

# HOW SCALE-UP HAPPENS

*Financing, Political Economy, and Delivery  
in Social Assistance Expansion*



Ugo Gentilini (editor)

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# EXECUTIVE SUMMARY: 10 KEY MESSAGES

Ugo Gentilini

*Message #1: Are cash transfers sustainable? A fiscal policy perspective can shed new light on the financial costs and benefits of cash transfers*

Mainstream approaches to “sustainability” of cash transfer program have centered on core matters of revenues and expenditures. These are key considerations making cash transfers, and social protection more widely, a macrocritical issue. Yet in some ways, this may represent an incomplete approach to sustainability. In addition to costs, the other part of the equation – the benefits – should also be recognized more fully. Fiscal multipliers are a case in point: on average, research shows that the average multiplier for every dollar injected as cash transfer generates about \$1.3 in local economies. Combined with effective taxation systems, such multipliers could make programs’ sustainability more highly favorable than often perceived. Adopting a “fiscal” perspective calls for integrating the costs and benefit sides of the equation more systematically, robustly and coherently in policy and analytics.

*Message #2: How should fiscal issues be pondered? There is a need for a balanced and cautious approach to interpreting key choices.*

The effects and requirements of fiscal revenues and instruments should be carefully pondered. Enhancing fiscal space in low- and middle-income countries often features interconnected debates on among others general revenues and earmarking, or on discretionary spending and automatic stabilizers. The report discusses these threads in multiple chapters in a consistent, balanced way to help inform contextual choices. Overall, the observations offered in the analysis tend to suggest not to over-rely on select instruments, but to find the right revenue composition for a given stock of implementation capabilities, paying attention to unintended effects and managing behavioral responses.

*Message #3: Should fiscal earmarking be considered more widely? Both potential and limitations should be properly recognized and weighed.*

Large swaths of social protection financing debates involve earmarking. Sometimes, this occurs implicitly, such as in the case of compensations for subsidy reforms – where cash transfers are purposively rechannelled (de facto earmarked) for mitigating possible negative effects on prices – or under the adaptive social protection's agenda around contingency financing (hypothecated for crisis response). Earmarking should be approached in a balanced way, including considering a set of 8 main thematic issues. These involve the need to consider cash transfers earmarking in light of the broader development agenda and requires pondering trade-offs between stability and flexibility, choices around program ringfencing and system efficiency, issues around minimum and additionality in financing, the contrasting considerations on discipline and adaptability, a core of issues around transparency, the appeal of political “announceables”, the need to consider distributional effects, and accounting for informality and tax capabilities.

*Message #4: How Can “Adaptive Social Protection” be further advanced fiscally? There is large potential for building automatic fiscal stabilizers as part of an adaptive financing architecture.*

This doesn't entail ignoring the important role for discretionary spending. Like discussed in the context of, for example, indexation of benefits<sup>1</sup> discretionary financing can play a role given capacity constraints and political economy dynamics. There is also a case to be made for properly calibrating ex-ante and ex-post social assistance funding. Yet the current balance favoring discretionary over automatic fiscal arrangements could be revisited in light of the clear fiscal and welfare gains brought by pre-arranged financing. The risk profile of a country, its implementation capabilities, and preferences over risk-transfer will shape such balance in a contextual manner. Furthermore, financing strategies should also consider that cash transfers are not the exclusive remit of fiscal policy and, in particular crisis circumstances, have recently entered the realm of monetary policy in at least a dozen countries (e.g., via “helicopter money”). This poses a further fiscal-monetary balance to strike that goes beyond the scope of this report but that represents an important area for future work.

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<sup>1</sup> | See Gentilini et al (2024).

*Message #5: Is a favorable fiscal ecosystem always a precondition for scale up? Strong fiscal headwinds have not always inhibited expansions*

Flagship cash transfer programs have been introduced and sustained under vastly different macro-fiscal conditions. Assessments conducted on six large-scale flagship cash transfer programs in Brazil, Egypt, Pakistan, Philippines, Senegal and Zambia found that programs were introduced and expanded within diverse surrounding fiscal ecosystems. Most were launched under favorable financing environments, while others were scaled-up under more severe economic downturns. There appears to be no causal relationship between fiscal conduciveness and program expansion, hence suggesting that different rationales, including pursuing equity goals in “good times” and shock-responsiveness functions under more unfavorable fiscal terms, may converge around introducing and scaling-up programs significantly. In either case, evolving country macro conditions indicate that programs fulfilled both pro-cyclical goals in addressing chronic needs as well as exhibiting countercyclical performance at crisis junctures (e.g., pandemic scale-up).

*Message #6: Are fiscal issues enough for explaining “how scale up happens”? A fuller understanding of expansion entails integrating fiscal, political economy and delivery perspectives*

The report shows that flagship programs have been gradually expanded and increasingly funded domestically. The forces behind those transfers – their explanative power – does not stem from fiscal issues only, even when broadly defined. Cash transfers are sites of complex political economy dynamics. And the underlying capabilities to delivering them play a vital role too. It is by considering them in an integrated fashion that new light can be shed on the determinants and requirements of scaling-up.

*Message #7: How much does political economy affect scale up? It’s not all about financing – political economy matters at least as much*

A fuller recognition of the role of political economy could shed light on drivers of program adoption, expansion and related financing. The six case studies on “how did scale up happen” show that political economy factors play a pivotal role in explaining coverage expansion. A focus on securing fiscal resources – a process in itself also partly shaped by political economy forces – is a necessary but insufficient condition for scale up. For achieving

larger levels of coverage and deliver on national and international commitments, there might be a premium for approaches that treat political economy less as an “elephant in the room” and more as a fact-of-life. Recognizing political economy doesn’t entail engaging in politics: it means being able to reasonably infer incentives of the variety of actors (including “national champions”) invariably involved in the process of social assistance management; identify the strategic enablers of scale-up episodes (e.g., effective use of evidence); understanding and addressing resistance, including as generated by sectoral competition and unsettled contentions towards cash transfers; and the codification of “soft” factors. This is no easy task, and the report offers a framework for organizing and articulating those factors and help working within the grains of political economy constraints.

*Message #8: Do delivery capabilities affect expansions? Comprehensive, practical know-how and delivery systems provide the foundation for scale up, although expansions also occurred within challenging delivery ecosystems.*

The spectacular scale-up in select case study countries is also underpinned by evolving delivery systems. The in-depth analysis of the practicalities involved in the scale-up process over the lifecycle of flagship programs reveals the central enabling role played by functions across delivery chains. But as the other themes, it is a necessary but insufficient condition. In fact, operational delays and delivery system weaknesses have stymied expansion process even in the context of favorable fiscal and political conditions; but they have also translated political imperatives and fiscal windfalls into concrete coverage results. In some cases, readiness “on paper” appears to be an imperfect predictor of the readiness “de facto”, including as recorded in surprising instances of effectively achieving scale-up in contexts of limited preexisting capabilities.

*Message #9: Where should we look for additional insights? There are valuable financing lessons for social protection emerging from other sectors*

There are valuable lessons emerging from financing of other human development sectors, such as health. A historical trajectory suggests that health and social protection financing have been increasingly converging. In weighing financing options, the scale up of health insurance has grappled with trade-offs closely resembling modern social protection dilemmas around how to best dovetail contributory and non-contributory configurations, and what source of public revenues should be considered in a given context. Most recently, coverage expansion in health insurance have

tapped information systems largely used for social assistance management. And developments around combined provisions of cash transfers and other short-term insurance benefits further signals such convergence. More deliberate synergies around orchestrating the financing of health and social protection expansions could provide potential economies of scale for both sectors.

*Message #10: What else is happening globally? There are relevant developments occurring outside the traditional boundaries of social protection*

**There are opportunities to harness and coordinate large volume of financing for cash transfers currently provided by sizable non-traditional providers.** Actors like sovereign wealth funds (SWFs) represent an extended arm of governments in managing large investment volumes. SWFs are active in countries across the income spectrum: this report is one of the first to detect and codify how at least 10 SWFs with a capitalization of \$1.7 trillion devote part of their revenues to the direct and indirect support of cash transfers and allied services. The interpretation of such increased engagement of SWFs into social protection raises both opportunities as well as challenges in terms of volatility of support and broader mandates and expectations on the evolving notion of social protection “providers”. At any rate, SWFs should not substitute for state-provided assistance, but could complement it as part of a clear coordination framework.

# PART 1.

*Trends, issues,  
and select  
choices in  
financing social  
assistance*

# 1. HOW SCALE-UP HAPPENS: A TOUR OF THE LANDSCAPE

Ugo Gentilini and Colin Andrews

## *Situating the report*

“Scaling up” has become a rallying cry of social protection initiatives. The rationale for it is clear: with glaring coverage gaps globally and regionally, including nearly 2 billion people with no access to social protection in low and middle income countries<sup>2</sup>, the extension of coverage is a key priority enshrined in an array of national and global commitments. Yet relatively little work has been devoted to examining *how* scale up happens. Understanding such expansion process calls for examining the forces preventing it: these include, among others, fiscal constraints, possible political resistance, and limited delivery capabilities.

Why were those three themes selected? An internal survey with 215 social protection staff conducted in preparation for this report asked the following question: “*what are the main broad bottlenecks that you are facing in your dialogue on social assistance?*” Results indicate that 65% of respondents indicated “limited fiscal space” as a core constraint (multiple responses were allowed), followed by inadequate delivery capabilities (55%), “political incentives” (35.2%), and “skepticism towards cash transfers” (34%), “competing priorities with other sectors” (27.9%), and “other reasons” (6.7%). As such, the report focuses on top three priority challenges as identified by frontline social protection specialists.

A rich thematic literature has examined those constraints convincingly, including pointing out an array of compelling strategic, policy and operational implications for each theme.<sup>3</sup> Yet, taken individually those factors can seldom offer a theory of change reconciling the forces shaping scale up processes. Some contexts with relatively adequate fiscal revenues may opt

<sup>2</sup> | World Bank (2025).

<sup>3</sup> | For example, see Ortiz and Cummings (2022) for fiscal issues, Lavers (2022) for political economy and Lowe et al (2023) for delivery.

for high coverage of cash transfers (e.g., Indonesia), while others at comparatively similar or even more favorable financial positions may settle for lower levels of cash transfers coverage (e.g., Botswana); delivery systems can facilitate scale-up in some settings (e.g., Kenya), but there are cases where high scale-up was attained at relatively low levels of delivery capabilities (e.g., Yemen). In other words, fewer contributions have examined the scale up process more holistically. This report aims to fill such gap by emphasizing the interdependence of fiscal, political economy and delivery in explaining scale-up of cash transfer programs.

In pursuing such multipronged analysis, the three factors are not treated equally: most of the report examines fiscal issues, with political economy and delivery receiving significant albeit relatively less space in the report. This is not to downplay their salience or propose an inherent thematic hierarchy. Again, the point of the report is that all three factors matter, with their relative weights and configuration varying by context. The reason for according a more generous share on fiscal matters is to meet growing demand from practitioners and how global developments are unfolding.

Financing for development has taken center stage over the last two decades across various international fora and governance levels. The UN's Millennium Development Goals (MDGs) and Sustainable Development Goals (SDGs) served as cornerstones in establishing the necessity of social protection<sup>4,5</sup>. Global summits such as the Financing for Development (FfD) conferences, which resulted in the Monterrey Consensus (Mexico, 2002), Doha Declaration (Qatar, 2008), and the Addis Ababa Action Agenda (Ethiopia, 2015), shed a spotlight on the financing priorities and policies necessary for achieving the UN Development Goals. Specifically, the Addis Ababa Action Agenda on Financing for Development sets out the commitment to providing "fiscally sustainable and nationally appropriate social protection systems and measures for all" through strong international evidence-informed support and resource mobilization (UN, 2015)<sup>6</sup>.

