THE CASE FOR ESTABLISHING A COMPREHENSIVE SOCIAL PROTECTION SYSTEM IN UGANDA[1]

Uganda has made strong progress toward reducing poverty and protecting the poor. Nonetheless, strengthening the social protection system would further contribute to reducing poverty and inequality. A comprehensive and well-defined social protection system would improve productivity through health and education enhancements, function as a shock-absorber to various forms of economic instability, benefit the wider local economy, and contribute to achieving inclusive growth. Different forms of direct intervention can be considered, including cash transfers against predetermined conditions, granting of working tools (for example, a cow), and provision of jobs on public construction against a salary. Simulations show that interventions that could reduce poverty by as much as 10 percent would only cost about 0.3 percent of GDP, of which a significant amount could be provided by donors.

What is social protection?

Social protection generally refers to public and private interventions to address risks and vulnerabilities that expose individuals to income insecurity and social deprivation. The system usually comprises social care services and social security. The latter includes direct income support— defined as non-contributory transfers to extremely vulnerable individuals and households without any form of income security— and social insurance— contributory systems to mitigate livelihood risks such as retirement, loss of employment, work-related disability and ill-health.

Why does Uganda need a well-established social protection system?

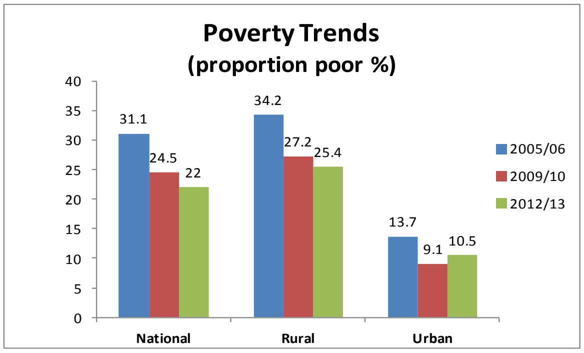
Despite the dramatic decline in the poverty rate that Uganda has achieved, the absolute number of people living in poverty, close to 8 million, has hardly changed in two decades. The strong economic growth of the last two decades was supported by sound macroeconomic management and a liberalized economic environment. As a result of this and also of some targeted efforts, the poverty rate halved (from 56 percent in 1992 to 25 percent in 2010), allowing early achievement of the Millennium Development Goal of halving poverty by 2015. While a number of economic shocks over the past five years have resulted in a slowdown in the rate of economic growth, the poverty rate continued to decline, reaching 19 percent in 2013. However, with its rapidly expanding population, approximately eight million of Uganda's citizens still live below the poverty line.

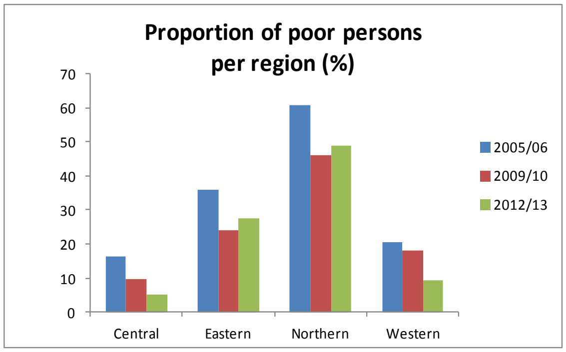
Furthermore, vulnerability has increased due to the negative impact of shocks, including changes in employment status, droughts, and personal disasters. The number of people who are still insecure (those who can meet their basic needs, but who have very volatile incomes) has more than doubled, from about six million in 1992 to 13.2 million today.

Inequality among urban and rural areas and regions of the country is also growing. Poverty is more widespread in rural (27 percent) than in urban (9 percent) areas and an estimated 94 percent of the poor population lived in rural areas in 2009/10. However, numbers of urban poor are rising as a result of urbanization, leading to high levels of deprivation in informal settlements. Poverty has declined sharply in the central and western regions while much higher rates of poverty continue to

[1] Note for discussion prepared by Clara Mira, IMF Economist of the Uganda team, with valuable inputs from World Bank and DFID staff.

characterize the north, mid-north and east of the country, as a result of the legacy of conflict and violence in these areas.





Accelerating growth can help get an even larger proportion of people out of poverty and reduce vulnerability, but growth alone cannot be sufficient. The ongoing investments, particularly in infrastructure, to address the most binding constraints to growth, are important. Investments in education and health will also raise productivity and longevity of a larger proportion of the population. However, some sections of the population will not necessarily benefit, as has been demonstrated elsewhere in the world. Families in poverty might not be able to afford basic food and health needs, as well as other public services.

