BUILDING SOCIAL PROTECTION FLOORS IN AFRICA

TRANSFORM

FINANCING & FINANCIAL MANAGEMENT

TRANSFORM is the result of an iterative process of co-creation involving experts and practitioners from southern and eastern Africa. This manual is based on a document prepared by Andrew Kardan, Valentina Barca, and Andrew Wyatt (Oxford Policy Management) with contributions from Franck Earl (SASSA), Luis Frota, and Thea Westphal (ILO). The revised content on gender-responsive and disability-inclusive administration of social protection was prepared by Tia Palermo, Maja Gavrilovic, Morgon Banks, and Lusajo Kajula from Policy Research Solutions (PRESTO) LLC and reviewed by the TRANSFORM Advisory Group.

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CONTENTS

LIST OF ABBREVIATIONS

ADM	Administration and Delivery Systems
AIDS	Acquired Immunodeficiency Syndrome
CCT	Conditional Cash Transfer
CIT	Corporate Income Taxes
CODI	Core Diagnostic Instrument
COFOG	Classification of the Functions of Governments
DFID	Department for International Development
DSA	Debt Sustainability Assessments
ECUAMOD	Simulating Tax and Benefit Policies for Development in Ecuador
GDP	Gross Domestic Product
GHAMOD	Simulating Tax and Benefit Policies for Development in Ghana
HIV	Human Immunodeficiency Virus
IFFs	Illicit Financial Flows
ILO	International Labour Organisation
IMF	International Monetary Fund Value Added Tax
INAS	National Social Welfare Institute
ISPA	Inter-Agency Social Protection Assessment
LEG	Legal Frameworks
LESDEP	Local Enterprises and Skills Development Programme
LEWIE	Local economy-wide impact evaluation
LIPW	Labour-Intensive Public Works programme
M&E	Monitoring and Evaluation
MicroZAMOD	Simulating Tax and Benefit Policies for Development in Zambia
MIS	Management Information System
MMAS	Ministry of Women's Affairs and Social Welfare
MOZMOD	Simulating Tax and Benefit Policies for Development in Mozambique
NGO	Non-Governmental Organization
NHIS	National Health Insurance Scheme
NSSP	National Social Support Programme
NYEP	National Youth Employment Programme
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PERs	Public Expenditure Reviews
PIT	Personal Income Tax
PWP	Public Works Programme
SAS	Social Accounting System
SASSA	South African Social Security Agency
SCT	Social Cash Transfer
SIT	Social Inclusion Transfer
SOUTHMOD	Simulating Tax and Benefit Policies for Development
SPF	Social Protection Floor
TAZMOD	Simulating Tax and Benefit Policies for Development in Tanzania
UNFPA	United Nations Population Fund
UNU-WIDER	United Nations University World Institute for Development Economics Research

1

INTRODUCTION

Irrespective of the type of programme, administration is the backbone of a comprehensive scheme. The purpose of this module is to provide a concise and easily understood introduction to critical aspects of social protection financing and financial management with a focus on "non-contributory" social protection schemes.

The module covers several important issues such as the question of affordability, establishing the determinants of fiscal space, revenue mobilization, measuring costs of social protection in the context of public finance and the national budget process, public expenditure monitoring and evaluation, and issues of financial management administration.

While social protection is generally understood to be affordable at various stages of development and often costs relatively less than other government expenditures, it constitutes a significant monetary investment towards a country's future. To finance social protection, sufficient and sustainable resources must be efficiently raised without causing detrimental effects on a country's economy and it must be administered professionally and distributed amongst various government and private agencies in a way that guarantees high levels of accountability and transparency.

Financial policy and budgetary processes are key government processes in determining a country's spending priorities. Therefore stakeholders that aim to improve social protection require an understanding of the various processes through which revenue mobilization and expenditure decisions are made and what channels exist to influence them.

More specifically this module on social protection financing aims to provide:

- Ability to use available data sources to assess the costs of social protection programmes and the overall social protection systems
- Understanding of the main issues related to the debate of social protection affordability and sustainability and also the relationships between social protection, public finances and the economy
- Capacity to identify determinants of fiscal space for social protection and potential sources of revenue mobilization
- Understanding the determinants of current and future sustainability of social protection versus its adequacy
- Understanding of public budgeting process, public social expenditure reviews, and social budgeting, including gender-responsive and disability-inclusive budgeting
- Understanding of financial administration of social protection
- Having completed this module, the participant will have:
- Capacity to define the scope and analyse levels of social protection expenditure at any given moment
- Ability to expand the analysis to encompass changes over time and across countries
- A good understanding of the debates on the affordability of social protection
- An overview of the main challenges of financing social protection from different sources
- Basic understanding of quantitative tools to be applied for the financial governance of social protection

2

SOCIAL PROTECTION FINANCING: OVERVIEW

Questions of design, adequacy, costs, possible sources of financing, resulting affordability and financial sustainability of newly planned individual social protection programmes should not be discussed in isolation from the analysis of the finances and performance of the social protection systems already in place. Instead, they need to be assessed taking into account:

- the social values, gender, social norms and preferences in a society
- the economic and social needs for alternative public expenditure programmes
- the situation and prospects of public finance and the economy
- the costs of the planned scheme and sources of its financing in the next budgetary cycle, as well as the longer-term costs and sustainable financing of the planned scheme

In the case of "non-contributory" social protection schemes, past contribution records are not one of the required conditions to receive benefits and there is no revenue from contributions of the scheme members (and/or their employers) guaranteed by the law. But that does not mean that all contributory schemes are self-financing. Many of them are subsidised by the general revenue of governments. Therefore, in analysing potential financing sources with a focus on non-contributory social protection, one has to look at how the overall social protection system is financed and what is the role of taxes and contributions in the overall financing.

2.1 DEFINING SOCIAL PROTECTION EXPENDITURE AND FINANCING

2.1.1 Classifications and statistical definitions of social protection

For policy, operational, and statistical purposes, every country usually develops its own definition of what policy areas, functions, and types of programmes are covered by "social protection". For international comparisons, the UN adopted the **"Classification of the Functions of Governments" (COFOG)** which breaks down government expenditures according to their purpose independently from the nature of the administrative unit in charge of expenditure.[1] Under COFOG social protection is used to cover the following sub-functions:

- sickness and disability
- old age
- survivors
- family and children
- unemployment
- housing
- social exclusion not elsewhere classified

ILO, OECD, European Union, and IMF adopt social protection definitions and programme classifications in their expenditure/ financing international databases that are informed by COGOF's general classification, but with some important variations. For example, ILO, European Union and OECD include expenditure on **health care** in their definition and classification of social protection expenditure. Driven by its mandate and following the structure of Convention No. 102, ILO additionally distinguishes **employment injury and maternity** as separate functions.

Under these **classifications benefits specifically targeted to poor and vulnerable groups** are not classified as a separate function of social protection. Expenditure on various benefits within these programmes should thus be classified under functions listed depending on the specific objectives and actual target groups of these benefits.

Social protection benefits usually take one of three basic forms:

- **cash payments** to protected people
- **reimbursements of expenditures** made by protected people e.g. refunding health expenditures by health insurance, refunding costs of a funeral, partial refunding of housing costs, etc.
- **goods and services** directly provided to protected people e.g. free health care or semi-cash like food vouchers.

The latter two types of benefits – reimbursements and direct provision of goods and services – are often categorized as **"benefits in kind"** (as opposed to "cash benefits"). **Income or means-tested benefits** enefits that only persons (or households) with income (or available means like income and certain types of assets) below a certain threshold are entitled to. Cash benefits are either periodic (paid, during the whole period of entitlement, weekly, monthly or quarterly) or lump-sum payments.

1 In national accounts systems, social protection benefits are generally categorized as "social benefits". The United Nations System of National Accounts (SNA 2008) is the internationally agreed standard set of recommendations on how to compile measures of economic activity. The SNA describes a coherent, consistent and integrated set of macroeconomic accounts in the context of a set of internationally agreed concepts, definitions, classifications and accounting rules. It recommends the use of COFOG for the analysis of government finances. Under the SNA social protection benefits are recorded in the secondary distribution of income accounts and categorized as "social benefits" provided either by social insurance of social assistance schemes and defined as: "Current transfers received by households intended to provide for the needs that arise from certain events or circumstances, for example, sickness, unemployment, retirement, housing, education or family circumstances".

2.1.2 Social Protection Financing: definitions and key information requirements

Finances of individual social protection schemes and overall social protection systems should be regularly monitored. ILO Recommendation No. 202 concerning national floors of social protection states that countries "should monitor progress in implementing social protection floors and achieving other objectives of national social security extension strategies through appropriate nationally defined mechanisms". Such monitoring should include measuring the performance of social expenditure in terms of:

- **Effectiveness:** This includes the general performance concerning:
  1. social outcomes (poverty rates, income inequality, health status, nutrition, social cohesion)
  2. distributional performance in terms of horizontal distribution of coverage and benefits (gender, formal/informal sector, people with disability and other groups identified as vulnerable)
  3. vertical distribution (effectiveness in reaching the poorest and closing the poverty gap)
  4. administrative performance (administrative costs to total expenditure; capital and running costs on administrative costs; efficiency of particular functions like registration and payment systems, claims and delivery)
- **Coverage:** This includes the:
  1. scope or range of risks and needs covered (old age and survivors, disability, unemployment, sickness and health, unemployment, maternity, family, infants, children)
  2. extent (personal coverage by sex, age, disability, labour market or education status)
  3. level of protection (benefit levels compared to national benchmarks of poverty, minimum wages, unskilled wages, mean wages, extra costs of disability)
- **Expenditure and financing:** This includes the statistical analysis of the costs and financing sources of the national social protection systems.

  Every scheme and every country should thus develop a set of indicators for social protection financial monitoring and ensure that quality statistics necessary to calculate such indicators are timely produced, compiled and made available to all stakeholders, including civil society groups representing the needs and voices of women, people with disability, and other vulnerable groups.

  Concerning social protection expenditure and financing social protection, those who coordinate national social protection policies as well as any institution administering social protection schemes should have information that answers the following questions:

- Who (at least by age and sex, and preferably by other characteristics such as disability) gets benefits and how much?
- Who pays (what are financing sources)?
- How much does it cost and how much of it goes to the costs of administration?

To fulfil such information needs in any country, government agencies coordinating social protection policies should be able to receive from databases of social protection institutions at least the:

- Number of recipients by sex, disability status and at least broad age groups by benefit
- Amounts of benefits paid by type of benefit and at least by sex, disability status and broad age groups
- Number of those covered/contributing by sex, disability status and at least broad age groups by benefit
- Income and expenditure statements and balance sheets in the standardized format

The population covered in a non-contributory scheme can be legally defined – in which case national surveys will tell how many people are counted in specific categories. It can also be defined by those effectively protected compared to a group of legally covered – data that would then be obtained from administrative sources. These two populations can differ due to financial or implementation gaps (for example linked to disbursement delays). Implementation gaps may in part be due to difficulties in classifying and identifying eligible recipients. For example, official disability classification may be difficult to obtain in some contexts, particularly where complex medical certifications are required and other barriers (e.g. financial, geographical attitudinal) prevent people with disability from applying. Further, the definition of disability used for certifications may be overly restrictive, focusing on people with severe or certain types of impairments. Consequently, only a small portion of people with disability may have an official certification of disability.

Income and expenditure statements should include the items described in Table 1 (excluding social security contributory elements) and should be provided by a scheme or by a group of schemes administered by one institution if certain elements cannot be assigned to individual schemes. When one institution administers more than one scheme, each serving a different social protection function, it may not be possible to separate the costs of administration and/or sources of revenue and assign them to different functions.

Table 1: Information needed for a basic financial statement

TOTAL EXPENDITURE	BENEFIT EXPENDITURE + ADMINISTRATIVE COSTS + OTHER EXPENDITURE
Benefit	Transfer (in kind and cash) provided to an individual or household based on entitlement or need
Administrative costs	Any management and administrative expenditure incurred by the scheme directly responsible for the provision of social protection benefits such as salaries or the costs ofrunning an office.
Other expenditure	All miscellaneous expenditures incurred by social protection schemes such as interest on loans, taxes on income, and others not recorded elsewhere
TOTAL REVENUE	**GENERAL GOVERNMENT CONTRIBUTIONS (INCLUDING EARMARKED TAXES + GENERAL REVENUES) + DONOR BUDGET SUPPORT**
General government contribution	Contribution by the government to finance the cost of goods and services provided bythe government to protected persons in the form of means-tested or universal benefits
Earmarked taxes	This is a subcategory of the above. They are levies and specially designated taxes raisedto finance specific social benefits.
Donor budget support or grant	In countries where this is an important part of either benefit or administrative support
Other receipts	Interests on income from deposits, insurance claims, and other revenue not classified elsewhere

Source: Authors

The availability of **standardized information** regarding key policy characteristics of these different programmes - such as their costs, sources of finance, number of people covered, levels, frequency and quality of the provision offered - requires that these institutions keep records of programme activities, inputs, outputs and outcomes according to standardised guidelines (see more in Box 1 below).

Assessing coverage, gaps and impacts of social protection/security programmes and their overall system require – in addition to information from administrative sources – information collected through household surveys (e.g. income and expenditure/ household budget surveys and labour force surveys) including

- questions on the coverage of contributory and non-contributory programmes
- information on recipients of specific existing benefits and programmes
- nature of the benefits
- periodicity and amounts/values of benefits

Where possible, it is also important to collect information on broader outcomes potentially impacted by social protection, including those improving gender equality and disability inclusion, and also drawing attention to the potential benefits of social protection for human capital development, and broader economic and health impacts. Demonstrating these impacts can, in turn, motivate more collaboration and cost-sharing across sectors and ministries. See more on the development of effective monitoring systems for social protection in MODULE M&E.

In the UN, the organization engaged in the collection and dissemination of social security statistics is the International Labour Organization (ILO). Statistics provided by ILO include the cost of social security, social protection coverage, coverage of pension schemes and public social security expenditures, among others.

The ILO's World's Social Protection Report annexes include databases, data and indicators, and methodology on social protection coverage and financing. It is mostly based on ILO's administrative survey-based Social Security Inquiry. The latest WSPR is available here http://www.ilo.org/global/publications/books/WCMS_604882/lang--en/index.htm

Box 1: International sources of data on social protection expenditure, coverage and financing

The SSI (Social Security Inquiry) of the ILO, is an online database that includes data on social protection expenditure, financing, and coverage coming mainly from administrative records and has reached a stage of completeness which enables global and regional estimates. It also contains qualitative statutory information available from ISSA (on institutional parameters and coverage and other sources).

ASPIRE database by the World Bank uses households' survey data from various countries on access to social protection programme to produce key performance indicators, as well as aiming to provide detailed description of survey instruments (for 50 countries, to be expanded to 70 shortly). ASPIRE is currently being expanded to contain data from administrative sources.

Help Age maintains a full comprehensive inventory of social pensions that is available here Pension-Watch.

Other more or less regularly updated (this is part of the challenge) and well established databases (even if regional) exist: European Union's Eurostat ESSPROS (European Integrated System of Social Protection Statistics), OECD Social Expenditure Database (SOCX), IMF Government Finance Statistics (GFS), and Asian Development Bank Social Protection Index (SPI) and the Economic Commission for Latin America (ECLAC) databases

Source: Authors

Social protection/security programmes in any country are usually provided through a large number of different programmes of varying sizes and administered by different government agencies, non-governmental organizations, and private sector entities. When preparing an overview of the full social protection system in the country one has to start with **the inventory of existing social protection schemes** (or programmes). A group of international organizations and development agencies developed a methodology of comprehensive assessments of social protection systems in the framework of Inter-Agency Social Protection Assessment (ISPA) tools: the Core Diagnostic Instrument (CODI) available at:http://ispatools.org/core-diagnostic-instrument/.

Box 2: Partial inventory of social protection schemes – overview of main non-contributory social protection programmes in Ghana

<table>
<tr><th></th><th colspan="4">SOCIAL PROTECTION FLOOR GUARANTEES</th></tr>
<tr><td></td><td>Access to essential healthcare</td><td>Income security forchildren, facilitatingaccess to nutrition, education & care</td><td>Income security for people of working age</td><td>Income security for older people</td></tr>
<tr><td rowspan="3">Cash Transfers</td><td colspan="4">Livelihood Empowerment Against Poverty (LEAP): For orphans & vulnerable children, people with disability or who are chronically ill, elderly persons</td></tr>
<tr><td rowspan="2"></td><td colspan="2">Ghana Luxembourg Social Trust (GLST)</td><td></td></tr>
<tr><td></td><td colspan="2">Social Security National Insurance Trust</td></tr>
<tr><td rowspan="3">Non-Cash Transfers</td><td rowspan="3">Services covered National Health Insurance Scheme (NHIS)</td><td>School uniforms</td><td colspan="2" rowspan="3"></td></tr>
<tr><td>Exercise books</td></tr>
<tr><td>School feeding</td></tr>
<tr><td rowspan="4">Subsidies</td><td rowspan="4">NHIS contributions to children, the indigent, the elderly,</td><td rowspan="4">Capitation grant</td><td colspan="2">Fuel subsidies</td></tr>
<tr><td colspan="2">Lifeline tariff</td></tr>
<tr><td colspan="2">Self-Help Electrification Programme (SHEP)</td></tr>
<tr><td colspan="2">Agricultural input subsidies</td></tr>
<tr><td rowspan="4">Active labour market programmes</td><td colspan="2" rowspan="4"></td><td>National Youth Employment Programme (NYEP)</td><td></td></tr>
<tr><td>Social Inclusion Transfer (SIT)</td><td></td></tr>
<tr><td>Labour-Intensive Public Works programme (LIPW)</td><td></td></tr>
<tr><td>Local Enterprises and Skills Development Programme (LESDEP)</td><td></td></tr>
</table>

Source: ILO (2015) (available www.transformsp.org)

Table 3: Ghana – government expenditure on main non-contributory social protection programmes (in million GH unless otherwise indicated)

	2005	2006	2007	2008	2009	2010	2011	2012	2013
NHIS (Indigent Exemption)	0.1	0.7	1.9	6.1	4.6	6.1	24.6	16.5	
Capitation grant	12.9	12.9	10.7	15.0	23.5	23.8	23.9	24.6	25.8
School uniforms						10.0	10.0	8.2	28.0
Exercise books					7.6	14.0	70.0	29.0	28.7
School meals	0.9	1.8	16.2	33.4	62.3	63.6	60.0	63.7	199.0
LEAP				2.2	7.5	12.0	12.0	10.0	30.0
SIT					0.1	1.7	16.5	1.0	
NYEP/GYEEDA				74.6	8.4	144.5	227.3	448.6	30.0
LESDEP						6.0	36.0	84.0	75.0
LIPW								11.1	
Total social protection programmes (excluding grants)	**14.0**	**15.4**	**28.9**	**131.3**	**189.6**	**281.5**	**480.3**	**736.8**	**416.5**
as a percentage of governmentrevenue, excluding grants	0.6	0.6	0.8	2.7	3.3	3.6	4.1	4.8	2.0
as a percentage of GDP	0.1	0.1	0.1	0.4	0.5	0.6	0.9	1.0	0.5
as a percentage of spending on poverty	1.8	1.6	2.2	7.8	10.2	12.0	19.3	21.5	

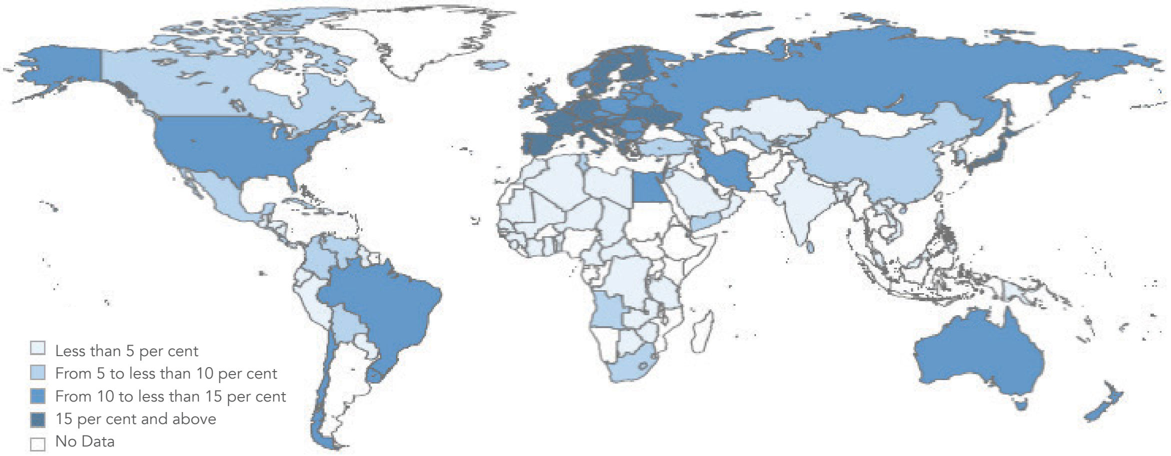
Source: ILO (2015) (available www.transformsp.org)

2.2 AFFORDABILITY OF SOCIAL PROTECTION

2.2.1 How much different countries spend on social protection?

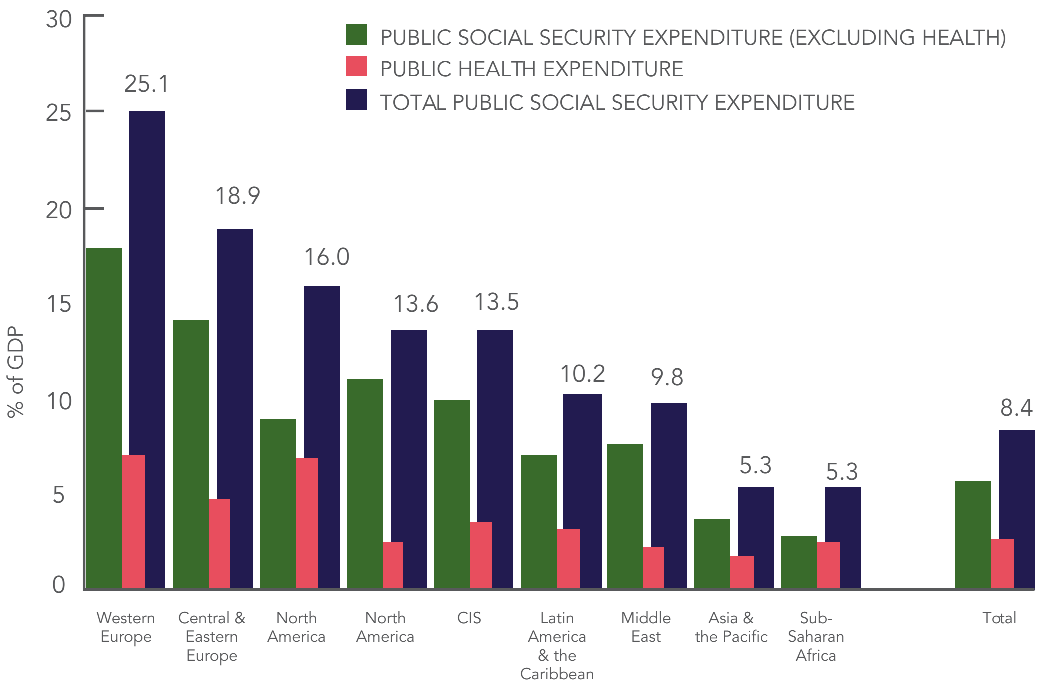
According to the ILO estimates presented in World Social Security/Social Protection Reports, on average, countries in the world allocate 11 per cent of their respective gross domestic products to social protection. The size of the population in different countries can also be used as a weight to calculate mean percentages of GDP allocated to social protection. In this case, the result shows that for the "average" resident in different countries only 8.4 per cent of the GDP of the country is allocated as social protection benefits in cash and in-kind.

Figure 1: Public social protection expenditure (population weighted)



Source: ILO, World Social Protection Report (2017-2019)
Note: Total social protection expenditure is estimated as a percentage of GDP & excludes health-related public expenditure.

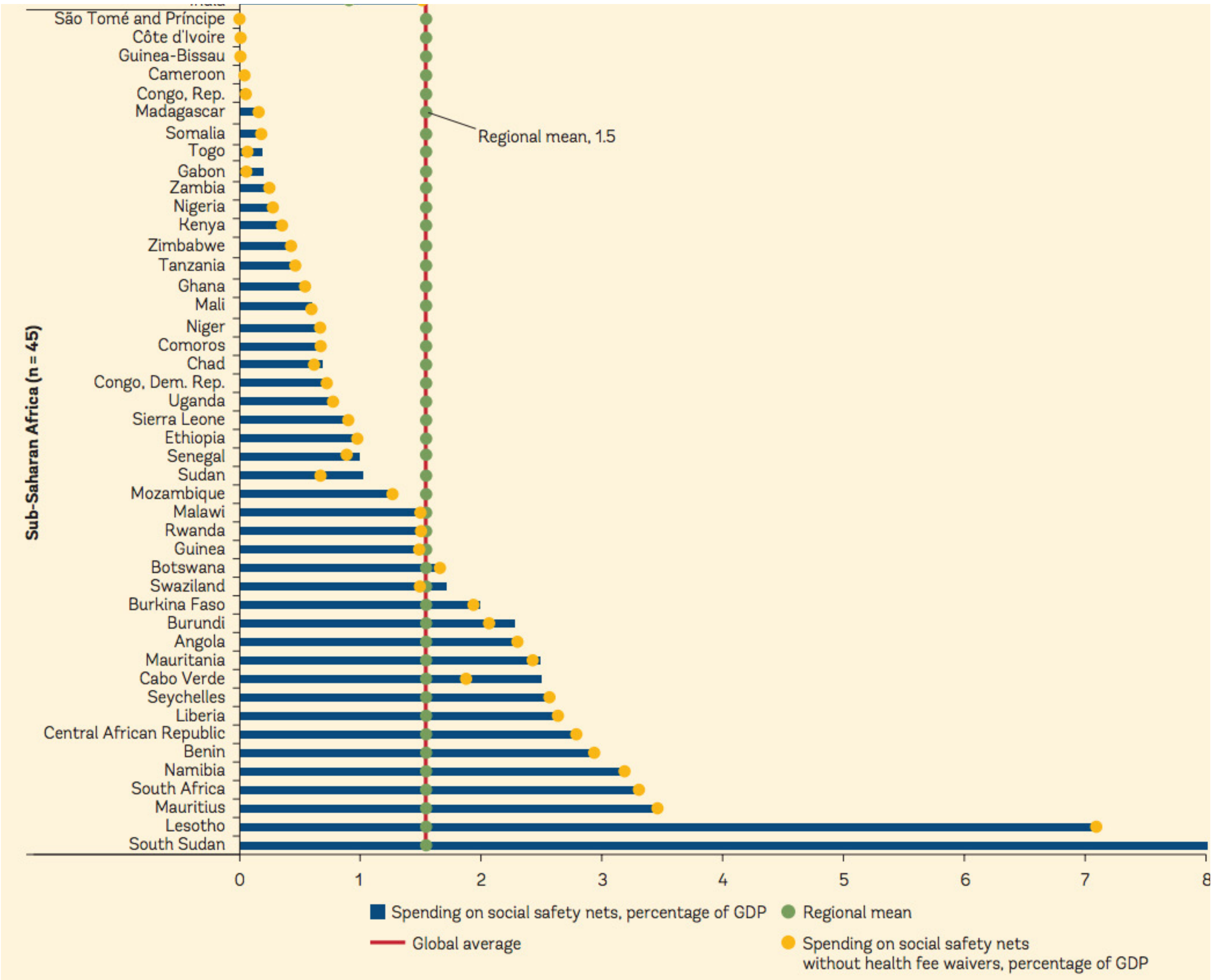
Figure 2: Public social protection expenditure (population weighted)



Source: ILO, World Social Security Report (2010)

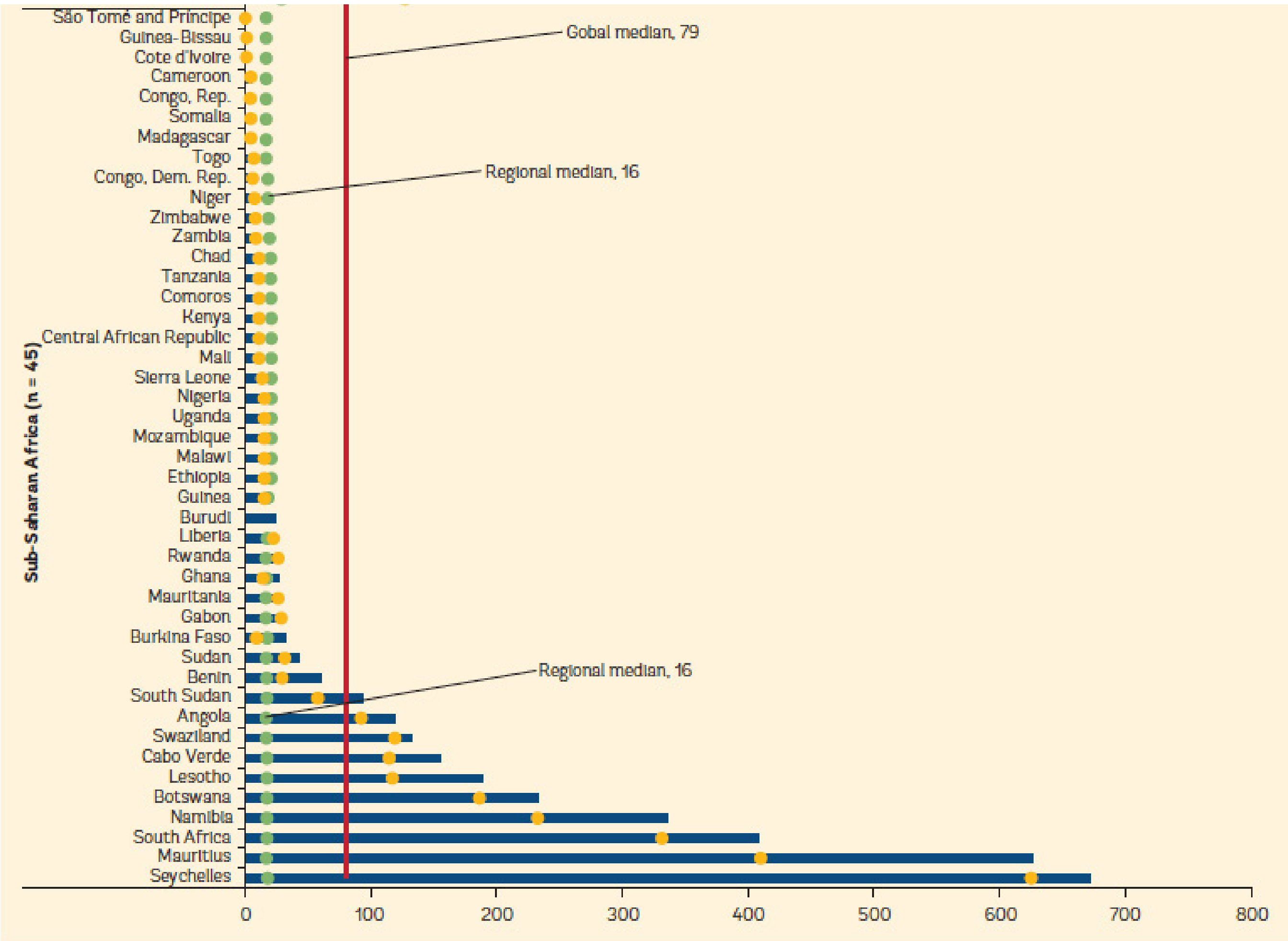
A large portion of social protection everywhere is provided through contributory schemes and financed mostly from social security contributions. Only recently larger scale non-contributory schemes started to develop in different parts of the World. As data from the World Bank ASPIRE database show, in **Sub-Saharan Africa** on very widely defined (including public works and community-based programmes but excluding health care) **non-contributory social protection programmes, countries spend on average 1.5% of GDP** (globally, in low-income countries – 1.5% of GDP). At the top of the lists – in addition to countries with large emergency response programmes such as South Sudan and Central African Republic – one can see countries with larger scale universal or quasi-universal cash transfers e.g. Lesotho, South Africa, Mauritius and Namibia (Figure 3). On a per-capita basis, the level of spending on social assistance in Sub-Saharan African countries is significantly below the global median for the vast majority of countries (Figure 4).