Alongside these summits, keynote proposals such as the Bridgetown Initiative, UN Tax Reform Convention, Paris Pact for People and the Planet, and the SDG Stimulus to Deliver Agenda 2030 reaffirmed the commitment to achieve the goals necessary for shared prosperity and paved a pathway to close the development financing gap. In parallel, National Development Strategies have established social protection as a primary priority

4 | <https://www.un.org/millenniumgoals/poverty.shtml>

5 | <https://sdgs.un.org/goals/goal1>

6 | [https://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA\\_Outcome.pdf](https://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf). The recent "compromiso de Sevilla" of June 2025 calls for "adequate and uninterrupted funding" to "increase social protection coverage by at least two percentage points per year" (see <https://financing.desa.un.org/sites/default/files/2025-03/FFD4%20Outcome%20First%20Draft.pdf>)

and helped build global consensus on the financing of cash transfers. The Livingstone Call for Action (2006) and the Social Protection Floor Initiative (2009) helped advance strategies for furthering development through social protection. Further, partnerships such as the World Bank–International Labor Organization collaboration on closing the financing gap for achieving universal social protection (USP) have focused, among others, on the relevance of debt relief and increased access to international funding.

Global attention on the financing needs for social protection came into prominence in recent decades, but have been fast tracked in the wake of COVID-19 and the cost of living crisis. Despite global commitments to establish adequately funded systems, in low-income countries the fiscal gap to introduce a set of basic social protection measures is significant.<sup>7</sup>

### *Towards a broader notion of “sustainability”*

Social protection in general, and social assistance in particular, are emerging as macrocritical issues in fiscal policy. This is not just because of their immediate fiscal cost, but also because of the effects that such interventions can have in terms of fiscal benefits in the form of economic multipliers. Also, under particular large scale crisis conditions, programs like cash transfers have been increasingly located at the intersection of monetary and fiscal policy, including by encouraging higher effective demand. How social assistance can influence the incidence of fiscal policy (including whether net effects of transfers and taxes are progressive or not), how taxes and benefits can shape social contracts, or how transfers should be delivered institutionally (e.g., via tax reductions or outright benefits) can all represent vital connections of cash transfers to the wider fiscal agenda.

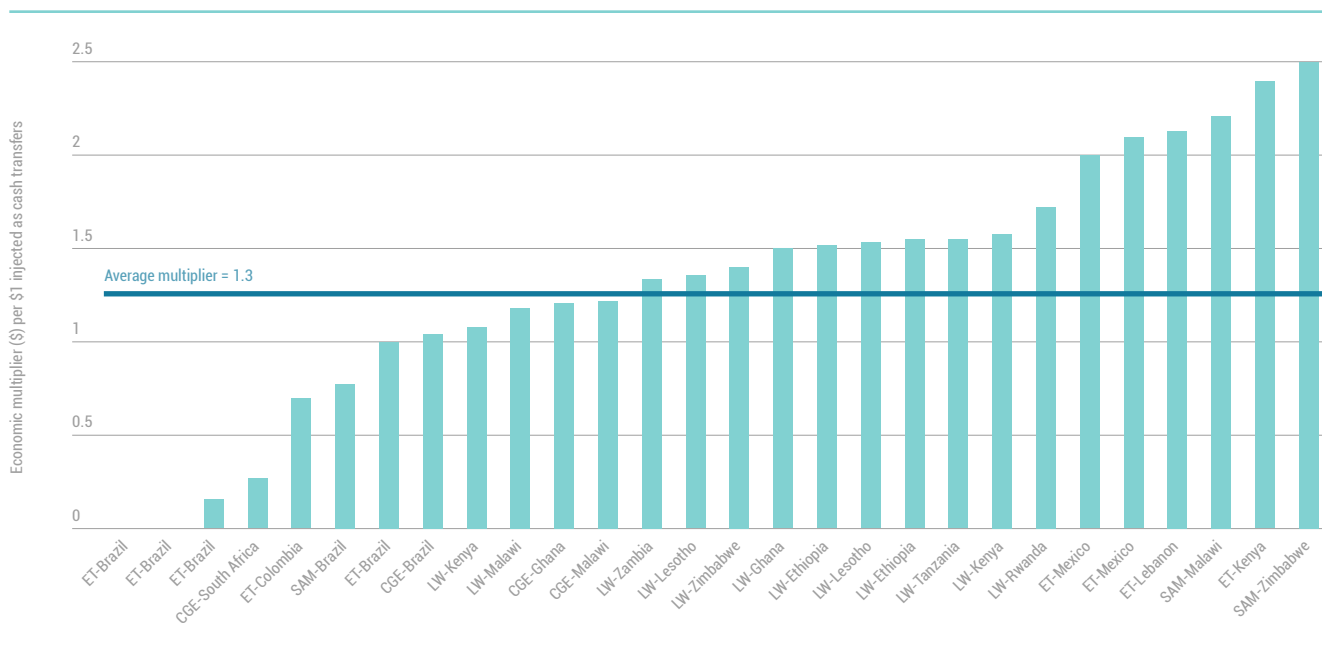
However, mainstream approaches to “sustainability” of cash transfer programs have been often confined to the key matter of costs, without recognizing fiscal benefits. Fiscal multipliers are a case in point: on average, research shows that the average multiplier for every dollar injected as cash transfer is of about \$1.3 (figure 1). Among more ambitious design variants, such as recently piloted in Kenya, programs sparked structural shifts in markets to meet new demand.<sup>8</sup> Combined with effective taxation systems, such multipliers could make programs highly fiscally sustainable. Research has also emphasized how cash transfers can generate savings stemming from, among others, less hospitalization and spending for incarceration as well as yield gains from better productivity, health and

<sup>7</sup> | While the ILO (2025) maintained that such gap is 19.8% of GDP, the figure has been contested (Kidd and Athias 2025).

<sup>8</sup> | Banerjee et al (2023).

longevity.<sup>9</sup> If benefits are fully recognized and estimated, the benefit-cost ratios of cash transfer programs can be significantly more favorable than often perceived.

Figure 1. *Local economic multipliers of cash transfers*



Source: adapted from Gassmann et al (2023)

This report posits that unbundling key issues in financing is key for a fuller appreciation of the intricacies, trade-offs and details that characterize fiscal choices. However, a fuller definition of sustainability may help capture indirect benefits and costs, that are ultimately key for financing itself. Furthermore, the report maintains that, especially in the context of explaining episodes of coverage expansion, fiscal issues should be interpreted in tandem political economy and delivery considerations. It is by considering a broad notion of fiscal sustainability, and by combining fiscal, political economy and delivery perspectives, that we can more fully understand “how scale up happens”.

Largely focused on cash transfers, the report is structured around three main sections: the first includes some “nuts and bolts” fiscal issues and comprises chapters authored by Evans and Tesliuc et al; a second component showcases a compilation of particular fiscal themes, including as offered by Immervoll, Ozer and Bloom, Nesbitt-Ahmed et al, and Lopez and Waddington; and the third leg of the report offers an integrated analysis of how the three dimensions can explain scale up in six case studies from

9 | Ananat and Garfinkel (2024).

Brazil, Egypt, Pakistan, Philippines, Senegal and Zambia. These include an examination of select flagship programs and their journey from introduction to reaching, in relatively short spell of time, between one-third and one-fifth of the population. Combined, these flagship programs reach about 180 million people. Such section features contributions by Bird and Hanedar on fiscal matters, Seetharaman et al synthesizing political economy lessons, and Wadie Hobson et al presenting a delivery perspective. The remainder of this chapter provides key insights emerging from the various contributions.

## *Navigating the report*

### AN INTEGRATED APPROACH TO FINANCING

True to its “primer” nature, Chapter 2 penned by Evans presents an integrated, overarching approach to financing. Its core contribution may not necessarily lie in advancing the frontier of knowledge on specific issues or listing possible funding sources: for both, the literature is extensive<sup>10</sup>. Instead, Evans’ essay offers the reader with a coherent overview encompassing a range of interrelated topics that are seldom weaved together and interpreted through a fiscal lens. It illuminates how particular design choices can be approached and understood in a fiscal perspective, hence unlocking novel entry points for approaching fiscal issues as a system. It sets out financing as a set of inter-connected macro and micro issues as well as policy and operational choices.

For instance, the Chapter provides a rapid tour of demand drivers for social assistance, including for instance select demographic trends, with a view to connecting the demand and supply of social assistance. Within such framework, Evans identifies a set of operational choices. Among others, these include the notion of entitlements and discretionary spending. Relatedly (but somewhat differently) from the debate on earmarking discussed in Chapter 4, the idea of entitlements as interpreted by Evans poses a fundamental pressure on fiscal regimes by placing a claim on resources for fulfilling societal commitments enshrined into legislation, that is, rights. While in principle these represent a fixed cost on budgets, Chapter 2 underscores the possible tensions that may arise between entitlements and financing. Specifically, an “unfunded entitlement” can give rise to practices like waitlisting and rationing, including among case study countries featured in this volume.

<sup>10</sup> | See for instance the November 2024 special issue of *Global Social Policy* (<https://journals.sagepub.com/toc/GSP/0/0>).

Administratively, Evans' Chapter couches targeting choices as part of a fiscal envelope, including recognizing the different extents to which targeting costs are known across alternative methods. He further emphasizes that a multiplicity of cost drivers can be hidden in operational matters, such as contentious issues around transfers uptake and conditionalities. What Evans defines as "passporting", or the ability of a social assistance program to open the door to multiple services, often mediated and directed by social workers, presents valuable benefits to beneficiaries; but they also involve a degree of fiscal complexity as stemming from challenges in integrating budgets across sectors and attributing cost items across allied services. The calibration of transfer levels in a way that is commensurate to program goals is not only a lingering technical dilemma, but also a matter with clear fiscal implications. And so do the overall administrative costs of social assistance management, which persists as an area of glaring challenges in establishing appropriate protocols for reliable and accurate cost tracking and comparisons. Yet there is some emerging progress, including new tools and modelling design to generate ex-ante information on costing.

## FISCAL SPACE

A central theme of Chapter 2 is, of course, fiscal space. Evans builds on existing international literature and estimates to portray the overall size and composition of domestic resource mobilization in low and middle income countries. Those trends are preceded by a discussion on fiscal rules, sectoral trade-offs and the possibility for social assistance to increase fiscally even within an overall regime of contraction. Evans underscores that current heightened levels of debt – where spending on debt servicing (3.7% of GNI)<sup>11</sup> represents nearly double the level of spending on social assistance (1.9%) reported in Chapter 3 – can affect the attainment of key SDGs. Ten out of 17 SDGs feature taxation policies, where the latter are described by Chapter 2 as key for financing, equity, behavioral, and social contracts-related matters. Evans integrates these competing forces alongside other demands on budgets, like social insurance, which can deeply affect resources for social assistance.

He also extends the analysis to non-tax revenues, a core theme of Chapter 7, and discusses the possible policy opportunities and limitations from their use. Reforms in non-tax revenues can yield significant fiscal windfalls in some contexts, including in the context of energy and fishery assets; but in general, they nevertheless may, in Evans' view, be unlikely to generate sufficient resources for financing social assistance adequately.

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<sup>11</sup> | World Bank (2024).

Importantly, recent econometric research sheds light not only on current fiscal capabilities, but also on their future potential to expand – the room for fiscal “space” to expand relative to peers. Specifically, empirical work shows that countries tend to use about 62% of their revenue potential.<sup>12</sup> This suggests large untapped fiscal space, including among low income countries (which only utilize roughly half, or 54%, of their public finance potential). While revenues encompass both tax and non-tax sources, Evans helpfully refers to three types of “tax gaps” that would help enhancing fiscal space. These include structural gaps related to foundational issues around economic structure (e.g., informality); tax policy gaps stemming from second-best choices on tax bases, rates, etc.; and administrative, compliance and performance gaps arising from tax policy implementation.

It is in the context of the tax policy gap that Chapter 2 introduces the conversation on balancing direct and indirect taxation. In terms of direct levies, Evans' analysis focuses primarily of personal income taxes and ways to increasing revenues in such realm (via income levels, tax base and reformed tax thresholds, bands and rates. Indirect taxes, which Chapter 5 discusses more extensively, are assessed in tandem with a commentary on associated forms of taxes, like on digital services, extractives and climate finance. His treatment of “hypothecated” resources anticipates the earmarking discussion of, as mentioned, Chapter 4; and his analysis of aid and external assistance sets the stage for deeper dives offered in Chapter 2 and partially in Chapter 6. It is here worth noting that globally, less than 3% of the roughly \$200 billion in Official Development Assistance to low- and middle-income countries is devoted to social protection. In fragile contexts, less than 1% of the nearly \$50 billion in humanitarian assistance is channelled through local governments, the institutional sites of social protection.<sup>13</sup>

Finally, Chapter 2 encapsulates an array of considerations around policy processes, decisions and prioritization. Fiscal incidence analysis is here placed as a core choice. As it has been demonstrated by an analysis of 57 countries across the income spectrum, in 60% of the cases (including all low-income and most middle-income countries) the net effect of benefits and taxes is poverty-augmenting.<sup>14</sup> This means that in the majority of cases, social assistance is unable to overcoming the negative effects of fiscal policy, including regressive tax policy. Furthermore, Evans brings into the picture Public Financial Management processes, including phases like budget formulation, approval, execution and evaluation. These issues suggest an important link to institutional issues, like “where should social assistance sit” within the overall government institutional architecture – a

<sup>12</sup> | See Bogetic et al (2023).