Uganda's traditional safety nets (including family support and other community self-help initiatives) have been declining in their visibility and effectiveness in the last few decades. Community initiatives (e.g. self-help groups and revolving loan/labour schemes) have limited coverage as these benefit only those who are able to make regular contributions to the group. Traditional safety nets, such as younger members of the family caring for elder ones are not strong enough when hazards affect many people in the community at the same time. The incidence of HIV has left many households without economically active members.

How has social protection helped in other countries?

Governments in the region have recognized the value of investing in social protection programs as part of wider strategies to reduce poverty, protect assets, and increase human capital. For example, Kenya's government is stepping up its social protection system, with the 2014/15 budget accommodating an increase of about 11 percent in real terms to finance well-targeted cash transfer programs benefiting the elderly, the disabled, and orphans. Rwanda is expanding the coverage of its social protection program, the *Vision 2020 Umurenge Program*. In Tanzania, the authorities are harmonizing the large number of fragmented interventions into a coherent and harmonized *Productive Social Safety Net Program*. The *Ethiopian Productive Safety Net Program* (PSNP) was expanded from emergency food aid and one-off interventions focused on food insecurity to more predictable targeted interventions.

Well-designed social protection systems can reduce poverty and inequality, protect vulnerable members of the population against shocks, and ensure social cohesion. Recent positive experiences from other countries show that social protection programs contribute to:

- *Encouraging and protecting growth.* Providing income security and basic care and protection to the most vulnerable is essential for stimulating local economies, supporting political stability, and building and protecting the human capital necessary for sustained growth and development. [i] Programs often have counter-cyclical effects by maintaining demand during economic downturns.

- *Reducing poverty and inequality*. The Rwanda social protection program consistent of public works and cash transfers has been linked to a decline in poverty from 57 percent in 2006 to 45 percent in 2011[ii]. The South Africa cash grants program is credited with reducing the Gini index by three percentage points, and in Brazil it accounted for 28 percent of the total fall in the Gini index[iii].

- *Creating employment and building community assets.* The public works implemented by the *Malawi Social Action Fund* created wage employment for 40 percent of those who had been unemployed for the previous 12 months.[iv] The assets created by public works support long-term economic growth and social development. Ethiopia's *Productive Safety Net Program* has rehabilitated land and constructed stone and soil bunds to prevent and mitigate the effects of future droughts[v]. Recipients of South Africa's social grants, Namibia's Social Pension, and Ethiopia's PSNP have been found to have higher rates of labour market participation than comparable non-participants.

- *Increasing productivity by improving health and education and offsetting missing credit markets.* Evidence from Kenya shows that the *Cash Transfer for Orphans and Vulnerable Children* resulted in increased consumption of basic food and greater dietary diversity among households enrolled in the program, with an increase in secondary enrolment of 8 percentage points. In Tanzania, children aged 15-17 are 15 percent more likely to complete standard grade 7 compared with non-beneficiaries, and the prevalence of illness reduced by 3 percentage points for those younger than 18.

- *Addressing the structural causes of social exclusion and poverty*. These factors could be related to geographic and economic context, human capabilities, access to productive resources and service delivery, and gender norms, as shown by the cases of Afghanistan, India, Bangladesh, and Nepal[vi].

- *Encouraging consumption of local goods and services*. Studies of the Kenyan *Cash Transfer for Orphans and Vulnerable Children* have shown that cash transfer programs improve economic outcomes in the communities in which they are implemented, with multiplier effects of 1.34[vii]; i.e. for every Kenyan shilling transferred to the program, up to 1.34 Kenyan shillings are generated within the local economy. These findings are confirmed by similar studies in Lesotho, Ghana, Zambia, and Ethiopia.[viii] Evidence from SAGE in Uganda indicates that income received by beneficiaries has boosted trade within their communities[ix].

- *Preventing damaging responses to shocks*. In Ethiopia, households that received regular and predictable support from the *PSNP* were less likely to have to sell their assets to smooth their household consumption.[x] In Swaziland, children in households that received cash and food support had better dietary diversity scores.[xi] In Rwanda[xii], the community-based health insurance scheme provided households with protection against catastrophic health expenditure.