Figure 3: Social Safety Net Spending Variations across Countries and Regions: Africa



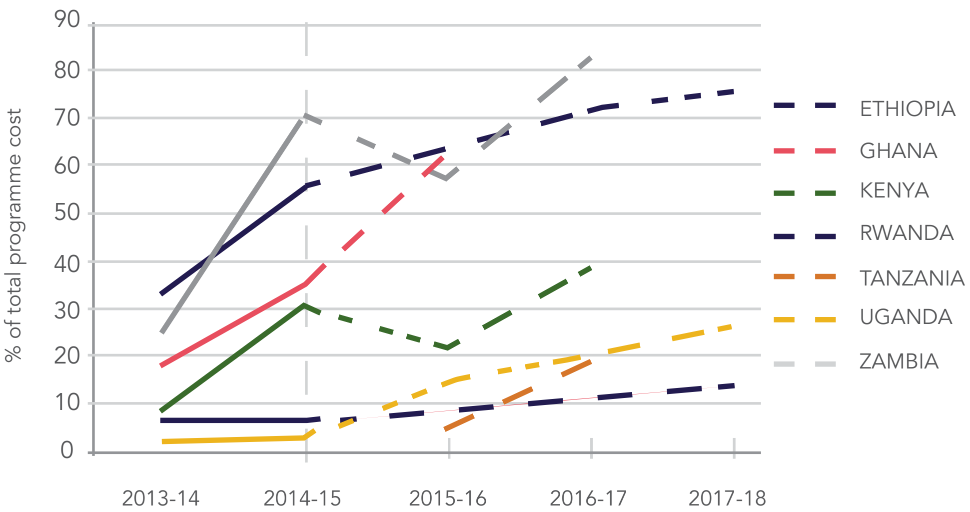
Source: State of Safety Nets, World Bank (2018)

Figure 4: Absolute Annual Spending on Social Safety Nets per Capita across Countries, Economies, and Regions: Sub-Saharan Africa



Source: State of Safety Nets, World Bank (2018)

Figure 5: National governments' percentage contribution to cash transfers in their own countries



Source: UK Independent Commission for Aid Impact (2017). Solid lines represent actual expenditure data. Dashed lines represent spending commitments.

After reaching a certain level of fiscal revenue, countries can exercise a significant degree of discretion in choosing which public programmes to invest in. Of course, this discretion does not mean that choices are easy – there are always opportunity costs behind any such decision and expenditure planning should combine the democratic process, reflecting societal preferences, with a careful quantities analysis of the social cost of benefits for the different alternatives. The choice of what programmes to invest in should be informed by careful consideration of barriers to employment and productive inclusion. These barriers can drive poverty among various groups, including women, people with disability, and other vulnerable groups. Gender inequality, which drives gaps in school enrolment and contributes to lower employment rates due to unpaid care responsibilities, often contributes to barriers to employment and productive inclusion. Among people with disability, exclusion from work, education and social life is common and should be addressed. Figure 6 shows that **at any size of government, countries have some choice as to what portion of public resources to invest in social protection;** and that even countries with relatively very small government (as expressed by government spending in the range of 20–25 per cent of GDP) differ significantly in their decisions on the share of these resources devoted to financing social protection programmes: one-tenth, one-fifth, one-third or more than half. The Safety Nets Report (2018) concludes that "there is no global relationship between a country's income level spending on social assistance as a percentage of GDP."

Figure 6: Share of social protection in government expenditure versus the size of the government

Source: World Social Security Report (2010

2.2.2 Social protection as costs and as an investment

ILO, World Health Organisation and the World Bank joined by other organisations, agreed on promoting universal social protection, including universal health care. The most recent of these international agreements are Sustainable Development Goals. One of the targets under Goal 1 of ending poverty in all its forms everywhere by 2030 is: "Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable."

However, despite all the above normative standards, the agreed goals and targets, still, the majority of the world's population, particularly in Africa and Asia, lacks coverage by comprehensive social protection systems. This lack of coverage, often explained on the grounds of affordability, can rather be explained by a lack of sufficient policy space for social protection, than by a lack of potential for its financing – so-called fiscal space.

Making an economic argument for social transfer requires an assessment of cost-effectiveness as well as cost-benefit in both the short and long term. Social protection has direct impacts on social outcomes and human development, but it is also linked with economic development and can thus be characterized as an economic investment. Social protection is increasingly seen as "a source of resilience in tough times, as a support for growth and productivity in good times, and as a general mechanism for socioeconomic inclusion" (Cherrier et al., 2013). For quite a while, research has shown (see for example World Bank's World Development Report 2005) that poverty is a security risk and that lack of security is a hindrance to the investment climate. Without basic social transfer schemes that foster health, adequate levels of nutrition and social stability, a country can simply not unlock its full productive potential. Relatedly, social protection can help countries expand their productive potential by facilitating productive inclusion among members of society (such as women) who are often systematically excluded from formal sector employment due to barriers such as unequal care burdens or lower levels of education (resulting from gender equality), or lack of accessibility or other barriers to employment among people with disability. Addressing these barriers and promoting equitable productive inclusion can help countries to reduce poverty more sustainably.

Alderman and Yemtsov (2012) found **three main channels through which social protection can support economic growth:**

- **Individual level** - Building and protecting human capital (including addressing gaps in school enrolment caused by gender inequality or barriers faced by people with disability) and other productive assets, empowering poor individuals to invest or to adopt higher return strategies, removing barriers to formal sector employment or other forms of productive inclusion among women and people with disability.
- **Local economy effects** - Enhancing community assets and infrastructure, positive spill-overs from recipients to non-recipients.
- **Overall economy level** - Acting as stabilizers of aggregate demand, improving social cohesion and labour productivity and making growth-enhancing reforms more politically feasible.

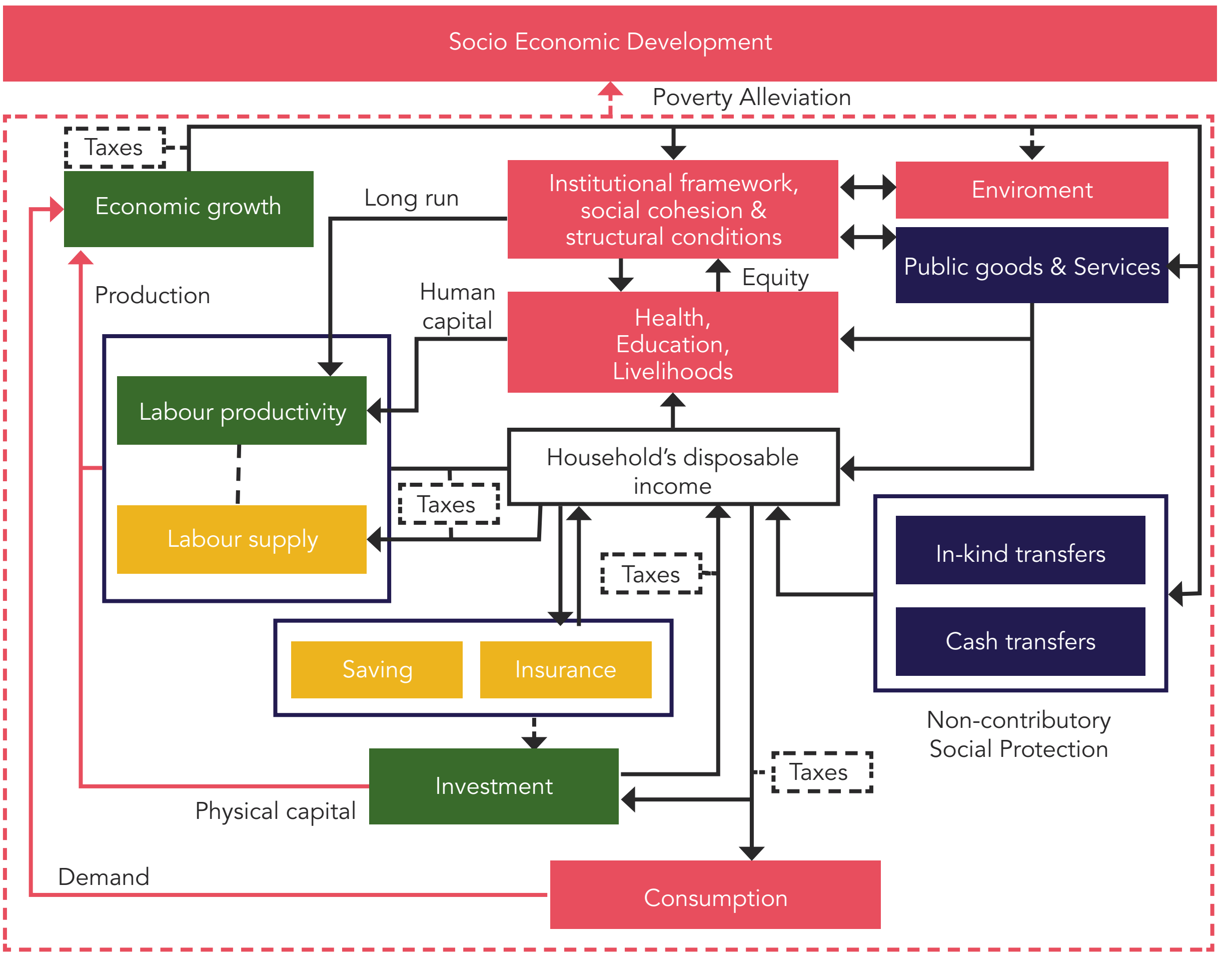
Non-contributory transfers directly affect disposable household income and consumption. In addition, such transfers also affect household behaviour as additional – and in particular secure – income enables households to invest in health, education and a variety of productive activities. Indeed, research by the Transfer Project showed that an unconditional cash transfer in Zambia empowered women to invest in and start small businesses (and also qualify for small loans to do this) (Bonilla et al., 2017; Natali et al., 2016). Improved health and education outcomes increase human capital and therefore labour productivity. For example, adults and children with disabilities in recipient households of the Lesotho Child Grant Programme reported increased spending on health, improved self-rated health and a greater likelihood of seeking healthcare. Food security also improved amongst recipients, as did the engagement of adults with disabilities in paid work (de Groot et al, 2021). Another way that social protection can improve productivity is through reduced gender-based violence. In sub-Saharan Africa, between 30 and 66 per cent of ever-partnered women have experienced intimate partner violence in their lifetime (Devries et al., 2013), and this violence has significant economic costs in terms of health costs, lost income for women and their families, decreased productivity, and negative impacts on the future human capital formation (Duvvury et al., 2013). Women and girls with disabilities are particularly likely to be affected by violence (Jones et al, 2012a, Jones et al, 2012b)). A large number of studies have now shown that cash transfers can reduce intimate partner violence experienced by women, even when violence reduction is not a programme objective (Baranov et al., 2014; Buller et al., 2018). Evidence is also growing that cash transfers can reduce violence against children and exploitation or abuse among girls (Peterman et al., 2017; Heath et al., 2020).

Moreover, productive investments increase physical capital by creating and protecting productive assets as well as reducing the need to rely on harmful coping strategies, such as selling the most productive assets in a time of crisis. Some forms of harmful coping strategies are influenced by gender norms; for example, in times of hardship, households may decide to marry off girls or encourage boys to engage in labour instead of attending school. Evidence shows that social protection can reduce these gendered, harmful coping strategies (de Hoop and Rosati, 2014; Hoddinott and Mekasha, 2017).

Transfers can also work towards increasing labour supply by solving credit constraints and enabling recipients to afford transportation costs. In addition to individual-level effects, social transfers have the potential to enhance effective aggregate demand and generate local multipliers (Gassman et al. 2014; Cherrier et al., 2013). For example, the exclusion of people with disability from the labour market was estimated to cost 10 low and middle-income countries (primarily from sub-Saharan Africa) 1-7% of GDP annually (Buckup, 2009). Social protection can in turn play a key role in supporting engagement in decent work for people with disability, such as by covering the extra costs associated with seeking and retaining work (e.g. transport, assistive technology) and through access to employment-related benefits (e.g. vocational training, job matching, incentives for employers, provision of accommodations).

Although this prevailing pattern shows a strong correlation between income levels and amounts of resources allocated to social protection, it cannot be concluded from this that social protection is a "luxury" good. On the contrary, low-income countries with high poverty incidence and large informal economies need social protection even more than other countries, although they may have different priorities concerning which functions or policy areas should be developed first and how benefits should be financed and delivered. And there are many studies clearly showing that social protection in those countries not only can be made affordable but is also necessary as a factor in development. For example, the economic costs of providing social protection and other interventions to promote the inclusion of people with disability may be outweighed by individual and national economic benefits, such as increased earnings and labour productivity amongst people with disability and other household members (Banks & Polack, 2014).

Figure 7: Non-contributory social protection and socioeconomic development



Source: Cherrier et al, 2013 based on Mideros et al, 2012. Note: Grey indicates a policy decision; pink a household decision; green refers to economic performance; red represents outcomes. Note that most relations are neither linear nor unidirectional.

The Transfer Project (https://transfer.cpc.unc.edu/) has demonstrated the impact of social transfers on social outcomes and economic activity in sub-Saharan Africa:[2]

- Cash transfers contribute to noticeable improvements in **consumption and poverty,** such as the ability of households to smooth their consumption within seasons and between years.
- Cash transfers make people happier and give recipients **hope,** a precondition for families to want to invest in the future.
- Cash transfers contribute to **human capital accumulation.** They have a strong and consistent impact across countries on school enrolment, most clearly among secondary-age children. They consistently improve food security and nutrition security.
- Cash transfers positively impact recipient livelihoods, leading to increased flexibility in household labour allocation and time use and lead to an improved ability to manage risks. Increased investment and engagement in economic activities in turn generate additional income at the household level **(household income multiplier).**
- Cash transfers can empower women and reduce intimate partner violence (Baranov et al., 2021; Buller et al., 2018; Natali et al. 2016; Peterman et al., 2022).
- When recipients receive the cash, they spend it and the impacts of the transfer are then transmitted to other households that are not eligible and who tend to own most of the local businesses. The increase in local demand generates positive **local economy multipliers.** Each dollar transferred to recipients can increase local income by more than one dollar (see Box 3)

Box 3: Assessments of local income multiplier effects of social cash transfer programmes in Southern and Eastern Africa

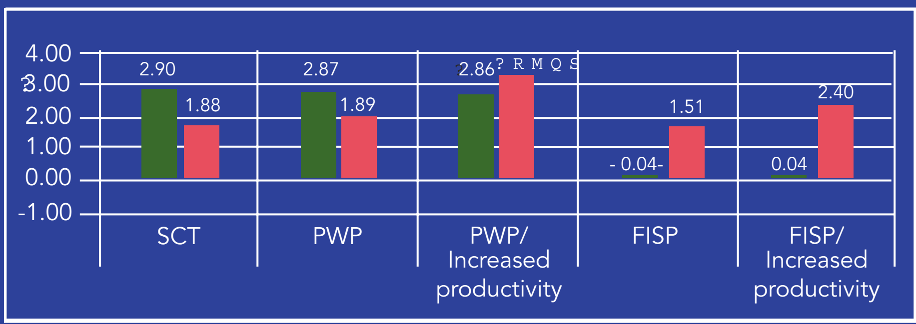
Poor households are the focus of non-contributory social protection programmes, but they are also a conduit through which cash enters local economies. As recipients spend their transfers, local demand increases. If production expands to meet this demand, social assistance programmes can create income multipliers; each dollar transferred can increase local income by more than one dollar. For example, recipients of cash transfer programmes spend some of their grants on goods or services supplied by local businesses. As local production expands to meet demand, incomes in households connected with these businesses rise, together with the demand for labour and other inputs. This generates **local economy multipliers,** additional rounds of spending and income growth in the local economy.

Programmes can create positive income and production spillovers if they raise the demand for goods and services, creating opportunities for recipients and non-recipients engaged in their production. Yet, they can also create negative spillovers by driving up food prices, raising costs for consumers and depressing prices for producers.

Local economy-wide impact evaluation (LEWIE) models have been used in Sub-saharan Africa to uncover the impacts of cash transfers not only on eligible households but also on the local economies of which they are part. Studies using the LEWIE models across several countries in the region show that most of the African unconditional cash transfers create large income multipliers in local economies, ranging from 1.27 to 2.52 per dollar transferred to eligible households (Davis et. al 2016).

2 The results appear in Davis et al. (2016), From Evidence to Action: The Story of Cash Transfers and Impact Evaluation in Sub-Saharan Africa Available at:FAO https://www.fao.org/publications/en

A recent study for Malawi (Kagin et al, 2018) further explores the differences in local economic impacts across a range of different policy options, including cash transfers, public works programmes, and fertilizer input subsidy programmes. In most cases, **each dollar invested increases income in rural Malawi by far more than 1 dollar** (Figure 8). Impact evaluations that do not consider such spillovers miss many benefits created. There are striking differences between real and nominal multipliers, indicating that the nominal income multiplier can be eroded by inflationary pressures, as prices rise in response to increased demand for goods and services. Instead, programmes that support production or increase productivity, such as well-designed inputs subsidies or public work interventions, impact incomes primarily by increasing the supply of goods and services, thus reducing prices.



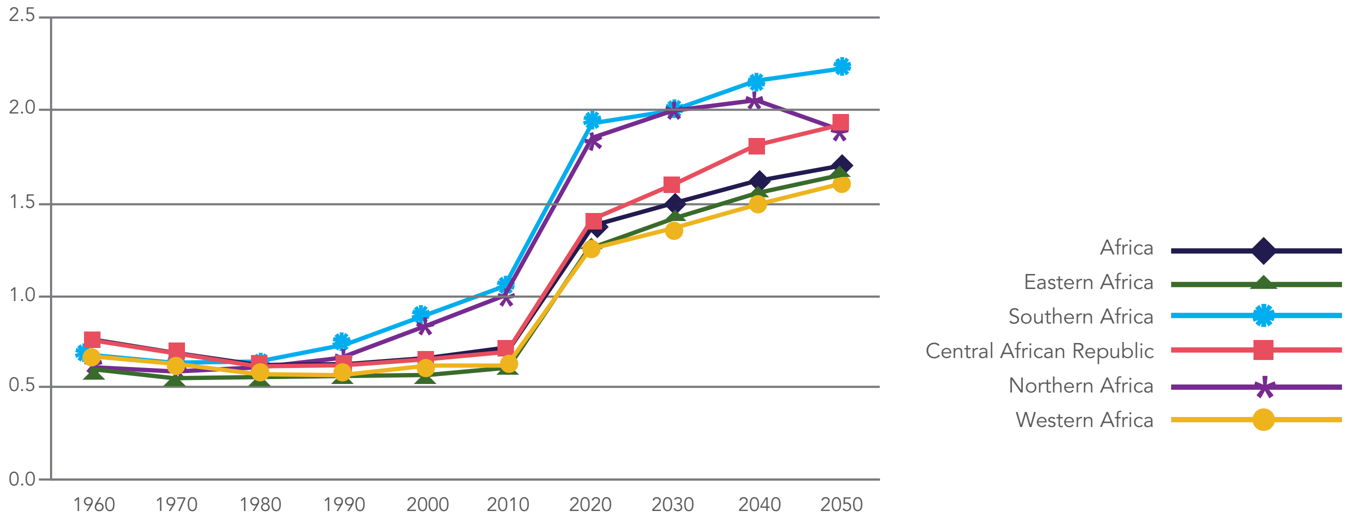
Income spillovers also have important implications for equity, as some household groups are in a better position to benefit from income spillovers, whatever their cause. **Non-poor households tend to benefit most from income and production spillovers.** Traditional social protection programmes (SCT, PWP) stimulate production, which expands primarily amongst non-recipient households, as they are better placed to respond to increased demand in the local markets. Figure 9 shows that multipliers created by the SCT increase production within all sectors, primarily in retail and cropping, and that non-recipients expand production more than direct recipients.

Figure 9: SCT Production Multipliers by Sector & Beneficiary Status

2.2.3 Demography trends and costs of social protection

The majority of African countries have a very young population. This often implies a rapidly growing school-age population, a large proportion of young adults in the working-age population (over 40 per cent) and high rates of workforce growth. These dynamics can be associated with high levels of unemployment, the informality of the workforce and political instability when economies are not able to provide the necessary basic social services and harness the productive potential of the growing workforce. On the contrary, it can be an opportunity when countries start a demographic transition, with a progressive decrease in child mortality.

Indeed, child mortality is projected to decline from 116 per 1000 live deaths in 2010 to 75 per 1000 live deaths in 2030 thanks to better incomes, access to improved water supply and sanitation, and better health facilities in Africa. But the number of children a woman is likely to have in her lifetime - the total fertility rate - is still very elevated in the continent by global standards (2.5 children per woman globally and 4.7 children per woman in Africa) and has not fallen as expected contrary to the declines in fertility in Asia and Latin America. The demographic transition consists of a growing workforce relative to the total population. It results from the decline in the number of children in the total population and the slow growth of the elderly. This will take a longer time in Africa but will happen eventually (see Figure 10 below). See also this video: https://www.youtube.com/watch?time_continue=28&v=gSiDHdMU3W8



Source: UNFPA

If countries manage the demographic transition well, the increase in the working-age population and reduced total dependency ratio provides countries with a window of opportunity, which if properly tapped can generate a "demographic dividend" in the form of higher growth and funding for social protection. **The demographic transition or demographic dividend is an opportunity. It will allow an increase in GDP and consequently a stronger funding basis for social protection for non-working populations.** But this supposes that young adults will be effectively employed in productive work. Early childhood development, child care, transfers to families that help maintain children at school and avoid child labour in combination with social services, and adequate school-to-work transition programmes are going to be needed to increase the productivity of jobs in the near future and reduce the number of NEET youths (Not in Employment, Education, or Training). These efforts to reduce the number of NEETs should take into account gender and disability inequalities, including barriers to girls and children with disabilities attending secondary school, etc. Governments' desire to maximize the potential of the demographic transition goes hand in hand with the call to address vulnerabilities in the second decade of life (adolescence). Investments during adolescence are seen as having a triple dividend (Patton et al., 2014), accruing to adolescents today, tomorrow (as they become more productive adults), and in the future generation (their children). Social protection can help households invest in adolescents by increasing school attendance and health capabilities. In turn, these investments can reduce gendered and disability-related vulnerabilities, including child labour, child marriage, exclusion from education, discrimination and violent experiences.

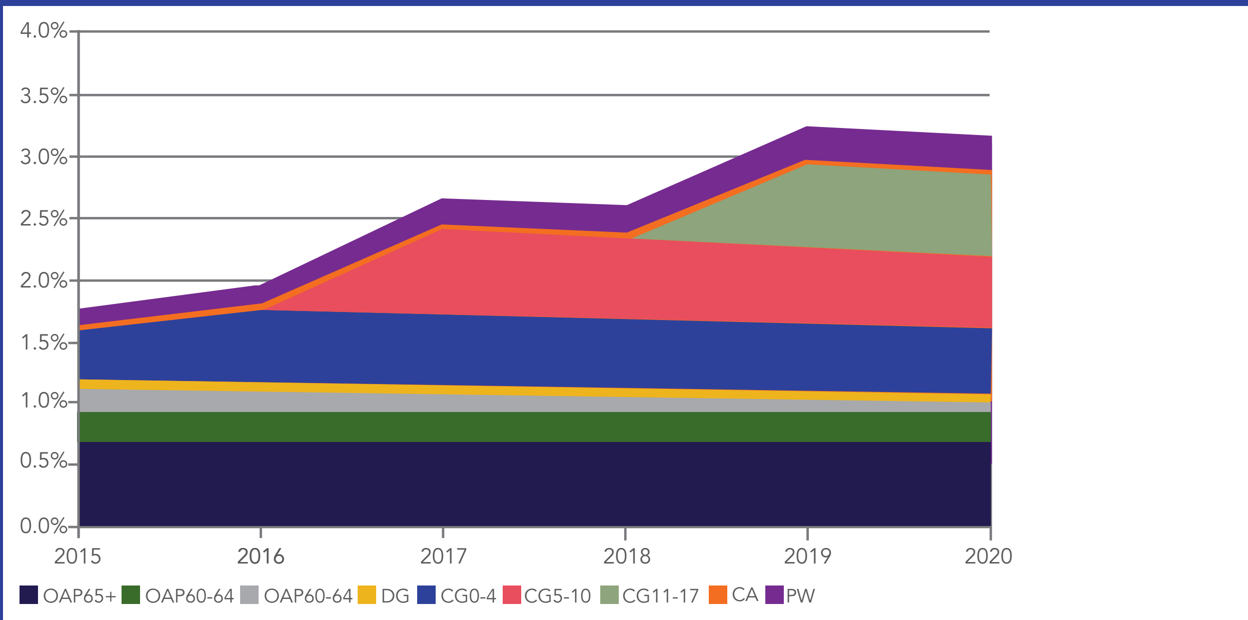
A contributing factor to stronger development could come from **increased labour market participation of women and people with disability**. Gender norms and non-inclusive environments contribute to women's and people with disability's lower participation rate in the labour market and lower wages in several ways. For example, women have disproportionate care burdens (of young children, the chronically ill, and the elderly) as compared to men, and this can make it difficult to engage in paid work. At the same time, the gender wage gap means that women are often paid less than men for doing the same work. Similarly, people with disability are often excluded from decent work due to factors such as discrimination by employers and the lack of workplace accommodations. Social protection eligibility criteria can also reinforce exclusion from work, by including stipulations that recipients must not be working (for example, Malawi's Social Cash Transfer targets ultra-poor, labour-constrained households). This leads to lower lifetime earnings and reduced pension entitlements. In settings where girls' and children with disabilities' school attainment is lower than boys' and children without disabilities, this also leads to fewer and less well-paid job opportunities in the future. Women and people with disability also tend to have less access to and control over productive assets than men, further exacerbating inequalities in productive opportunities and income (Jones, 2021). To address these inequalities, social and care policies, cash and in-kind benefits need to accompany labour market transitions to ensure the productive inclusion of women and people with disability. For example, for women, this could involve relieving their traditional role in caring for the children, the elderly, chronically ill or disabled, as well as other policies which address gender gaps in school enrolment, gender wage gaps, and women's access to land, property, and other productive assets. For people with disability, policies and programmes to support access to inclusive education and training, provision of workplace accommodations, strengthened anti-discrimination legislation and coverage of extra costs associated with seeking and retaining work are needed.

At the same time, by 2030, the **average life expectancy** in Africa is projected to reach 64 years, compared to 57 years in 2010. That means that developing and ageing societies have to do something urgently to ensure the right to retire with dignity and social security for their older members. Particularly dramatic is the situation of older women, who comprise the majority among this growing number of elderly. Even in the poorest countries, where life expectancy at birth is still much lower than in richer countries due to the high child mortality and also high mortality in certain age groups due to HIV/AIDS and other diseases, those who reach the age of 65 will on average live only several years shorter than average persons in richest countries. People everywhere will live much longer, often with new or pre-existing disabilities. The question is how dignified this life would be and what form of income security a society can provide to them. Women deserve special attention in old age, not just because they live longer than men, but because cumulative effects of gender inequality across their lives (resulting from lower income and reduced access to land, housing and assets) means that they are more likely than men in old age to have inadequate standards of living (Jones, 2021). Vietnam provides an example of how a pension system can pay attention to gendered vulnerabilities (ILO Country Office for Vietnam, 2019). Recognizing that women are less likely to be employed in the formal economy and subsequent bias in the pension system (39 per cent of men v. only 30 per cent of women over age 65 receive a pension), Vietnam is rolling out a strengthened social pension as the foundation of a multi-tiered pension system to ensure that all citizens are guaranteed a minimum income in old age. It is estimated that 65 per cent of recipients of the social pension scheme would be female and that the scheme would benefit 80 per cent of ethnic minority older people.

Box 4: Long-term planning of Maternity and Child Benefits: Case of Namibia

ILO projected the implementation of a maternity grant and a universal child grant in Namibia. The latter followed a phased approach based on age cohorts: starting with children aged 0–4 in 2015 and including children aged 5–10 in 2017 and children aged 11–17 in 2019. This approach is justified by the fact that support to children in their early years of life is found to be crucial to breaking inter-generational poverty transmission. Moreover, younger children are more likely to be poor. As a result of decline in fertility, the cost per GDP falls over the years. The rise in spending for a specific age cohort phases down because of the reduction of child dependency ratios over time. This allows the introduction of a second cohort in the child grant scheme over time.

Figure 11: Cost of different schemes as a percentage of GDP



Source: ILO (2014) p. 146-147

2.3 TOOLS FOR FINANCIAL GOVERNANCE OF SOCIAL PROTECTION

Taking decisions about social protection systems today means making more or less well-informed "good guesses" about their future development with and without these decisions. For example, in responding to concerns that social assistance or pension entitlements might become a burden for future generations, reliable forecasts are needed if one wants to re-balance social and economic policies early, if necessary.

ILO Convention No 102 on Minimum Standards in Social Security requires (in its article 71 p. 3) that: The Member shall accept general responsibility for the due provision of the benefits provided in compliance with this Convention, and shall take all measures required for this purpose; it shall ensure, where appropriate, that the necessary actuarial studies and calculations concerning financial equilibrium are made periodically and, in any event, prior to any change in benefits, the rate of insurance contributions, or the taxes allocated to covering the contingencies in question.