<sup>13</sup> | Gentilini (2023).

<sup>14</sup> | Amjad et al (2023, p.23) based on CEQ database. See also Gentilini (2023).

connection not examined in the chapter per se, but constituting an area of reignited interest in Africa and elsewhere.<sup>15</sup> Again, the point of the Chapter is that PFM matters should not be considered distinct from broader fiscal issues, but instead be integrated within a shared understanding of how policy processes, including containing a strong element of agency in steering fiscal decisions, can significantly shape the financing of social assistance.

## WHERE THE MONEY COMES FROM

Chapter 3 by Tesliuc et al offers new analysis on the financing of cash transfers specifically. Out of the 913 cash transfer programs in the ASPIRE database, information on financing source is available for 73% of them (669 schemes). Domestic financing is defined as funding that stems from domestic tax or non-tax revenues, as well as loans. Such broad definition allows for considering as domestic not only narrow “government” funding, but also flows from other national and international actors providing domestic support to states so long as they concern repayable loans at concessional or market rates. External financing instead relates to non-repayable grants supplied by external actors.

Tesliuc et al show that a major driver of domestic financing is the overall fragility context: while in lower-middle income countries the share of domestically financed programs is about 81%, in the case of low-income settings most programs (61%) are financed domestically where conflict is absent – and between 8-16% is fully or partially domestically financed where conflict is present.

More granular information on financing sources is available for a subset of 266 programs, including in terms of the origins from general revenues, earmarked funding, concessional loans, and grants. Predictably, there is considerable heterogeneity across the income spectrum: the share of cash transfers financed by general revenues climbs from about 7% in conflict-affected LICs to 16% in the other LICs – and to 83% and 92% in lower and upper middle income countries, respectively. Similarly, the share of loans and grants declines steadily as income grows. Interestingly, Tesliuc et al unearthed 24 cases of earmarked-financed cash transfer programs, the detailed analysis of which will be subject to further follow-up research.

Given the salience of fragility in shaping financing in lower-income countries, the Chapter presents original findings from data on donor-financed cash transfer programs in fragile states specifically collected for this report. Data refers to humanitarian-oriented programs channelled by four UN agencies, namely FAO, UNHCR, UNICEF and WFP. Overall, these programs

<sup>15</sup> | See for instance Wadie Hobson (2024).

constitute a major source of financing in fragile settings, including representing an injected amount of \$2.6 billion worth of cash transfers in 2022. Tesliuc et al estimate that humanitarian cash programs reached up to 6.2% of GDP and covered as much as 41% of the population.

## UNDERSTANDING EARMARKING

Chapter 4 by Immervoll lays out key issues related to “earmarking” – or “hypothecating” as Evans defined it in Chapter 2 – as a financing practice. Drawing from the experience of OECD countries, the Chapter presents a balanced discussion of pros and cons of earmarking. Complementing existing wider literature<sup>16</sup>, Immervoll maps out the advantages and limitations of earmarking as a financing practice. These are organized around 8 trade-offs or themes as summarized in Table 1.

Based on data from 37 OECD countries, Chapter 4 shows that earmarking in the form of social security contributions is common (because of the high prevalence of social insurance as a mechanism for providing and financing social protection in most OECD countries), but its level is generally outside of social insurance (consistently below 5% of public social spending except in three countries). There are, however, numerous different forms of earmarking, like tax allowances or tax credits for children (which are technically equivalent to a cash transfer and exceed 1% of GDP spending in several countries). Non-tax earmarking practices, like the Alaska permanent dividend, or revenues from gambling activities like in Portugal and EBCN casino dividends in the US, are a case in point.

Intriguingly, Immervoll lays out 5 illustrations of how earmarking is used for social assistance financing, including case studies from Austria (family benefits), Poland (disability benefits), Portugal (social pensions), and US (at the state level, e.g. Colorado and Iowa for energy and housing purposes, and Medicare federally). His analysis also encompasses practices in France featuring earmarking for other segments of the social protection systems, like pensions and unemployment benefits.

The Chapter also offers examples anchored on direct and indirect taxation and points out “gray areas” at the intersection of assistance and insurance. For example, Immervoll draws an important distinction between “payments” and “entitlements”. Take a key form of earmarking like social security contributions: these can lead to clear entitlements, while other forms of earmarked taxes, like payroll taxes, may not generate an entitlement or “right” per se.

<sup>16</sup> | For early contributions, see Buchanan (1963), Eklund (1972), Teja (1988) and McCleary (1989).

Table 1. *Comparative strengths and weaknesses of fiscal earmarking*

EARMARKING TRADE-OFF OR "THEME"	ADVANTAGES	LIMITATIONS
Stability vs flexibility	Provides stability and predictability in financing	Rigidity and pro-cyclicality relative to changing needs (e.g., need for complementary sources during crises to make it countercyclical)
Minimum vs additionality	Act as a backstop in political negotiations, offering a "funding floor"	Could constrain further ad-hoc resource mobilization because of pre-perceived adequacy
Discipline vs adaptability	Could deliberately discourage "overspending" on certain programs by deterring additional financing from other sources	The notion of "overspending" could change as circumstances evolve (see above point on crises)
Transparency	Conveying transparency on purpose, cost and benefits of a specific tax to the broad public	The link between revenue and spending can be blurred because of possible (i) mixed financing (a program may rely on multiple funding sources), (ii) multiplicity of programs benefiting from a single earmarking, and (iii) different accountability standards applied to earmarking (relative to general revenues)
Political "announceables"	Possible political gains from the announcing of or pledging for a particular progressive earmark (e.g., on financial transactions)	Possible disconnect between earmarking as political commitment and actual earmarking involving explicit legal stipulations underpinning it
Distributional effects	Earmarking could achieve some socially-desirable outcomes (e.g., taxes on sugar-sweetened beverages, tobacco taxes) that need to be assessed regularly.	Some earmarked excise taxes may have ambiguous distributional effects if not adequately compensated for, e.g., be relatively regressive in income (spending on food and tobacco among the bottom quintile) but progressive in outcomes (better health among the poorest 20%)
Program ringfencing vs system efficiency	In contexts of tight fiscal space, the option of maintaining or augmenting existing program earmarking can be administratively easier to execute and/or attractive to line ministries already benefitting from those taxes	Strong fiscal headwinds may require revisiting the overall financial envelop, including seeking efficiency gains via wider consolidation options
Informality and tax capabilities	Limited fiscal space in high-informality, low tax-capacity context may lead to pivot preferences toward more concrete, tangible earmarking modalities instead of relying on stagnating general revenues	Risk of further fiscal vulnerability due to possible challenges posed by low tax capabilities in collection and implementation, hence requiring further financing from other sources to cover for earmarking shortfalls

Chapter 4 also expands the conversation on earmarking a specific indirect tax, VAT, as introduced in Chapter 2 and coming to full fruition in the following Chapter 5: here Immervoll reports the experience of Denmark in earmarking VAT for unemployment and disability benefits; Germany's "quasi-earmarking" involving a synchronized increase of VAT and reduction in social security contributions; and Japan directing additional VAT revenues to social security. In a similar vein, several countries have earmarked carbon taxes to cash transfers, like Austria and Ireland.

## HEALTHY FISCAL LESSONS

Fiscal lessons for social assistance may not lie in social protection experiences alone. This report posed the question on whether other social sectors could hold precious insights for cash transfers-related dilemmas. To this effect, social protection and health are joined at the hip. This is not only because of the overwhelming role played by catastrophic health expenditures in the budget of low-income households; but also, and more centrally for this volume, because the experience that the health sector has gathered in its process of scale-up, including from a fiscal perspective.

In financing coverage expansion, health policymakers have grappled with dilemmas germane to contemporary social protection choices – that is, how to finance provisions in contexts of low revenue bases and high informality; how to reach the poor, how to cover the “missing middle” and the sequence or prioritization between the two; and the role of subsidization and contributions. Just like social protection systems in most low- and middle-income countries presents a dual system, public healthcare can display a truncated setup: on one hand, social health insurance (SHI), which relied on contributions, covered a small group of higher-income populations as well as a limited number of informal sector workers contributing voluntarily. On the other hand, national health insurance (NHI) is typically non-contributory and tax funded. The relationship between SHI and NHI is akin to that of social insurance and social assistance, including the thorny issue of labor market incentives, the synchronization of benefits and their effects on formalization.<sup>17</sup> In the past, some OECD countries moved from SHI and replaced it with general tax financing<sup>18</sup>, and this type of reform has been the hallmark of more recent debates and initiatives in Colombia, Mexico, and Thailand. To some extent, SHI and NHI closely resemble social insurance and social assistance in social protection.<sup>19</sup> All these compelling similarities motivate Chapter 5 by Ozer and Bloom.

Segmentation of populations and fragmentation of health systems were among the challenges that universal health coverage (UHC) sought to overcome. Chapter 5 recounts how since the 2000s, countries seeking a more progressive path to UHC pursued two sequential steps: first, countries reached only the poor and, subsequently, they extend assistance beyond them.<sup>20</sup>

<sup>17</sup> | See Heintz and Ghosh (2024) and Levy and Cruces (2021)

<sup>18</sup> | Such as Denmark (1973), Italy (1978), and Spain (1986)

<sup>19</sup> | See Andrade et al (2025)

<sup>20</sup> | The following paragraphs draw heavily not only from Chapter 5, but also from Gentilini (2018) and Cotlear et al (2015).

In terms of the first step, most UHC programs initially developed programs for poor and vulnerable populations, targeting public subsidies to them only. Programs providing fully subsidized coverage for the poor (which can be equated to social assistance) were introduced in two ways: (i) via embedment into existing SHI agencies, such as in Ghana, Kyrgyz, Philippines, and Viet Nam; and (ii) through the creation of an ad-hoc, autonomous agency linked to the Ministry of Health, like in Georgia, India (RSBY), Indonesia, Peru and Türkiye (before 2012).

With regards to the second step, after a period of targeting the poor, countries entered a second phase to massively cover the nonpoor in the informal sector. In other words, programs that today cover the entire informal sector show that starting with the poor is transitional: “targeting the poor” is often a steppingstone toward more equitable, integrated systems that cover various population groups. Hence, the idea of “progressive universalism” as pioneered by trailblazers is a dynamic one that did find concrete examples in country scale-up pathways.<sup>21</sup>

Countries have taken two different fiscal paths in expanding coverage to the non-poor in the informal sector: one includes coverage from the bottom-up. Some countries walked a non-contributory path, extending the use of tax subsidies provided to the poor to the rest of the informal sector (e.g., Argentina and China). These programs depend mainly on general tax revenues. Once the decision to expand the subsidies to the nonpoor informal populations was taken, some of these countries expanded coverage very rapidly, e.g., Thailand. The expansion was undertaken through autonomous agencies linked to MoH instead of SHI institutions.

A second path includes coverage from the top-down: this requires nonpoor informal families to contribute toward their health coverage. Programs often do not have the capacity to enforce mandatory contributions from informal sector workers; hence, countries tend to offer partial subsidies for voluntary health insurance for nonpoor informal sector participants, but this attracts only a small fraction of the sector. As capacity to enforce contributions from the informal sector grows, these programs tend to incorporate larger segments of the informal sector. In the more mature programs (Chile, Costa Rica, and Türkiye after 2012) participation of the poor and the informal sector is de facto mandatory: the poor are fully subsidized by general taxes, and the nonpoor informal sector is subjected to a careful review of income using various mechanisms. Voluntary health insurance may indeed be helpful during the initial phase toward UHC, but seems not a path to UHC.

<sup>21</sup> | See Jamison et al (2013) and Gwatkin and Ergo (2011).