- *Reduce reliance on expensive humanitarian aid during crisis.* In Ethiopia, the social safety net system was scaled up during the Horn of Africa food crisis, allowing for a fast and efficient response.

There is strong evidence that concerns about misuse of funds by beneficiary households of transfer programs are unfounded. A recent review of various studies on the use of transfers concluded that the recipients of direct income transfers spend most of their income on food, health care and education, and not on "temptation goods" like alcohol or tobacco.

What have we learned from unsuccessful cases?

Despite the strong evidence confirming the positive impact on food security, health, education and poverty of social protection programmes, not all interventions have always been successful. In some cases, program design flaws and failure to rightly tailor it to the country's circumstances have led to unsatisfactory outcomes. Key lessons learned from these cases include:

- Targeting poverty is difficult –it can be expensive and inaccurate to work out who is poor. In the case of Uganda, the availability of frequent household surveys can mitigate this concern.
- Most targeting approaches come with targeting errors – either people who are not poor receive benefits, or people who are poor do not receive benefits.
- Establishing the right controls is essential to ensure the resources are used for their intended purpose.
- Strong operational tools are needed to ensure effective program implementation and monitoring.

How does social protection work in Uganda?

In Uganda, social protection is increasingly seen as an important part of the government's strategy to fight poverty and promote economic growth. The Constitution provides a useful framework for focusing on the rights of poor and vulnerable groups in society. *Vision 2040* and the *National Development Plan (NDP) 2010-2015* articulate a route to prosperity through economic growth and job creation, accompanied by sustained reductions in poverty, highlighting the need for social protection for people who are unable to work or lack basic resources. More recently, the draft *Uganda Social Protection Policy (USPP)* aims to reduce poverty and socio-economic inequalities for inclusive development. The draft USPP has benefited from wide consultation and provides the basis for developing a prioritized and sequenced implementation plan.

Ongoing initiatives, though welcome, have some room for improvement. The current direct income support interventions are implemented separately by different agencies, leading to fragmentation, gaps in coverage, and duplication of efforts, therefore limiting effectiveness. At less than 4.3 percent of the population, overall coverage is very low with the median size of most programs being 75,000 beneficiaries. The largest programs are *SAGE* and *Food/Cash for Assets*, which support approximately 1 percent and 0.9 percent of the population, respectively. SAGE is the most government-led direct income support program. The majority of direct income support resources are categorically targeted to people over 65, children under the age of 2, and pregnant and nursing mothers.

Regional evidence shows that Uganda would benefit from the expansion of its social protection programs. The approval and implementation of the draft USPP will be a step in the right direction. Initiatives that could be considered should build upon existing systems that have been shown to work effectively, for instance scaling up the existing senior citizens' grant, or expanding support to other groups, including children. A public works program could also be considered given Uganda's emphasis on public investment. It would be important to identify some sources of funding that include some public resources.

How to prepare for the strengthening of the national social protection system?

Preparatory work and capacity building would need to start as soon as possible. The establishment of a comprehensive national social protection system that meets the needs of all Ugandans would require a significant level of commitment by the Ugandan authorities, and take time. An important aspect will be to separate out the functions of a stronger policy-focused Ministry of Gender, Labor and Social Development (focusing not only on developing policy, but also overseeing implementation) from the functions of service delivery institutions, such as local government, NGOs, community based organizations and a Direct Income Support Agency.

Interventions should be well targeted and directed to groups considered in greater need of support. Four key principles should govern the design and implementation of targeting to attain maximum impact: 1) maximizing coverage of the target group (minimal exclusion error); 2) minimizing leakage to people who are not members of the target group (minimal inclusion error); 3) optimizing cost-effectiveness (costs of identifying the target group are not so high as to exceed the costs of inclusion errors); and 4) ensuring transparency in ways that enhance credibility and reduce fraud.[xiii]

Besides using in-kind transfers, including working tools or school meals, the international trend is a move away from the physical delivery of cash to electronic payments. This trend has responded to the advantages of electronic payments over manual payments, including reduction of waiting time for beneficiaries, cost, and possibility of leakages. In Uganda, the existing financial legislation and regulation is supportive of social protection payments. Forthcoming changes, that will allow agency banking, should see an increase in affordable payment options for programs in the medium term.

