THE TRANSFER PROJECT

RESEARCH BRIEF

THE COST OF SOCIAL CASH TRANSFER PROGRAMS IN SUB-SAHARAN AFRICA

Introduction

Social cash transfers (SCTs) can be an important instrument for ensuring a minimum standard of living for the most vulnerable members of society in sub-Saharan Africa (SSA). Currently over a dozen countries in SSA have some form of SCT as part of their national poverty alleviation programming. However, questions have been raised about the affordability of scaling up SCTs in very poor countries with low capacity to generate revenue. The purpose of this policy brief is to estimate the cost of scaled-up SCTs in SSA using simple but realistic program parameters.

Program Parameters

We select program parameters and coverage rates that are consistent with many SSA countries that are currently in the process of piloting or scaling up SCTs. These programs typically target the 'ultra-poor' which ranges from the poorest 10-20 per cent of the population. Based on evaluation data from six SSA countries[1] the mean consumption of beneficiaries ranges from $0.40 to $0.80 per person per day. The accumulated evidence from cash transfer programs around the world is that a program should aim to provide at least 20 per cent of the daily consumption of its target group in order to have an impact on welfare.[2] In our calculations we assume a transfer of $0.20 PPP[3] (international $) per person per day which assumes that the target population would have a daily consumption of $1 PPP per person per day. The target population is the poorest 20 per cent of the total population. We add administrative costs of 12 per cent to round off the costing model. Data on population, GDP and government spending is taken from the IMF WEO 2013.[4] Population and GDP in current US$ and in PPP are for 2012.[5] Government spending is calculated as the average over the period 2008-2012 for all years that data is available. We do this because there are missing values in any given year and because spending can fluctuate significantly from year to year. The average government expenditure among the 48 countries over this time period is 28.5 per cent of GDP, ranging from 16 per cent in Madagascar to 61 per cent in Lesotho.

Results

The results of the costing exercise are shown in Figure 1. Based on the parameters applied to 48 countries in SSA, the annual cost of a hypothetical social cash transfer scheme in 2012 would range between 0.1 and 2 per cent of GDP for most countries, with an overall average of 1.1 per cent of GDP. Countries above this range are Eritrea, Liberia, Burundi, Zimbabwe and the Democratic Republic of Congo, where the cost of the cash transfers would range between 2.3 and 4.5 per cent of GDP.

Photo by Sara Abdoulayi

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[1] Ghana, Kenya, Lesotho, Malawi, Mozambique, Zambia and Zimbabwe.
[2] Blank, Lorraine & Sudhanshu Handa, 2008, Social Protection in Eastern & Southern Africa: A Strategy and Framework for UNICEF, UNICEF Regional Office, Nairobi, Kenya.
[3] $0.20 PPP has an average value of 0.12 in current US$ among the 48 countries, ranging between 5-19 cents (except for Zimbabwe with 27 cents).

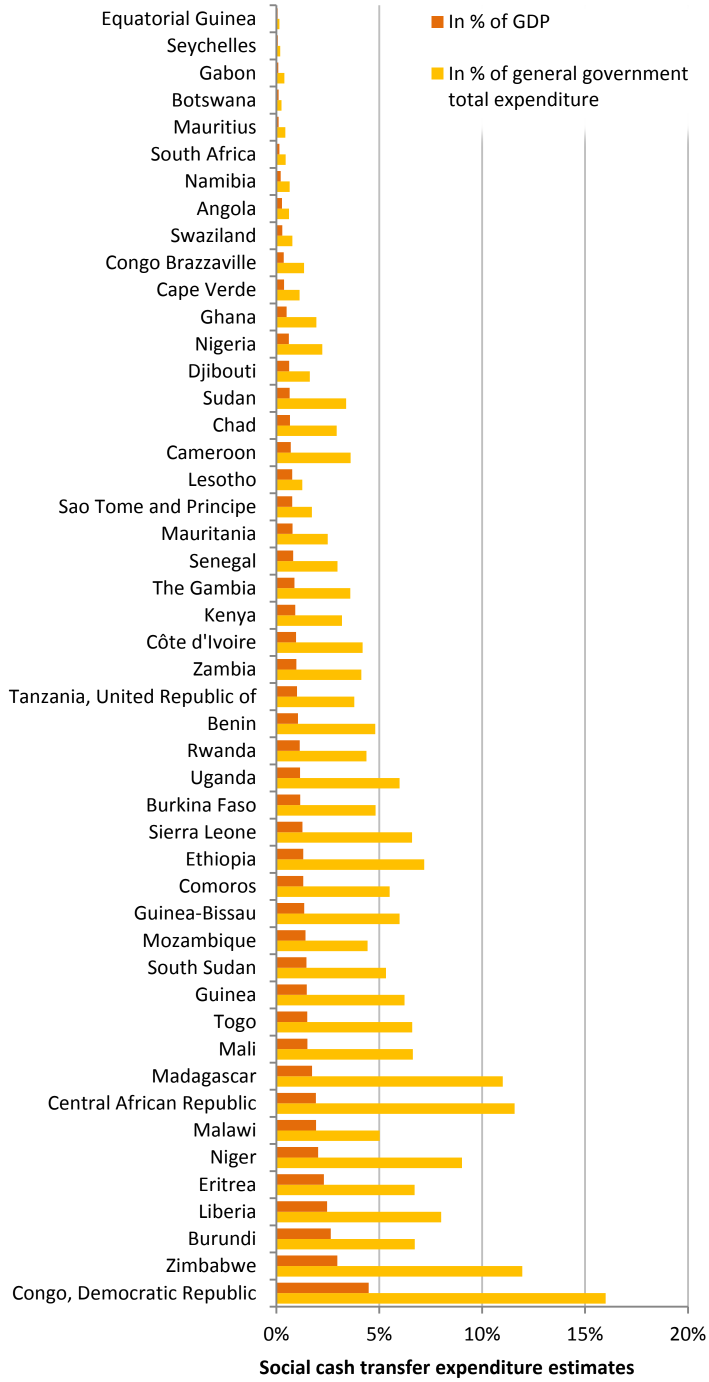
[4] IMF World Economic Outlook database, October 2013.
[5] IMF estimates have been used where actual data for 2012 were unavailable.

The cost of this hypothetical SCT as a per cent of general government expenditure is estimated to be below 1 per cent for 9 countries, 1 to 5 per cent for 21 countries, and 5 to 10 per cent for another 14 countries. For four countries in the region (Democratic Republic of Congo, Zimbabwe, Central African Republic, and Madagascar) the estimated cost of the SCT is greater than 10 per cent of government expenditure; the overall average is 4.4 per cent.

In most SSA countries that are currently scaling up SCTs, the focus is typically on rural populations where the extent and depth of poverty is much greater than in urban areas. Across SSA the rural population comprises on average 63 per cent of the total population.[6] Thus, an expansion strategy that only targets rural areas would cost 37 per cent less on average than the figures shown in Figure 1. In the specific case of Malawi for example, the cost of a program scaled to rural areas only would be 1.6 per cent of GDP, while in Tanzania it would be 0.7 per cent of GDP.

Photo by Michael Park

Figure 1: Social cash transfer expenditure estimates in Sub-Saharan Africa, 2012



6 World Bank – World Development Indicators, 2012.