A clear contact point between health and social protection has been social registries. These databases played a key role in both the above pathways, and their use changed over time. On one hand, Colombia, Mexico and Thailand, originally targeted all public subsidies to the poor using a registry and used it to identify the nonpoor to charge for UHC programs. They later abandoned the attempt to raise contributions from the nonpoor informal sector and instead extended full subsidies to all their informal populations. They continue to use the registry but only to design outreach activities that motivate and inform the poor about the benefits of the UHC program, and no longer use them to identify beneficiaries. On the other hand, countries like Chile and Costa Rica took a different route. They continue to use registries based on welfare metrics as a first step to identify the poor and vulnerable (getting free coverage), but the UHC programs, working with tax agencies, use registries to estimate the income of beneficiaries in their efforts to increase revenue collection from nonpoor populations.

### THE PROMISE AND PERILS OF A PERSONALIZED VAT

Finally, Chapter 5 provides an in-depth examination of a much-debated revenue option in social protection: VAT. Low-income countries collect about one-third of their revenues via such indirect, consumption tax. Ozer and Bloom contrast the difference between the textbook features of VAT and its practical application in over 170 countries. Specifically, the theoretical efficiency benefits of VAT can be eroded by the small size of firms, administrative capacity and, especially, preferential rates. The latter is the result of countries attempting to mitigate its regressive nature, hence providing differentiated rates on items consumed by low-income populations. In doing so, however, the net distributional effects remain sometimes unclear, the tax base and revenue collection are stifled, and the complexity of the tax system is increased. Based on recent econometric analysis and practical country implementation, Chapter 5 offers an intriguing discussion on the option to enhance both equity (poverty reduction) and efficiency (revenue collection) by eliminating preferential rates and provide broad-based compensations via cash transfers. The notion of "personalized VAT" (P-VAT) is designed to carry out those two actions of taxing and compensating simultaneously under a coherent design.

In many ways, the idea of P-VAT is the other side of the coin of subsidy reforms. Subsidies provide goods at a lower price (like VAT preferential rates), and their reform would increase the cost of those commodities (like would a uniform VAT introduction). In both cases, the reforms would entail a compensation. But unlike subsidies, P-VAT would bring the added benefit of increasing revenues. In either reform, public perceptions of possible unfairness, the politics of reform, and the trust bestowed on social protection

systems to provide assistance on a timely and accurate basis are core tenets of an ongoing conversation.

In recent years, Latin American countries have been active in experimenting with P-VAT.<sup>22</sup> Such instrument presents a range of implementation variants: it can be delivered as a cash payment (e.g., Colombia) or, given technology innovations, a tax rebate or credit at the point of sale (e.g., Argentina and Bolivia); and institutionally, it can be managed by social protection agencies (e.g., Colombia), tax authorities (e.g., Ecuador) or both (e.g., Uruguay). Table 2 sets out some comparative considerations on transfers, VAT preferential rates and P-VAT.

**Table 2.** *Select features in cash transfers, preferential VAT and P-VAT*

	PREFERENTIAL VAT RATES	CASH TRANSFERS	PERSONALISED VAT	
			TAX REBATE	CASH TRANSFERS
Advantages	<ul style="list-style-type: none"> <li>– Provides stability and predictability in financing</li> <li>– Act as a backstop in political negotiations, offering a “funding floor”</li> </ul>	<ul style="list-style-type: none"> <li>– Very high cost-effectiveness</li> <li>– Benefit levels can provide much greater support</li> <li>– Can be tiered to achieve broad coverage</li> <li>– Can leverage existing programs</li> </ul>	<ul style="list-style-type: none"> <li>– Maybe more politically palatable than transfers</li> <li>– Can be tiered to achieve broad coverage</li> <li>– E-invoicing may increase formalisation of consumption in longer-term</li> </ul>	
			<ul style="list-style-type: none"> <li>– Can be applied at POS</li> <li>– Retains more net revenue than other options</li> </ul>	<ul style="list-style-type: none"> <li>– High benefits (can receive more than VAT owed)</li> </ul>
Disadvantages	<ul style="list-style-type: none"> <li>– Significantly lowers revenues</li> <li>– Very low cost-effectiveness</li> <li>– Benefits capped at very low levels</li> <li>– Preferential rates not always passed on to consumers</li> </ul>	<ul style="list-style-type: none"> <li>– Will always be targeting (exclusion) errors</li> <li>– Current targeting needs improvement</li> <li>– Consumes much of the new revenues if coverage is too broad but may not build political consensus if coverage too narrow</li> <li>– Transfers not embraced by all policy makers and public</li> </ul>	<ul style="list-style-type: none"> <li>– High technology consumption tracking requirements</li> <li>– Will always be targeting (exclusion) errors</li> </ul>	
			<ul style="list-style-type: none"> <li>– Low benefit levels</li> <li>– High POS technology requirements</li> </ul>	<ul style="list-style-type: none"> <li>– Lower net revenue than POS rebate</li> <li>– Does not reduce price at POS</li> </ul>

Source: adapted from Wai-Poi et al (2024)

## FINANCING IN CRISES: TOWARDS PROACTIVE AND TRIGGER-BASED AUTOMATIC STABILIZERS

The technical and policy issues discussed so far don't unfold in enclaves where policymakers can gauge options in a stable environment. Choices are increasingly undertaken in volatile, turbulent settings shaken by economic uncertainty, pandemics, climatic risks and unrest. Chapter 6 by Nesbitt-Ahmed et al brings to life those real-world circumstances to

<sup>22</sup> | Barreix et al (2022) and Rasteletti (2021)

discuss how to best prepare financing of social assistance in advance of likely hazards. As such, the concept of risk financing borrows elements of, for example, earmarking as discussed in Chapter 4 and involves institutional and financing reforms in that echoes some considerations laid out in Chapter 5.

Nesbitt-Ahmed et al take stock of progress in pre-arranged financing, including reaching about \$2 billion recently. Their chapter describes the main feature of a new social contract for crisis risk protection that involves systems of “money out” (data and delivery systems) and “money in” (financing instruments) as well as a “risk deal” gelling them within a clear policy framework. The goal of Chapter 6 is to outline key concepts and practices to help “moving away from treating disasters like surprises”. To do so, it discusses two main ingredients. On one hand is the forging of a risk deal that is anchored on some clear parameters. These include the benefits stemming on reliable policy, transparent communications, a time-consistent approach (i.e., a policy that accurately predicts how policymakers would act at the time of crisis, not just in planning for it) and the conversion of shocks from implicit to explicit contingent liabilities – that is, transitioning from a political or moral obligation to make crisis payments (including in the form of cash transfers) to a contractually binding arrangement. The experience of several OECD countries in making such conversion, e.g., UK and Australia, is discussed.

On the other hand, Chapter 6 examines the specific ingredient of securing predictable financing in advance. Nesbitt-Ahmed et al recount how major social protection crisis responses in low- and middle-income countries, like COVID-19, largely relied on discretionary (and unplanned) spending instead of pre-agreed automatic fiscal stabilizers. A typology of financing modalities for crises is laid out, including discussing the merits and drawbacks of earmarked and unearmarked pre-arranged financing, crisis response funds and unplanned crisis finance. It is not always framed in this way, but ultimately the agenda of risk financing is about securing an optimal level of earmarked funding and pivoting social protection systems towards trigger-based automatic stabilization functions.

## THE FINANCIAL GIANTS IN OUR BACKYARD

Implicit to the narrative to Chapter 6 is that organizing an effective systems of financing preparedness involves multiple actors. Some financing is in fact provided by actors other than governments, like humanitarian and development organizations. But these are not the only players involved in cash transfers financing. A new actor is on the horizon, the profile of which is radically different from any of those currently involved in social assistance:

sovereign wealth funds (SWFs). Chapter 7 by Lopez and Waddington is fully devoted to an examination of nature, functions and roles of SWFs.

SWFs are governmental entities that manage assets for an astonishing current volume of about \$12 trillion. On papers, such bodies pursue commercial functions pertaining to a variety of stabilization (“rainy day” funds), savings (intergenerational funds) and strategic (catalyzing capital) purposes. At first sight, they definitely look more similar to a Wall Street conglomerate than a social protection agency. So why their inclusion in this report? In a forward-looking spirit, Lopez and Waddington document a growing engagement of SWFs in social issues in general, and in cash transfer matters specifically.

Using an exclusive database harvested for this report, Chapter 7 catalogues four broad models of SWFs interactions with social protection financing. The first includes a direct provision of cash assistance: in addition to the well-known case of Alaska, the Chapter shows how the National Fund of Kazakhstan, the Libyan Investment Authority, and the Brazilian city of Marica are using SWFs to provide people with cash transfers. For example, since January 2024 Kazakhstan used half of the National Fund investment income for the financing of cash transfers paid in a savings account to all children under the age of 18. With per-capita amounts tied to the Fund's performance, about \$700 million are currently transferred to nearly 7 million children.

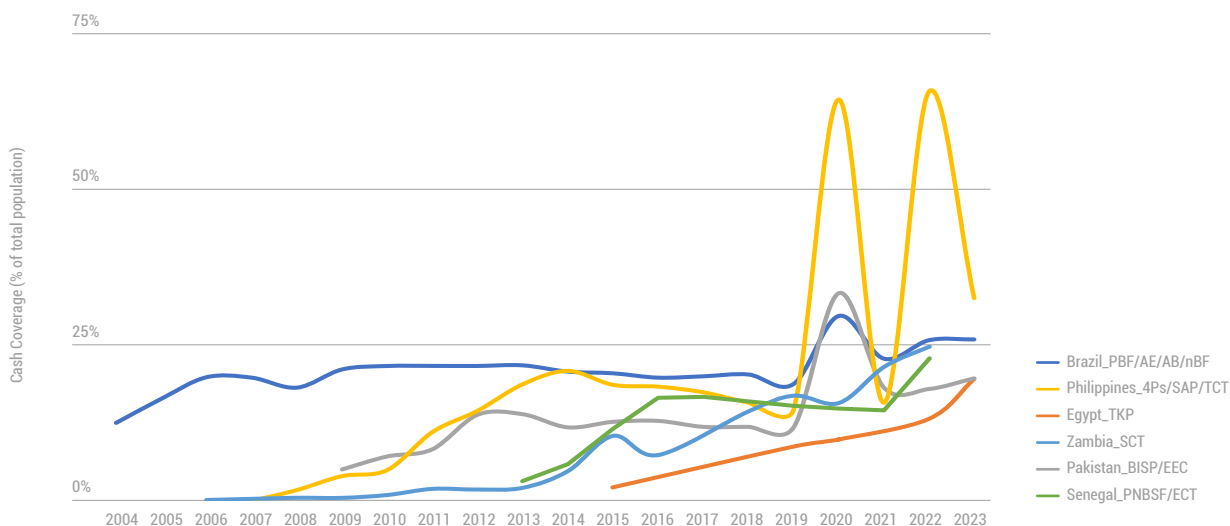
Other models include earmarking funds to be transferred to state budgets for “socio-economic development”, like shown in the case of the State Oil Fund of Azerbaijan, Singapore's GIC and Tamasek Holdings, and the Palestine Investment Fund. Also, donations are made to particular programs and foundations engaged in social issues: Indonesia's Investment Authority and Tunisia's CDC are two clear examples. Furthermore, there are indirect contributions, like when SWFs undertakes investments for improving public services in underserved sectors. Here the experience of Egypt's Sovereign Fund and Malaysia's KNB are brought to light.

## BRINGING IT ALL TOGETHER... THROUGH COUNTRY-LEVEL EXPERIENCES

The final three chapters of the report test and situate fiscal, political economy and delivery issues with the lifespan of the 6 flagship programs, including Bolsa Familia (BF) in Brazil, Takaful and Karama Program (TKP) in Egypt, the Benazir Income Support Program (BISP) in Pakistan, the Pantawid program in the Philippines, the National Family Security Grant Program (PNBSF) in Senegal, and the Social Cash Transfer (SCT) scheme in Zambia. Where those programs were compounded and extended by a

pandemic response component, this was considered too. Figure 2 shows the scale up of the selected programs, the coverage of which ranges between 20% and 32% of the population.