A good management information system is a fundamental component of fiduciary risk protection. The management information system (MIS) performs a range of basic functions that enable the flow and management of information for key processes within social protection schemes including identification of applicants and beneficiaries through targeting and registration; compliance with conditions in conditional cash transfer and public works schemes; management of appeals and grievance processes; exit and graduation of beneficiaries; production of payment lists; and reconciliation of payments. The complexity of a social protection scheme determines the amount of information to be collected.[xiv] Uganda has already made good progress in developing the platform for MIS, at the Expanding Social Protection secretariat.

The establishment of the right mechanisms for oversight, controls for fraud prevention and redress is essential to ensure that social transfer resources are used for their intended purpose. These can offer transparency, reduce corruption and provide avenues for beneficiaries who are denied appropriate benefits to complain.The ESP Secretariat has also developed sophisticated internal monitoring and evaluation, including quarterly support/supervision missions to districts conducted by national-level staff to scrutinise registration, enrolment, payment, grievance and financial management records; quarterly analysis of beneficiary transaction data provided by MTN to identify suspicious transactions (such as withdrawals conducted outside of standard payment periods, or multiple rapid batched payments); regular analysis of transaction records and other management information system datasets with proactive investigation of any anomalies shown.

How affordable would it be to step up social protection?

Other countries' experiences show that successful social protection systems do not have to be excessively costly. The average developing country spends between 1 and 2 percent of GDP on social safety nets per year.[xv] In low income countries in Africa, average spending in social safety nets is 1.1 percent of GDP, and 1.7 percent including also middle income countries (which represent 3.7 and 4.4. respectively in percent of government spending)[xvi]. When considering the broader social protection programs, Africa spends on average 2.8 percent of GDP. Some key countries' spending on direct transfer programs can be summarized as follows:

Table 1. Total spending on social safety nets

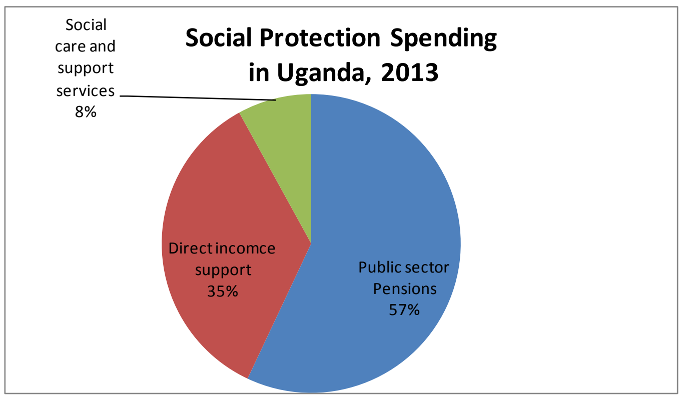
	% GDP
Bostwana	3.7
Ethiopia	1.2
Kenya	0.8
Mozambique	1.7
Rwanda	1.1
Tanzania	0.3

Source: Monchuk, 2014

Over two thirds of the cost of these social safety net programs is covered by donors. Donors finance 68 percent of spending on safety nets in Africa, and almost 75 percent in low income Africa. In the case of Ethiopia, donors finance almost 100 percent of the *Productive Safety Net Program*. Some private sector partners, like Equity Bank in Kenya, also participate in the financing[xvii]. Kenya and Tanzania governments finance 25 and 33 percent of their social protection programs.

Country and programme		Coverage (households)	Government share of budget	Total budget per annum
Kenya	Orphans and Vulnerable Children	150,000	25% (2012/13)	KSh 4,405,209,087
Rwanda	Vision 2020 Umurenge Programme	165,000	65% (2014/15)	RwF 29bn
Tanzania	Productive Social Safety Net	920,000 (planned 2015)	33% (planned 2015)	US$270m

In 2013, Uganda spent around 0.4 percent of GDP on direct income support, and 1.2 percent of GDP on total social protection.[xviii] These levels are low by regional standards, as Africa spends on average between 1 and 2 percent on direct income support per year and about 2.8 percent of GDP on social protection, as stated above. Furthermore, a significant part of the social protection expenditure is absorbed by the Public Service Pension Fund, which does not seek to target poor or vulnerable people. Direct income support includes unconditional transfers, public works, and food or nutrition programs, with food-based programs predominating. Public works interventions are focused mostly in northern Uganda and reach around 500,000 people, almost exclusively externally financed and poorly coordinated.[xix]



Donors were the largest source of financing to social protection in 2013. Despite significant levels of funding from government and individuals (through contributory schemes), 42 percent of funding for social protection in Uganda is from donor agencies, 35 percent from the government, and 23 percent from individuals. Notably, donor funding is allocated to direct income support and social care services, while that from government is almost entirely directed to the *Public Service Pension Fund* (with a small allocation to social care and support services). Individual contributions are made to the NSSF.