Projecting the future development of social protection finances requires models that allow projecting future streams of revenues and expenditures with a reasonable degree of reliability. Good models should have high explanatory power in forecasting social expenditure and revenue. They not only provide insights into the possible future development of social protection finances but also establish scenarios with different assumptions concerning socio-demographic and economic conditions and to assess the effects of different policies under these circumstances.

It is obvious that policy decisions taken today have very often impacted not only the living but also future generations. Such are for example direct decisions concerning the design and financing of pension systems. Other fiscal decisions may impact future generations if they involve borrowing.

There is a close link between sustainability and the adequacy of benefits. Inadequate benefits will not find enough willingness from contributors and taxpayers to finance them and sooner or later the scheme or system will become unsustainable. On the other hand, when generous benefit promises are not matched with sufficient and sustainable financing, these promises will not be actually delivered.

A major reason why social protection was in the past often regarded as an obstacle to higher growth was the "fact that many governments seriously mismanaged the finances of social protection systems that were initially well designed" (Scholz et al., 2000). Often, financial management tools and processes did not adequately address social protection spending and the failure to use instruments such as **Social Budgets** and the information they provide almost inevitably leads to the mismanagement of new or existing social protection programmes (Scholz et al., 2000).

2.3.1 Social Budgeting

Without adequate information, it is close to impossible to have a "rational discussion about the scope and future direction of a country's social protection systems and its actual and potential stabilizing influence on general economic developments" (Scholz et al., 2000). Social Budgets allow for such discussions by establishing "sound quantitative information about the past and possible future progress of social protection expenditure and revenue" (Scholz et al., 2000). Social budgeting, which includes social accounting and a meaningful projection system, should be one of the factual basis for the national social policy of any country.

A requirement for establishing a system of governance for the social sector is to be able to answer questions like the following:

- What is the present overall level of expenditure?
- Where is the money spent and how much?
- Where are unmet social protection needs?
- How would the overall national social expenditure and the financial burden for the different financiers of the systems (employers, workers and the government) develop under different economic scenarios and under different reform options?

Traditionally projections of social protection revenue and expenditure were (in many countries still are) made mainly for individual social protection schemes or groups of closely related schemes administered by a single institution. Social budgeting establishes income and expenditure accounts for all existing social protection schemes in the country and then projects – using actuarial methods – those accounts into the future. Gender-responsive budgeting (or gender budgeting) is one form of social budgeting. Gender budgeting does not require a new approach to budgeting, but rather an explicit recognition of gender at key entry points (IMF, 2017). For example, key entry points in the budget cycle include (adapted from IMF, 2017):

- A framework of rules and procedures for promoting gender-responsive budgeting may be included in a country's constitution, budget law, or administrative guidelines.
- Gender budget statements (a written document declaring budget/financial goals) are strategic tools which allocate adequate resources to reach strategic goals and measure impact and results.
- The budget circular instructs ministries and departments on how to complete budget submissions, and these may state that gender be reported in budget submissions.
- Information systems can be adapted to produce sex-disaggregated reports.
- Performance-related budgeting frameworks can promote gender equality.

Gender impact assessments can assess the impact of fiscal policies on individuals disaggregated by gender.

A gender audit can examine the impact and effectiveness of social protection programmes on gender equality outcomes.

- Capacity building and training can disseminate good practices on gender budgeting to relevant staff, experts, and consultative groups.

Similarly, budgeting should be compliant with the United Nations Convention on the Rights of Persons with Disabilities (UNCRPD) (Center for Inclusive Policy, 2019). Components of UNCRPD-compliant budgeting include:

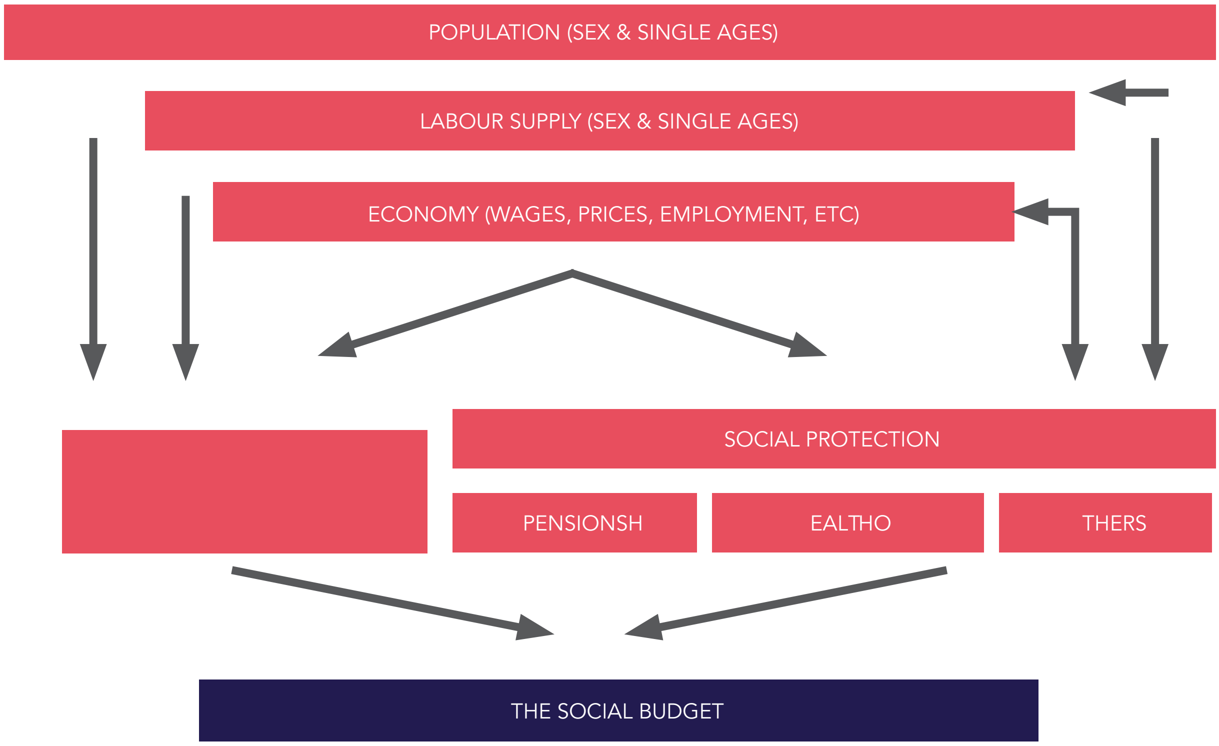
- Allocating resources in line with countries' commitments to fulfilling their obligations to the UNCRPD, such as ensuring non-discrimination and the provision of accessible and inclusive services.
- Mobilising funds across sectors and levels of government, rather than limiting spending to a few ministries
- Reallocating from services that are against UNCRPD principles, such as education in segregated settings or residential institutions. Spending must also not create or perpetuate existing barriers (e.g. investing in infrastructure, services and programmes that are not accessible)
- Supporting the inclusion of the most marginalized groups amongst people with disability, such as women and girls with disabilities
- Ensuring cuts do not disproportionately affect people with disability and that revenue generation (e.g. taxation) takes into account extra costs faced by people with disability
- Actively and meaningfully involving people with disability and their representative groups in the budgeting process.

Increasingly, governments are calling for an increased focus on disability across programmes and policies, however, these commitments are not always matched by appropriate budget allocations (e.g. for providing reasonable accommodations, improving accessibility, investments in disability-related goods and services such as inclusive education, assistive technology or community-based rehabilitation). For example, in Uganda, it was noted that most local government budget allocations for disability inclusion were focused either on disability grants or on celebrations for the International Day of Persons with Disabilities (Government of Uganda, 2017). Training staff on the principles of UNCRPD-compliant budgeting and ensuring sufficient budget allocation at a central level could improve appropriate planning for disability inclusion across sectors.

These models (Figure 12) are composed of several building blocks which include:

- **demographic module** providing population projections by age and sex
- **labour market module** providing projections of the labour force by age and sex
- **macro-economic module** usually providing a consistent set of assumptions and several alternative scenarios concerning the future trends in GDP, productivity, employment, unemployment, wages and other incomes, prices, and interest rates
- **social protection modules** which are actuarial projection models for each of the existing social protection schemes in the country
- **public finance/fiscal module** linking social budget to public finance framework and expected future fiscal envelope.

Figure 12: Structure of the social budget model



Source: Based on Scholz et al, 2000

A fully-fledged social budgeting exercise is very demanding in terms of data requirements and the relatively long time required to implement. Rapid Assessment Protocols modelling methodology involves abbreviated social budgeting and actuarial techniques which allow shortening the time necessary to build a projection and simulation model without compromising the quality of the results.[3] However, while it serves as a support to well-informed national policy debates, the actual decision concerning policy design and funding should be based on further and more detailed social budgeting, actuarial and micro-simulation studies.

3 Rapid Assessment Protocols were developed and implemented in a number of countries (see for example study on Vietnam in Cichon et al. 2012 and on Mozambique in Cunha et al. 2013 but the approach is being implemented also in countries like Thailand, Indonesia, Benin, Nepal, Jordan, Burundi, and Cameroon. The Mozambique study was done jointly with IMF, where ILO focussed on actuarial projections while IMF developed part projecting future fiscal envelope and fiscal space.

Table 4: Data requirements for social protection benefit costing

POPULATION DATA	Number of males and females of each age and population projections, ideally disaggregated byurban/rural, disability and relevant geographical units
LABOUR MARKET DATA	Labour market participation rates disaggregated by age, disability and gender, as well as expected rates, to be reached. Unemployment rates disaggregated by age, disability and gender, as well as expected rates, to be reached. The formality of the labour market
ECONOMIC DATA	Macroeconomic framework, current GDP in local currency, real GDP growth rate, inflation andaverage monthly wages. Public finance revenue (tax, non-tax, and grant) and expenditure (recurrent, capital, and others)and estimates about revenues and expenditures in the future.
BENEFIT PARAMETERS	Age of the target recipients, number of target recipients as a percentage of the totalpopulation, benefit amount in nominal terms or as a percentage of per capita GDP, differential parameters, the poverty rate among target recipients, and administrative cost as a percentage of the benefit amount.

Source: UNICEF-ILO, 2011

Social budgeting consists of two main components. The first is the statistical basis and the "methodologically consistent compilation of the revenues and expenditures of a country's social protection system" (Scholz et al., 2000). This is called the **social accounting system (SAS).** This part acts as an accounting concept for compiling the flows of funds of the totality of all social programmes. The second component is the forecast of income and expenditure (budget projection). These projections are usually done for a medium-term period. This component is called the Social Budget and also includes simulations of social expenditures and revenues under alternative economic, demographic and/or legislative assumptions.

While details of national Social Budgets vary from country to country, depending on the organization of social protection systems and the range of benefits provided, some core elements are represented in all national Social Budgets. On the expenditure side, these core elements include among others, pensions, unemployment and family benefits, tax benefits, social assistance and healthcare. The **income side** accounts for all resources used to finance social protection expenditures. Amongst the most important revenues are social security contributions, taxes (whether general or earmarked; whether imposed by central, regional and/or local governments) and investment income.

The table below shows a short-term forecast of a Social Budget in a typical middle-income country. Based on the table, the country's social budgeting specialist could, for example, indicate that the social protection sector's required income from general revenue is growing faster than GDP, which may have negative impacts on the government budget. It could recommend that the government considers some expenditure consolidation measures to contain overall or specific expenditures in the medium term. On the other hand, the specialist should alert the government to the fact that at present, the country's anti-poverty benefits only consume a very small percentage of GDP, which might be inappropriate given the level of poverty (Scholz et al., 2000).

As modelling entails the attempt to understand the interdependent operations of a system, a well-designed Social Budget model should give early warnings about the impacts of, for instance, legislative changes.

It is important to include in such impact estimation the potential occurrence of **second-round effects.** These second-round effects may concern changes in total employment, unemployment expenditure, health insurance and expenditure on various forms of social assistance as well as housing and tax benefits. What initially looked like a reduction in expenditure though in one branch of social security could be partially, fully or more than offset by increased expenditures in other branches (Scholz et al., 2000).

Table 5: A typical summary of a national social budget

	2005	2006	2007	2008	2009	2010
ITEM	% OF NOMINAL GDP					
EXPENDITURE						
1. Pensions	3.4	3.6	3.7	3.9	4.1	4.3
1.1 Pensions insurance benefits	3.3	3.5	3.6	3.8	4.0	4.2
1.1.1 Old-age pensions	2.6	2.8	2.9	3.0	3.2	3.4
1.1.2 Invalidity pensions	0.1	0.1	0.1	0.1	0.1	0.1
1.2.3 Survivors' pensions	0.4	0.4	0.4	0.5	0.5	0.5
1.2.4 Orphans' pensions	0.2	0.2	0.2	0.2	0.2	0.2
1.2.5 Grants	0.0	0.0	0.0	0.0	0.0	0.0
1.2 Administration	0.1	0.1	0.1	0.1	0.1	0.1
2. Unemployment expenditure	0.0	0.0	0.1	0.1	0.1	0.1
3. Short-term benefit expenditure	0.2	0.2	0.2	0.2	0.2	0.2
4. Social assistance expenditure	0.3	0.2	0.2	0.2	0.2	0.2
5. Health expenditure	4.2	4.3	4.3	4.4	4.5	4.6
6. Social expenditure on military personnel	0.8	0.7	0.7	0.7	0.7	0.7
7. Other social benefit expenditures	1.2	1.1	1.2	1.2	1.2	1.2
8. Change of reserves		0.4	0.5	0.6	0.4	0.3
TOTAL	10.0	10.6	10.8	11.3	11.4	11.6
REVENUE						
1. Social insurance contributions	2.5	2.8	2.8	2.9	2.9	3.0
1.1 Pension scheme	2.0	2.0	1,9	2.0	2.0	2.0
1.2 Health Scheme	0.6	0.6	0.6	0.6	0.7	0.7
1.3 Unemployment scheme	0.0	0.3	0.3	0.3	0.3	0.3
2. Other income (incl imputed contributions	2.8	2.7	2.7	2.8	2.8	2.9
3. Investment income	0.0	0.1	0.3	0.4	0.2	0.2
3.1 Pension Scheme	0.0	0.0	0.0	0.0	0.0	0.0
3.2 Health Scheme	0.0	0.0	0.0	0.0	0.0	0.0
3.3 Short-term benefit scheme	0.0	0.0	0.0	0.0	0.0	0.0
3.3 Unemployment scheme	0.0	0.1	0.3	0.4	0.2	0.2
4. Income from general revenue	4.7	4.9	5.0	5.2	5.4	5.6
TOTAL	10.0	10.6	10.8	11.3	11.4	11.6

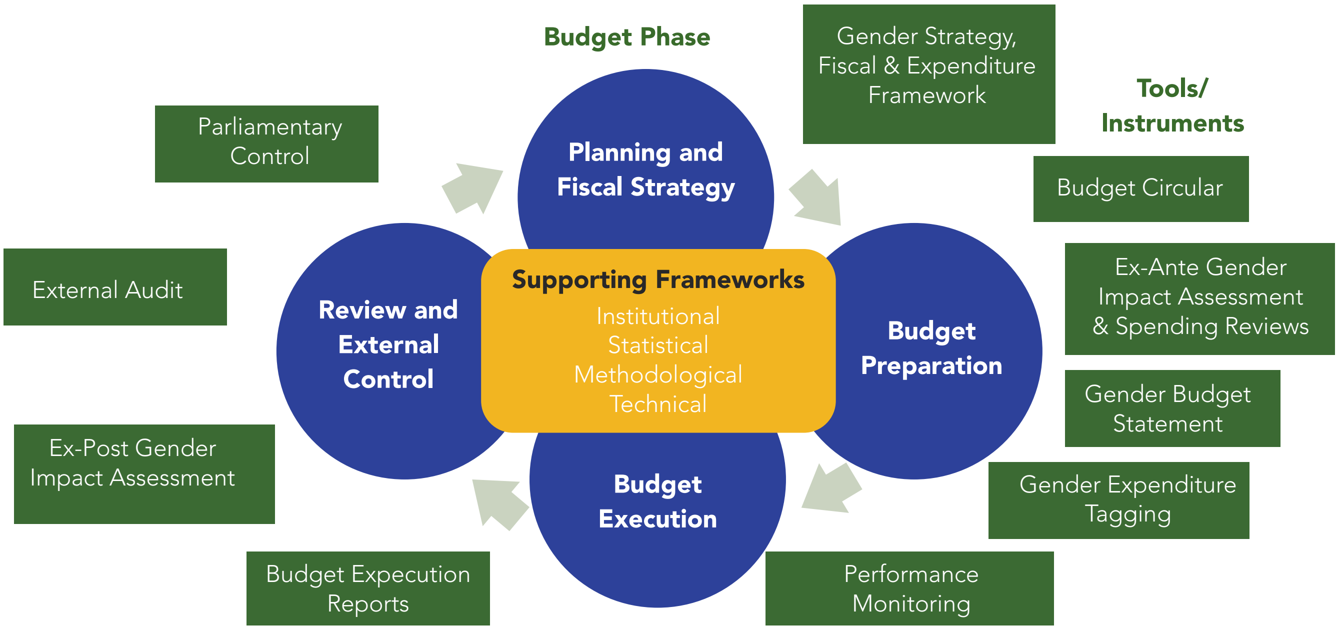
Source: Scholz et al., 2000 (Note: Totals may not add up exactly because of rounding)

Gender-responsive budgeting

Budgets affect men and women differently, reflecting unequal distributions of power in society, social roles, work opportunities, and social and economic inequalities (Jovanovikj et al., 2010)). Moreover, women are overrepresented in low-income and low-resource categories in all countries. Recognizing these inequalities, gender-responsive budgeting incorporates a gender equality perspective into all steps of the budget process, to ultimately allocate expenditures in ways that address persistent inequalities between women/girls and men/boys (Budlender & Hewitt, 2003; Bureau for Gender Equality, 2006). Gender budgeting is a form of social budgeting. It requires an ongoing process of keeping a gender perspective in budget formulation, implementation, and review (Ortiz et al. 2019).

In 2017, the IMF developed its Gender-Responsive Budgeting Framework for an integrated approach to Gender-Responsive Budgeting. This framework includes explicit incorporation of gender issues and gender-specific analyses at all stages of the budget cycle (but notably without requiring a new approach to budgeting).

Figure X. IMF's Integrated Framework for Gender-Responsive Budgeting



The first step in gender-responsive budgeting is the analysis of budgeting, including understanding how budgets impact women/girls and men/boys differently. This requires sex-disaggregated reporting of end users or recipients of various budget programmes and an understanding of whether programmes were equally accessible for men and women. Data analysis for these purposes can be challenging in the face of a lack of disaggregated data by sex. Rwanda and the Guateng Province of South Africa include performance-oriented gender budget statements in their budget documentation, and these describe programme allocations.

Box X: A case study on gender-responsive budgeting in South Africa

Launched in 1994 by the Parliamentary Financial Committee and several non-governmental organisations, South Africa's Gender Budget Initiative analyzed all 27 sectors of the national budget and 840 local budgets. These analyses underscored gaps in gender equality and informed the reallocation of budgets to benefit women more equally.

Then in 1996, the South African Women's Budget Initiative (SAWBI) was launched by two NGOs and Parliament jointly, institutionalizing the gender-responsive budgeting initiative. This initiative has been deemed highly successful, due in part to the support it draws from civil society, parliament, government, and international agencies. In its inception, the SAWBI focused on analyzing gender impacts of expenditures but has since evolved to include analyses of the revenue side of the budget, including research on direct and indirect taxation, donor funds, and excise and customs.

In 2019, South Africa's gender-responsive budgeting and planning was further formalized through the Gender-Responsive Planning, Budgeting, Monitoring, Evaluation and Auditing Framework. Subsequently, in July 2021, the National Treasury collaborated with IMF's Regional Assistance Center for Southern Africa and Fiscal Affairs Department to apply the IMF's Gender-Responsive Budgeting Framework. The review developed a series of findings, including but not limited to:

- A multi-layered strategic planning architecture combined with well-established program-based budgeting are major enablers of GRB in South Africa.
- An array of institutions in South Africa play important roles in gender-responsive budgeting, including the Department for Women, Youth, and Persons with Disabilities (DWYPD) and the Department of Planning, Monitoring and Evaluation (DPME).
- South Africa benefits from an effective and respected Supreme Audit Institution, established parliamentary committees, and oversight bodies. Nevertheless, the audit framework does not yet explicitly integrate gender equality and parliamentary committees do not undertake systematic reviews of the gender impacts of service delivery programmes.
- The review recommends an approach that combines the preparation of a gender budget statement and a gender expenditure tagging mechanism. This mechanism builds on recent efforts by the National Treasury to tag gender spending as well as new requirements for departments to include gender-disaggregated data in their annual performance plans.

A roadmap was then developed to advance gender responsiveness of the budget in the context of South Africa's Gender-Responsive Planning, Budgeting, Monitoring, Evaluation and Auditing Framework. Further, it was recommended that Gender-Responsive Budgeting be expanded as a wider concept of budgeting to prioritize other vulnerable groups, including the youth and people with disability.

Source: (Bureau for Gender Equality, 2006; Clifton et al., 2021; Jovanovikj et al., 2010)

2.3.2 Microsimulation models

Tax-benefit microsimulation models, which combine representative household-level data on incomes and expenditures and detailed coding of tax and benefit legislation, have proven to be an extremely useful tool for researchers and policymakers alike.

Many developing countries are now building up their social protection systems and the financing of public spending will need to be increasingly based on domestic tax revenues. In this process, understanding the system-wide impacts of different policy choices is critically important, and tax-benefit microsimulation models are very well suited for this purpose.

"**Microsimulation models** use micro-data on persons (or households, or firms or other micro-units) and simulate the effect of changes in policy (or other changes) on each of these units. Differences before and after the change can be analysed at the micro level to show the overall effect of the change." (Mitton et al., 2000)

The models apply user-defined tax and benefit policy rules to micro-data on individuals and households and calculate the effects of these rules on household income. The effects of different policy scenarios on poverty, inequality, and government revenues can be analysed and compared.

Figure 13: Structure of a micro-simulation

Source: Authors

The main purposes of microsimulation are to respond to the following questions:

- How does the current tax and benefit system impact individuals in different groups (e.g. income groups, family types, women, girls, and people with disability)?
- To what extent does the current tax and benefit system reduce poverty and inequality?
- What would be the cost of implementing social security policy reforms, for example: universalising an existing benefit by removing the means test, introducing a new benefit, and increasing the monetary value of a benefit?
- What would be the impact on poverty and inequality of these reforms?

It is important to analyse the distributional effects of taxes and benefits jointly. There are several alternative means through which countries can mobilize revenues, each imposing differential burdens on different population sub-groups. Alternative expenditure patterns and levels distribute benefits unevenly throughout society, with some groups of people benefitting more than others. The particular distribution of burdens and benefits amongst various sections of a population defines a government's fiscal policy. This uneven distribution of burdens and benefits can be designed to either financially favour or hurt the rich and poor, rural and urban, male and female, old and young. For example, although indirect taxes can be regressive (the same percentage of the value of a good is paid regardless of the income of consumers), the overall impact on income inequality depends on the nature of spending that the additional revenue allows; for example, if indirect taxes are used to pay for subsidies for health coverage of the poor, the overall effect is progressive. Fiscal policies with a focus on gender or other vulnerable groups, such as people with disability, have beneficial supply-side effects (IMF, 2017). These include expanding labour force participation and faster human capital accumulation (through more schooling and improved health). These in turn generate productivity growth and investment in physical capital, boosting long-term output per capita.

In Europe, EUROMOD has been developed over 20 years by the University of Essex and is currently used in over 25 countries in Europe. Visit euromod.ac In South Africa, SAMOD is 10 years old. It was the first application of the EUROMOD platform in a developing country context. In Namibia, NAMOD was developed in 2012. UNU-WIDER, the EUROMOD team at the Institute for Social and Economic Research (ISER) at the University of Essex, and Southern African Social Policy Research Insights (SASPRI) have launched a major research project in which tax-benefit microsimulation models for selected developing countries in Africa (Ethiopia, Ghana, Mozambique, Tanzania, Zambia) and also elsewhere (Ecuador and Vietnam) will be built in addition to those that already exist for South Africa and Namibia. See more information on the SOUTHMOD programme, articles and paper at: https://www.wider.unu.edu/project/southmodsimulating-tax-and-benefit-policies-development

Box 5: SOUTHMOD - simulating tax and benefit policies for development

Tax-benefit microsimulation models, which combine representative household-level data on incomes and expenditures and detailed coding of tax and benefit legislation, have proven to be an extremely useful tool for researchers and policy makers alike. The models apply user-defined tax and benefit policy rules to micro-data on individuals and households and calculate the effects of these rules on household icome. The effects of different policy scenarios on poverty, inequality, and government revenues can be analysed and compared.

While microsimulation models are routinely used by researchers and policy makers in developed countries, few developing countries have access to such tools. Many developing countries are now building up their social protection systems and the financing of public spending will need to be increasingly based on domestic tax revenues. In this process, understanding the system-wide impacts of different policy choices is critically important, and tax-benefit microsimulation models are very well suited for this purpose.

This is the backdrop against which UNU-WIDER, the EUROMOD team at the Institute for Social and Economic Research (ISER) at the University of Essex, and Southern African Social Policy Research Insights (SASPRI) have launched a major research project in which tax-benefit microsimulation models for selected developing countries in Africa – such as Ethiopia, Ghana, Mozambique, Tanzania, Zambia – and also elsewhere (Ecuador and Vietnam) were developed in addition to those that already exist for South Africa and Namibia. Such models can be used for analysing the impacts of different tax and benefit policy scenarios.

The following SOUTHMOD models are freely accessible for non-commercial research use: ECUAMOD (Ecuador), GHAMOD (Ghana), MicroZAMOD (Zambia), MOZMOD (Mozambique), and TAZMOD (Tanzania).

The models are built on the EUROMOD platform. EUROMOD is not only a widely-used tax-benefit model for European countries, but it has also been found to be an ideal platform with which to develop microsimulation models for other countries.

Source: https://www.wider.unu.edu/project/southmodsimulating-tax-and-benefit-policies-development

2.4 TAKE-AWAY LESSONS

- Social protection has major economic impacts and impacts on public finances
- To identify and monitor these impacts one needs a sound statistical system
- Investing in social protection in the medium and long term may lead – through a virtuous circle of higher demand, higher productivity and higher incomes – to enlarged fiscal envelope and increased capacity to meet different social needs
- However, these positive effects materialize only when social protection is adequately designed and its effects and impacts are carefully monitored and evaluated in the continuous process of participative dialogue and reform
- Possibilities of extension of social protection to close the coverage gaps depend to a large extent on the sound financial governance of individual schemes and the overall social protection system
- Affordability can be demonstrated by economic evidence, and with adequate planning including taking into account the demographic evolution and regular monitoring of administrative cost efficiency
- Good financial governance requires monitoring of current and future sustainability of social protection finances through quantitative governance tools like actuarial studies, social budgeting (including gender-responsive and UNCRPD compliant budgeting) and microsimulation studies

3

SOCIAL PROTECTION RESOURCE MOBILIZATION

This section introduces the reader to the ways governments manage their public finances, raise revenues, collect receipts and borrow to finance the expenditures they have decided to finance. A government's fiscal policy can be defined as the combination of measures undertaken to mobilise resources and the allocation of those resources to different sectors and activities.

3.1 RESOURCE ENVELOPE, POLICY AND FISCAL SPACE

Fiscal policy is defined by the choices a government makes in mobilising resources and allocating expenditures to meet its various obligations. This policy is normally reflected in national budgets that detail broken-down government expenditures in every fiscal year. The national budget is a government document listing the sources from which financial resources have been or are expected to be mobilised during a financial year and the expenditures to which they have been or are to be directed. The national budget provides the financial framework for the government's activities. It reflects the priorities of a government and its performance relative to its commitments.

The maximum scale of possible redistribution is determined in the first place by the resource envelope available now and in the future – that amount of resources which can be collected through taxes and contributions in the shorter and longer run. In the shorter run fiscal envelope can be also modified by the country's net lending or borrowing as well as through grants received from the rest of the world. **The overall size of the fiscal envelope is determined by the willingness of the society to pay taxes** and contributions (which depends to an important extent on the quality of public services provided, accountability and transparency of public finance, and the degree of democratization of the budgeting process). It also depends on the **ability and capacity of the government to collect taxes** and contributions, and enforce the legislation imposing them.

In the globalised world, the overall size of the fiscal envelope depends also on external actors as well as the ability of the government to take autonomous decisions. These external actors are on the one hand international bodies with which countries have some commitments like IMF, World Bank or the EU Commission for European Union member countries. The other important actors are private institutions acting in the global financial markets, rating agencies, etc.

Box 6: Article IV Documents of IMF

The IMF's regular monitoring of economies and associated provision of policy advice is intended to identify weaknesses that are causing or could lead to financial or economic instability. Country surveillance is the process that culminates in regular (usually annual) consultations with individual member countries. IMF team of economists visits a country to assess economic and financial developments and discuss the country's economic and financial policies with the government and central bank officials. IMF staff missions also often meet with parliamentarians and representatives of business, labor unions, and civil society. Summaries of most discussions are press releases and are posted on the IMF's web site. An important element of these documents are the so called indications for priority spending. The effect of IMF- supported programmes on social spending continues to be widely debated. Critics argue that during these programmes, countries are required to cut public spending to meet fiscal targets, thereby squeezing priority expenditure on education and health and hurting the poor. Recently, minimum indicative floors on social and other priority spending have been incorporated into programmes for low-income countries where appropriate. It is important for ministries of labour and social welfare to engage directly with national financial authorities, for example to help them better understand social protection expenditure and its economic and social impacts, to ensure social protection is adequately protected and expanded during IMF support programmes.

The second group of factors are those, which shape policy space for public redistributive policies in general and for public social protection in particular. Much depends on the **attitudes prevailing in the society towards redistribution and towards the poor**. In those parts of the world where the majority (or just ruling elites in non-democratic environments) believe that poverty arises due to a lack of sufficient efforts of those who fall into poverty, there is no support for public financing of programmes redistributing resources to those in need. Also if the poor belong mainly to ethnic or social groups seen by the majority or ruling elite as inferior for whatever reasons, support for redistribution and social protection is limited.

But political will should not necessarily be taken as given as the two boxes below show. The case of South Africa shows that the affordability of social grants was a social and political construct. However favourable political and public acceptance of social reforms may not be given from the onset. The alignment of social policy sector interests with higher-level political elites is not a necessary starting condition, as the case from Malawi shows. The power of leadership and policy communities in shaping beliefs, attitudes and values through evidence-based engagement and political management is critical. Change agents or policy leaders can be distributed agents in different spheres of government, academia, and social partners, managing politically for policy space and social expectations.