Figure 2. *Scale up of flagship cash transfers in 6 case study countries*

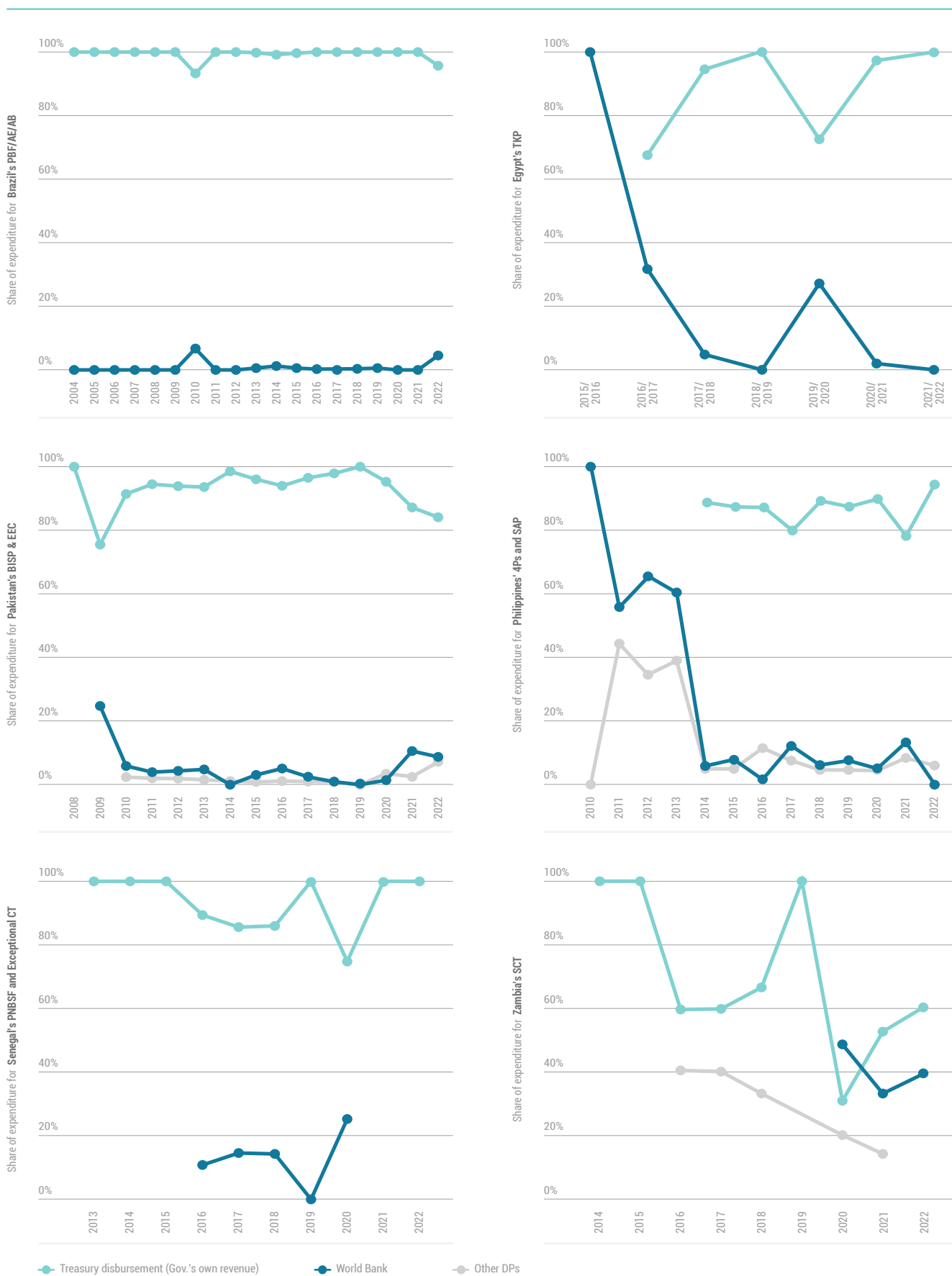


Source: official government administrative data; World Bank documents; staff estimates.

## FISCAL OWNERSHIP

A deep dive into select flagship cash transfer programs reveal how countries have gradually embraced programs fiscally (figure 3). In some countries, like Egypt and Philippines, external assistance helped introduce a major cash transfer program, but this was rapidly reduced in favor of domestic revenues. In other cases, programs were broadly funded domestically from the beginning, such as Pakistan and Senegal, with a relatively minor degree of external assistance underpinning larger national financing. In select cases, like Zambia, external assistance played a more sizable role, but with government financed playing a dominant role almost throughout the program's history. And in some other instances, like Brazil, programs were consistently funded domestically throughout the past two decades, with only minor and timebound occasions of funding shares financed externally.

Figure 3. Sources of financing among flagship cash transfers in the 6 case study countries



Source: official government administrative data; World Bank (IDA/IBRD) disbursement data; staff estimates.

## SCALE-UP... WITH FISCAL HEAD AND TAILWINDS

In Chapter 8, Bird and Hanedar conduct a rapid appraisal of macro-fiscal dimensions in case study countries. For each country, the Chapter deploys a structured methodology examining the fiscal context, including variables like growth, investment and inflation, and an assessment of revenues, expenditures, debt and deficit. Such analysis is conducted over an overall six-year period calibrated before and after the introduction of the flagship programs, hence allowing to investigate if and how macro-fiscal factors affected cash transfers scale-up.

The author's conclusions lend credence to the need for an integrated approach to scale up interpretation. In fact, Bird and Hanedar found that some countries, like Brazil, Egypt, the Philippines and Senegal introduced and expanded flagship schemes in favorable or stable macroeconomic and fiscal balance conditions, while Pakistan and Zambia did so while facing more challenging, deteriorating circumstances. Analysis on a larger pool of reform episodes may further illuminate those relationships; but based on available case study data, the overall financing ecosystem within which programs are nurtured suggests that large-scale cash transfers can be scaled up in either procyclical or countercyclical environments.

## UNBUNDLING POLITICAL ECONOMY FACTORS

Chapter 9 written by Seetharaman et al, and based on commissioned background papers by Al Shawarby, Arruda, Dia, Gudmalin, Rana, and Simutanyi, delves into political economy explanations of scale-up. The Chapter offers a framework elucidating a select range of variables forming the wider political economy equation. These include key players, a host of enabling factors, sources of resistance, and a range of "soft" ingredients. The discussion on key players covers cases of national champions that embraced cash transfers and made them a priority. Electoral gains by political players were also a core motivating issue, with other constituencies – beneficiaries, elite's interests for social stability, economic stakeholders, and donors – all playing a prominent role.

Enabling factors included the strategic use of evidence, seizing crises as opportunity junctures, the exploitation of sectoral synergies, and select issues around legibility. Resistance on cash transfers was often encountered, part of which was lessened via initial piloting and a contest of ideas. Yet competition with other politically salient programs was present, and a degree of contention is still unsettled in most of the select countries. Importantly, narratives on deservingness played a significant role, including ways in which programs have codified prevailing notions of deservingness and how media and institutional narratives have challenged or conformed into such rhetoric.

## DELIVERING TO SCALE

The final Chapter 10 by Wadie Hobson et al looks at the 6 flagships through the lens of practical delivery and asks some fundamental questions on their relationship to scale-up performance: to what extent did the existing delivery systems in each country either help or hinder the recent scale-up in social assistance? What changes or innovations did the scale-up necessitate? Which aspects of the delivery system landscape were the most critical for program expansion? What were the enabling factors allowing for delivery system innovations to be introduced? The Chapter's detailed documentation of practices indicates that there is a strong interaction between the availability of financing and the readiness of delivery systems, on the one hand, and the successful execution of cash transfers scale-up on the other. Delivery systems that are needed for the successful scale up of social assistance include beneficiary registration systems necessary to identify and register beneficiaries; Management Information Systems (MIS); payment systems, often through Banks or other payment service providers (PSPs); Identity Documents (IDs); and grievance redress mechanisms (GRMs).

Typically, without an increased financial allocation in the national budget, a national program cannot be scaled up to additional beneficiaries. However, sometimes despite increased financial resources being committed in the budget, and even released to implementing ministries, scale-up targets may still end up not being achieved due to operational delays and delivery system weaknesses. The availability of financing is not the only pre-requisite to the scale-up of social safety nets, but also delivery systems must be able to perform and expand operationally to reach additional beneficiaries, often rapidly, with the necessary assistance.

Chapter 10 used a qualitative comparative case study methodology involving the synthesis of similarities, differences, and patterns across the 6 country cases. The research process included a literature review, key informant interviews (KIIs) with World Bank staff and government counterparts, data analysis, case study reports and final synthesis of patterns across the selected countries.

The findings indicate that decisions to scale up were often made regardless of the readiness of delivery systems. Ex-ante delivery readiness does not seem to be the defining factor, but rather the ability of implementing ministries to quickly activate or put in place (often new) systems that can meet beneficiary scale-up targets. Nonetheless, registry and MIS system improvements were particularly associated with scale-up phases. There is also evidence that the presence of improved delivery systems created a virtuous cycle for future scale-up and a conducive environment for the creation of parallel social programs.

Six critical aspects emerged from the case studies as being critical to successful safety net scale-ups: the availability of data on potential beneficiaries to enable rapid targeting; rapid pull registration mechanisms in emergencies; validation of data on potential beneficiaries through interoperability and cross-checking against other databases; dynamic rather than static social registries; wide outreach to potentially eligible people; and a decentralized network of staff to support outreach and registration.

Generally, payment system improvements were not directly associated with scale-up phases and happened gradually. The exception was perhaps the COVID-19 scale-up in several countries which led to digital payment innovations to rapidly reach beneficiaries, even in countries with no history of digital payments. GRM systems also generally evolved gradually over time.

Underlying all these innovations and improvements in delivery systems that enabled the scale-ups are advances in technology and its judicious use recognizing opportunities and risks. Government investments in IT capacities within their ministries were also important. Without further investment in internal IT capacities, this may threaten the sustainability of the delivery systems put in place.

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## 2. FINANCING SOCIAL ASSISTANCE: A PRIMER

Martin Evans

### *Introduction*

This primer provides overviews of the potential costs of social assistance programmes and of how to finance them. The primary readership are policy makers and analysts in LICs and LMICs who are setting up or scaling up social assistance systems, but much of the discussion will apply more broadly. The emphasis is on technical aspects of analysis and policy formulation rather than the normative debates about policy choices or the reality of implementation.

The remainder of this introductory section considers the background context of demand for social assistance. In the subsequent sections of the chapter we consider the issues of, first, how to design programmes to meet these demands and the resulting consequences for costs; second, how to raise finance for these costed responses and third, a consideration of the process of public finance budgeting and political economy.

### *Demand for Social Assistance*

Social assistance can respond to different demands over various time frames. We focus on the medium-term fiscal horizon of the next 5 years or thereabouts. Longer term issues that may stem from, say, an ageing population. Demand may also fluctuate cyclically or result from immediate demands from events (shocks) – such as conflict, weather related and seismic and volcanic activity. Demand can thus be considered in three ways, relating to drivers based on i) demographics, ii) economic needs– both macro-economic fluctuations and household and individual level financial needs – and iii) urgent one-off needs from shocks and events.