According to simulations, interventions would lead to poverty reduction at a reasonable cost. Studies show that a monthly transfer of 50,000 Ugandan shillings to children of school age (between 6 to 15 years old) would reduce poverty in the group by 2.6 percent in the country, and by 16 percent in some regions, at a cost of 72 billion Ugandan shillings for unconditional transfers and 93 for conditional ones, i.e. below 0.15 percent of GDP (table 2). Other options include providing support to senior citizens (SCG), to vulnerable families (VFG), to disabled, single women and 2 year old and younger children (table 3). The child grant for children between 0 and 2 years old would cover nearly 60 percent of the total poor, and reduce poverty prevalence by 8.6 percent, at a cost of about 0.9 percent of GDP.

Table 2. Simulations on the impact and cost of cash transfers, 2012/13

Unconditional cash transfer to aged going kids (6 to 15) (monthly transfer)

	Poverty			Poverty Gap			Gini		
	Baseline	25,000	50,000	Baseline	25,000	50,000	Baseline	25,000	50,000
North East	74.5	67.8	64.3	32.3	26.2	20.8	0.4279	0.3981	0.3744
West Nile	42.0	33.7	25.9	11.7	8.2	5.6	0.3369	0.3199	0.3065
Mid-North	35.6	31.1	24.5	10.2	7.3	5.1	0.3636	0.3477	0.3345
Others	13.0	13.0	13.0	2.8	2.8	2.8	0.3888	0.3888	0.3888
Uganda	19.5	18.2	16.9	5.2	4.4	3.8	0.4003	0.3944	0.3893
Budget (bn Ugx)		36.0	72.0		36.0	72.0		36.0	72.0

Conditional cash transfer to aged going kids (6 to 15) (monthly transfer)

	Poverty			Poverty Gap			Gini		
	Baseline	25,000	37,500	Baseline	25,000	37,500	Baseline	25,000	37,500
North East	74.5	62.4	53.9	32.3	18.3	12.7	0.4279	0.3553	0.3326
West Nile	42.0	28.1	19.6	11.7	5.7	3.9	0.3369	0.2992	0.2857
Mid-North	35.6	23.2	16.0	10.2	4.5	2.8	0.3636	0.3242	0.3088
Others	13.0	13.0	13.0	2.8	2.8	2.8	0.3888	0.3888	0.3888
Uganda	19.5	16.8	15.1	5.2	3.7	3.2	0.4003	0.3884	0.3834
Budget (bn Ugx)		62.0	93.0		62.0	93.0		62.0	93.0

Uganda could create fiscal space over time within its constrained budget and initially use available donor resources. Development partners that have shown interest and willingness to accompany the authorities in the establishment and implementation of the scheme include the World Bank, Irish Aid, and DFID. Pooled funds and efficient coordination are essential to avoid fragmentation. The allocation of government resources could take into account the following considerations:

- In the medium term, the coming on stream of oil production is likely to generate abundant fiscal space that would allow expanding social protection in Uganda.

- In the short term, the current revenue-enhancement strategy, together with ongoing improvements in public financial management, can contribute to opening up some fiscal space. Options to be considered could include:

  - ✓ Devoting a small percentage of the existing oil fund to social spending. This would imply modifying the current 100 percent earmarking to infrastructure to include earmarking a small share for the most vulnerable. In practical terms, as an example, the URA is expected to receive an additional amount as a result of the successful outcome of the recent oil litigation. A small part of this windfall revenue could be devoted to jumpstart the program.
  - ✓ Using part of the proceeds of specific tax measures for redistributive purposes.

In this context, Uganda could aim at increasing its social safety net program by about 0.3 percent of GDP. If donor support were to be mobilized to cover about two thirds of this increase, the system could be jump started by mobilizing additional national budgetary resources amounting to the remaining one third. In the medium-term, as sources of financing are identified, the budget's share of this financing would need to gradually increase.