Box 7: Political Economy of Redistribution – The Case of Malawi

A recent survey of elites was conducted in Malawi. The research consisted of "semi-structured interviews with members of the elite, defined as individuals holding strategic positions in powerful organisations, such as political, governmental, economic, communication and cultural organisations, donor agencies and social movements. In addition, survey questionnaires, non-participant observation and documentary analysis were used. "Respondents spoke of a 'culture of poverty' that explained how the poor might be responsible for their own problems." This culture among the poor was said by respondents to have a number of components.

- A fatalistic mindset that discourages efforts to escape poverty: '…[the poor] are busy living day-to-day arguing that "my parents were poor so I will also end up poor no matter what I try".' (Principal Secretary)
- Unwise use of resources, leading to wasted opportunities: 'Some people even make money from growing of tobacco but they will decide to marry another wife rather than building a house with the proper roofing….' (Principal Secretary)
- A culture of dependency involving over-reliance on handouts: 'They know that if they do not work someone will come to help them.' (National Coordinator, CSO).

There was thus a great emphasis on "behavioural" explanations for poverty. Individual responsibility was considered a critical factor to lifting people out of poverty, instead of structural constraints. If elites believe that strategies such as cash transfers lead to dependence amongst the poor and reduce the incentive to work hard, then they may prefer to withdraw support or at least to implement such strategies so that they do not reach the less 'deserving'. These views are shared despite positive evidence of the local impact of cash transfers on social outcomes and its economic multiplier effects (See Box 3 above). However in the absence of national system of social transfers and low benefit levels, these remain local and limited effects; possibly information on technical studies has not permeated more widely in society, including to elites.

Source: Kalebe-Nyamongo and Marquette (2014)

Box 8: Political Economy of Redistribution – The Case of South Africa

The initial expansion of social protection in South Africa was not driven by the political elite nor by society views. In fact in South Africa, Senkings (2016) and Bruni (2016) recognize the scepticism by the leading party's leadership to the expansion of social grants system, based on fiscal constraints and objections on ideological grounds: "conservative skepticism against 'handouts' and 'dependency' was widespread within the ANC elite, including Nelson Mandela" (Seekings, 2016:8). Bruni (2016:128) says that "there were differences and disagreements over … the social grant system within the Cabinet…recall(ing) many intense discussions with Finance Minister on the fiscal sustainability and economic effects of (its) various aspects." Despite that, a policy and epistemic community joining hands with ministerial leadership could produce politically valuable arguments for a progressively comprehensive social security system (Cassim, 2016; Seekings, 2016; Bruni, 2016). In the case of South Africa, forming a coalition outside government, including with NGOs, Think Tanks, Parliamentarians and the contribution of the legal system was very important in building favorable coalitions within government (Bruni, 2016). Providing timely evidence on the poverty and social impact of cash transfers and using media and the legal system to challenge retrogression ensured sustainable expansion of the social protection system through mutual interest of political community and advocates for social protection.

Source: Authors

The role of external actors in shaping policy space proves crucial in many Sub-Saharan countries.[4] However, in the end, domestic actors should play the dominant role in shaping the policy space for social protection and then in the design, implementation, monitoring and evaluation of social protection policies.

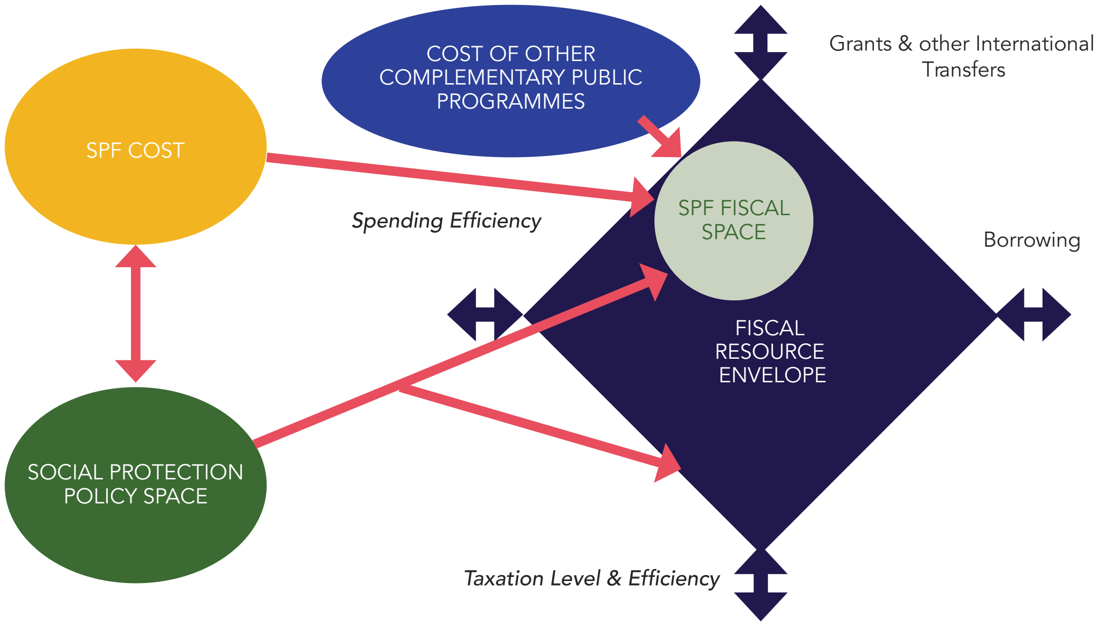
A **reform coalition** (formal or informal) is a political mechanism and process utilized and formed by state and non-state actors, which enables them to work cooperatively to address specific state and collective action problems through the pursuit and implementation of a specific economic and social reform agenda while retaining their independence from each other. Reform coalitions often include top officials in the state. They are often initiated in circumstances of sudden and contingent crisis, threat or even opportunity ('critical junctures'). They involve the production and sharing of evidence and the building of trust and mutually beneficial relationships.

Figure 14 below depicts typical forces at play in the determination of fiscal space for social protection. A country is debating completing the establishment of its social protection floor (SPF). Careful costing and projections are done to determine how much the full package would cost (SPF cost). However, views of different actors and stakeholders on implementing certain parts of the package are differentiated and there is no consensus – available policy space allows only for part of the intended package to be considered for implementation.

Very often, ensuring social protection programmes function effectively requires more fiscal space than the cost of the specific programmes alone: many social protection programmes function well only when provided with **complementary public programmes.** For example, for unemployment benefit programmes to function properly it requires effective employment services to be put in place as well, also, means-tested social assistance functions well only if the services of well-qualified social workers support it.

Actual fiscal space depends on policy space and thus existing willingness to finance certain programmes but it depends also on the overall size of the fiscal envelope – that is how much resources the government can mobilize through different sources of revenue and different fiscal instruments to finance all the necessary publicly financed programmes.

Box 8: Political Economy of Redistribution – The Case of South Africa



Source: Authors

4 On the one hand there is plenty of examples of international financial institutions directly recommending certain types of social protection programmes and directly discouraging government from adopting other ones. Individual donor countries also very often pursue very specific policies willing to fund certain types of programmes and not other ones. On the other side, the international coalition of international organisations, multi and bilateral donors, formed after the outbreak of the financial crisis in 2009 played a very important role in broadening policy space for social protection in many developing countries.

The size of the **fiscal envelope** can be changed through various measures and policies such as:

- changes in **taxation** increasing revenue (not necessarily changes in the level of taxes but also changes in the structure of taxation and changes in the effectiveness of the tax collection)
- increasing efficiency of existing **spending** programmes (including phasing out programmes which are not effectively meeting priority policy objectives) to make space for new programmes
- borrow or restructure existing public **debt**
- lobby to receive grants or similar transfers from bilateral and multilateral donors

There are also several other measures[5] which can expand the fiscal envelope – among them is increasing coverage and compliance in contribution collection of contributory social protection schemes, successfully fighting illegal financial flows, and adopting more accommodating macroeconomic framework[5] (see full detail in Section 3.5 ahead).

Of course, applying these different measures involves **trade-offs** and requires consensus which is often politically difficult to achieve. Increasing taxation very often faces opposition from businesses, financial markets, rating agencies and international financial institutions. Attempts to phase out ineffective public programmes usually is met with strong opposition from those who benefit from those programmes. Sometimes compensatory measures need to be put in place to avoid **resistance to change** in the reallocation of spending affecting particular interest groups (see boxes below).

Box 9: Phasing-out fuels subsidies in Nigeria: the importance of trust and credible compensation measures

In mid-2011 the Nigerian government decided to radically curtail gasoline subsidies and waged a public campaign for the rest of the year to convince the population. The debate on the removal of fuel subsidies was initially supported by several state governors, who wanted to free up resources to be able to pay their civil servants the new minimum wage. This proposal was hotly debated in the press, by business and civil society groups. On January 1, 2012, the price of gasoline was raised to a cost recovery level—a 117 per cent increase. The price of kerosene, a cooking fuel used mainly by poorer households, was not changed. Despite six months of debate, the measure did not enjoy sufficient public support.

The main plank in the government's campaign for subsidy removal was the Subsidy Reinvestment and Empowerment (SURE) Programme. The SURE programme was announced only in November. It was preceded by public statements by the president and in budget documents (e.g., the 2012–15 Medium-Term Expenditure Framework and the Fiscal Strategy Paper) highlighting both the costs of the subsidies and the need to spend on safety nets for poor segments of the society to mitigate the effects of the subsidy removal and to spend on the construction of new refineries and the rehabilitation of existing ones. The SURE brochure provided details on the various projects and programmes to be undertaken, from the specific road segments to be built to the maternal and child health services to be upgraded.

The government's attempts to win support for its subsidy reform were met with strong opposition from powerful sectors of society. In early December 2011, the National Assembly came out against the removal of the gasoline subsidy, claiming that the measure was premature and not supported by firm data underpinning the size and incidence of the subsidies. In response, the Ministry of Finance presented a Brief on Fuel Subsidies, laying out once again the case for removal, and supporting it with data on the explosive growth of the subsidies and comparing their costs with the government's capital expenditure and borrowing requirements. In addition, several senior officials gave interviews and speeches during the last two weeks of December.

5 All these measures are extensively discussed in Ortiz et al (2015)

Box 9: Continued

On January 9, the two large union federations launched a national strike. Certain parts of the country experienced a near breakdown of law and order and there were several deaths related to violence and acts of intimidation associated with the strike. On January 15, the president announced that the January 1 price increase would be partly reversed. The SURE programme would go ahead but would be scaled back in line with the reduced subsidy savings. The president also announced that the legal and regulatory regime for the petroleum industry would be - reviewed to **address accountability issues and current lapses**. Unions called off their strike that same day.

Mitigating measures

- Urban mass transit: Increasing mass transit availability by facilitating the procurement of diesel-run vehicles (subsidized loans, reduced import tariffs, etc.) to established operators. In the first step of this programme, the government intended to import 1600 buses within months.
- Maternal and child health services: Expanding the conditional cash transfer programme for pregnant women in rural areas, and upgrading facilities at clinics.
- Public works: Providing temporary employment to youth and women from the poorest populations in environmental projects and maintaining education and health facilities.
- Vocational training: Establishing vocational training centres across the country to help tackle the problem of youth unemployment

Lessons (according to IMF)

A well-thought out public information and consultation campaign is crucial to the success of a reform. While the government campaigned vigorously for removal of the subsidies, the measure was still highly controversial when it went into effect. The backlash had been predicted. The public communication campaign lasted only six months and there was no broad popular consultation. The ministry of finance produced several short briefs to support its proposal, but these were issued several months into the campaign, and there was no comprehensive report. The government must establish credibility for its promise that the proceeds from the removal of the subsidy will actually be used for the benefit of the broad population. Notwithstanding the laudable objectives of the SURE programme and the plans for oversight by a highly reputable board of directors, the new administration had yet to establish credibility that it would live up to commitments. Thorough research on the costs and recipients of subsidies is important to be able to bolster the case for subsidy reform. The absence of good quantitative information on the state of Nigeria's refining industry and of the fuel subsidy mechanism itself allowed spurious arguments – often made by parties with vested interests – that government investment in the state-owned refineries and/or measures to stop abuse by marketers were preferable to removing the subsidies. In addition, the claim that subsidies mostly benefited the poor had been based on anecdotal evidence rather than on research based on household survey data.

Source: Case studies on energy subsidy reform: lessons and implications, IMF 2013

Box 10: Visibility of Redistribution Policies and Tax-credits

An important element of support towards redistributive policies comes from the visibility of the social spending. In recent decades, there has been an increasing shift in a few countries, from disbursing benefits to individuals and families in favour of more indirect incentives and subsidies from tax breaks to payments for services rendered by the private sector. These render government spending less visible. So citizens know they are paying taxes but they do not see the benefits as they consume privately provided care services, health, education, transport, etc. This can exacerbate even less support for state redistribution and increase inequality. It makes social policy reform more difficult as tax payers resist paying more for an "invisible" State.

Source: Mettler (2011)

Redistribution policies such as phasing out of fuel subsidies may be the result of austerity budget cuts, which may have implications for gender equality and disability inclusion. Typical forms of austerity budget cuts include (Ortiz et al., 2019):

- Elimination of universal subsidies on fuel, agriculture, and food products
- Wage bill cuts or caps, including salaries for education, health and social workers
- Further rationing of social protection systems
- Inadequate pension and health reforms
- Privatization of public assets

Decisions around austerity budget cuts should be considered through a gender and disability lens, as these cuts often affect women, girls and people with disability differently from men, boys and people without disabilities. For example, in many settings women are employed at higher rates than men in social sectors such as education, health and other social sectors, and thus salary cuts and caps disproportionately hurt women. Similarly, people with disability often have a greater need for health and social services, and so austerity measures affecting these sectors could disproportionately affect their access to needed services and out-of-pocket spending on disability-related costs. Cumulative effects of gender inequality and disability exclusion across the life course increase the risk of poverty among women, adults with disabilities, and the elderly. Thus, cuts to pensions and social protection programmes could disproportionately affect women and people with disability and increase gender and disability inequality.

3.2 THE IMPACT OF TAXES AND SOCIAL SPENDING ON POVERTY AND INEQUALITY

The means through which a government mobilizes resources to finance expenditure and the pattern of this expenditure affect the economic and social conditions of a country's residents differently. For instance, the mix of resource mobilization and benefit allocation has varying effects on different age-groups, income segments, gender, disability or regions.

There is a critical distinction between **regressive** and **progressive** taxation policies. A regressive taxation policy places a proportionately greater burden on the lower-income groups than on the higher-income groups relative to their consumption, income or assets. These policies are termed regressive as they are often worsening existing inequalities and/or are creating new ones. For example, people with disability are more likely to be living in poverty than people without disabilities, and so regressive tax policies are likely to worsen poverty and inequalities amongst this group. Progressive tax policies, on the other hand, put a higher proportional burden on wealthier individuals, which leads to more favourable distributional outcomes for lower-income groups in the sense of reducing inequities.[6]

Tax systems are primarily made up of:

- **Direct taxes** levied on incomes (such as personal income and corporate profit), property and wealth
- **Indirect taxes** levied on goods and services such as consumption taxes (general sales tax/value-added tax) and trade taxes (export taxes/import taxes or tariffs)

In many countries, the **direct tax system is designed to be progressive**, mostly through the use of progressive income taxes. It should be noted, however, that income taxes rarely account for higher income needs amongst people with disability to offset disability-related extra costs. Some countries, such as Kenya, waive income tax for people with disability, provided they earn under a given threshold.

6 In a progressive tax system, the average tax rate rises as an individual's taxable income increases so that people with higher incomes – be that wages, profits or interest earned - pay a higher percentage of their total income in tax than those with less income. The process of determining the total income tax starts with splitting the individual's income into several income ranges and applying different tax rates to the income bands. Income falling in each tax band is subject to a higher rate than the income in the preceding band, so that, on average, taxation increases from lower to higher income groups. This ensures that the tax burden on lower-income earning groups is lower than that of higher-income groups and therefore that taxes are more favourable to the poor than the wealthy.

Assessing the progressiveness or regressiveness of indirect taxes is more complicated. Indirect taxes often vary across different goods but are the same regardless of whoever buys a specific product. In contrast to many progressive direct taxes, indirect taxes do not take into account an individual's wealth. The question of whether indirect taxes are progressive or regressive – whether they place a higher relative burden on the rich or the poor – depends on the tax rates levied on certain goods and the income of those that consume them. If high taxes are levied on essential consumption goods such as rice or wheat, which are consumed by rich and poor alike, the indirect tax system can be considered regressive.

It is also important to consider gender and disability biases in different types of taxes to ultimately help eliminate these biases. Progressive tax approaches would include taxes on income, inheritance, property, and corporations. Increases in these direct taxes can increase gender and disability equity because men and people without disabilities are more likely to run a business and benefit from tax exemptions and also own and control more resources. Thus, fewer – or more targeted (e.g. income tax exemptions/subsidies for people with disability) – exemptions will reduce the relative tax burden on women and thus increase equity. Mainstreaming a gender and disability perspective into tax policy can improve the quality of public policy and help eliminate gender and disability biases (Joshi, 2017 and GIZ, 2010 as cited in Ortiz et al. 2019).

Sales taxes are considered regressive because the tax per good consumed is always the same regardless of income but the relative burden is higher for the poor than the rich, as the tax makes up a larger portion of their relatively small income. People with disability, who often have additional spending needs for disability-related goods and services, may be particularly impacted. Imagine a 10 per cent tax on rice, which is both consumed by the rich and poor. Such a tax system would be classified as regressive because the amount of taxes paid by the poor is relatively larger – compared to their income – than it is for the wealthy. In addition, the share of basic consumption goods relative to other household expenditures is much higher for lower-income groups, which further leads to the poor paying a disproportionally higher share of taxes.

However, indirect taxes can also be progressive if they increase the tax burden of higher-income individuals. Imposing relatively high taxes on luxury goods or non-essential foreign travel affects the rich much more than the poor and thus contributes to an increased tax burden for the former. Tax subsidies and exemptions on goods and services used predominantly by women (e.g. menstrual hygiene products) and people with disability (e.g. disability-related healthcare, assistive technology) can also improve equity.

In most cases, countries that rely heavily on indirect taxes tend to have a more regressive system than countries with fewer or lower indirect taxes. In environments with low savings rates or the potential for capital flight and tax evasion, consumption taxes are most likely to be effective, but also likely to be regressive. In 9 out of 25 countries with household survey data available for circa 2010, the net effect of all government taxing and spending was to leave the poor worse off in terms of actual consumption of private goods and services (Lustig 2016).

It is important to appreciate that the choices a policymaker faces between different tax strategies – for instance applying various degrees of progressiveness or regressiveness and determining the relative tax rates of basic consumption goods – have profound implications on a country's equity.

However, taxes are only half the story. To assess whether a country's fiscal stance is progressive or regressive, one not only has to analyse the revenue mobilization strategies but also examine the distributional effects of expenditures that are financed through tax revenues. Expenditure policies have obvious distributional implications as often limited resources are allocated in an environment of numerous competing demands. Expenditure policies can therefore likewise be progressive or regressive, depending on which income segment of a population receives disproportional amounts of government spending.

The fact that **both revenue mobilization policies and expenditure patterns can be progressive or regressive** implies that ultimately neither can be studied in isolation. To examine whether a country's fiscal position is beneficial for the poor and specific marginalized groups (e.g. women, and people with disability), one has to capture the combined impact of both taxation and spending policies (hence the importance of tax-benefit micro-simulation models mentioned above in Section 2.3.2.). Governments need to develop tools to understand the gender and disability impact of policies and expenditures. Many expenditures which don't have gender equality and disability inclusion as their primary objective can still be seen as contributing to gender equality, disability inclusion, and women and people with disability advancement (e.g., health and education expenditures) (IMF, 2017).

For instance, a regressive tax system based mostly on VATs may be the only way to finance strongly progressive expenditure, leading to an overall progressive fiscal policy (like in the case of South Africa). Another example is Ghana where indirect taxes are used to pay for subsidies for health coverage of the poor, hence the overall effect is progressive.

For an example of tax and benefit incidence analysis, see Box 20 further below.

3.3 GOVERNMENT REVENUE MOBILIZATION

3.3.1 Overview of revenue sources

There is a growing consensus that increasing the mobilization of domestic resources can enhance accountability, particularly if such efforts are explicitly linked to the provision of public goods. If policy makers need to depend on broad-based taxation—or indebtedness, which implies more taxation in the future—they are more likely to include citizens and elites in policy discussions and be accountable for decisions on government spending allocation. (World Bank, 2017, p.270)

The government relies on several sources of receipts (revenue) to finance its expenditures. The standard, internationally accepted, classification of government receipts and outlays (expenditure) is the one developed by IMF and its Government Finance Statistics (GFS – see IMF 2014).[7]

The main broad categories of revenue sources are:

- taxes (both direct and indirect), social security contributions (sometimes called payroll taxes)
- profits of public corporations
- revenues from natural resource extraction
- charges for services provided or user fees

For most countries, tax revenues are the biggest contribution to the budget. However, non-tax revenues, such as income from the sale of natural resources, can also be a significant source of revenue in certain countries such as Angola, Nigeria, Zambia, etc. Examples of other non-tax revenues are profits from public sector corporations and fees charged for services provided by the government, such as education and health care.

The excess of a government's total expenditures over its revenue receipts from tax and non-tax sources is the fiscal deficit. That deficit needs to be financed with capital receipts of various kinds, the bulk of which consists of incurred government debt. Sometimes, receipts from the sale of public assets also add to government resources. However, these are not revenues but capital receipts that are once-for-all or single-year inflows.

Table 6: Classification of budget receipts

BUDGET RECEIPTS	CAPITAL RECEIPTS
Taxes (direct and indirect)	Receipts from the sale of public assets
Social security contributions Profits of public sector corporations	Borrowing from the central bank
Revenue of natural resources extraction	Borrowing from the domestic market
Charges for services provided or user fees	Borrowing from abroad

Source: EFR & UNICEF, 2011

7 One has to stress that to get the full overview of the government fiscal position one has to take into account all the levels of government, that is consolidated accounts of so-called "general government" sector. Parts of general government sector are: central (budgetary) government, provincial or state governments, local governments, social security funds and other so-called extra-budgetary funds. Public corporations (financial – like central bank or provident funds, and non-financial like publicly owned enterprises) are not part of the general government, there are part of the wider public sector.

When aggregate government spending exceeds total revenues, governments finance this fiscal deficit with non-debt capital receipts (such as receipts from the sale of public assets) and by borrowing from various sources. While borrowing involves commitments to meet interest and repayment obligations in the future, the sale of government assets involves loss of income from retrenched assets.

To fill the gap between expenditure and revenues, governments can:

- Borrow from the central bank (this finances what is called the 'monetised deficit')
- Borrow from the domestic private market, usually by issuing government bonds (normally to banks)
- Borrow from abroad, from private or official sources

Loans from the World Bank, the International Monetary Fund (IMF) or bilateral donors are an important component of foreign borrowing in many developing and low-income countries. Governments can also obtain external aid or development assistance in the form of grants, which do not involve future interest or repayment commitments.

The following section will briefly discuss the characteristics, advantages and disadvantages of the most prominent tax instruments in the context of developing economies.

3.3.2 Value added tax

One of the most widely employed tax instruments worldwide is the Value Added Tax (VAT). In countries that have a VAT, a tax is levied at all stages of production and sale. Producers, however, are allowed to offset the tax they paid on their purchases of goods and services used as inputs against the tax they charge on their sales. The cumulative taxes charged at each stage are thus passed on to the final buyer or consumer, making the VAT less of a tax on value-added than on consumption (EFR & UNICEF, 2011).

According to the IMF, the VAT has established itself as a robust source of revenue, with signs that it has proved a relatively efficient instrument. It typically accounts for around one-quarter of all tax revenue and no country has ever removed a VAT without subsequently reintroducing it (Cottarelli, 2011).

While the general structure of the tax is fairly consistent around the world, there are several important variations that have significant effects on a country's economy. The IMF advises developing countries to introduce a VAT that is **broadly based, has a single rate and a fairly high threshold.** According to proponents, this will allow the tax to raise significant amounts of revenue in a way that does less harm to economic activity than alternatives, supports equity objectives and is relatively simple to administer and comply with (Cottarelli, 2011).

Most VAT systems allow for some exemptions. Financial services, government agencies, basic health and education expenditures, and basic foodstuffs are often exempted from the VAT or are taxed at a lower rate. Some of these exemptions are justified on **technical, others on political or distributional grounds.** A high VAT threshold is designed to exclude traders in the informal economy that have little revenue potential relative to the administration and compliance costs involved (Cottarelli, 2011).

As the **VAT is essentially a tax on consumption it tends to be regressive relative to an individual's income.** This regressive effect is often mitigated by the common exemption of sensitive food and other items as well as the threshold that excludes smaller and presumable less well-off traders from having to pass on the tax (Jenkins, Jenkins, and Kuo, 2006). In addition, the reach of the VAT is often limited in poorer rural regions relative to wealthier urban environments. Research finds that, depending on the implementation and context, a VAT tends to be generally mildly progressive or mildly regressive (Bird & Gendron, 2007; Cottarelli, 2011). However, when viewed from a gender lens, the regressive nature of VAT tends to hurt poor women disproportionately and women in particular because they are at a higher risk of poverty than men (Ortiz et al., 2019). People with disability are also more likely to be living in poverty and so disproportionately impacted. Further people with disability also must pay for additional disability-related goods and services, and in doing so incur additional VAT. In Kenya, goods that are required for use by people with disability – including motor vehicles – are exempt from VAT, import duty and other taxes, if the individual has an official certification of disability.

3.3.3 Personal income tax

Another important tax is the Personal Income Tax (PIT), which, as the name suggests, is a direct tax on an individual's income. The PIT varies greatly by jurisdiction but is generally calculated by multiplying the tax rate with the taxable income. In progressive tax systems, tax rates rise with an individual's income, meaning that those with higher income are subject to a higher tax rate (Cottarelli, 2011). Because men tend to earn more income than women, taxes on PIT tend to increase gender equity in taxation. Similarly, people with disability also tend to earn less compared to people without disabilities, which could lead to decreased inequality. However, income tax brackets rarely account for the additional consumption needs of people with disability.

Revenue collected through the PIT is low and stagnant in most developing countries and often comes almost entirely from wage withholding on large enterprises and public sector employees (Cottarelli, 2011). Compared to developed economies the PIT in developing countries raises considerably lower revenues as a percentage of GDP. Since the 1980s, the PIT has raised around 1–3 per cent of GDP in developing countries, compared to 9–11 per cent in developed countries (Peter, Buttrick & Duncan 2010). In developing countries, less than 5 per cent of the population pay PIT (compared to nearly 50 per cent in developed countries), and only about 15 per cent of income is reached (compared to 57 per cent) (Cottarelli, 2011).

Tax evasion and avoidance by mostly high-income individuals through tax preferences and the use of low-tax jurisdictions reduce PIT revenues in developed and developing countries alike. Some of these evasion and avoidance activities are purely domestic (concealing income, exploiting preferential treatments) and others are international (not declaring income from abroad). While the exact loss for government revenue is understandably hard to quantify, one estimate assumes that annually about $50 billion of tax revenue is foregone in developing countries. In addition to reducing the scope for government expenditure, the failure of elites to pay a fair share of taxes undermines support for the wider tax system. One way to improve tax morale amongst a country's elite is to dedicate units within the tax administration to high-income/wealthy individuals, providing a focus for enforcement efforts (Cottarelli, 2011). Increasing enforcement of PIT can increase gender and disability equity in taxation by reducing the relative tax burden on women and people with disability. Similarly, income tax exemptions and subsidies for people with disability can be a mechanism through which to offset disability-related costs.

3.3.4 Corporate income tax

Corporate Income Taxes (CIT), like the PIT, are taxes on income earned, in this case by a corporation. CIT tend to play a larger role in the tax mix of developing economies than in advanced economies and faces significant pressure from the forces of globalization. CITs are responsible for 17 per cent of all tax revenues in developing countries, compared to about 10 per cent in the OECD. Statutory CIT rates have sharply declined worldwide but remain somewhat higher in low-income countries (Cottarelli, 2011). Reducing certain tax exemptions can increase gender and disability equity in taxation, as men and people without disabilities are more likely to benefit from these than women and people with disability. Thus, reductions in exemptions reduce the relative tax burden on women and people with disability. Reducing illicit financial flows and corruption in corrupt corporate taxation can also increase gender equity in taxation (because men tend to control more resources, businesses, and corporations) and simultaneously increase fiscal space to invest in social programmes like social protection which can reduce gender inequalities. Some tax exemptions or additional taxes however may support the inclusion of people with disability. For example, countries such as Kenya and Bangladesh have tax breaks or fines to companies that meet or fail to meet national disability quota requirements – although enforcement is often lacking. Similarly, tax incentives can be given to corporations providing reasonable accommodations in the workplace.

3.3.5 Excise tax

Excise taxes are levied only on some key products and while their importance varies greatly across regions, they can be a significant source of income for governments. Excise taxes play a more important role in Asia compared to sub-Saharan Africa and Middle Eastern and Central Asia (Cottarelli, 2011).

The idea behind excise taxes is that they enable governments to raise revenues while pursuing wider social goals as well as improve equity. Excise taxes are often levied on luxury goods such as jewellery or perfume, which are almost entirely consumed by the wealthy. However, taxes on luxury goods tend to raise limited amounts of revenues and are often more of symbolic value. The largest portion of excise tax revenue comes from taxes levied on fuels, tobacco, alcohol, cars and, increasingly, mobile phones. The rationale for these charges is not only to tap the revenue potential of a relatively inelastic and readily identifiable base but, to varying degrees, to change behaviour (Cottarelli, 2011). Still, some products deemed luxury products may be essential for people with disability: for example, smartphones have accessibility features that greatly improve communication for many people with disability, while purchasing a car may be more cost effective for some people with mobility limitations, particularly when public transportation is not accessible.

3.3.6 Real estate tax

Real estate taxes are taxes that can be an efficient and equitable way for governments to raise revenues and are particularly suitable for local governments. The location-specific nature of real estate taxes provides a relatively immobile tax base, making it much less vulnerable to tax competition or evasion than other taxes. Such taxes are considered progressive based on the strong positive correlations between property ownership, income and wealth (Cottarelli, 2011). Real estate taxes can also increase gender and disability equity in taxation, as men and people without disabilities are more likely to own real estate than women and people without disabilities. Thus, increases in real estate taxes reduce the relative tax burden on women and people with disabilities"

The total revenue potential is modest in both absolute terms and in relation to other tax instruments, however, such taxes can be a significant source of income for local governments. Real estate taxes in developing countries often yield less than 0.1 per cent of GDP and only in a few countries the percentage is higher than 0.5 per cent (Bolivia, Cape Verde, Honduras and Kazakhstan). However, **such levies can represent more than half of total local government revenues** (Armenia, Lesotho and Peru). Therefore, many conclude that real estate taxes can play only a minor role in strengthening national revenues but have considerable potential in improving the provision of local government services as well as the governance and accountability of local governments (Cottarelli, 2011)

Box 11: What are non-tax revenues?

