

Benefit formula

- Benefit levels may vary by:
  - The poverty level of the family / household
  - Family size, composition
  - Age of the family members
  - Gender
  - Over time / Seasonal
    - Higher in the lean or hungry season
    - Higher in the cold season (heating costs)
  - Region
  - Time spent in the program

Factors taken into account in the benefit formula, CCT programs

Country/Program	Benefit varies by…								
	HH income	HH structure: # of children	HH structure: cap	HH structure: other HH members	Age of children	Gender	Duration in program	Payee	Frequency of payments
Kenya CT for OVC			max=3						bimonthly
Cambodia JFPR								parent/guardian	quarterly
Turkey SRMP								mothers	bimonthly
Brazil Bolsa Familia			max=3					mother	monthly
Chile Solidario								head of household	monthly
Colombia Familias en Accion								mother	bimonthly
Dominican Republic Solidaridad								head of household	bimonthly
Ecuador BDH								women	monthly
Honduras PRAF II								mother	quarterly
Jamaica PATH								family representative	bimonthly
Mexico Oportunidades								mother	bimonthly
West Bank Gaza									
Bangladesh FSSAP								female student	twice a year

Thank you!