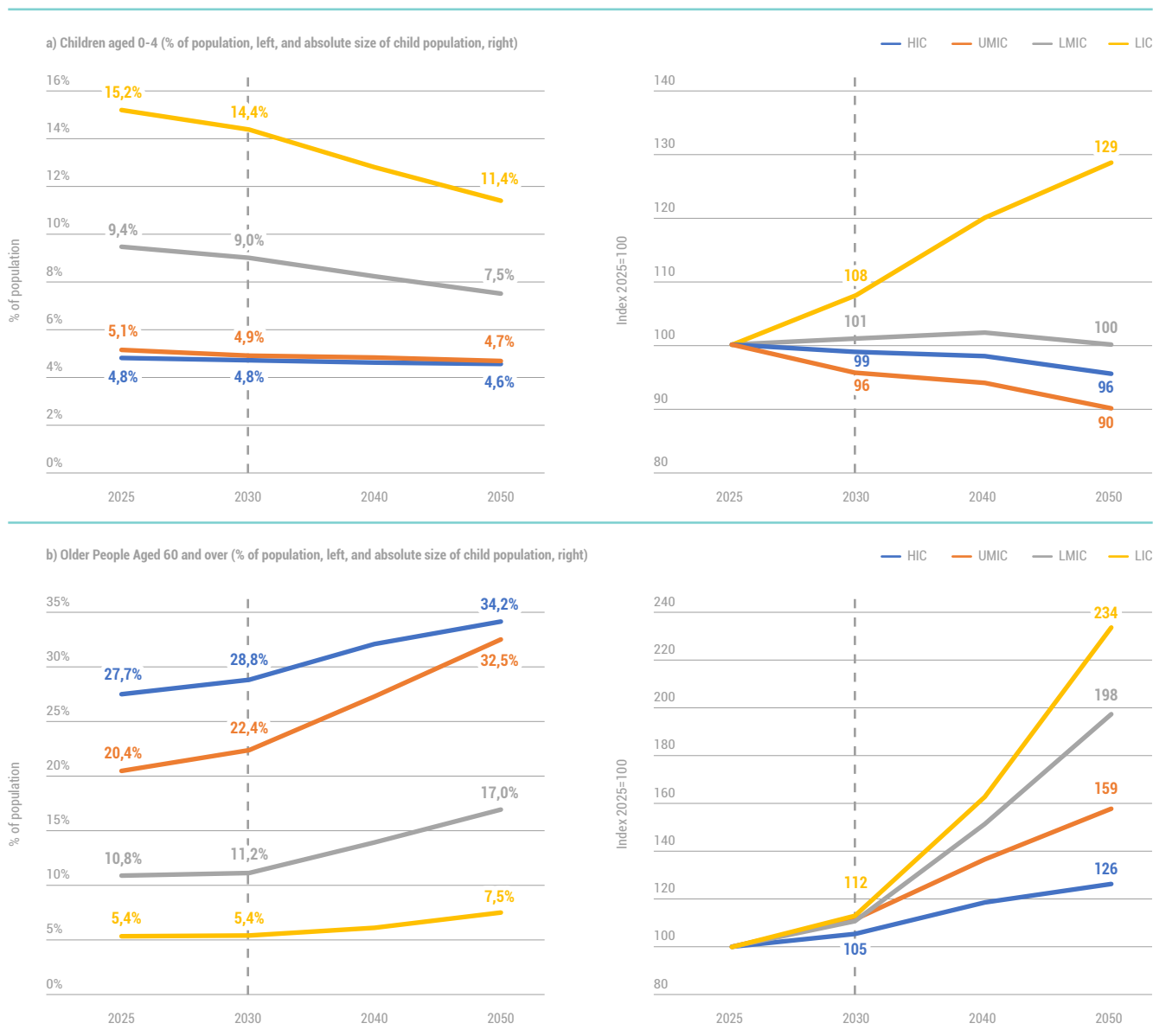
## DEMOGRAPHY

The size of potential social assistance populations is driven by fertility, morbidity and disability, longevity, and by patterns of co-residence. Simple population estimates and projections are available from national statistical services or from UNDESA and are essential for understanding how different age groups in the population will create demand for individual population demand for social pensions, child allowances and other categorical benefits.

### Children and Older People

Forecasted trends on children and older people differ hugely for low, mid-, and high income countries, as shown in Figure 1.

Figure 1. *Demographic Projections of Children and Older People*



Note: vertical grey dashed line represents 5 year medium fiscal planning horizon

Source: author's calculations from UNDESA 2022 – Median variant

Figure 1 shows the trends in both the proportions of the population and in their absolute size. The differences by country income level are stark. Fertility rates in LICs are high and 0–4-year-olds represent 15% of the population on average in 2025. This proportion declines monotonically by country income classification. However, the absolute number of 0-4s will increase by 8 percentage points in LICs in the medium term. For older people they are higher proportions of the population in HICs (28%) and decline monotonically as country income level falls. The lower level of demand in LICs and LMICs from a smaller elder population will still grow significantly, even in the shorter term 5-year horizon. The number of people aged 60 and over will grow by 12 percentage points in LICs on average in just 5 years (right hand graph).

Interpretation should not rely solely on projections of such age cohorts. First, the situation at household level is critical. The proportion of households that contain children or older people compared to their individual proportion of the population and can be a crucial factor. Illustrative data from Nigeria, Ethiopia, Ghana, and Rwanda show that around 90% or more of the total population live in households that contain children (Evans 2022), making a child grant a near universal demogrant at the household level in countries with high fertility. Older people (aged 60 and over) are 5% of the population but present in 24% of households in LICs and 25% of the population but present in 38% of the households in HICs (UNDESA 2019a). Multi-generation households (children, working age and elders) are more common in LICs & LMICs (18% and 16% of all households, respectively) compared to UMICs (11%) and to HICs (3%) (ibid). Small (1 person of 2-3 person) households are of particular importance when assessing demand for social pensions. UNDESA data shows that that across all levels of economic development there is doubling of the proportion of 80-year-olds living in smaller households compared to those aged over 60 (UNDESA 2019a and 2019b).

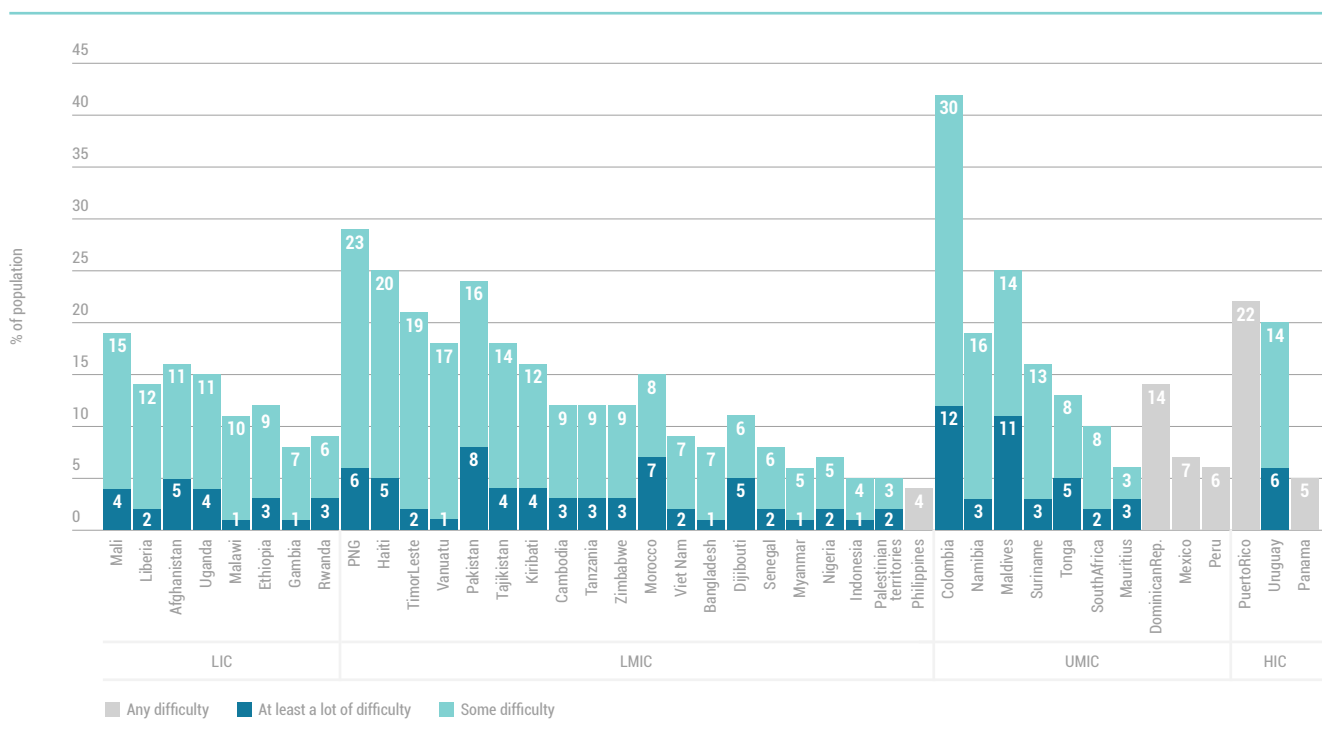
### People with Disabilities

Data on disability need disaggregation to understand the type and degree of disability to inform social assistance demand. The impact of disability on 'functionings' and the resulting needs for both higher consumption (such as on health, food, travel, clothing, and energy) and for personal and nursing care are crucial factors. Estimates of prevalence of all levels of disability are based on population surveys of differing kinds and for adult populations (aged 15 and over) and use different methodologies (see Mitra and Yap 2021). Data on disability that are most useful for social assistance assessments come from household surveys that measure income and or

expenditure alongside capturing disability.<sup>23</sup> We use the Washington Group short assessment data module (WGDS 2020) as the basis for discussion in this section as it provides the clearest and most consistent evidence on disability prevalence by types and 'severity' of disability alongside income, consumption, household composition and economic activity.

Global estimates suggest 15% of the world have some disability (WHO & World Bank 2010, UNDESA 2018). Figure 2 shows how the most recent cross-country data based on 'functional difficulties' in seeing, hearing, mobility, cognition, self-care, and communication for a selection of countries. The more severe disabilities (those with at least a lot of difficulty in one or more functionings) are, on a crude average ignoring population size, 3.7% across these selected countries, while others with just 'some difficulty' are 10.9%.

Figure 2. Disability Prevalence



Note: Aged 15 and above. Selected countries based on data availability (not representative)

Source: Mitra & Yap 2021: Figure 5.1

Understanding demand should additionally consider the overlaps between age and disability, particularly for social pensions and the older population. Country level evidence suggests that more severe levels of disability

<sup>23</sup> | As opposed to surveys that focus on health, maternal and infant health etc. Countries where significant proportions of disabled people live outside of households – in institutional care or other non-household living arrangements- should additionally consider census or other surveys of those populations.

rise in the oldest cohorts of the elderly (Evans 2022 Figure 9). Longer term demand will reflect ageing and life expectancy alongside morbidity trends from higher levels of non-communicable diseases: 'As mortality rates decline, life expectancy increases, and populations age, non-fatal outcomes of diseases and injuries are becoming a larger component of the global burden of disease.' (GBD et al 2017).

## Need

The approach to understanding household economic need is highly politicised and contested. We focus on empirical issues that consider i) the characteristics of population – both categorical (age, location, disability) and behavioural (observed participation in healthcare and education, food insecurity, and other areas); and ii) household resources – both monetary, using income or consumption, and non-monetary, using indicators of material deprivation.

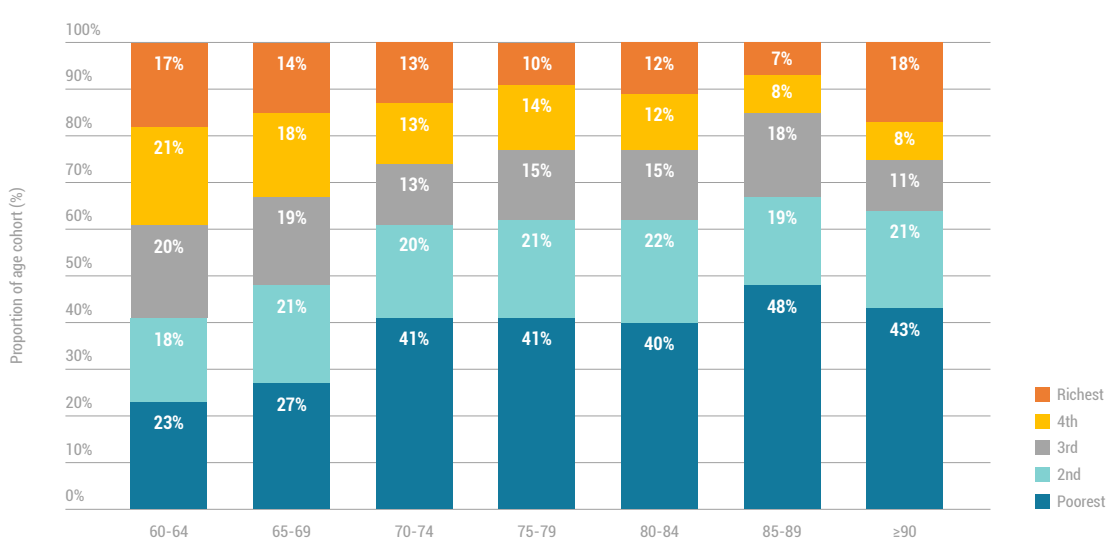
Household income/expenditure surveys enable a ranking the population by their level of income or consumption. These data enable analysts to create a clear distribution and also to consider both categorical characteristics and levels of need using monetary resources. Rankings can be absolute or relative, with 'quantiles' (1/5ths are quintiles and 1/10ths are deciles – the most used) being the most used relative approach. Absolute rankings are dominated by poverty profiles that show household monetary resources compared to a threshold level set to a minimum standard of living – the poverty line(s). Household welfare and poverty measurement are complex and beyond the scope of this primer (see Haughton and Khander (2009), Ravallion (2016), for example), but there are important considerations to bear in mind when profiling need to establish distributional incidence for financing. First, poverty lines can be multiple and identify different levels of need – for example thresholds that capture insufficient resources to cover food needs and then a higher threshold to capture non food needs in addition. Second, while poverty measurement in LICs & LMICs are mostly 'absolute' by capturing specific expenditure-based need (calorific food inputs for example) many HICs use 'relative' measures (as in EU and OECD) by setting a threshold in the overall distribution based on average or median markers. Third, profiles of monetary household welfare are best considered if they are also accompanied by measures of material deprivation (dwellings' construction and state of repair, access to water, electricity, cooking fuel, food insecurity, education, and primary healthcare participation, etc).<sup>24</sup> Such deprivations can be considered in their own right (as multi dimensional

<sup>24</sup> | This list reflects a concentration on developing contexts. There are material deprivation approaches that accompany relative poverty measures in the EU and elsewhere that consider aspects of households' participation in typical social activities – having holidays, toys for children and others. (reference)

poverty) or as correlates of household monetary welfare that are crucial to predicting poverty status (see discussion of proxy-means testing later) and to designing social assistance to additionally contain service provision or to ensuring access to such services (so-called 'cash plus').