In addition to the revenues raised through various taxes, non-tax revenues can be a significant source of income. The most prominent non-tax revenues are the revenues from the sale of national resources and user fees. User fees are charged for services provided by the state, such as health care, education or water supply. While such charges have traditionally been kept low or set at zero in many developing countries they have increased since the 1980s. It is important to keep in mind that increases in user charges, which often come with privatisation of utility providers, have the potential of resulting in a reduction in the use of important services by low-income households (EFR & UNICEF, 2011).

Revenues from the sale of national resources are another important non-tax revenue. Worryingly, there are strong signs that oil revenues reduce efforts of domestic taxation. Bornhorst et al. (2009) find that an increase in hydrocarbon revenues of $1 displaces about $0.20 of non-hydrocarbon tax revenue. Results for sub-Saharan Africa suggest a similar effect for all forms of resource wealth (Cottarelli, 2011).

Source: Mettler (2011)

3.4 GRANTS - ROLE AND LIMITS OF FOREIGN ASSISTANCE

In addition to domestic resource mobilization and various forms of borrowing, foreign aid can be an important source of finance for developing countries. While there has been a decline in foreign aid over the last two decades in terms of overall capital flows and as a percentage of gross domestic product (GDP) and investment, foreign assistance remains a significant contribution to most low-income countries and helps finance a large portion of total government expenditure. Essentially, access to external assistance enables governments to spend more, tax less, or borrow less.

The percentage of official development assistance (ODA) relative to a country's gross national income (GNI) varies considerably amongst low-income countries but has generally declined over the last two decades.[8] However it is important to note that the percentage of social sectors in ODA has risen.

Foreign assistance can play an important role for foreign exchange constraints in developing countries and add to domestic savings, thereby allowing governments and the private sector to increase their investments. In addition, **foreign assistance permits greater expenditure in social sectors such as health, education and social protection than some countries could afford on their own.** These donor-supported investments are considered to have positive productivity and growth implications over the long term. Furthermore, foreign assistance often helps finance much-needed imports and runs a deficit in the trade and current accounts.

The empirical evidence on whether foreign assistance through grants or loans replaces domestic revenues is inconclusive. While some researchers find evidence that grants, especially in countries with high levels of corruption, do replace domestic resources, others stress the diversity of country experiences and empirical results (Moss et al., 2006). Interestingly, the mode of assistance seems to matter as evidence indicates that loans, unlike grants, tend to strengthen domestic revenue collection (Gupta et al., 2004).

There is an increasing recognition amongst researchers and policymakers that the degree to which development assistance is integrated into nationally owned development strategies is key in determining the success of assistance. Traditionally, and to a large extent still, donors have provided aid on a project basis rather than supporting governments directly. Given the large number of donors operating in many developing countries, this tends to create several problems for governments.

- Each multilateral and bilateral development agency comes with **different procedures and mechanisms** to identify, plan, implement, monitor and evaluate its activities and different reporting requirements. Dealing with the various agencies' procedural requirements consumes time and resources from recipient country government officials. Efforts are being made through UN joint programmes (at the country level) to coordinate efforts while leveraging the expertise of various implementing UN agencies to support governments in accomplishing targets. Through joint programmes, UN agencies support the advancement of national strategies and policy frameworks in the country through steering and technical committees and working groups. Daily operational and programmatic coordination may be managed by a Joint Coordination Unit, comprised of members from each participating UN agency and the Resident Coordinator's Office.
- Each donor implements programmes based on its **own policy priorities**, which at times contradict those of other donors or those of the government. As a result, governments in low-income countries often find themselves in the middle of inconsistent policy reforms.
- Implementing agencies sometimes take a **joint-but-piecemeal approach**, splitting areas of intervention among themselves, regardless of the magnitude and reliability of their assistance, which can leave countries with unbalanced support in different areas. For instance, one donor may support the health sector, whereas another funds activities in the education sector. A similar situation of unequal support can emerge when donors allocate their support based on geographic areas or administrative units.
- Each donor has their **own disbursement process and funding cycles,** which sometimes do not match the budget cycles of the recipient development country. Unreliable disbursements and delayed or discontinued funds often further complicate matters for developing counties' governments.

Recognizing these challenges and the inefficiencies created by a lack of coordination, the OECD launched an initiative on Aid Harmonization and Alignment in 2003. Further, the donor community developed innovative processes to harmonize financial support towards low-income countries, such as General Budget Support (GBS) and Sector Wide Approaches (SWAps), which are coordinated at the national level and are delivered through national budgets.

8 World Bank. Net ODA received (% of GNI). http://data.worldbank.org/indicator/DT.ODA.ODAT.GN.ZS

Box 12: Towards an Integrated Donor Financing Mechanisms for Social Assistance in Malawi

The implementation of the National Social Support Programme (NSSP) in Malawi remains fragmented with limited programmatic or financial coordination within or between five programme areas, and little coordination between national and district levels. Whilst some programmes are more coordinated and some stakeholders more aligned than others, reporting structures for financial and programmatic accountability are not systematic, which undermines efforts to assess the sector's performance or to coordinate activities. None of the five programmes within the NSSP currently has a single, harmonised approach to fund management by its donors, largely due to the varying appetite for risk. District Councils in particular are burdened by the multiple funding mechanisms and related management and reporting requirements. There is widespread recognition among government and non-government stakeholders that addressing programmatic and financial coordination weaknesses, as well as fiduciary risk, could provide the required building blocks for a Social Support Fund in the medium term, which would help achieve:

1. Harmonisation and strategic alignment of activities to government policy
2. Predictability in resource flows
3. Flexibility in implementation (within an agreed framework)
4. Coordination and subsequent reduction in transaction costs

Source: Mettler (2011)

Box 12: Continued

In addition, it would enable stronger government leadership through good quality, up to date information on programmatic and financial activities under each line ministry. It would also reduce the burden on districts to deliver financial accountability and manage funds and create an incentive for joint management of essential programmatic monitoring tools. A feasibility assessment for the introduction of a social support fund in Malawi concluded that whilst a common funding mechanism is not considered immediately feasible, common auditing and financial management mechanisms, could harmonise financing within programmes, whilst providing donors with sufficient protection from fiduciary risk.

In the medium to long term, depending on the GoM's progress towards lowering fiduciary risk in particular, the following key concerns were highlighted in the feasibility study:

- **Any fund should aim to be on the budget,** regardless of whether it is in the treasury. This will help develop government responsibility and accountability to citizens, as well as contribute towards more predictability in resource flows and harmonisation of activities to GoM policy.
- It may be most practical and achievable to:
  a) develop the fund initially for one or two programmes which are strongly coordinated (regular, well-attended meetings, producing actionable information and ensuring adherence to policy)
  b) have clear and systematic targeting, based on Government policy
  c) have reliable monitoring systems (ideally based on timely data for individually identifiable recipients, harmonised between programmes)
  d) have active participants of the Financial Coordination Forum, with joint work plans and budgets
- **Learning from pooled funds in similar contexts, and recent examples in Malawi, it will be essential to have effective management of fiduciary risk.** This may be delivered through:
  a) the expansion of an existing model (from within one of the programmes)
  b) a new fund with a contracted monitoring/fiduciary agent to ensure timely accountability for and disbursement of funds
  c) the use of an existing fund, possibly still with a monitoring agent for NSSP funds
- **At the District level, efforts should be made by NSSP donors to harmonise financial and programme monitoring in order to limit the reporting burden** and encourage capacity building
- **The fund should not be housed in a line ministry responsible for any single NSSP programme.** This option would not be viable for donors due to fiduciary risk and would likely create tensions between line ministries.

Source: Government of Malawi, (2016)

3.5 RESOURCE MOBILIZATION TO CREATE FISCAL SPACE FOR SOCIAL PROTECTION

As in spending decisions, there is a similar disparity in how governments raise resources for social and economic development. Many countries have succeeded in mobilizing significant resources for public investments during downturns. By utilizing all possible options to maximize fiscal space, these countries have achieved a virtuous circle of sustained growth which, in turn, generates further resources. They serve as inspiring examples to others who have been trapped in limited fiscal space, low social spending and weak economic growth.

The uniqueness of each country requires that fiscal space options are carefully examined at the national level and alternatives fully explored in a social dialogue. Most countries adopt a mix of fiscal space policies, usually selected from the combination of the eight options that are available to governments to generate additional resources for social protection, as summarized below:

- **Re-allocating public expenditures:** This is the most orthodox option, which includes assessing ongoing budget allocations through Public Expenditure Reviews (PERs) and other types of thematic budget analyses, replacing high-cost, low-impact investments with those with larger socio-economic impacts, eliminating spending inefficiencies and/or tackling corruption. It is important to consider reallocations through a gender and disability lens and ensure that cuts made to programmes to increase fiscal space for social protection do not disproportionately affect women and girls or people with disability.
- **Increasing tax revenue:** This is a main channel achieved by altering different types of tax rates e.g. on consumption, corporate profits, financial activities, personal income, property, imports or exports, natural resource extraction, etc. or by strengthening the efficiency of tax collection methods and overall compliance.
- **Expanding social security coverage and contributory revenues:** In existing social security systems, increasing coverage – and therefore the collection of contributions – is a reliable way to finance social protection, freeing fiscal space for other social expenditures. Social protection benefits linked to employment-based contributions also encourage the formalization of the informal economy. Moreover, expanding social insurance to the informal sector would have positive benefits for women and people with disability.
- **Lobbying for aid and transfers:** This requires either engaging with different donor governments or international organizations in order to ramp up North-South or South-South transfers.
- **Eliminating illicit financial flows:** Given the vast amount of resources that illegally escape developing countries each year – estimated at ten times the total aid received – policymakers should crack down on money laundering, bribery, tax evasion, trade mispricing and other financial crimes that deprive governments of revenues needed for social and economic development.
- Using fiscal and central bank foreign exchange reserves: This includes drawing down fiscal savings and other state revenues stored in special funds, such as sovereign wealth funds, and/or using excess foreign exchange reserves in the central bank for domestic and regional development.
- **Borrowing or restructuring existing debt:** This involves active exploration of domestic and foreign borrowing options at low cost, including concessional debt, after a careful assessment of debt sustainability. For countries under high debt distress, restructuring existing debt may be possible and justifiable if the legitimacy of the debt is questionable and/or the opportunity cost in terms of worsening deprivations of vulnerable groups is high.
- **Adopting a more accommodating macroeconomic framework:** This entails allowing for higher budget deficit paths and higher levels of inflation without jeopardizing macroeconomic stability.

3.5.1 Reprioritizing public spending

Rethinking sector-specific allocations within existing budgets is one strategy to increase social expenditures. The re-prioritization of public spending is usually a **contentious and therefore difficult** approach. To be successful, there must be **strong political will and a focus on feasibility.** Opposition to restructuring comes obviously from the fact that no extra resources are considered available and, therefore, other sectors or subsectors must be reduced to allow for increased social investments—these sectors often represent important vested interests in a country. In other words, this approach presumes that the overall budget is fixed and changes in its structure must obey the rules of a zero-sum game.

The literature on public choice and public finance describes how different interest groups within and outside of government compete to influence public policies and budget allocations (e.g. Buchanan and Musgrave 1999). Very often, both in developed and developing countries, the debate is manipulated by **vested interests and/or ideological posturing** – for instance arguing that social expenditures are causing unmanageable deficits while not mentioning military or other non-productive expenditures that are much larger. Various studies have highlighted the risks of pro-poor budget items being the most affected during fiscal consolidation and adjustment processes (e.g. Cornia et al. 1987, Hicks 1991, ILO 2014, Ortiz and Cummins 2013, Ravallion 2002, 2004 and 2006).

Still, there are ways of prioritizing socially-responsive expenditures even when overall budgets are contracting. This re-prioritization requires, first and foremost, that governments have their budget priorities in place. The political and technical challenges of identifying sectors/subsectors that can be reduced to promote fiscal space can be overcome in case of political agreement on the following strategies (see Ortiz 2008a, Scholz et al 2000, for further details):

- **Re-prioritizing through Public Expenditure Reviews (PERs) and Social Budgets.** These are well-developed approaches to public financial management that bring evidence and rationality to public policy-making by showing the impacts of current budgetary allocations.
- **Replacing high-cost, low-impact investments.** New public investments can be re-examined; for example, the social impacts of many large infrastructure projects or the rescue of banking systems tend to be limited but require large amounts of public resources. Budget items with large recurrent costs but small social impacts should also be reconsidered. For example, Costa Rica and Thailand reduced military spending to finance needed social investments. Social dialogue that includes relevant stakeholders and public debates is one strategic tool to replace high-cost and low-impact interventions. Social dialogues can help to minimize the possible influence of powerful lobbying groups on public policy-making.
- **Eliminating inefficiencies.** Although linked to the previous point, a deeper analysis of sector investments is required to eliminate inefficiencies. The overall cost-efficiency of a specific programme should be impartially evaluated according to various factors, including: (i) coverage (recipients and benefits); (ii) total cost (as a percentage of GDP, public expenditure and sector expenditure); (iii) administrative costs (as a percentage of total costs and how the costs compare with other programmes; (iv) long-term social benefits and positive externalities; and (v) opportunity cost (how this policy/programme compares to alternatives).
- **Fighting corruption.** Estimated at more than 5 per cent of global GDP (US$ 2.6 trillion), corruption can also be a significant hindrance to fiscal space for socioeconomic development. The African Union estimates that 25 per cent of the GDP of African states, amounting to US$148 billion, is lost to corruption every year. Strengthening transparency and good governance practices, as well as fighting illicit financial flows (see later section) can increase the availability of resources for social and economic development.

Nonetheless, while reducing inefficiencies is the most commonly used strategy since it avoids political tensions, expenditure reforms take time to advance and are unlikely to yield significant, immediate resources. While the re-prioritization of public sector spending may be a good starting point to expand fiscal space, other options should also be examined.

Box 13: Thailand: Reallocating military expenditures for universal social protection

The 1997 Asian financial crisis severely hit the Thai economy and society. With the backing of the 1997 Constitution, civil society calls to address neglected social policies led the government to adopt the Universal Health Care Scheme in 2001. Given that approximately a third of the population was excluded from health coverage at that time – most of which belonged to the informal agricultural sector without regular income – achieving universal coverage through contributory schemes alone was not possible, it needed budget support. Most of the improvements in public health were financed through reduced spending on defense (from around 25 per cent of total expenditures in the 1970s to 15 per cent during the 2000s) and lower debt service payments. The government included the Universal Health Care Scheme as part of a more general fiscal stimulus plan, other measures increased the amount of money in the hands of people with a high propensity to spend, including the creation of a People's Bank, a debt moratorium for farmers and a village fund.

Source: Government of Malawi, (2016)

Box 14: Egypt: Reviewing Budget Priorities at the Economic Justice Unit of the Ministry of Finance

After the Arab Spring, an Economic Justice Unit was created at the Ministry of Finance, led by a Deputy Minister of Finance. The mission of the Economic Justice Unit is equitable fiscal policy. The unit reviews budget priorities, attending to three moral principles (participation, distribution, and redistribution) balanced with the 4 E's (economy, efficiency, effectiveness and equity). One of the main measures after the Arab Spring was the adoption of the minimum wage for government employees – ten per cent of which are considered poor. Tax avoidance is considered a major source of social injustice in Egypt and the Economic Justice Unit supports increasing tax collection while improving public services, so that taxpayers feel a return from the use of these services. Social justice is not considered to be only about helping the poor, but about providing good universal services to everybody, including the middle classes that are very low income in a country like Egypt.

Source: American University in Cairo 2014 and Ministry of Finance of Egypt

3.5.2 Increasing tax revenues

Increasing tax compliance and/or raising tax rates are potential strategies to mobilize additional public resources without necessarily sacrificing other spending priorities. However, new taxes improve government revenues only when they are well-designed and executed.

In recent history, increasing progressive taxation from the richest income groups to finance social and pro-poor investments has been uncommon. Pressure from globalization processes and liberalization policies led many countries to offer tax breaks and subsidies to attract foreign capital, as well as to scale back income taxes applied to wealthier groups and businesses to further encourage domestic investment. As a result, a large number of governments rely too heavily on value-added taxes (VATs) for revenues, which tend to weigh most heavily on the poor since they spend a higher share of their income on basic goods and services. In light of this reality, distributional impacts must be at the forefront of tax policy discussions—across income groups, regions and others.

Efforts are being undertaken in developed as well as developing countries to **close loopholes**, develop **collection capacities and broaden the tax base**, including cracking down on c**orporate tax evasion**, which has been estimated to result in annual revenue losses of US$189 billion for developing countries as a whole (Christian Aid 2008).

Increasing business taxes is another possible strategy to generate additional fiscal revenues. Developing countries across all regions except Latin America have decreased commercial tax rates between 2005 and 2014. The logic behind lowering corporate taxes, related license costs, and fees was to encourage entrepreneurial risk-taking and generate new economic activity. However, the potential trade-off needs to be carefully balanced, to ensure that the short-term gains from increased business activity do not come at the expense of foregone essential investments for human and economic development. Increasing business taxes may also increase gender equity in taxation because men tend to control more resources and are more likely to own businesses. Thus, increasing these taxes can reduce the relative tax burden on women.

Different financial sector tax schemes may offer another possible revenue stream to increase social investments, provided that their impact on financial sector development is carefully evaluated. Many countries are considering special taxes on the profits and remuneration of financial institutions. For instance, Argentina operates a 0.6 per cent tax on purchases and sales of equity shares and bonds, which, in 2009 accounted for more than ten per cent of overall tax revenue for the central government (Beitler 2010).

At the international level, it has been estimated that applying a 0.005 per cent single-currency transaction tax on all four major currencies could yield up to US$33.0 billion per year for developing country assistance. And if applied more broadly to cover all financial transactions globally, a 0.01 per cent tax could raise over US$1.0 trillion annually (Leading Group on Innovating Financing for Development 2010).

In addition to altering corporate tax rates, governments can also increase fiscal space by taking concerted actions to minimize **tax evasion and/or aggressive avoidance of taxes on the part of large companies.**

Box 15: Brazil: A financial transaction tax to finance public health and social protection

The Contribuição "Provisória" por Movimentação Financeira (CPMF) tax was levied in Brazil from 1997 to 2007. The contribution took the form of deductions from accounts held by financial institutions. The maximum value of the CPMF quota reached 0.38 per cent of the value of financial transactions. For accounting purposes and because the CPMF was designed mainly to finance social protection expenditure, the mechanism was classified as a "social contribution." During the period in which the tax was applied, 42 per cent of the revenue collected was used for the public unified health system, 21 per cent for social insurance, 21 per cent for Bolsa Família and 16 per cent for other social purposes. By 2007, total revenue from CPMF amounted to 1.4 per cent of GDP, enough to cover the total cost of Bolsa Família and other non-contributory social protection programmes. Although pressures from the financial sector led to its rescinding in 2007, a financial transaction tax was reinstated in 2009 at much higher levels (6 per cent) in order to help curb liquidity in international markets and fast capital inflows/outflows that disrupted Brazil's development. It was repealed once again in 2013, after leaving significant resources to the Brazilian government to implement social policies, a reason driving the ongoing calls from civil society to adopt financial transaction taxes as part of social justice.

Source: Duran-Valverde and Pacheco (2012)

3.5.3 Natural resource extraction taxes

Developing countries that rely on non-renewable natural resources as a main source of wealth should consider ways of distributing effectively and equitably the mineral rent to the society to support social and economic development initiatives. There are also significant environmental and social externalities associated with natural resources, such as the impacts on local communities, which, if not adequately addressed, serve as a subsidy to extracting companies and further distort the true cost of development.

While Norway's approach of taxing oil profits and storing the revenues in the Petroleum Fund (now called the Government Pension Fund Global) is perhaps the best-known case, developing countries offer several innovative examples of channelling natural resource revenue streams for social development. In Peru, for example, the government recently expanded taxes levied on the mining sector and the proceeds are being invested into health and education programmes. The government is aware of the fact that the amount can vary substantially every year, because of mineral prices, operational costs and production levels. In Mongolia the **country is financing a universal rights-based child benefit from taxation on copper exports;** when copper prices dropped with falling demand in 2009, Mongolia was advised by international financial institutions **to retarget the finances of its universal child benefit,** but the government refused to do so and it was a correct decision as in 2010/11 copper prices rose again.

Given the volatile nature of primary commodity prices, some governments have created "stabilization funds" based on windfall taxes. Instead of spending the revenue on social and other development programmes, governments have accumulated such funds because they allow for smoothing income and expenditure, keeping savings over the years for "rainy days" when prices of commodity exports are lower, and hence ensuring that investments in social and economic development remain constant. Chile's Copper Stabilization Fund, Iran's Oil Stabilization Fund and Papua New Guinea's Mineral Resources Stabilization Fund stand as examples. During the recent economic downturn, several countries have accessed these "rainy day" funds to finance stimulus measures and increase social protection.

In many countries, however, the private sector takes the lead in exploiting natural resources. In these situations, **the state is indirectly included in the rents since it receives a portion via taxes.** This can include:

i. production-based taxation (per unit or ad valorem royalties, sales taxes, export and import duties, VAT, payroll tax, stamp duty, etc.)

ii. profit-based taxation (corporate income tax, resource rent taxes, taxes on windfalls, profit tax on dividends, royalty based on profit, etc.)

iii. environmental taxes to compensate for negative environmental externalities caused by the activities of mining companies

Box 16: Using natural resources for social protection financing

Given the 'sticky' nature of public spending – that is, only a very small percentage of the budget gets reallocated to new policy initiatives from year to year – revenues from recent discoveries of natural resources are a great opportunity for the expansion of social protection interventions. In a recent International Monetary Fund (IMF) working paper, Deléchat,

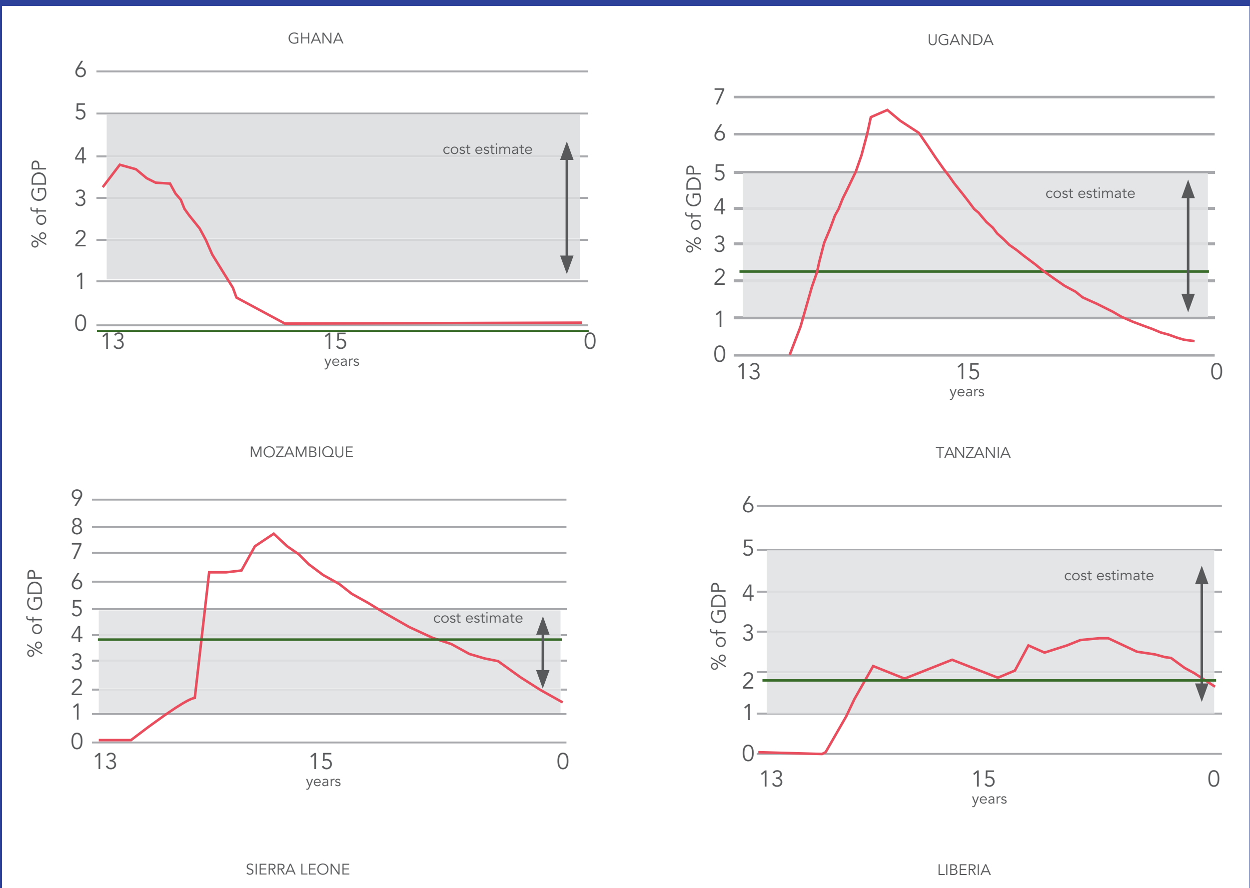
C. et al. (2015) conclude that in two of this research's sample countries (Liberia and Sierra Leone) and two others (Côte d'Ivoire and Guinea), it is feasible for a fraction of new natural resources revenues to be used to expand social safety nets.

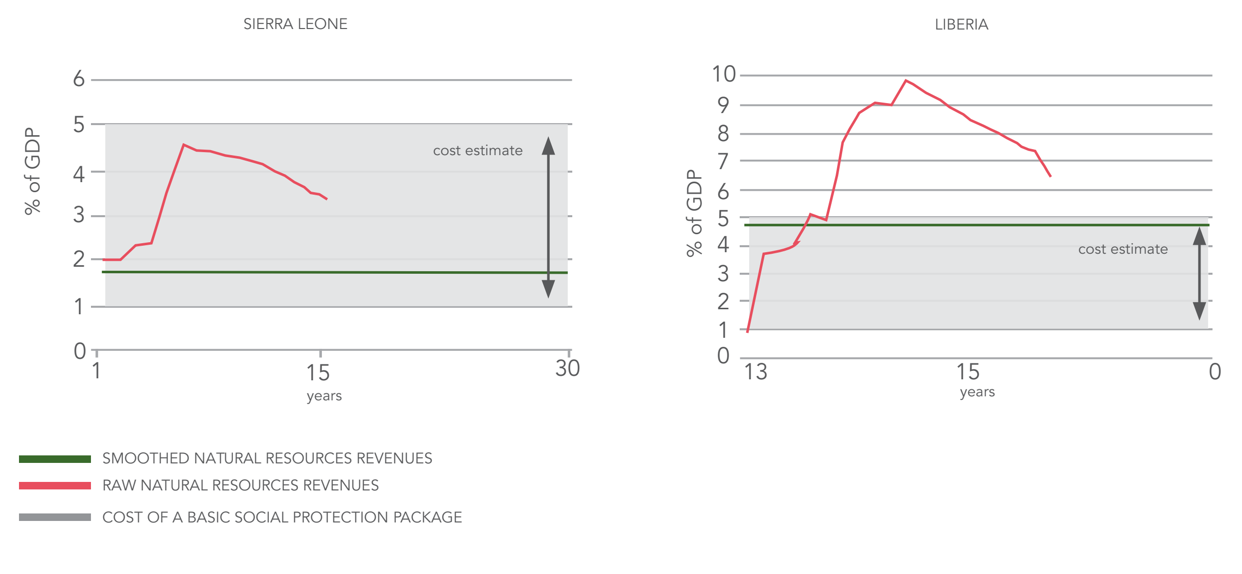
Nevertheless, social assistance systems require governments to enter into recurrent long-term commitments that can be politically very difficult to reverse (see below) and therefore require ongoing fiscal space in future years.

It is clear that in order to finance social assistance systems with natural resources revenues, one real challenge will be for countries to ensure a stable flow of revenue year after year. Sound macroeconomic management will have to address both the bell shaped curve of the revenues and short-term fluctuations in prices.

Recent estimates for a number of countries in Sub-Saharan Africa show that if smoothed over 30 years, new natural resources revenues are projected to fall in the same ballpark as the cost of a basic social protection package – in the region of 1 to 5 per cent of gross domestic product (GDP) (see Figure below). It is not suggested that it would be realistic to use all revenues for social protection – and governments need to be aware that once social protection schemes are set up they are politically difficult to reverse if money becomes tight. Nevertheless, there is a scope to use smoothed revenues to cover scale-up costs, and even some recurrent costs, while other funding sources are found.

Figure 15: How do natural resources revenues compare to basic social assistance packages?





Source: Barca et. al (2015), How to use natural resource revenues to enhance demand for public services through social protection, Flagship Report for the Gates Foundation (available at: : www.NaturalResourcesForHumanDev.org)

Table 7: Other taxes

PROPERTY AND INHERITANCE TAXES	In many developing countries, higher property taxes could transform into a robust source of fundingfor local governments. For example, a 2.5 per cent property tax in Thailand has been estimated to be able to finance all local government spending (Hall 2010:41). Campaigns for land taxes have surfaced in many developing countries recently. In Latvia, for instance, a group of economists and other activists argued for the introduction of a land tax as an alternative to deep public spending cuts (Strazds 2010), and there are similar discussions in parts of Southern Africa.
AIRLINE AND HOTEL TAXES, TAXES ON TOURISM	Many developing countries have recently increased taxes charged at airports or on the sale of airlinetickets. As demonstrated in recent IMF country reports, this has been most commonly observed in small island states, like Antigua and Barbuda and the Maldives, as well as in emerging tourist destinations, such as Dubai, Ghana and Liberia—the latter of which increased taxes on airlines and hotels by 3.0 per cent in the 2012 fiscal year. Several countries have implemented an air ticket solidarity levy that is charged to all passengers taking off from their national airports.
INTERNATIONAL TRANSPORTATION TAXES	Taxing fuel emissions for cargo transports could raise between US$2.0-19.0 billion a year in maritimereceipts and US$1.0-6.0 billion a year in aviation receipts (Institute for Policy Studies 2011).
EARMARKED TAXES LINKING TAXES TO SOCIAL PROGRAMMES	Ghana has also introduced links between taxes and public services: 2.5 per cent of the VAT is reserved for education, another 2.5 per cent of the VAT is allocated to social health insurance, and 20 per cent of a communication service tax is directed to a national youth employment scheme (Hall2010:40-41).