Table 3. Microsimulations by the Expanding Social Protection Secretariat, 2012

	National Level		National Level			Households with 65+			Households with Children 0-5		
	Number of beneficiary households	Number of individuals	% Poor covered	% Vulnerable covered	% change in Poverty Prevalence	% Poor covered	% Vulnerable covered	% change in Poverty Prevalence	% Poor covered	% change in Poverty Prevalence	Cost (% of 2021 GDP)
SCG	1,064,413	5,229,536	17.1%	14.1%	-3.9%	100.0%	100.0%	-23.1%	14.0%	-2.6%	0.42
VFG	1,247,068	6,598,614	22.3%	18.6%	-3.9%	57.4%	54.0%	-13.3%	20.6%	-3.8%	0.49
Disability grant	146,458	1,019,521	3.6%	2.6%	-0.4%	4.7%	2.6%	-1.8%	3.8%	-0.5%	0.06
Single Women's	623,160	3,099,281	8.7%	8.6%	-1.9%	3.4%	3.1%	-1.2%	7.9%	-1.5%	0.22
Child Grant 0-2	3,600,245	22,026,036	59.5%	58.9%	-8.6%	40.5%	37.7%	-9.2%	72.5%	-10.4%	0.9

[i] Zaman, H. and S. Tiwari. 2010. "Can Safety Nets Contribute to Economic Growth?" Washington DC: World Bank. Draft.
[ii] World Bank, 2012 Managing Risks, Promoting Growth: Developing Systems for Social Protection in Africa, The World Bank's Africa Social Protection Strategy 2012-2022. Washington D.C, World Bank.
[iii] Soares, F.V., and R.P. Ribas, 2006, Evaluating the Impact of Brazil's Bolsa Familia: Cash Transfer Programmes in Comparative Perspective, Brasilia: International Policy Centre for Inclusive Growth.
[iv] Zaman, H., and S. Tiwari, 2010, Can Safety Nets Contribute to Economic Growth? Washington DC: World Bank. Draft.
[v] World Bank, 2012, Managing Risks, Promoting Growth: Developing Systems for Social Protection in Africa. The World Bank's Africa Social Protection Strategy 2012-2022. Washington D.C., World Bank.
[vi] Babken Babajanian, J. Hagen-Zanker and R. Holmes, 2014, Can social protection and labour programmes contribute to social inclusion? Evidence from Afghanistan, Bangladesh, India and Nepal , ODI Briefing, Number 85, April 2014
[vii] Taylor, J.E., J. Kagin, M. Filipski, K. Thome, 2013 Evaluating general equilibrium impacts of Kenya's cash transfer programme for orphans and vulnerable children (CT-OVC), Department of Agricultural and Resource Economics, University of California, Davis.
[viii] FAO, 2014, From Protection to Production: The Role of Cash Transfer Programmes in Fostering Broad-Based Economic Development in sub-Saharan Africa and Barrientos, A, and R. Sabates-Wheeler, 2006, Local Economy Effects of Social Transfers, Institute of Development Studies, Brighton.
[ix] Fareeha Ibrahim and J. Namuddu, 2014. Flow-on Effects of Cash Transfers in Kiboga and Kyenjojo Districts, MGLSD. Available on website: www.socialprotection.go.ug
[x] Gilligan, D., J. Hoddinott, N.R. Kumar & Alemayehu Seyoum Taffesse, 2009, An Impact Evaluation of Ethiopia's Productive Safety Nets Programme, International Food Policy Research Institute.
[xi] Devereux, S. and P. Jere, 2008, Choice, dignity and empowerment? Cash and food transfers in Swaziland: an evaluation of Save the Children's emergency drought response, 2007/08, IDS and PJ Development Consulting Company, Brighton and Lilongwe.
[xii] Saksena, P., A.F. Antunes, K. Xu, L. Musango, and G. Carrin, 2010, Impact of Mutual Health Insurance on Access to Health Care and Financial Risk Protection in Rwanda, World Health Report (2010) Background Paper No 6. Geneva: World Health Organization.
[xiii] Derived from Castañeda et al (2005)
[xiv] Help Age; Pension Eatch – Briefings on Social Protection.
[xv] Grosh, del Ninno, Tesliuc and Ouerghi (2008): The design and implementation of effective safety nets. The World Bank.
[xvi] Monchuk (2014). The New Role of Safety Nets in Africa. The World Bank.
[xvii] Monchuk (2014). The New Role of Safety Nets in Africa. The World Bank.
[xviii] World Bank September 2014 Country Economic Memorandum.
[xix] Uganda Social Protection Financing Options Programme, Final Report 2013.