It is important to recognise that categorical population groups can be understood in the context of the monetary welfare distribution. For example, Figure 3 shows the shares of all the older population (aged 60 and over) by age group and quintile of household welfare and their 'over-representation' in poorest quintiles ranges (23% to 48% depending on age).

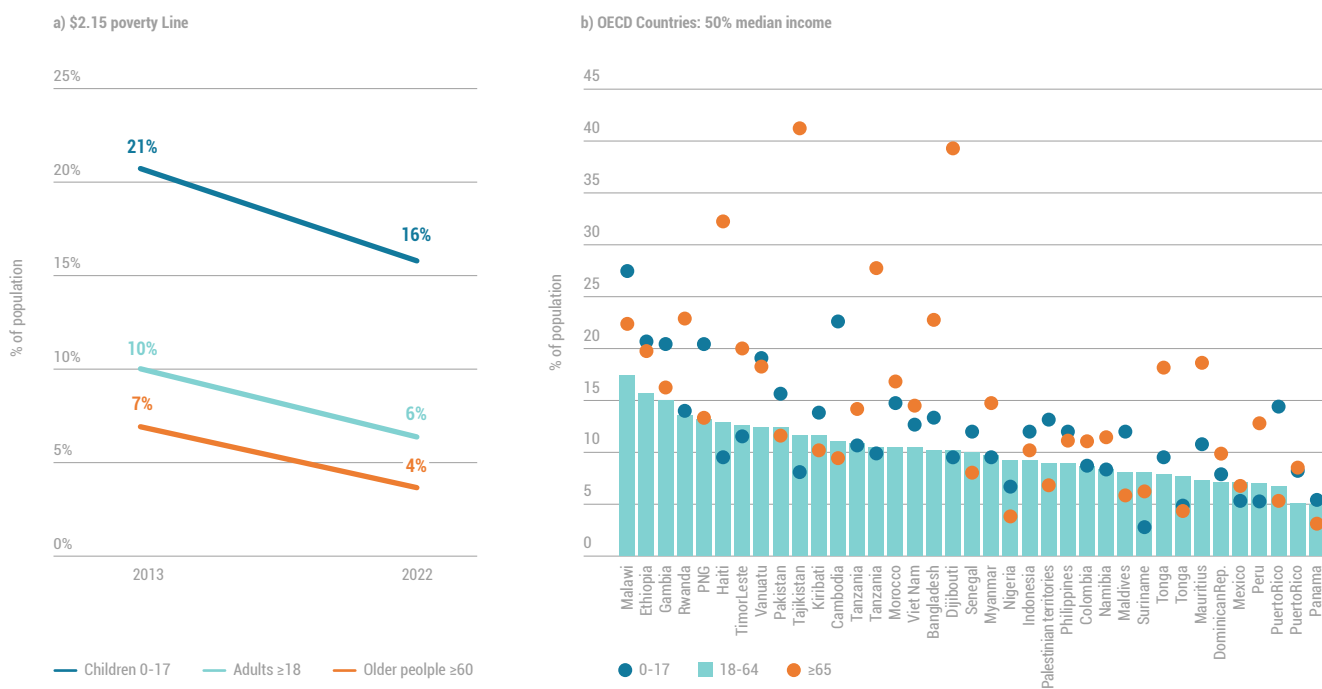
Figure 3. Shares of Older Populations by Age group and Household Welfare Quintile



Source: Evans (2022) Figure 1.

Demographics and age cohorts influence poverty prevalence. Figure 4 shows the headcount poverty rates children, prime aged adults, and older people. Children are positively correlated with poverty risk and older people negatively using the 'extreme poverty line' set by the World Bank, which largely reflects the position in lower- and middle-income countries. Since 2013 poverty rates have fallen using this measure but the ratio of child to adult poverty has grown. On the other hand, OECD countries show far less consistency in the ranking of children and older people: with some countries, such as Estonia having a higher poverty headcount for older people and a lower one for children compared to prime aged adults. In contrast, other OECD countries have child poverty headcount ranked highest – for instance, Costa Rica and Spain.

Figure 4. Poverty Headcounts for Children, Older People and Adults



Notes: World Bank poverty line set at per-capita level, OECD poverty line uses OECD equivalised income; adult age cohorts differ in definition between a) and b)

Source: a) Newhouse et al (2016) & Salmeron-Gomez et al (2023); b) OECD Income Distribution Database (IDD) - accessed 11/11/2024

Estimating demand based on poverty risk has inherent uncertainties. The poverty line is placed in the densest part of household welfare distributions that are right skewed. A large and dense concentration at and around the mean is countered by a long tail of higher incomes to the right. Poverty lines transect the distribution where density is high and thus where small differences in welfare levels have larger impact on capturing poverty levels, making sensitivity of the welfare measure around the poverty threshold(s) important: what would be the change in headcount if welfare levels changed by small amounts – say incremental estimates at 5%, 10% and 20%. Whatever threshold is used, the depth of poverty matters: those with resources less than poverty can be at the margins of the threshold or a long way below it. Similarly, the level of poverty clearance also matters – there will be many just above the poverty line for whom the risk of poverty often remains real.

Stronger need profiles can additionally consider indicators of material deprivation. Multi-dimensional poverty measures exist independently of monetary poverty in many countries. Where material deprivation can be seen alongside monetary welfare, cross-tabulating can be hugely important in understanding how to ‘triangulate’ demand profiles that capture a range of correlated factors that straddle across the fixed threshold of the poverty line. For example, the EU use measures of material deprivation to triangulate relative monetary poverty profiles to additionally reflect

absolute indicators of material deprivation (Eurostat 2025a, 2025b), or in instances where national applied anti-poverty programmes and approaches combine monetary poverty status within a multidimensional approach – for example CONEVAL in Mexico (Coneval 2022).

Material deprivation can be used to better understand demand in several ways:

- » As a 'categorical' way to identify need in vulnerable sub-groups of the population, as a supplementary or alternative approach to solely considering 'wide' categories of people by age and disability or through considering household monetary welfare level.
- » As proxies for monetary poverty – either categorically to define groups in need (as above) or predictively in a regression model that can estimate levels of household consumption/income (proxy means tests are discussed in the next section)
- » As indicators of individual level need within households. Deprivations at the level of the individual, such as nutritional status, educational participation and attainment, health, and healthcare access) provide evidence of intra household needs and of potential demand for both cash and in-kind social assistance and supplementary services (for example, nutritional feeding and behavioural change programmes).

### Non-regular Demand

Demand fluctuates through cyclical or one-off causes, and these can be economy wide or affect specific geographical areas. Macro-economic cycles are economy-wide and can affect growth, employment levels and wages, prices and thus living standards. One off events such as the COVID19 pandemic and price shocks for energy and food following the Russian invasion of Ukraine are both recent examples of economy-wide shocks. Additionally, shocks from weather, seismic, volcanic related events will affect the communities that lie within the geographical areas affected by the floods, drought, earthquake, eruption, or other natural disaster.

Estimating demand relies on data of two forms: first the specific geographical impact of the event – this could be from 'early warning' monitoring using rainfall data or seismic data, for instance; or from more site specific data that records contemporary drivers of disaster, such as water levels in rivers prone to flooding. Second, are data that has household and individual characteristics on economic activity, dwelling characteristics, and household economic welfare levels (primarily income and consumption but also capital, especially savings and liquidity). These household data usually come from surveys or from administrative data. These two forms

of data allow assessments of the shock event (or its spread and severity) and of the population's projected resilience to it.

Estimates will rely on scenarios based on past events, if available, and on predicted/projected effects using an appropriate mix of models: economy-wide general equilibrium models and tax-benefit simulation models. However, it is hugely important to understand social assistance's role in overall response to such events – in particular, its role alongside support to firms and workers. Social assistance will form part of overall government policy to ensure economic resilience to shocks and cyclical fluctuations, and will form part of overall macro-economic 'stabilisation' policies that have pre-set 'automatic' policy responses (such as unemployment insurance) and more discretionary and ad-hoc responses that respond post-facto to changes in demand: so-called 'semi-automatic stabilisation' (IMF 2023).

### *Policy Design: Costs and Financing Implications*

Financing decisions will depend on the design of social assistance: who it covers, for how long and at what level of transfer. But these factors are governed by both high-level policy on the role of social assistance (as part of overall social and economic policies) as well as its operational design and implementation.

The role of social assistance will depend in part in the design of other transfers and support. Returning to the earlier discussion of 'stabilisation', for example, economy-wide slowdowns and events will lead to a range of potential fiscal responses: supporting firms through the tax system, more direct subsidies to the payroll to maintain jobs and wages, price controls and subsidies, as well as transfers to those affected, both social insurance for those in formal employment and social assistance for those outside. The ex-ante fiscal policy decisions on the role of social assistance will form part of 'automatic stabilisation' macro economic fiscal policy, while ad-hoc or post shock decisions to expand social assistance can be seen as 'semi-automatic stabilisation' (IMF 2023) and short to medium term expansion of social assistance to respond to Covid19 pandemic have raised the profile of such responses. Even countries with informally dominant economies can thus benefit from social assistance as an economic stabiliser and aim to make 'social support readily scalable and better targeted and building fiscal buffers in normal times.' (IMF 2022 p. ix). Turning to consider social assistance response to sub-national emergencies and disasters, the design of entitlement rules and transfer values should be set up to be 'shock sensitive' and scalable to cover affected populations and their needs arising from the shock. This means that 'horizontal' expansion

of social assistance to those not usually covered and 'vertical' expansion to raise the value of transfers.

The role of social assistance alongside social insurance is a long-term and recurrent issue in the normal run of events. Social insurance coverage depends on formalised employment, and this is a small proportion of the workforce in many developing economies and expansion of social insurance is closely associated with policies to formalise the labour market. Most examples of success are from Latin America, where small enterprises and own-account workers were part of the Mono-tax reforms in Uruguay, and in Brazil, expansion of public services went hand in hand with increased formalisation and social security coverage (Ortiz et al 2019). In the medium to long term in many LICs and LMICs where informal labour markets dominate, social insurance is inherently selective towards middle- and higher-income groups formalised and monetarised employment, often public sector. The larger the informal and subsistence agricultural sectors, the smaller the coverage can be. A key determinant of cost is thus the size and characteristics of the population who do not have access to social insurance.