Table 7: Continued

REMITTANCETAXES	Remittances were subjected to a 0.004 and 0.1 per cent tax rate in Colombia and Peru, respectively. A 12 per cent VAT was applied to remittances in Ecuador. Georgia and Poland imposed income tax rates on remittance inflows. In the Philippines, banks deducted withholding taxes for interest earned on deposited remittances (de Luna Martinez 2006). However, a wide body of literature suggests that lowering transaction costs and even subsidizing remittances may do more social good than taxing inflows and directing the revenue to specific development uses. Developing countries should look to other options to create fiscal space before considering remittance taxes.
CARBON TAXES	Charging a flat fee for every ton of CO2 emitted could lead to up to US$10.0 billion a year in development financing (Institute for Policy Studies 2011).
ARMS TRADETAXES	A 10 per cent tax on international arms trade could accrue up to US$5.0 billion annually in newdevelopment revenue (WHO 2009b).
NATIONAL LOTTERY	National lotteries fundraise billions of dollars annually, examples include China's Welfare lottery, Italy's Lottomatica, Brazil's Caixa Econômica Federal, Ghana's National Lottery Authority, Mexico's Lotería National para la Asistencia Pública, Morocco's La Marocaine des Jeux, Spain's ONCE (National Organization of the Blind).
IMPORT/EXPORT TARIFFS	For countries undergoing export-driven commodity booms, fiscal space could be enhanced for socialinvestments by introducing or raising export tariffs. To highlight the overall potential of commodity export taxes, a 2-5 per cent tax on oil exports from the nine largest petroleum-exporting developing countries could generate anywhere from US$10 billion to US$26 billion in additional resources to support economic and social investments in 2016.

Source: Ortiz et al (2015)

Regardless of the type of tax enacted, the distributional effects of taxes should be analysed to understand the differential burden on different sub-populations, including women and people with disability. If unintended consequences are revealed, governments should supplement these tax policy changes with complementary programming for the affected groups. These complementary efforts could include maternity cash transfers or other cash transfers directed towards women, as illustrated in the fuel subsidy removal case study from Nigeria.

3.5.4 Fighting illicit financial flows

In addition to legal financial flows, curtailing Illicit Financial Flows (IFFs) could also free up additional resources for critical economic and social investments in many developing countries. IFFs involve capital that is illegally earned, transferred or utilized and include among other things, traded goods that are mispriced to avoid higher tariffs, wealth funnelled to offshore accounts to evade income taxes and unreported movements of cash. Almost US$1 trillion in IFFs are estimated to have moved out of developing countries in 2012, mostly through trade mispricing. Nearly two-thirds end up in developed countries (Kar et al. 2010).

Overall, **the average annual outflow of illicit capital is estimated to surpass the GDP of 30 developing countries** a truly staggering amount. Moreover, as of 2012, IFFs amounted to almost ten times the total aid received by developing countries. To put this in perspective, the net effect would be that for every dollar that developing countries receive in ODA, they are giving back about seven dollars to wealthy countries via illicit outflows.

Tax evasion, money laundering, bribery, trade mispricing and other financial crimes are illegal and deprive governments of revenues needed for social and economic development. To limit IFFs, there are several broad areas that policymakers can focus on, which include:

- **Curtailing trade mispricing:** This can be achieved through strengthening legal institutions and attacking corruption, while, at the same time, empowering regulatory agencies to exercise adequate oversight over the financial system, the customs authorities, multinational and domestic companies, and the collection of direct and indirect taxes. Here, one concrete policy goal is to ensure that customs officials can effectively check the declared price of goods being transacted against international benchmark prices.
- **Reducing bribery in public contracts:** To this end, policy measures should focus on enhancing the transparency and accountability of contracting processes according to international best practices.
- **Reducing tax evasion**: At the national level, efforts must aim to widen the tax base and maximize compliance while also reducing indirect taxes. At the international level, a consensus is needed to counter tax havens and forge global tax cooperation (see OECD's Centre for Tax Policy and Administration and Kar 2011 for a detailed discussion on policy options).

Box 17: Combating illicit financial flows

Some of the prominent problems at the national and regional levels in terms of combatting illicit flows are:

- The lack of adequate regulatory frameworks
- The lack of information and telecommunication facilities, transportation and other relevant infrastructure
- The lack of adequate funding and reliance on unpredictable foreign assistance
- The shortage of technical and human capacity to deal with crime perpetuated by sophisticated companies and individuals
- The involvement in corruption of top government officials operating at different levels of governance
- The perception of citizens of resource-rich countries that resource rents are free for all to harvest if given the opportunity

Source: http://www.uneca.org/sites/default/files/PublicationFiles/iff_main_report_26feb_en.pdf

3.4.5 Expanding social security coverage and contributory revenues

Expanding social security coverage and contributory revenues can increase fiscal space for social protection and expand effective coverage of social protection. Encouraging more individuals or companies to enter the formal sector through formalization creates a virtuous cycle, where governments can collect more taxes and social contributions, leading to the creation of more fiscal space (Ortiz et al., 2019). This can improve gender equality when the types of businesses encouraged to formalize tend to be more female or minority-owned (See example from Brazil's Simples Monotax in Box 18). Similarly, people with disability are often overrepresented in self-employment in the informal sector, and so could benefit from formalization efforts.

Box 17: Combating illicit financial flows

The Simples Programme in Brazil is a Monotax, or simplified tax collection/payment system for small contributors. This monotax unifies several taxes and contributions into one tax payment and represents a way to bring micro and small enterprises into formal contributory social protection schemes (including health insurance and pensions). The process divides companies into three levels according to size (from smallest to largest: individual micro company owners with one employee, micro companies, and small companies). Progressive contributions are paid based on the increasing classification size. Contributions are collected by the central fiscal administration and the share corresponding to social security payments is transferred to the Social Security Institute (INSS), which finances social security benefits for social insurance.

- In Brazil, between 2008 and 2016, the total number of registered firms (including individual company owners) increased from 3 million to 12 million. The Simples programme has increased gender and racial equality in coverage because the micro and small enterprises covered are often run by women and disadvantaged racial groups

Source: Ortiz, I., Chowdhury, A., Durán-Valverde, F., Muzaffar, T., & Urban, S. (2019). Fiscal Space for Social Protection: A Handbook for Assessing Financing Options.

3.6 PUBLIC SPENDING, THE DEFICIT AND GOVERNMENT DEBT

3.6.1 Borrowing and debt restructuring

Sound debt management is a key principle of a sound macroeconomic policy framework. Studies have shown that high debt distress or even a debt crisis could lead to a loss of capital market access, a disruption of financial intermediation and hindering of economic activities. **Yet for countries that have some scope for additional borrowing, this offers another source of financing for social and economic investments.** For those countries that may have very high levels of sovereign debt, it may also be possible to restructure existing debt either by debt renegotiation, debt relief/forgiveness, debt swaps/conversion or debt repudiation, especially when the legitimacy of the debt is questionable and/or the opportunity cost in terms of worsening social outcomes is high.

Loans from development banks and funds, as well as bilateral loans from donors, may be at commercial or concessional interest rates. If debt is perceived as a strategic option to boost social and economic spending, concessional loans are a much better option than loans with commercial rates since they offer beneficial conditions to developing countries. For example, the World Bank's International Development Association (IDA) lends money to the poorest countries without interest along with long grace periods (usually ten years) and 35- to 40-year repayment periods. Concessional borrowing is generally available from regional development banks (e.g. the African, Asian, Inter-American and Islamic Development Banks), specialized funds (e.g. the OPEC Fund for International Development or the Arab Fund for Economic and Social Development) and bilateral loans from donor countries.

Government bonds are another market-based borrowing option and are generally cheaper when compared to regularly priced commercial bank loans. For example, Zambia and Ghana each raised US$750 million by issuing a 10-year Eurobond in 2012 and 2013, respectively. The former received more than US$11 billion in orders demonstrating the strong demand from international capital markets for public debt from developing countries. In addition to bonds at the national level, municipal or sub-national bonds are another alternative for local governments, which are typically issued for specific purposes, such as for developing an urban area or expanding schools, water supply or transportation systems (Ortiz 2008b).

Table 8: Debt Sustainability

HOW MUCH PUBLIC DEBT ISUNSUSTAINABLE?	WHICH COUNTRIES MIGHT HAVEROOM TO BORROW?
The IMF (2010b) uses a 40 per cent long term debt-to- GDP ratio as the ceiling that developing countries shouldnot exceed to ensure fiscal sustainability and macroeconomic stability. Others suggest a higher threshold (e.g. 60 per cent according to Reinhart and Rogoff 2010). Still, another approach is to view an optimal debt-to-GDP ratio as arbitrary since public debt can be beneficial over the longterm if interest payments are less than the annual increasein nominal GDP (see UNCTAD 2011, Chapter 3).	To determine the feasibility of increasing public debt for a given country, it is important to carry out a comprehensive and dynamic analysis. The IMF-World Bank debt sustainability assessments (DSA) framework. The key limitation of DSAs is that GDP growth projections only take into account returns from investments in physical capital (roads, airports, etc.) but not returns from investments in human or social capital (spending on primary/secondary education, health, and social protection), which are vital to sustained growth in thelonger run.

Source: Authors

Debt restructuring is the process of reducing existing levels of debt or debt service. While some developing countries have space for additional borrowing, the majority are indebted. Further, seven years after the global financial crisis, economic imbalances continue to boost external debt and developing economies are increasingly vulnerable (Aykuz 2014 and Ellmers and Hulova 2013). Debt restructuring has become an increasingly common strategy to alleviate fiscal pressures for other countries, especially those suffering from exorbitant sovereign debt levels. When sovereign debt payments crowd out essential social expenditures, there is a strong case for countries to explore restructuring options with their creditors.

In practice, there are five main options available to governments to restructure sovereign debt, which include: (i) renegotiating debt; (ii) achieving debt relief/forgiveness; (iii) debt swaps/conversions; (iv) repudiating debt and; (v) defaulting.

3.6.2 A more accommodating macroeconomic framework

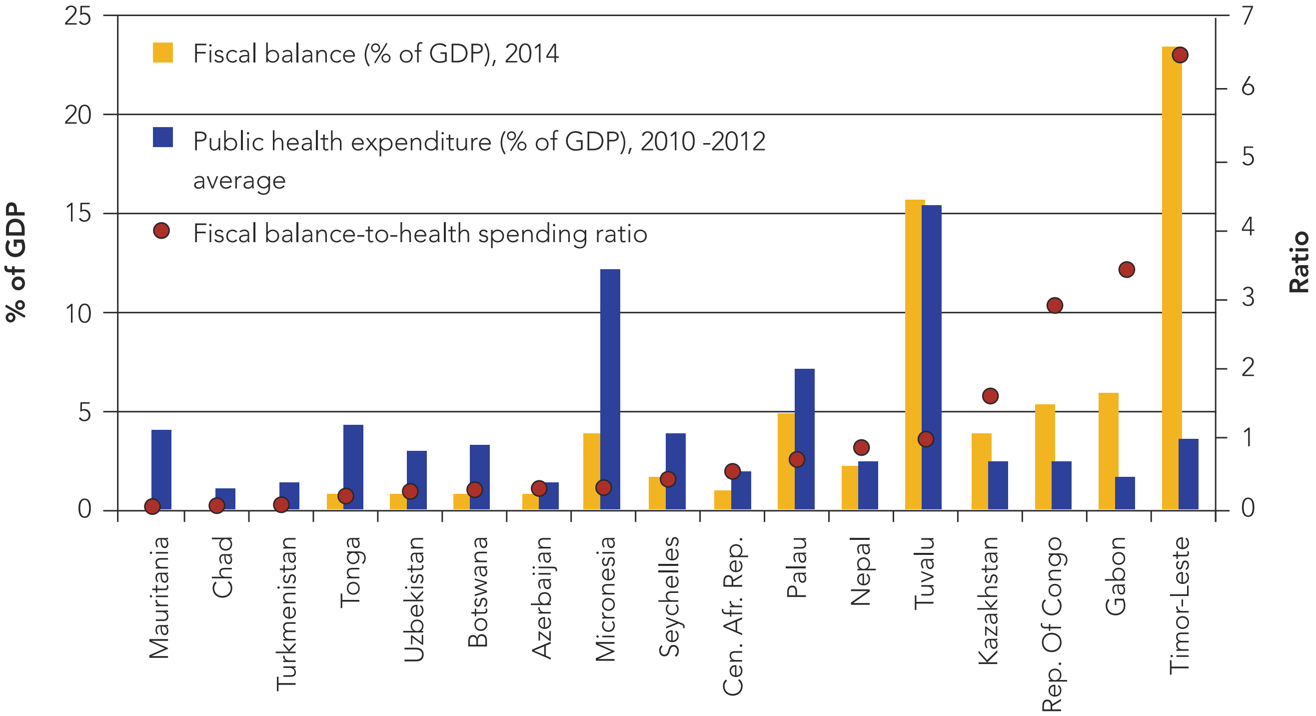
The goals of macroeconomic policy are multiple, from supporting growth, price stabilization or inflation control, to smoothing economic cycles, reducing unemployment and poverty, and promoting equity. In the last decades, macroeconomic frameworks have placed a strong emphasis on short-term stabilization measures, such as controlling inflation and fiscal deficits, as part of broader efforts of integrating into global markets and attracting investment. While these macroeconomic objectives are not necessarily problematic, **there is an increasing risk in many developing countries that other important objectives, such as employment-generating growth and social development, become secondary and underemphasized.**

As the multiple shocks of the global economic crisis unfolded and intensified, support shifted from restrictive and narrow macroeconomic frameworks to a more accommodating one. In practice, this means that the conditions for more manoeuvrability in policy-making and resources could be achieved through both fiscal and monetary policy, both of which are described below.

The first channel to achieve a more accommodative macroeconomic framework is through **expanding government expenditures to influence the economy.** As part of the crisis response, there has been a growing recognition of the need to ease budget constraints and allow for an increasing degree of deficit spending, especially to support social investments (IMF 2009). By doing so, more resources can be allocated to address the impacts of the crisis and support poverty-reducing and employment-generating economic growth.

While many developing countries are already running deficits, several others are forecasted by IMF to have fiscal surpluses in 2014. In these cases, **allocating surplus funds to social protection could lead to extraordinary social gains.** Figure 16 below provides an example from the health sector: for 17 developing countries that were projected to benefit from a positive fiscal balance during 2014, surplus budget funds could double current health spending levels, on average. Increased spending in sectors like education, health, and other social services can improve gender equality and disability inclusion by addressing gender and disability gaps in education, but also through the improvement of services that women use disproportionately based on lifecycle needs (for example, health services during pregnancy, etc.) or disability-related goods and services (e.g. assistive technology, rehabilitation and specialist health services, personal assistance).

Figure 16: Fiscal surplus and health spending, 2014 (average values)



The analysis serves to illustrate the potential of any government's fiscal position deficit or surplus to impact essential social and economic spending. However, it is important to carry out a rigorous assessment of fiscal sustainability within a country, taking into account not only economic aspects such as debt burden, revenue generation capacity and likely GDP growth trajectory but also the potential opportunity cost of foregoing social spending.

The second channel to achieve a more accommodative macroeconomic framework is through expansionary monetary policy.

There are two schools of thought regarding how authorities should control a country's money supply (see Table below).

Table 9: Perspectives on monetary policy

FIRST SCHOOL OF THOUGHT	SECOND SCHOOL OF THOUGHT
On the one hand, some argue that the ultimate aim ofmonetary policy should be to achieve low inflation. Here, since high inflation creates uncertainties about the future and depresses investment, low inflation is viewed as a key ingredient to macroeconomic stability and growth, and becomes a goal in itself. Moreover, high levels of inflation erode disposable incomes, making it more difficultfor poor households to purchase essential goods and services. In particular, for those who rely on social transfers, inflation poses a continuous threat to their purchasing power. And even when a country's social protection scheme includes inflation-adjustment mechanisms that are regularly applied,in practice benefits are only adjusted after a significant delay commonly up to six months due to administrative procedures.	**On the other side of the spectrum are those who viewexcessive inflation control as a danger to poverty andeconomic growth.** This camp argues that certain measures, such as higher interest rates or reserve requirements, can lead to increasing unemployment, lower aggregate demand and weaker growth. High-interest rates are especially bad for small producers and those who already have limited accessto finance, including women and persons with limited assets. The resulting declines in output and employment can also weaken workers' bargaining positions and depresswages, therefore indirectly increasing poverty.

Source: Authors

3.7 TAKE-AWAY LESSONS

- Affordability of social protection in any country does not only depend on the level of economic development but on attitudes of the society towards equity, social justice and redistribution (policy space).
- Fiscal space depends on available resource envelope but also depends on political will – policy space.
- There are numerous ways to mobilize resources necessary to create fiscal space for social protection but important trade-offs and policy decisions are always involved. Decisions around these tradeoffs should take into account how they will affect groups such as women and girls or persons with disabilities differentially.
- To be effective, not only should technical desirability be considerd but acceptability, authority and the ability to implement resource mobilization strategies need to be considered.
- The fact that both revenue mobilization policies and expenditure patterns can be progressive or regressive implies that ultimately neither can be studied in isolation. In order to examine whether a country's fiscal position is beneficial for the poor, one has to capture the combined impact of both taxation and spending policies.

4

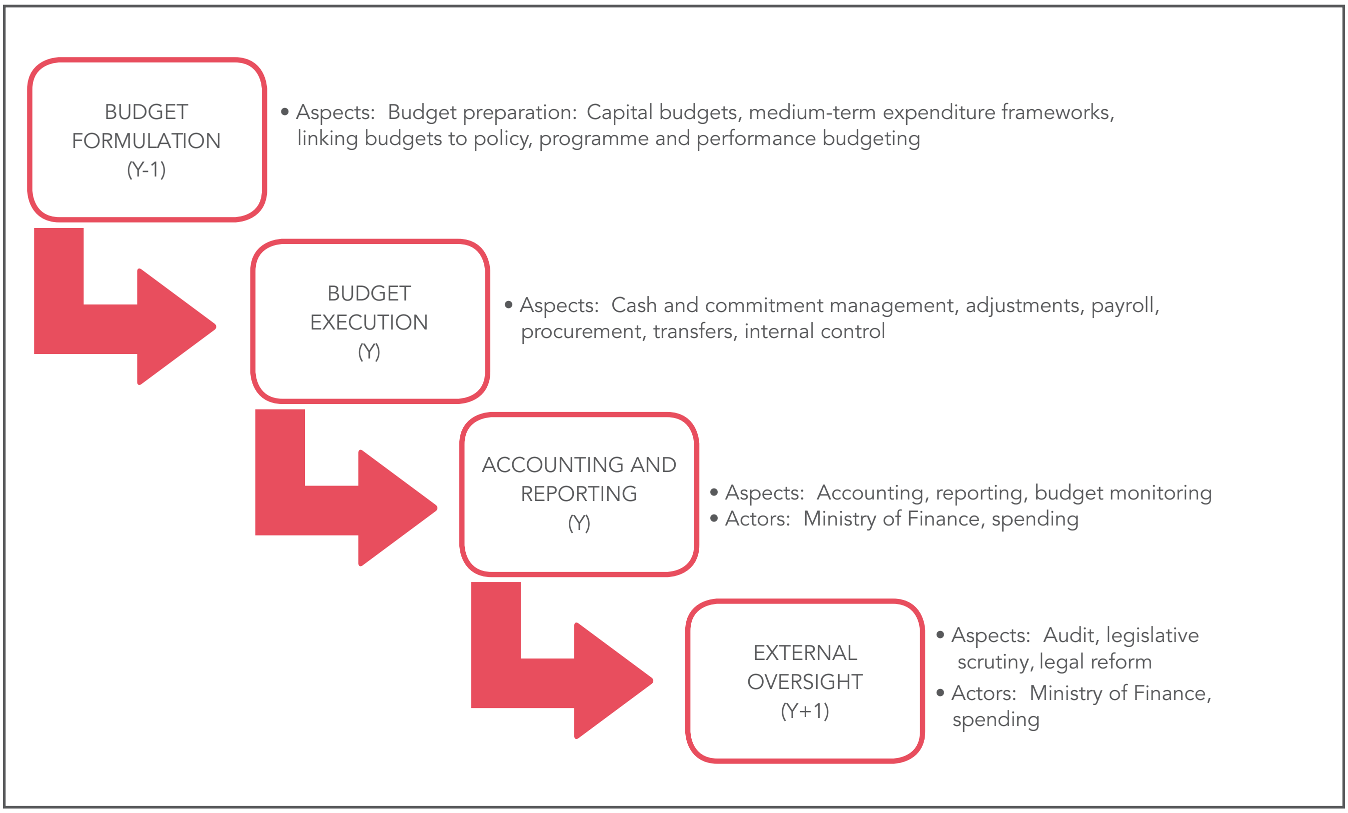
SOCIAL PROTECTION BUDGET PERFORMANCE AND THE BUDGET PROCESS

The annual preparation of a country's budget is a large and complex exercise that includes the collection of large amounts of information from multiple sources, reconciling different perspectives and dealing with diverse interest groups, all influencing complex decisions (Shah, 2007).

National budgets are the product of a repetitive budget cycle process, involving the processes of planning and policy-making, budget formulation, budget execution, budget tracking and performance evaluation (EFR & UNICEF, 2011).

1. The budget formulation stage involves the drafting of the budget by the executive, typically the budget division in the line agencies and the Ministry of Finance.
2. The budget approval stage involves the deliberation of the budget and its passage into law through a legislative process.
3. The budget execution stage is carried out by the executive throughout the fiscal period to which the budget law applies.
4. Budget implementation is typically carried out by administration departments in line ministries with oversight from an accounts department in the Ministry of Finance.
5. At the evaluation stage, an independent auditor reviews the final budget documents and checks the consistency of the documents with the authorisations made by the legislature (EFR & UNICEF, 2011)

Figure 17: The budget process



Source: Simson et al., 2011

Formal and informal budget processes. According to a DFID note on the state of Public Financial Management (2007), the study of the politics of the actual budget processes indicates that "sound formal rules and procedures are in place but are distorted by informal practices which determine the actual distribution of budget resources." Budgetary processes can sometimes be seen as "ritualistic facades" that mask real processes of allocation of public spending. This is caused by the centralisation and the lack of transparency of budget formulation processes, lack of institutionalization of review and negotiation processes, and lack of control or oversight.

4.1 BUDGET PLANNING AND PREPARATION

Budget planning and preparation is at the centre of good public expenditure management and requires four forms of **fiscal and financial discipline** to be effective:

a) Control of aggregate expenditure to ensure consistency with the **macroeconomic** constraints

b) **Effective** means for achieving a resource allocation that reflects expenditure **policy priorities**

c) **Efficient** delivery of public services

d) Minimization of the **financial costs** of budgetary management (i.e. efficient budget execution and cash and debt management practices).

Budget preparation is the principal mechanism for achieving objectives (a) and (b) and objective (d) is a key issue of budget execution and cash management processes. A thorough and well-executed budget preparation process is very important as no system of budget execution or cash planning can do more than mitigate the problems caused by poor quality or unrealistic budget preparation (Potter & Diamond, 1999).

Preparing the national budget is an extensive process with several designated agencies working together with clearly defined responsibilities. The main stages in the budget preparation process are the production of the **macroeconomic and fiscal frameworks**, the issuing of **budget instructions**, the preparation of **budget proposals** by line ministries, negotiations on those proposals between the line ministries and the Ministry of Finance, and finally the approval by the legislature (Shah, 2007). The Ministry of Finance has an important role in promoting and coordinating gender and UNCRPD-compliant budgeting (IMF, 2017), as well as other forms of social budgeting to ensure that policy priorities are being carried out effectively.

Figure 18: Basic steps in the preparation of a budget

The first step in budget preparation should be the determination of a macroeconomic framework for the budget year & at least the next two years. The macroeconomic projections allow the Ministry of Finance to determine the total level of expenditure that can be afforded without adverse macroeconomic implications, given expected revenues and the level

The second step should be the allocation of the global total among line ministries, leaving room for reserves to be managed by the Ministry of Finance.

The next step should be for the Ministry of Finance's budget department to prepare a budget circular to give instructions to the line ministries, with the indicative aggregate spending ceiling of each ministry. This should include information on the economic assumptions to be adopted, on wage levels, the exchange rate & price levels.

Step 4 is the submission of bids by the line ministries to the budget department. Once recieved there needs to be an effective challenge capacity within the Ministry of Finance to test and validate the costing of existing and new policy proposals

Step 5 comprises the negotiations, usually at official & then bilateral or collective ministerial level, leading finally to agreement.

Source: Potter & Diamond (1999)

4.1.1 The role of the macroeconomic and fiscal framework

The most important starting point in the creation of a sound budget is the deliberation of a macroeconomic and fiscal framework, which includes a realistic assessment of resources likely to be available to the government as well as the establishment of fiscal objectives. These projections should cover the current year and the following two to four years (Shah, 2007).

A **macroeconomic framework** is considered a "tool for checking the consistency of assumptions concerning economic growth, the fiscal deficit, the balance of payments, the exchange rate, inflation, credit growth, and the share of the private and public sectors on external borrowing policies" (Shah, 2007). It typically contains government expenditure information on a very aggregate level. A key element of a national macroeconomic framework is the **fiscal framework,** which breaks down revenues and expenditures by categories.

Explicit **fiscal targets** in the preparation of a budget require governments to clearly define fiscal policies as well as to allow the legislature and public to monitor the implementation of such policies. Fiscal targets could include indicators of the **fiscal position (fiscal deficit)**, the **fiscal sustainability (debt-to-GDP ratio)** and the **fiscal vulnerability** (future liabilities and fiscal risk) of the country (Shah, 2007).

After finalization, the macroeconomic framework needs to be made public, as the legislature and the wider public have a right to know the government's policy objectives, expectations and targets. This improves transparency and accountability and also supports consensus-building on what a country can and should include in its national budget (Shah, 2007).

Credibility is of key importance to a good budget and therefore the accompanying macroeconomic framework needs to be credible as well. To safeguard the framework from partisan politics and ensure the credibility of the projects, some countries submit the framework to a panel of independent and respected experts (Shah, 2007). Gender-responsive and UNCRPD-compliant budgeting must be accompanied by adequate monitoring and auditing mechanisms to be effective. One way to ensure adequate monitoring is through the involvement of civil society, particularly of marginalized groups (e.g. women's groups, Organisations of Persons with Disabilities). This can be done by establishing national working groups on social protection budgets.

4.1.2 Budget laws and regulations

While legal frameworks regulating the budget process differ from country to country, it is usually set at several levels, a **country's constitution** being at the highest level of the legal hierarchy. The constitution outlines broad principles, such as:

- the relative powers of the executive and legislative branches with respect to public finances
- the definition of the financial relations between national and subnational levels of government
- the requirement - in Commonwealth systems - that all public funds be paid into designated accounts, and that these funds be spent only under the authority of a law (Potter & Diamond, 1999)

One step down from the constitution is **organic budget law**, which usually establishes the main principles of public financial management. Organic budget laws guide budget preparation, approval, execution, control and auditing and give the government the authority to issue detailed financial regulations and instructions (Potter & Diamond, 1999).

4.1.3 Assessing the soundness of a budget

The soundness of budget systems can be judged by checking them for comprehensiveness, transparency and realism (Potter & Diamond, 1999).

Table 10: Helpful questions in assessing the soundness of a budget

	HELPFUL QUESTIONS IN ASSESSING THE SOUNDNESS OF A BUDGET
Comprehensiveness	1. Is the coverage of government operations complete?
Transparency	1. How useful is the budget classification? Are there separate economic and functional classifications that meet international standards? 2. Is it easy to connect policies and expenditures through a programme structure?
Realism	1. Is the budget based on a realistic macroeconomic framework? 2. Are estimates based on reasonable revenue projections? How are these made and by whom? 3. Are the financing provisions realistic? 4. Is there a realistic costing of policies and programmes and hence expenditures (e.g. assumptions about inflation, exchange rates, etc.)? 5. How are future cost implications taken into account? 6. Is there a clear separation between present and new policies? 7. How far are spending priorities determined and agreed upon under the budget process?
Equity	1. Does the budget follow principles of gender-responsive and UNCRPD-compliant budgeting?

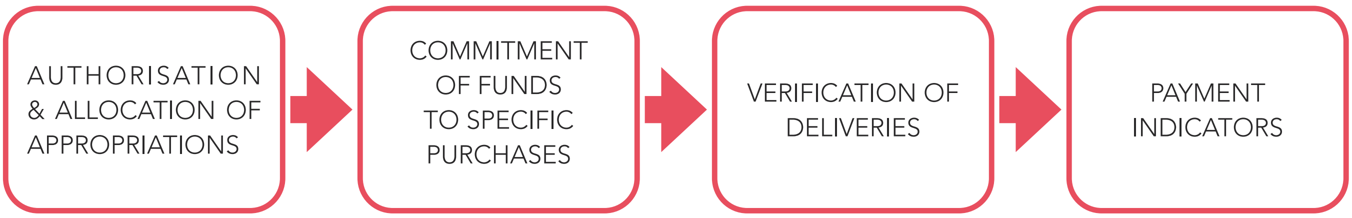
Source: Based on Potter & Diamond, 1999

4.2 BUDGET EXECUTION AND THE FINANCIAL ADMINISTRATION OF SOCIAL PROTECTION

After a budget has been approached by the legislature, the government executes the budget by spending funds as allocated. Ensuring that funds are spent effectively and that policy objectives are reached is a challenging task and research on public financial management performance in developing countries indicates that **governments score significantly better on budget preparation than on budget execution indicators** (Simson et al, 2011).

Public financial management literature tends to take the perspective of the Ministry of Finance in the execution of the budget and focuses on the need to ensure that the budget is executed in accordance with rules preventing corruption and overspending (Simson et al, 2011). The budget execution process can be split into four steps as outlined in the figure below.

Figure 19: The budget execution process



4.2.1 Intergovernmental financial management processes and transfers

Political governance structures and financial management processes differ widely between countries. In unitary governments, sub-national governments are subordinate levels of the same government. Federal countries, on the other hand, have sub-national governments with constitutionally mandated independence and tax-collecting authority. Often, in developing countries, sub-national "governments behave much like line ministries: their budgets are incorporated into the national budget and their spending follows the same rules as other spending agencies" (Simson et al, 2011).

While federalism does exist, the biggest source of revenue for sub-national governments in developing countries is central government transfers (Simson et al, 2011). In fact, in such countries, intergovernmental fiscal transfers finance about 60 per cent of sub-national expenditures (Shah, 2007).

These transfers require clear regulations and mechanisms for determining the "allocation of resources to sub-national governments and the degree of sub-national government autonomy in the management of funds" (Simson et al, 2011). There are a large variety of intergovernmental transfers including those made as conditional grants to other spheres of government, or as transfers to public entities, constitutional institutions, NGOs, and households (National Treasury, 2000).

Beyond the expenditures they finance, these transfers create incentives and accountability mechanisms that affect the fiscal management, efficiency, and equity of public service provision and government accountability to citizens (Shah, 2007). Efficiency, effectiveness, economy and transparency in the use of the money by the end users are as important as they are for the central government's programme delivery. Therefore, accounting officers must ensure that entities receiving government money have appropriate financial management and control systems (National Treasury, 2000).

Generally speaking, intergovernmental transfers or grants can be classified into two categories (Shah, 2007):

- **General-purpose transfers** are provided as part of general budget support from central governments to local authorities. These grants come with no strings attached and are typically mandated by law. However, occasionally they are granted on an ad hoc or discretionary basis.

  A version of general-purpose transfers is block transfers, which provide support for a specific area of subnational expenditures, such as education or health while allowing local authorities discretion in allocating the money amongst specific uses within these sectors. They "provide budget support with no strings attached in a broad but specific area of subnational expenditures" (Shah, 2007).

- **Specific-purpose transfers,** otherwise known as **conditional grants,** provide incentives for governments to undertake specific programmes or activities, as funding is tied to their implementation. Sometimes conditional transfers include matching provisions, which require grant recipients to fund a certain percentage of expenditures through their resources. Matching requirements "encourage greater scrutiny and local ownership of grant-financed expenditures; closed-ended matching helps ensure that the grantor has some control over the costs of the transfer program" (Shah, 2007).

4.2.2. Financial management information systems

In recent years, many governments have started automating various financial management processes, typically starting with accounting and reporting functions. Proponents claim that automation can improve the efficiency of the system, while others argue that the process can be disruptive and require significant reforms of existing processes in addition to new human resource skills, which take time to develop.

An IFMIS can be a tool for governments to support financial control, management and planning by managing a core set of financial data and translating these into information that can be used for management purposes. More narrowly defined, an "IFMIS is a computer application that integrates key financial functions (for example, accounts or budgets) and promotes efficiency and security of data management and comprehensive financial reporting" (Shah, 2007). An IFMIS can be one way of addressing "financial systems that do not talk to each other and do not produce a timely and comprehensive picture of a country's financial position" (Shah, 2007).

4.2.3 Efficiency in disbursement and payment systems

The flow of funds to social benefits through government systems can be "slow and unpredictable, thus undermining predictable support to poor and vulnerable households" (Republic of Kenya, 2012). As the coverage of social benefits is expanding in many countries, there is a need to address these weaknesses by implementing several reforms, some of which are briefly outlined below.

1. **Enhance budget coordination and awareness among the relevant government departments and development partners.** This should ensure that the government's financial management, budgeting procedures, and timelines are appreciated and understood by all. Better coordination would also facilitate improved planning and the allocation of adequate resources to social protection programmes.
2. **Adopt innovative reconciliation and approval processes** to reduce the delays caused by the manual processes both in the flow of funds to programmes and in the payment cycle to recipients. Automation of the reconciliation process supported by appropriate technology will greatly enhance the timeliness and efficiency of payments.

While the type of social benefits provided reflects "each programme's objectives, there is a need to explore the **feasibility of a general shift towards unified cash transfers** to leverage the relative efficiency of most efficient payment mechanisms.

The **design of the payment system has strong implications on the timeframe and efficiency of disbursement** as is discussed below in the case study from Kenya. For a more detailed discussion on payment systems for social benefits see the ADM Module.

These differing timelines in the flow of funds to social protection programmes can lead to delays in payments to recipients and have implications for their predictability. Furthermore, the considerable delays in the flow of funds from the exchequer to the recipients raised "concerns about the ability of the government's current safety net system to respond to rapid onset crises" (Republic of Kenya, 2012).

Box 18: Assessing budget execution via alternative payment systems in Kenya

An assessment of disbursement processes in Kenya observed that social transfers reached recipients considerably faster when they were transferred directly from government or developing partners' accounts to the implementing agencies (IA). On average this process takes 19 working days. However, transfers that go through the government's exchequer systems took considerably longer – 51 days on average – to arrive at the IAs (Republic of Kenya, 2012). In order to address these delays, discussions are ongoing to allow the direct transfer of funds from the country's Consolidated Fund to a programme's account (Republic of Kenya, 2012).

The study also assessed the efficiency of benefit provision through alternative payment mechanisms, and found long and differing timelines for the flow of funds to reach recipients (Republic of Kenya, 2012).

The above mentioned assessment of the Kenyan delivery channels "suggests that cash payments made through banks, agency networks, or mobile phones are significantly more secure, faster, and more cost-effective than the other payment systems, including those used for food or vouchers" (Republic of Kenya, 2012).

These differing timelines in the flow of funds to social protection programmes can lead to delays in payments to recipients and have implications for their predictability. Furthermore, the considerable delays in the flow of funds from the exchequer to the recipients raised "concerns about the ability of the government's current safety net system to respond to rapid onset crises" (Republic of Kenya, 2012).

Source: Ortiz, I., Chowdhury, A., Durán-Valverde, F., Muzaffar, T., & Urban, S. (2019). Fiscal Space for Social Protection: A Handbook for Assessing Financing Options

4.3 BUDGET ANALYSIS AND REPORTING: DEMONSTRATING EQUITY AND EFFICIENCY OF SPENDING

Financial reports are an important tool to improve budget compliance and they provide a means for internal and external actors to assess government performance. Financial reporting includes extracting data from the accounting systems and presenting them in easily understood documents. Governments produce a wide range of reports for internal and external analysis. Examples of such reports are daily flash reports on cash flows, monthly reports on budget execution, revenue reports, mid-year reports and annual financial statements or fiscal reports (Simson et al, 2011). Social protection budget analysis should focus on issues of efficiency, effectiveness and equity. Equity not only refers to the poor versus other segments of the population but also other vulnerable groups including women and girls and people with disability. These groups must be taken into consideration in budget analyses. Gender-responsive budgeting requires that efforts are made to weigh the costs and benefits of policies to promote gender equality and to include appropriate measures in the budget in response to these evaluations (IMF, 2017). Similarly, UNCRP-compliant budgeting can help ensure investments are in line with principles of disability inclusion (e.g. investment in decreasing barriers and improving accessibility of services, ensuring new funding projects do not create or worsen existing barriers faced by people with disability, reallocation from programmes that do not comply with UNCRPD commitments, designed in consultation with people with disability).

4.3.1 Demonstrating efficiency and effectiveness of social programme spending

Governments provide a large number of goods and services to their citizens with the aim of achieving various economic and social objectives. Inefficient government spending has serious consequences for the provision of social protection and other pro-poor government services and it implies that "higher budgetary allocations to the social sectors will not necessarily translate into an improvement of social outcomes" (Gupta et al., 1997).

Through the information collected during budget execution, performance budgeting makes use of indicators of the efficiency and quality of government operations (Shah, 2007). Such indicators are described in the table below.

Table 11: Budget Efficiency and Effectiveness indicators

Efficiency relates to how well inputs are converted tothe output of interest, which is transfers delivered to recipients	**Effectiveness** relates to how well outputs are converted to outcomes and impacts (e.g. reduction in poverty gap and inequality, improved nutrition, reduction in school drop-out, increased use of health services, asset accumulation by the poor, increased smallholder productivity, social cohesion, gender equality and disability inclusion outcomes).
Cost-efficiency analysis focuses on the relationship between the costs of a social transfer programme and thevalue of the transfers delivered to recipients.	**Cost-effectiveness analysis** measures the cost of achieving intended programme outcomes and impacts and compares the costs of alternative ways of producing the same or similar benefits. Cost-effectiveness analysis should be conducted separately for different groups most at risk of poverty and marginalisation (e.g. women, girls and people with disability), as costs may be higher for providing appropriate programmes for these groups and so comparisons of cost-effectiveness may rank lower compared to less marginalised groups.
A possible measure is the total cost-transfer ratio (TCTR) (i.e. ratio of total programme cost to the value of transfers) or the **cost-transfer ratio (CTR)** (i.e. ratio of administrative costs to transfer costs), **Unit costs** are cost per unit of output, cost per direct recipient (and per recipient) per period.	**A possible measure is cost per measure of outcomeor impact** e.g. unit cost of a percentage point reductionin poverty gap, inequality or incidence of severe child malnutrition

Source: Based on Potter & Diamond, 1999

The following word of caution needs to be given in measuring effectiveness:

- data requirements for effectiveness measures and analytical methods are more demanding than for cost-efficiency analysis, making it necessary to be realistic about what can confidently be measured
- effects need to be measurable in the same units, but the multiple nature of the benefits that social transfers are expected to generate and serious deficiencies in data availability can make this very challenging.

Cost-effectiveness analysis also ignores impacts that cannot be measured, such as improvements in social cohesion or self-esteem, unless a credible and measurable proxy indicator can be identified.

With regard to cash transfer or social assistance schemes, cost-to-transfer ratio and administrative cost per recipient are generally used as indicators of cost-efficiency.

There are different types of administrative costs (White and Greenside 2013:27):

- **Set-up costs** generally include design, planning and major investments (such as the establishment of an MIS). They are fixed costs that should be concentrated mainly at the start of a programme. Set-up costs will be higher where the programme design is complex (e.g. due to multiple objectives or a multilevel targeting system) requiring greater administrative capacity and often significant external technical assistance and training input; or where the existing ICT infrastructure on which to base an MIS is inadequate. It is also important to ensure there is a budget line for workplace accommodations to support staff with disability.

- **Roll-out costs,** which include the identification (targeting) and enrolment of recipients, are also concentrated during the periods of programme launch and expansion. However, they are not strictly one-offs where an established programme is enrolling new recipients or if periodic retargeting is required. Roll-out costs can be expected to be higher where there is a complex set of targeting criteria, requiring intensively supervised selection procedures involving community committees and/or proxy means tests, and periodic retargeting.
- Recurrent **operational costs** notably include the costs of delivering transfers to recipients (and in CCTs the costs of monitoring conditionality). These are the long-term running costs of the programme and should become the dominant component of administrative costs as a programme scales up and reaches maturity. Operational costs are likely to be inflated by complex requirements for monitoring compliance with conditions. It's also likely to be inflated where there is a lack of a financial infrastructure (e.g. post offices or banks) that can handle payments securely, at a reasonable cost, and to which the target population has effective access; they benefit from economies of scale with respect to both numbers of recipients and level of transfers." (White and Greenside 2013; p. 19)

It is important to note that administrative costs may be higher to make programmes accessible and impactful for certain target groups. For example, adaptations to programmes may be required so that they are useful to people with disability (e.g. provision of alternative modes of communication, making infrastructure accessible). These costs will almost always be the cheapest if the needs of different target groups are considered and budgeted for at the outset of programme design. Still, programmes may incur additional costs to ensure their services reach and have the desired impact amongst people with disability and other marginalized groups. As such, cost-effectiveness analyses should also include considerations of the programmes' performance amongst different groups (e.g. by gender, disability). Without disaggregated or separate analyses, programmes designed to reach marginalised groups may perform poorly against programmes that do not take such an approach.

Table 12 below shows that total cost-to-transfer ratios vary from 2.11 (total expenditure more than double the cost of the actual transfer or admin cost equal to 53% of the total cost, in fact, admin cost exceeding the transfer cost) in a relatively small programme in Ghana to 1.05 (admin cost equalling 5% of total programme cost) in a very large programme in Mexico (White and Greenslade, 2013).

Table 12: Benchmarks for administrative costs – a comparison of various cash transfer programmes

PROGRAMME	YEAROF OPERATION	NO. OF DIRECT RECIPIENTS	COST PER DIRECT RECIPIENT	COST PER WIDER RECIPIENT	ADMINCOST PER RECIPIENT	ADMIN COST AS % OF TOTAL COST	TOTAL COST-TRANSFER RATIO
Ex-ante costs (2012 US$)							
Ghana LEAP, 2012	5	164,370	$155	$40	$35	23%	$1.29
Nigeria CDG, 2017	5	60,000	$400	$100	$107	27%	$1.37
Tanzania PSSN, 2018	5	275,000	$296	$55	$104	35%	$1.54
Zambia Child Grant, 2015	5	85,502	$237	$47	$60	25%	$1.54
Ex-ante costs (2012 US$)							
Bangladesh CLP, 2011/12	8	17,485	$876	$219	$289	33%	$1.49
Ethiopia PSNP, 2010/11	7	7,535,451	$34	$34	$9	28%	$1.38
Ghana Leap2010	3	26,079	$132	$34	$69	53%	$2.11
Kenya CT-OVC 2008/09	3	15,000	$331	$75	$83	25%	$1.34
Kenya HSNP, 2011/12	4	68,611	$297	$50	$51	17%	$1.21
Mexico Progressa/ Oportunidades 2000	4	2,600,000	$314	$63	$16	5%	$1.05
Mexico Progressa/ Oportunidades 2012	16	6,500,00	$815	$163	$42	44%	$1.05
Zambia Child Grant, 2011	2	32,643	$251	$50	$111		$1.79

Source: White and Greenslade (2013)

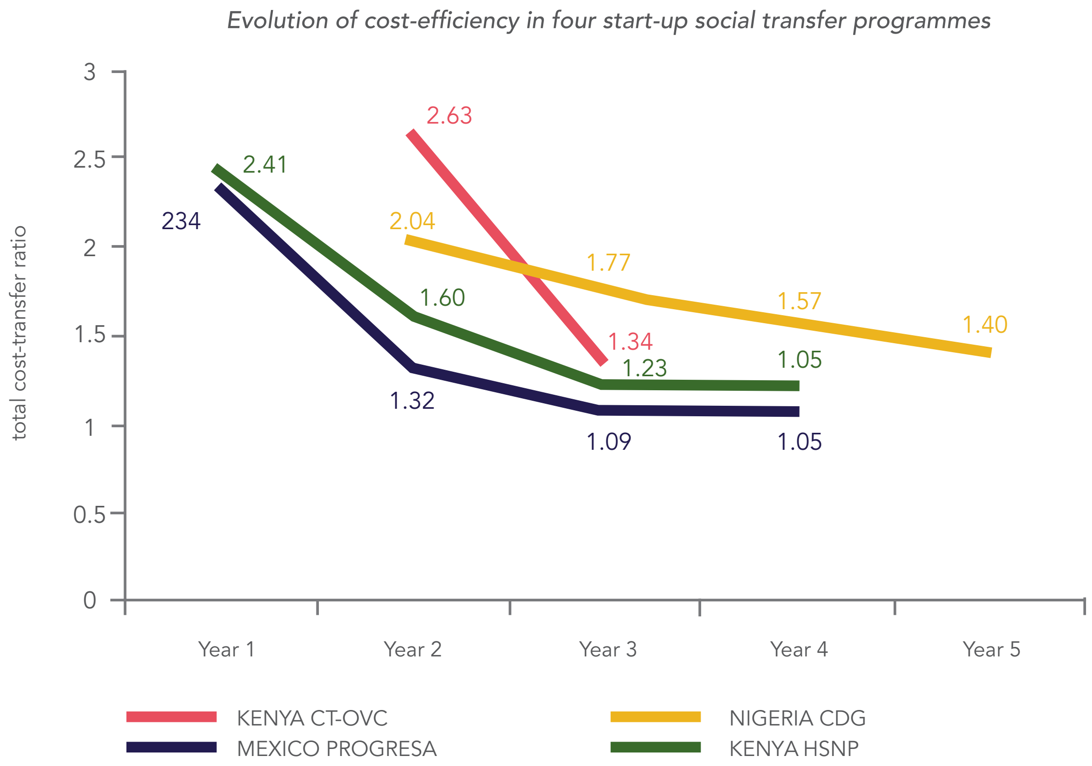
White and Greenslade (2013), however, warn that it is imperative to take into account the context, scale, maturity of the programme, and objectives before making a final judgement on either cost-efficiency or effectiveness. In using these benchmarks, care must be taken with "comparability between different methods of measuring cost:

- Are we comparing like with like? Different contexts with different challenges for delivery (e.g. conflict, geography, government capacity); different programme objectives and designs; difference between pilots and national programmes; difference between different points on the programme cycle – because costs are generally much higher in the early years (see Figure 20 below).
- Are costs too low in relation to total amounts transferred, and likely to reduce performance and cost-effectiveness?

Low cost-efficiency does not necessarily mean low cost-effectiveness and vice versa. Capacity constraints may be a key driver of costs. A higher administrative cost may be necessary to improve social outcomes (e.g. additional costs for adapting programmes to meet the needs of people with disability). The choice of programme should not be based solely on cost-efficiency criteria.

- Cost-efficiency analysis faces significant data deficiencies, including a lack of information on government overhead costs.

Figure 20: Cost efficiency measured by the cost transfer ratio declines as schemes mature

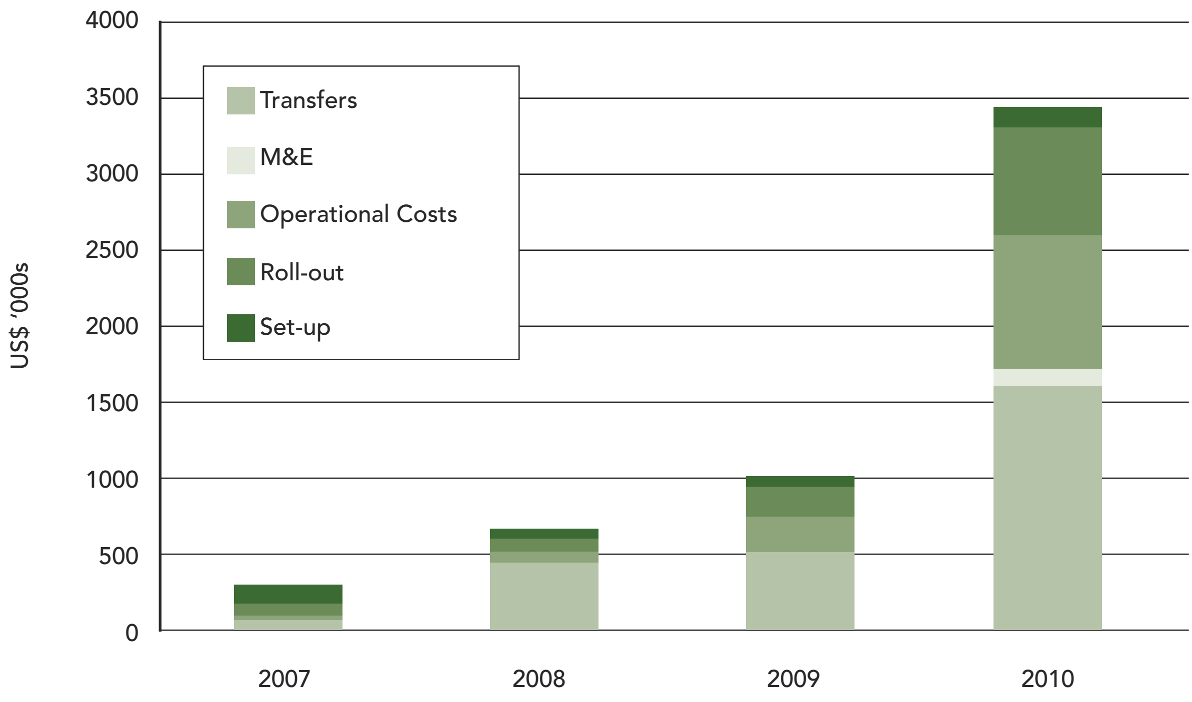


Source: White and Greenside 2013; p.3

Box 19: Roll out of Ghana's Livelihoods Empowerment Against Poverty (LEAP)

The programme illustrates the extent to which actual cost structure (bottom right) can deviate from that which was planned. Planned costs for the five year pilot phase (2008-12) conform to the expected pattern for a pilot roll-out, with relatively high set-up costs and a small volume of transfers in the first year, but diminishing set-up costs thereafter while roll-out and operational costs increase in approximate proportion to transfer costs as the programme expands. Actual implementation, however, was beset by staff capacity constraints and financing and delivery delays, so that by the end of 2010 only a fraction of the budgeted amounts had been spent, and the proportion of administrative costs in total expenditure was approaching half.

Figure 21: Composition of expenditure – LEAP programme



Source: White and Greenside 2013; p. 21

Box 20: Namibia and South Africa grant delivery compared

The Table below shows the total cost-to-transfer ratio for two components of the Namibian social assistance system and compares that to the South African Social Security Agency (SASSA) – a much larger organisation paying grants to more than 15 million people. The table shows some of the difficulties of comparing different welfare bureaucracies.

The high cost of the grants paid by MoGECW in Namibia can be partly explained by the fact that it is not only a grants payment agency but also an employer of more than 100 social workers. While these social workers are involved in the registration processes for some grants (i.e. the foster care and special maintenance or child disability grant), they also fulfil several other functions. In measuring efficiency, part of the cost of social workers should therefore be excluded from the costs of social grants, but it is not clear how much.

It is also not straightforward to explain why the SASSA is not able to achieve bigger economies of scale, compared to the much smaller pension and disability grant programme in Namibia. One possible explanation is that the South African system is extensively means-tested while the largest Namibian pension and disability benefits are not means-tested. The South African cost-to-transfer ratio, however, also exceeds that of equally large programmes in Mexico that are means tested and, in addition, have conditions to police.

Table 13: Cost to Transfer ratio – Comparing Namibia and South Africa

	NAMIBIA	NAMIBIA	SOUTH AFRICA
	Social Assistance, MoLSW	Social Assistance, MoGECW	SASSA
	20010/11	20010/11	2011/12
Total cost-to-transfer ratio	1.04	1.18	1.06
Admin costs as a percentage of the total cost	4.2%	13.9%	5.6%
Number of recipients	137,692	124,351	15.2 million

Source: Namibia estimates of expenditure 2012/13; South Africa Budget Review 2013/14

One key component of the cost of social grant delivery in Namibia is the payment for grant delivery by external agents. At the time of the study, the Namibian government paid NAD 16.25 per transaction to Epupa and NAD 5 to NamPost. This Epupa payment is therefore 8.1% of the value of the child grants and 2.7% of the value of a basic pension. In South Africa, the payment to Cash Paymaster Services per transaction was ZAR 16.44 – comparable to the Epupa payment – and giving slightly lower cost ratios in South Africa given the higher value of grants.

Source: Authors

4.2.2 Towards performance-based budgeting

Over the last two decades, there has been an increased interest in **public sector budgeting reforms** in industrial countries, largely in response to public demands for government accountability as well as the desire to improve operational efficiency and promote results-oriented accountability. Generally speaking, **budget reforms aim to transform public budgeting systems from control of inputs to a focus on outputs or outcomes (Shah, 2007).**

The most fundamental function of any budget is to control public expenditure, which is why traditional budgeting systems are designed to exercise financial control over **inputs and revenues. Input control-based budgets** are primarily concerned with how much money is spent and how it is spent and often have ceilings or caps on expenditure categories. Sometimes there are ceilings per item of expenditure, which is why these types of budgets are referred to as line-item budgets (Shah, 2007).[9]

While useful in reigning in expenditure, line-item budgets face challenges in "promoting efficient and effective public planning and management as well as to fostering results-oriented accountability in public sector institutions" (World Bank, 2007). Such budgets provide information on how much money is spent and on what it is spent but do not link inputs to outputs and say little about how efficiently money is being spent. In addition, the focus on detailed line items can lead to micromanagement of ministerial operations by central budget offices and public managers thus "exercise very limited managerial discretion and cannot be held accountable for the performance of government activities" (Shah, 2007).

In recent years, a renewed emphasis has been placed on performance and accountability, which has led to the creation of performance budgeting. **Performance budgeting** aims to strengthen the performance orientation in resource allocation and management as well as to achieve operational efficiency and to improve accountability for results (Shah, 2007).

Table 14: Features of alternative budget formats

	LINE-ITEM BUDGETING	PROGRAMME BUDGETING	PERFORMANCE BUDGETING
Content	Expenditures by object (inputs and resources)	Expenditure for clusters of activities supporting a commonobjective	Presentation of a results-basedchain to achieve a specific objective
Format	Operating and capital inputs purchased	Expenditure by programmes	Data on inputs, outputs, effects, and reach by each objective
Orientation	Input controls	Input controls	A focus on results
Associated management paradigm	Hierarchical controls with little managerial discretion	Hierarchical controls with managerial flexibility over allocation to activities within theprogramme	Managerial flexibility over inputs and programme design, but accountability for service deliveryand output performance

Source: Shah, 2007

Results-oriented or performance-based budgeting systems are, generally speaking, budgeting systems that link expenditure to specific results. This is done by linking programmes to specific outputs and outcomes. In such systems, the budget indicates the objectives of the expenditure, the costs of the proposed programmes that work towards these objectives as well as indicators measuring expected results for each programme. Performance budgets explicitly include performance indicators and costs, which are measured and reported throughout the execution of the budget (EFR & UNICEF, 2011). Performance-based budgets lend themselves to incorporating policy-related objectives (including on gender and disability) into the budget process better than traditional input-based budgeting (IMF, 2017).

9 Traditional line-item budgets present expenditures by inputs and resources purchased and the budget is disaggregated by expenditure categories as well as by operating and capital expenditures. Operating expenditures include cost items for day-to-day operations such as salaries, pensions, health insurance, office supplies and utility costs. Capital expenditures, or outlays, include purchases of long-lived assets such as buildings, machinery, office equipment, furniture, and vehicles (World Bank, 2007).

Through the information collected during budget execution, performance budgeting can also yield useful indicators on the efficiency and quality of government operations (Shah, 2007). Such indicators are:

- Quality — measures of service such as timeliness, accessibility, courtesy, and accuracy.
- Client satisfaction — rating of services by users.
- Productivity — output by work hour.
- Efficiency — cost per unit of output.

Compared to other budgeting systems and in particular, line-item budgeting, performance budgeting allows for a more flexible use of government revenues and moves the focus from inputs to results. Moreover, it changes the focus from detailed line items to broader objectives and the performance of public policy (Shah, 2007).

4.2.3 Demonstrating Budget Equity

A key component of public spending analyses is the benefit incidence analysis, which measures the benefits from public policies that are provided to various individuals or groups of individuals in a society. Such analysis looks at the distribution of government expenditures in its various forms, such as public goods or subsidized goods and services, across different regions, age groups, genders, income segments, or other vulnerable groups such as people with disability. Essentially, benefit incidence analysis asks who receives what of government expenditure and helps to understand how equitable public spending is (EFR & UNICEF, 2011). It is important to analyze the proportion of public expenditure dedicated to gender equality and disability inclusion; some of this may be from expenditures that do not have gender equality or disability inclusion as their primary objective, but which may still contribute to these aims (IMF, 2017).

The Box below presents the methodology and findings of budget equity analysis of fiscal policy which was recently conducted in Zambia using an internationally recognized methodology developed by the Commitment to Equity (CEQ) Institute.

Box 20: Impact of Fiscal Policy on Inequality and Poverty in Zambia

A recent World Bank study assesses the redistributive impact of fiscal policy, and its individual elements, in Zambia. The study uses an internationally recognized methodology developed by the Commitment to Equity (CEQ) Institute.

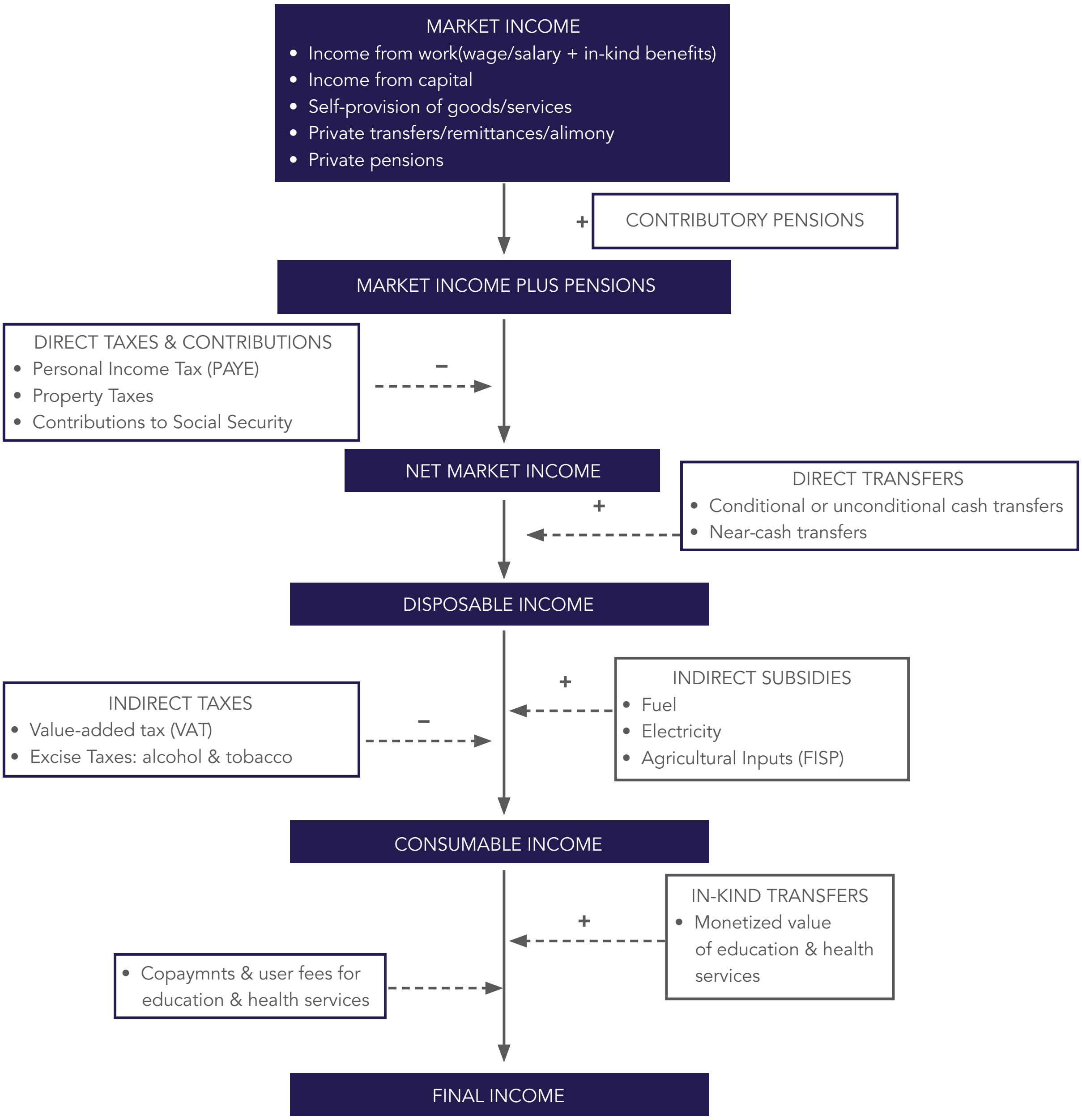
The study estimates the impact of fiscal revenue collections (taxes) and fiscal expenditures – direct cash and near-cash transfers, in-kind benefits, subsidies – on household-level income inequality and poverty.

The impact of the fiscal system on poverty and inequality in Zambia is described via an estimation of "prefiscal" and "post-fiscal" income measure. The pre-fiscal measure comprises market income before any transfers (including public spending on health and education, farming inputs, fuel and energy subsidies and unconditional cash transfers) or taxes (including personal income taxes, VAT, alcohol and tobacco excises) of any kind have been added.

"Post-fiscal" income takes pre-fiscal income and adds to it a subset of fiscal policies executed: subsidies and direct transfers received, direct and indirect taxes paid, and inkind transfers received through use of services (see diagram below). Poverty and inequality measures then are derived under pre and post-fiscal income measures and compared.

Box 20: Continued

Figure 22: Definition of CEQ Income Concepts

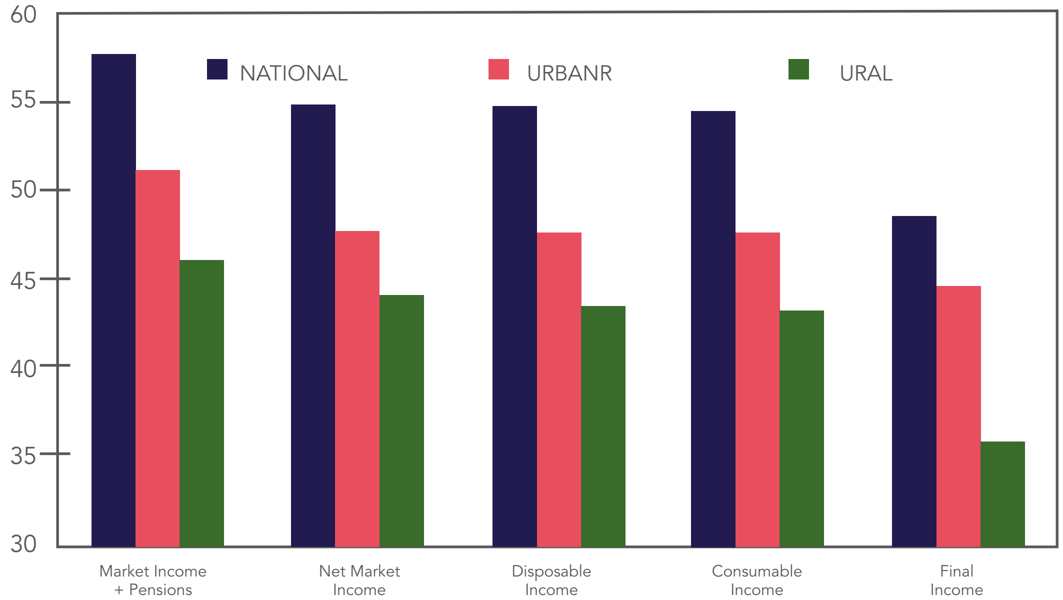


Source: Lustig (2016)

The study concludes (Figure 23) that Zambian fiscal policy, and many of its elements taken individually, reduce income inequality. The largest reduction in inequality is created by in-kind public service expenditures on education, and the overall decrease in inequality is more pronounced in rural areas. However, the poverty headcount ratio rises when fiscal policy is executed. Indirect taxes—most notably VAT—increase the poverty headcount ratio, and the direct transfers and subsidies received by poor and vulnerable households are too small to counteract this impact.

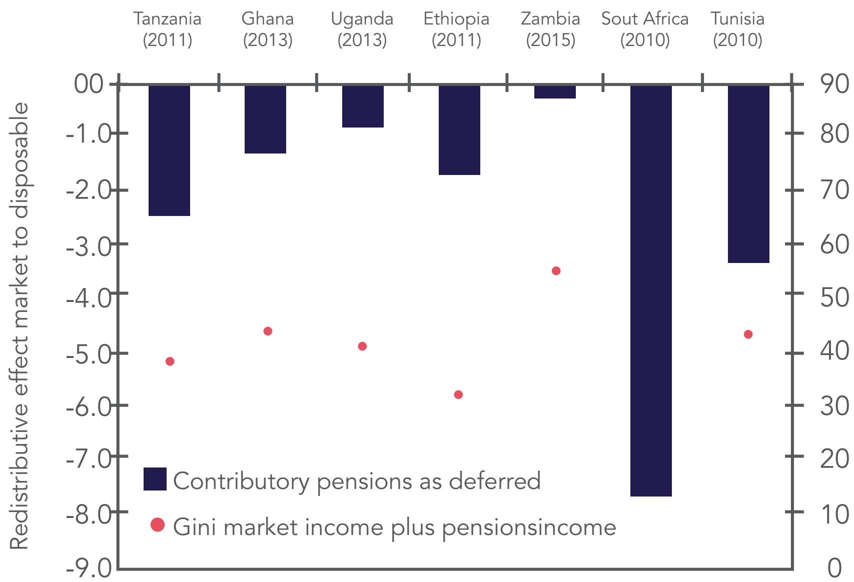
Box 20: Continued

Figure 23: Fiscal Policy's Impact on Inequality (Gini coefficient), 2015



The redistributive effect of fiscal policy in Zambia is smaller than in other African countries for which comparable evidence exists. Zambia's pre-fiscal level of inequality is second only to South Africa. Nevertheless, excluding in-kind transfers, the redistributive effect in Zambia is small relative to other Sub-Saharan countries (see Figure 24). This is due primarily to a very low impact of direct transfer spending on inequality. In South Africa, for example, direct transfer spending contributes approximately 50 per cent of the total reduction in inequality from Market to Consumable Income whereas, in Zambia, direct transfers contribute less than 10 per cent of the total reduction in inequality

Figure 24: Fiscal Policy's Impact on Inequality(bars); Initial Inequality (dots), select countries/years



Box 20: Continued

The contribution of fiscal policy to increasing poverty is shared by other countries in Africa. In most low-income countries in Africa including Zambia, fiscal policy (excluding in-kind transfers) contributes to an increase in the poverty headcount ratio. Zambia's fiscal system is weighted toward indirect taxes. As a result, after direct transfers and subsidies are received and direct and indirect taxes are paid, most Zambian households' net purchasing power is reduced. Without reform, poor households will continue to pay more into the fiscal system than they receive from it in cash.

For information on similar studies on the Impact of Fiscal Policy on Inequality and Poverty consult the Commitment to Equity Institute website; Visit **http://commitmentoequity.org/**

Source: de la Fuente, Rosales and Jellema (2017), (available on the Worldbank-Website - https://documents.worldbank.org/en/publication/documents-reports/documentdetail/293891511202548979/the-impact-of-fiscal-policy-on-inequality-and-poverty-in-zambia)

4.4 TAKE-AWAY LESSONS

- The annual preparation of a country's budget is a large and complex exercise
- Lack of institutionalization of review and negotiation processes with a lack of control and oversight may result in more weight given to informal processes of budget allocations
- Credibility is of key importance to a good budget
- Results-oriented or performance-based budgeting systems are, budgeting systems that link expenditure to specific results.
- Effectiveness of social spending measures how well outputs are converted to outcomes and impacts (e.g. reduction in poverty gap and inequality, improved nutrition, reduction in school drop-out, gender equality and disability inclusion.). A key component of public spending analyses is the benefit incidence analysis, which measures the benefits from public policies that are provided to various individuals or groups of individuals, such as women or individuals with disabilities, in a society.

5

PUBLIC EXPENDITURE CONTROL, MONITORING AND OVERSIGHT

Opportunities for maladministration need to be limited through detailed rules on how public resources are spent and control systems to prevent fraud and abuse. This section briefly discusses rules and good practices on public expenditure control, monitoring and oversight.

5.1 INTERNAL CONTROL, MONITORING AND OVERSIGHT

To maintain internal control over expenditures and monitor financial transactions a **robust accounting system** is of key importance. Accounting is the practice of recording, classifying and summarising financial transactions and assuring compliance with budget rules as well as demonstrating that public funds are being used for their intended purposes.

5.1.1 Budget monitoring

To understand and evaluate how governments utilise funds and how those funds contribute to government policies, one needs to monitor the results of expenditures. The need for such monitoring has led to the establishment of government **Monitoring and Evaluation (M&E) Systems.** A common element of such M&E systems is the requirement for line ministries and other spending agencies to send **regular reports** on financial and non-financial performance to the Ministry of Finance. Ideally, these should also be made public. Non-financial performance refers to the results of government expenditure, which are usually measured at the levels of outputs, outcomes, impacts or other performance indicators. To assess how far they are progressing on their objectives, governments need to continuously keep track of these indicators to plan accordingly (Simson et al, 2011).

Internal reporting guidelines in many governments stress the need for regular monthly management reports for submission to the Minister. Such monthly reports will enable executive authorities to monitor the performance of their accounting officers and assist the cabinet in monitoring the performance of their government (National Treasury, 2000). See more on this in Module M&E.

However, while reporting to ministers is an important accountability function, the primary purpose of these reports is to assist departmental managers in discharging their responsibilities. Monthly management reports should focus on performance against budget and against service delivery and alert managers where remedial action is required with regard to programme implementation. Furthermore, regular monthly reporting helps facilitate the compilation of the year-end financial statements and annual reports (National Treasury, 2000).

To improve transparency and accountability in line with international best practices, some countries (such as South Africa) regularly consolidate and publish these reports in their national government gazette.

5.1.2 Internal control

All organisations have systems of internal control, and governments are no exception. Internal or management control systems are policies and procedures implemented by government agencies to ensure the agency achieves its objectives while complying with all external laws and regulations. Systems and procedures of internal control are designed to:

- Provide reasonable assurances that the organisation's objectives are achieved effectively and efficiently, in compliance with applicable laws and regulations
- Ensure reliable financial reporting

According to the South African Public Financial Management Act (PFMA) of 2000, the responsibilities of different stakeholders for internal control can be summarised as follows:

- The **departmental management** has the ultimate responsibility for the operation and ownership of the system of internal control.
- Members of **legislative bodies** in their capacity as representatives of the taxpayers, are to exercise governance, guidance and oversight.
- **The Auditor-General** will play an important role in making recommendations should any weaknesses in internal control be identified.
- **The audit committee** should be able to identify and act on instances where management may override internal control or otherwise seek to misrepresent reported financial results.

5.1.3 Internal audit

Internal audit is defined as "an independent appraisal function, established within an organisation to examine and evaluate its activities" (National Treasury, 2000). Internal audit exists to support management in carrying out its responsibilities effectively by providing analyses, appraisals, recommendations and advice concerning the activities of a department. A key element of any internal audit is the requirement to examine and objectively appraise the adequacy and effectiveness of internal control mechanisms in the department, to highlight potential shortcomings and allow management the opportunity to remedy deficiencies (National Treasury, 2000).

An effective audit committee can assist management in performing its accountability responsibilities, safeguarding assets, operating adequate systems and controls, and preparing financial statements by:

- Improving communication and increasing contact, understanding, and confidence between management and internal and external auditors.
- Scrutinising the performance of internal and external auditors, thus increasing accountability.
- Facilitating the imposition of discipline and control, thus reducing the opportunity for fraud.
- Strengthening the objectivity and credibility of financial reporting.

An internal audit committee should be strictly advisory and not executive and should not perform any management functions as this would prejudice objectivity.

5.2 LEGISLATIVE OVERSIGHT OVER THE BUDGET

The legislature plays an important role in overseeing public financial management, mainly through ex-ante and ex-post scrutiny of the budget. The role of the legislature varies significantly between countries and especially between parliamentary and presidential systems.

Many former British colonies, for instance, have a dedicated **Public Accounts Committee (PAC)** overseeing all budgetary matters. While there are significant differences in the exact role of the legislature in financial oversight, legislatures tend to exercise their supervision prerogative primarily by reviewing the budget before its approval and scrutinising the final audit report after the budget has been executed (Simson et al, 2011).

It has been recognized that sustainable macroeconomic policies require a sound domestic consensus rather than being solely based on external advice. To create stable fiscal policies and reduce the frequency of policy reversals, financial reforms and budgets need to be owned domestically. Legislatures can play a crucial role in this by facilitating public engagement in the budget process through consultations with their constituents. Furthermore, politicians can raise community concerns in budget debates and during budget execution scrutiny (Simson et al, 2011).

5.3 EXTERNAL AUDIT

External auditing is another mechanism designed to ensure that the budget is executed in accordance with the law and effectively delivers public services. External auditing is often conducted by a Supreme Auditing Institution (SAI), which is a "public body independent of the government with the powers to scrutinise government transactions, systems and practices" (Simson et al, 2011).

External audits usually scrutinize a government's public financial management system in various specific audits, which are usually distinguished as follows.

TYPES OF EXTERNAL AUDITS	
Financial audit	Is the government's financial statement a fair and accurate reflection of revenues collected and expenditures made?
Compliance audit	Did agencies act in accordance with laws and regulations?
Performance audit	Did agencies perform well against their stated goals?

Source: Simson et al, 2011

Gender equality and disability inclusion can be approached in audits. For example, in social protection programmes with specific gender-related (eg, maternity benefits, cash transfers for girls to attend school, etc.) or disability-related (e.g. disability-targeted cash and in-kind transfers, disability-targeted employment, education programmes) foci, gender equality and disability inclusion can be made the primary focus of the audit. Alternatively, in non-gender specific social protection programmes, gender equality and disability inclusion can be made one line of enquiry within the audit. This examination of gender equality and disability inclusion issues can result in important findings and recommendations related to government commitments and obligations. One example would be an enquiry to determine whether a programme results in women, men, and people with disability receiving benefits in numbers equal to their representation in the eligible population (IMF, 2017).

5.4 FIDUCIARY RISK CONTROL

It is of key importance for successful government policy and especially the design and delivery of social transfer programmes to address risks that threaten the effectiveness of benefit delivery and the achievement of the programme's primary objectives. Particularly in fragile states, where there is fraud, corruption or inefficiency, there are possibilities for improper allocation of funds and while well-implemented delivery systems as well as monitoring and evaluation address these risks, there is also the need for explicit strategies to address these fiduciary risks. (Samson et al, 2010).

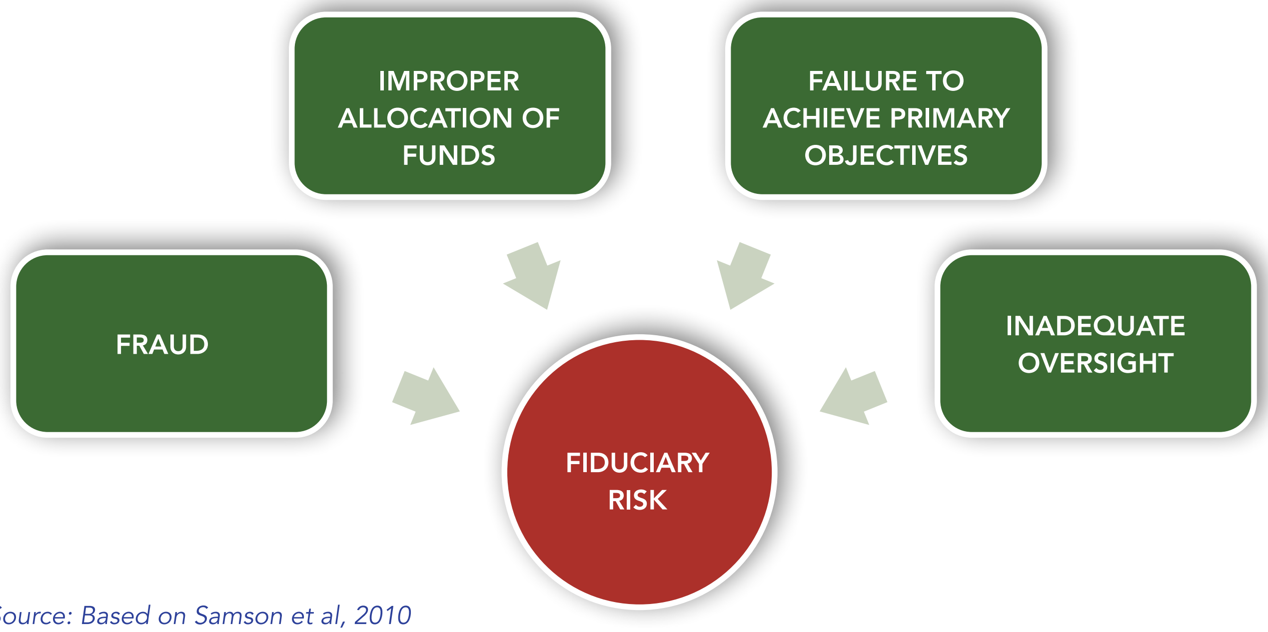
Fiduciary risk can be defined as the risk that government expenditures diverge from those authorized in the budget (Shah, 2007). It is often understood to be primarily concerned with fraud and corruption but most comprehensive definitions often include "misappropriation, misallocation, and the additional risk that the budgeted resources are either wasted or spent ineffectively" (Shah, 2007). This includes the risk of funds being "diverted into another area of government spending, programmes being poorly designed so that, for example, transfers do not reach their intended targets, mistakes being made by applicants or administrators, and the existence of poor financial management systems" (DFID, 2006).

Fiduciary risk is defined by the UK's Department for International Development (DFID) as the risk that funds:

- Are not used for their intended purposes.
- Do not achieve value for money.
- Are not properly accounted for.

With respect to social protection, fiduciary risk is mainly the "likelihood that social transfer programmes fail to achieve their primary objectives, which is the greatest value-for-money risk" (Samson et al., 2010).

Figure 25: Components of fiduciary risk



Source: Based on Samson et al, 2010

5.4.1 Fiduciary risks and budget comprehensiveness

There is now a broad consensus that it is difficult for the government budget to reflect the preferences of society and to incorporate the principles of good governance if it includes only a small proportion of revenues and expenditures, which means that the legislature and the public can scrutinise only some of the activities for which the expenditures are made. This lack of information on other expenditures can lead to abuses of executive power, corruption and even large-scale theft of public resources. There is an argument for **strict adherence to the principle of budget comprehensiveness,** as the budget should in principle cover all transactions financed through public financial resources.

If the budget excludes major expenditures, there can be "no assurance that resources are appropriately allocated to priority programmes and that legal control and public accountability are properly enforced" (Shah, 2007). In addition, the amount of expenditures that are not included in the budget is often uncertain and opaque. This uncertainty makes "macroeconomic programming more difficult and increases the risk of corruption and waste" (Shah, 2007).

5.4.2 Fiduciary risks and social protection programmes

A policy guidance note by DFID on managing the fiduciary risk associated with social cash transfer programmes (DFID, 2016) highlights the following regarding fiduciary risk issues that are specific to non-contributory social protection:

- Cash transfer programmes have inherent fiduciary risks, which can be mitigated most effectively at the design phase of programmes.
- The greatest risk of loss from error or fraud through cash transfer programmes arises from the complexity of the eligibility criteria and operations.
- No standard design for cash transfer programmes will mitigate all risks, but programmes should be designed to be as simple as they can be, while still meeting their objectives (there may be a trade-off between the simplicity of a programme and how well it targets the poorest).
- Controls to mitigate fiduciary risk have a cost, both to the administration of the scheme and sometimes to recipients. There is therefore a balance to be struck in ensuring effective control while meeting policy objectives.
- Appropriate monitoring and evaluation of programmes will help to identify any failure in controls.
- Separate fiduciary risk assessments are mandatory for all cash transfer programmes provided from general or earmarked budget support and should be carried out periodically over the lifetime of a programme.

For social protection programmes to be successful, mechanisms must be in place, which ensures that programme delivery is subject to appropriate oversight and redress. Such mechanisms "can offer transparency, reduce corruption, and provide avenues for recipients who are denied appropriate benefits" (Samson et al, 2010).

Recipients and the wider public must understand the benefits of social protection interventions and their potential entitlement towards them. In addition, people must appreciate their options for redress when benefits are unjustly denied and understand the channels through which they can do so. Recipients of support interventions often lack the resources to understand and protect their rights and provide necessary feedback to programme implementers and policymakers (Samson et al., 2010). For more on this, see Module LEG.

Transparency and effective communications are crucial to ensure that the recipients and the broader population understand and appreciate the objectives of the particular interventions. Increasing the transparency of programme implementation can improve accountability.

5.5 EXTERNAL ACCOUNTABILITY IN THE BUDGET PROCESS

5.5.1 Inclusive budget formulation

The budget can be a major tool of accountability to the legislature, the press and the wider public as it can help hold administrators accountable not only for the funds they received but also for their performance (Shah, 2007).

There are **numerous ways the budget preparation process can support citizens' participation and consultation**, which can foster a sense of ownership and control over the national budget as well as work towards aligning the budget with their priorities. Failure to create an inclusive process by making it difficult to participate in the budget preparation or making budgetary information inaccessible can alienate the public (Shah, 2007).

Organized in various forms, governments should try to get feedback on their policies and budget execution from civil societies. For instance, **consultative boards,** including representatives from various sectors of society, could discuss budgets and government expenditure policy. In addition, ad-hoc groups may be set up by the government on specific policy issues, including gender equality or inclusion of people with disability. User surveys and consultations with stakeholders, civil society and customers when preparing agencies' strategic plans or programmes can enhance the effectiveness and sustainability of such plans or programmes (Shah, 2007).

In countries with weak budget execution and monitoring mechanisms, **mechanisms for eliciting feedback** from citizens can be effective in revealing malpractices such as "ghost schools," defective infrastructure, incomplete public works projects, theft, and waste. While such monitoring mechanisms are often resented by the executive branches of government, they are remarkably cost-effective monitoring devices and should be supported as such (Shah, 2007).

However, finance and budget officials, central bank staff and economic policymakers often assume that ordinary citizens do not understand macroeconomic policy enough to contribute and the poor and marginalized sometimes have little faith in their government's intention and ability to make the right decisions for them (Brinkerhoff & Goldsmith, 2003).

Although the inclusion of more actors in the decision-making process is not necessarily a guarantee of better decisions, a more contestable policy arena tends to be associated with higher levels of legitimacy and cooperation. When procedures for selecting and implementing policies are more contestable, those policies tend to be perceived as "fair" and to induce cooperation more effectively. (World Bank, 2017)

Civic involvement with regard to the revenue side of the budget process is mostly concerned with the level and structure of taxes, including discussions on the tax incidence and the degree of progressiveness or regressiveness of the tax system. Fiscal policy determines how governments manage revenues, expenditures and debt and therefore has a tangible effect on all citizens' lives. On the expenditure side, civil society organizations (CSOs), including Organisations of Persons with Disabilities, focus on priorities for public spending and how generously those services are funded. Other concerns are efficiency, effectiveness and equity issues related to spending for government services (Brinkerhoff & Goldsmith, 2003).

5.5.2 Inclusive budget monitoring

In many governments, external audits are generally conducted and appraised without public participation and audit reports are made available only to the legislature or agencies. These practices mean that most members of the "public have no way of accessing such reports, of knowing what was going on in government, or of helping to improve governance" (Shah, 2007).

The lack of transparency in the auditing process and the absence of mechanisms to demand public accountability for expenditure use significantly reduces the possibility of citizens participating in financial policies and increases the possibility of corruption, fund mismanagement and ineffective service provision (Shah, 2007).

Fortunately, this is changing and in many countries, audit agencies – in line with governments' desires – promote transparency and good governance, and have developed strategies that include "piloting civil society participation in the auditing process or in the scrutinizing of audits" (Shah, 2007). Such reforms, for instance, involved non-governmental actors, such as donors and CSOs in the budget monitoring process (Simson et al, 2011).

These **participatory audits** are particularly valuable in settings where SAIs cannot do performance audits. The strengthened participation of citizens in the auditing process, effectively enhances government accountability, transparency and credibility. Civil society participation is in itself an important deterrent against corruption and is expected to "promote more prudence in the use of public resources for projects that would benefit local communities" (Shah, 2007). These audits should include meaningful consultations with marginalised groups (e.g. people with disability, women, and children).

Expenditures lie at the core of state accountability. Yet in many countries, citizens have relatively little accessible information on government spending. To bridge this gap, some state and non-state actors have started to produce so-called Budget Briefs, which are essentially easy-to-understand analyses of expenditure for public services. To ensure that budget briefs are accessible to ordinary citizens, they are usually short documents with a limited amount of information and key messages. In addition, good budget briefs tend to include simple visual interpretations of the relevant data.

Depending on the focus of the organization drafting the briefs, they may be of general nature and aim to visualize total government spending or focus on specific sectors, such as education, health or social welfare. See Box 21 below for an example of a key message section of a Social Welfare Budget Brief in Mozambique.

Box 21: Key message of the 2014 Budget Brief of the Social Welfare Sector in Mozambique

Trend: The budget allocated to the Social Welfare sector – considering the sums allocated to the Ministry of Women's Affairs and Social Welfare (MMAS) and to the National Social Welfare Institute (INAS) thus excluding the amount allocated to Social Subsidies2 (which include the general food and fuel subsidies) – maintained the strong growth trend experienced since 2010. For 2014, 3.9 billion Meticais were programmed, which is an increase of 48% in real terms (discounting the effect of inflation) when the 2014 State Budget Law (LOE) is compared with that approved for 2013.

Weight of the Social Welfare Sector in the State Budget (OE): Considering Social Welfare without social subsidies, the sector will have at its disposal 1.64% of the resources made available by the State in the 2014 LOE, strengthening the positive trend displayed in recent years (in 2012 the "weight" of the sums allocated to MMAS and INAS amounted to 0.97% of the OE). In terms of GDP, the resources allocated to MMAS and INAS amount to 0.74% of the GDP projected for 2014. This percentage has tripled since 2010 when it was 0.23%.

Coverage of the INAS Programmes: If we exclude the social subsidies, the positive evolution in the allocation to the Social Welfare sector results essentially from an increase in the budgetary allocations to the Social Protection programmes managed by INAS, which has allowed an increase in the number of households covered and the amount transferred to each recipient. In 2014 it is expected that INAS will manage to cover through its programmes 427,384 households, thus making it possible to achieve an annual growth rate in the households covered in excess of the 20% experienced over the last 7 years. Despite the positive progress, the target figure for recipients, which it is expected to reach in 2014, represents only 15% of the households in a situation of poverty in Mozambique.

Value of the transfers: For 2014, as in 2013, there was an adjustment in the value of the levels of the Basic Social Subsidy Programme (PSSB), to deal with the inflation rate and the fluctuations in the prices of basic foodstuffs. The value rose from 250 MT in 2013 to 280 MT, as the basic sum for a household consisting of just one person (in 2012 the sum allocated was 130 MT). The amount can rise to a maximum of 550 MT for a household with 4 dependents. The value of the food kit distributed through the Direct Social Support Programme (PASD) also increased (from 960 MT in 2013 to 1,200 MT in 2014). Thus, in the case of the PSSB, the value of the transfer rose by 12%, which is higher than the rate of inflation recorded in 2013 (7.5%).

Social Subsidies: In contrast to the increase in sums allocated to the INAS Social Protection programmes, in 2014 the declining trend for allocations for Social Subsidies (which are less progressive than the INAS transfers) continued. They fell from 4.6 billion MT programmed in the 2013 LOE5 to 2.6 billion MT in 2014. This meant that, for the first time since 2011, the sum allocated to the INAS programmes is higher than that allocated to the subsidies (in 2011 the sum allocated to the subsidies was 6 times greater than the sum allocated to the INAS programmes). At the same time, it was noted that the subsidies intended to cover the deficits of public companies are considered as Social Welfare sector expenditures. It should be advocated that these subsidies should not be included as part of Social Welfare sector expenditure.

Equity: Taking into account the geographical distribution of the poverty and vulnerability indicators, there is still a weak relation between these indicators and the distribution of resources through the INAS programmes. This could be a factor in strengthening inequalities.

The full budget brief and subsequent editions can be downloaded under the following link:

http://www.socialprotection.org/gimi/gess/ShowRessource.action?ressource.ressourceId=49417

Source: ILO (2014)

5.1 TAKE-AWAY LESSONS

- Legislature plays an important role in overseeing public financial management, mainly through ex-ante and ex- post scrutiny of the budget.
- Fiduciary risk is concerned with fraud and corruption and risks that budgeted resources are either wasted or spent ineffectively
- Transparency and effective communications are crucial to ensure that the recipients and the broader population understand and appreciate the objectives of particular interventions
- In countries with weak budget execution and monitoring mechanisms, mechanisms for eliciting feedback from citizens can be effective in revealing malpractices such as "ghost schools," defective infrastructure, incomplete public works projects, theft, and waste
- Although the inclusion of more actors in the decision-making process is not necessarily a guarantee of better decisions, a more contestable policy arena tends to be associated with higher levels of legitimacy and cooperation.
- Participatory audits, including representation from marginalized groups such as women and people with disability, encourage more "more prudence in the use of public resources"
- Budget Briefs, are essentially easy-to-understand analyses of expenditure for public services with a limited amount of information and key messages and include simple visual interpretations of the relevant data.

6

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CURRICULUM
OVERVIEW

The TRANSFORM Learning Package
is organized in a modular structure, and reflects the key building blocks of a holistic & interdependent social protection system.
The TRANSFORM modules that are currently available are listed below.
Other modules are under development and will be added to the curriculum.

LEG	**Legal Frameworks**
S&I	**Selection & Identification**
ADM	**Administration and Delivery Systems**
COO	**Coordination**
GOV	**Governance, Institutions & Organizational Structure**
MIS	**Management Information Systems & Approaches to Data Integration**
FIN	**Financing & Financial Management**
M&E	**Monitoring & Evaluation**

All TRANSFORM materials are available at:

www.transformsp.org

WHAT IS TRANSFORM?

TRANSFORM is an innovative learning package on the administration of national social protection floors in Africa. The prime objective of TRANSFORM is to build critical thinking and capacities of policy makers and practitioners at national and decentralized levels to improve the design, effectiveness and efficiency of social protection systems. TRANSFORM aims not only at imparting state-of-the-art knowledge that is appropriate for the challenges faced by countries in the region, but also to encourage learners to take leadership on the change and transformation of nationally defined social protection systems.

WHY TRANSFORM?

Many training curricula exist in the field of social protection and thus fundamental ideas, concepts, approaches and techniques are accessible. And yet, institutions and individuals struggle with the complexity of developing a broad, encompassing social protection system.

This complexity requires a transformational approach to teaching and knowledge sharing. It is far from enough to impart knowledge, to fill heads. It requires learners to grapple with the features of complexity, to stimulate creativity, to appreciate diversity and uniqueness, to be involved as a key element of ownership –elements which are at least as important as the factual knowledge itself. This learning package aims at just that: TRANSFORM!

See more on cover page.

Contact the TRANSFORM initiative at: **transform_socialprotection@ilo.org**
or visit **www.transformsp.org**

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