### *Entitlement & Discretion*

A fundamental design decision is whether social assistance transfers are enforceable rights, based on stipulated rules of entitlement, or if they are allocated on a more subjective assessment of need using 'discretion'? A human rights approach will be centred on legal entitlement and underlying appreciation of dignity, equal treatment, non-discrimination, due process, and rights to minimum levels of socio-economic sufficiency and access to social protection. Under an entitlement approach, eligibility rules should be objective, reasonable, and transparent. Discretion can reflect operational factors (attitudes and behaviour of administrators or agencies involved) or may reflect more deliberate policy that restricts rights to social protection and public services. Discretionary approaches usually mean that the level of overall entitlement can be indicative rather than prescriptive – many will not be given a transfer because their objective needs have been interpreted using a discretionary or rationing approach. Differences in applied policy between discretionary and entitlement approaches are not binary but play out across a continuum. Even statutory rules of entitlement require interpretation and, at the other extreme, capricious subjectivity would fail basic principles of fair administration and due process. Political economy is important in determining underlying structural issues of design of programmes – conditionality, targeting and the form of transfers (cash vs in-kind) – as well as for 'discretion.' But within the operation of social assistance the use of entitlement or discretion impacts the costs

and financing of social assistance. Entitlement leads to a 'demand led' level of costs – whoever meets the legal criteria for entitlement will receive transfers; while discretion allows a lower commitment to exact rules of entitlement and can be set within a fixed overall budget that could also determine a point at which any level of 'entitlement' is financially exhausted.

At the level of assessing individual cases: "... an official making a decision has discretion in a given situation if the rules governing his or her decision allow for the exercise of interpretation or judgment. ... A decision-maker lacks discretion in a situation if there are precise rules which determine exactly what is to be done." (des Rosiers and Feldthusen 1992 p.205). Social assistance that is based on clear categorically defined groups: children and older people of stipulated ages are a clear example of 'entitlement' that is clear and unequivocal. Other entitlements can require professional assessment: a medically endorsed test of ill-health or disability, for example that involve some element of judgement as well as undisputable fact.

At the programme level, even transfers that are based on the clearest rules of entitlement can evolve into discretionary consideration if funds are not available or have run out. The examples of Brazilian and Egyptian programmes in later chapters demonstrate how 'waiting lists' are employed to cover those who fit the rules for entitlement but have to wait to receive transfers until budgets have been expanded. Entitlement in these situations means being accepted into the programme but receiving no transfers – a situation that can make subsequent analysis of coverage, take-up, and exclusion errors difficult unless this particular status is recognised.

A fixed budget that is insufficient to meet underlying demand gives rise to some form of rationing: of excluding new claims, delaying payments to those already enrolled or lowering transfer values. Discretion then means interpretation of legal rules on entitlement and payment in order to defer access, delay or amend payments to those who meet the rules for entitlement. Decentralisation of government funding for social assistance schemes raises the issue of how budgets are set through intra-government flows of public finance from local and national resources are both sufficient and smoothed over seasonal or other fluctuations in demand.

A final point on discretion arises from practices that have been labelled as 'diversion' in US and other welfare programmes. This relates to behavioural conditions that are imposed at the point of entering the programme – for instance, that no claim can be made until evidence of multiple job search activities is shown in advance. This leads to discretionary decision making by 'gatekeepers' who administer entry to social assistance programmes but is a cost reducing practice that reduces effective demand for the

programme by explicitly dis-incentivising continuing to make a claim based on 'entitlement.'

A final characteristic of 'entitlement' based social assistance is that it is clearly predictable, and fiscal plans can be modelled to reflect rules that are consistent, thus allowing clear costing approaches and simulations.

## *Who is Entitled to Transfers*

Not everyone in the demand profile will necessarily qualify for transfers. First, entitlement may rest in part independent of need: for instance, citizenship and immigration status, residence (particularly in locally administered schemes where funding is linked to residence). More widely, entitlement may be limited to sub-groups who fit a definition of 'need based' entitlement that can be operationalised within both budget and political economy's constraints – so called 'targeting.' Policy priorities can dictate definitions of entitlement, both in terms of efficiency (getting the best out-comes for a given level of public expenditure) and effectiveness (meeting objectives such as poverty reduction, school enrolment, health, and nutrition outcomes). We do not have the space in this chapter to consider targeting approaches in detail. The literature is huge but has recently been comprehensively reviewed and summarised in Grosh et al 2022. There are long-standing normative debates and disagreements on targeting approaches – especially on tests on income or household resources (means and asset testing) versus alternative approaches based purely on characteristics. The issue of most importance for a technical assessment of the costs of the programme is the size of the population that is defined by the entitlement rules- which can be needs based or categorical as both use targeting.

Grosh et al 2022 (see their Box 5.1) identify common forms of targeting approaches that can be directly costed from survey or other data that contain the required objective indicators relating to entitlement. Programmes can be designed with more than one targeting method (ibid)

- » Categorical & contingency based.
  - Categorical referring to demographic characteristics based on age, civil status, and gender, or other status such as being a veteran or having a level of disability that qualifies for transfer.
  - Contingency refers to events that trigger entitlement – usually co-variant shocks such as floods, seismic and volcanic activity – but potentially also house-hold/individual level – such as death, severe illness, displacement, for example.

- » Geographical
  - To those living in defined geographic areas (usually recognised government authority boundaries). Spatial variations of need (such as WFP IPA assessments of food insecurity) can additionally be used to allocate rationed caseloads to such defined areas.
- » Based on Household Level of Resources
  - Means Testing – where income and/or assets are assessed.
  - Hybrid means-testing where administrative data is used to establish core income or asset levels and additional sources are imputed.
  - Proxy Means Testing- where household resources (and ranking) are predicted using regression or machine learning based on observable correlates (such as household composition, dwelling characteristics, and permanent asset holdings)

Other forms of targeting infer some behavioural 'dynamic' elements to modelling total entitled populations:

- » Self-Targeting refers to programmes that have explicit design features that alter the probability of people making a claim. Programmes that require work-search, public work programmes that pay low wages for short periods, and provision of goods with low quality or status (foods such as broken and un-scrubbed rice, coarse carbohydrates for example) are all examples that will affect people's choice to participate.
- » Community-based targeting (CBT) is where community leaders or representatives use local and more informal information to establish entitlement. Such decisions can be guided with tools that enable asset ranking and or household economic analysis (HEA) techniques or similar techniques.

These last two targeting methods are more problematic to model in any costing exercise as they rely on making assumptions about the probability of entitlement rather than static characteristics of income/consumption level or category/contingency.

Targeting approaches affect access to the programme. Some of those entitled will not take-up their entitlement. Information costs arise from complexity and publicity of the programme alongside the direct and indirect costs of claiming. Opportunity costs and transaction costs such as travel, and documentation costs can lower take up. Socio-psychological costs of claiming arise from stigma and/or social attitudes. All these factors are mediated by the actual value of the transfer as lower values are more likely to

remain unclaimed. Costing approaches should reasonably start from 100% assumptions of take-up in the first instance in order to secure budget, but alternative ex-ante cost-ings can be produced to reflect non-take up.<sup>25</sup>

Explicit behavioural conditions that are imposed in addition to basic entitlement rules on status and/or resources can also affect take up. These can be imposed as part of continuing entitlement – in so-called ‘conditional’ transfers that promote positive behaviours to improve wellbeing and life chances. Transfers are awarded on rolling and continuous conditions: that mothers attend child health care clinics; that children attend school regularly, for example (Fiszbein et al 2009).

### PASSPORTING AND ‘CASH PLUS’

Costing should also cover the larger policy package of services that are associated with receiving social assistance (especially those associated with low income): ‘fee waivers’ for health and education, for instance. These services can be automatically ‘passportied’ for those receiving social assistance. More discretionary coverage for service packages can also be designed for social assistance beneficiaries, such as school equipment and uniform grants, travel, and school feeding) and be locally rather than centrally set. Social worker ‘casework’ may also be the basis for access to allied services. A ‘cash plus’ approach to social assistance has additional services at the core of casework for beneficiaries and entails a more holistic case management approach. The issues for costing are two-fold: first to understand how such additional services are attributable to the budget of social assistance (rather than to the agencies and ministries providing the services); and second, how to identify the unit costs and additional administrative costs that relate to services that fall within the budget of social assistance. Integrated budgeting across health, social care, education, and other budgets and between central and local administrations and would need specific costing and financing arrangements. One major area of ‘cash plus’ is in the combination of transfers for infants with infant feeding and other nutritional interventions and with behavioural change programmes (providing information and training to improve maternal feeding practices) (Roelen et al 2017).

<sup>25</sup> | However, the difficulty from doing so is that average assumptions will not capture differential take-up that reflects both individual/household characteristics (literacy, age, education level, for instance) and location related factors. Consequently, lower-bounded costing estimates with allowances for non-take-up should be restrictively used at high aggregates of programme caseload, if at all.

## *Transfer values*

The setting of transfer values fundamentally influences costing and finance of social assistance.

There are three main approaches to setting transfer values.

- » For regular and recurrent transfers
  - **Individual transfers** – such as social pensions, child benefits, disability benefits and other social assistance that is paid to individuals.
  - Household level transfers – that reflect household size and composition to ensure a coverage of household level of needs.
- » For one-off shock responsive transfers
  - **Costs of redressing loss** in any event or emergency (such as housing, clothing and effects, essential goods)

Individual categorical transfers can also be adjusted to reflect household level assumptions on economies of scale. For example, child benefits can be awarded to households that contain children at a set rate or on a per-capita basis to every child. Child benefits can also be weighted in their value so that the first child in any household receives a higher rate and their siblings receive a lower rate (on an assumption of economies of scale for 2<sup>nd</sup> and subsequent children. Individual transfers can also be adjusted to reflect needs that differ by age, so that older children receive higher transfers based on their consumption, and/or infants receive more based on their combined impact on consumption and maternal nutritional needs and labour supply. Social pensions can also be weighted by age to provide more for those over 75 or other indicative age for higher needs. However, the higher needs associated with older people are often reflecting social and nursing care and the higher individual level consumption needs that arise from disability.

Individual disability transfers should reflect the additional costs arising from disability, and this should come from assessment and eligibility criteria that link the severity and type of disability to reduced functioning and the need for care and to extra costs arising from mobility, personal hygiene, special diets and aids and other areas. Considerations of reduced earnings arising from disability fits more comfortably with insurance based approaches to disability at work. Social assistance benefits can be optimally framed on needs and costs irrespective of work or ability to work.

Household level transfer rates are more often associated with means-tested social assistance and rely on two related financial factors:

- » The threshold level for entitlement – calculation of needs based on the number and characteristics of members level of income the income level or other indicator of need below which entitlement arises.
- » Household resources.

But transfer values may be fixed rather than computed on the difference between needs and resources. The threshold is often linked to a calculation of basic basket of goods or to a national poverty estimate in high and middle income countries (for example TSA in the ex-Soviet countries in Eastern Europe and Central Asia). In LAC region and in LICs there is greater use of regression based proxy means tests that predict consumption/income levels against the poverty threshold.<sup>26</sup>

## *Delivery and Administration*

The implementation of social assistance – its 'delivery systems' (Lindert et al 2020)- represents a core element of any costing. There are two kinds of cost to consider: the *up-front investments* needed to build administrative systems for outreach, registration, assessment, enrolment, payment and provision, management, and monitoring; and then the *recurring costs of the normal operation* of these systems. The front-loaded and one-off capital investment costs of the programme (together with training and associated capacity development) are often part of concessional loans in LICs and LMICs, particularly when 'safety net' systems are being set up from an initial small social assistance policy footprint.

A fundamental difference is between systems that allow access at any time in any location – demand led- versus 'administrator driven' approaches that carry out periodic/one-off mass registration drives to identify and register applicants for the programme. These drives can be based on geographic catchment areas, and when periodic, are typically only repeated every three to five years (Lindert et al 2020). These two approaches have potentially marked impacts on coverage, take-up, and inclusion. 'Administrator led' approaches can also reflect fixed budget assumptions on the size of the resulting caseload.

<sup>26</sup> | Design of transfer levels can include many complicated factors to ensure incentives to work are maintained – these can be 'tapers' that disregard a proportion of income, or set 'disregards' of levels of income. As discussed earlier, the ability to ignore changes that occur during the period of entitlement and to only review entitlement at the beginning of a new claim can alter incentives alongside any complicated tapers and disregards and the resulting 'effective marginal tax rates' are crucial to any behavioural assessment of the impacts of the transfer.

Evidence on administrative costs is weak overall and any clear interpretation of how costs are attributable to design issues across non-comparable contexts difficult. In 'mature' and integrated systems based on large scale social registries in MICs costs can fall to US\$1 to US\$3 (1-3% of total transfers) per household (Grosh et al 2022 p. 17). In LIC contexts where programmes are more recent and at lower scale, administrative costs are about 7–8% of total transfer value (ibid). The evidence from studies of administrative costs tends to support costs being the result of processes rather than policy approaches such as strict targeting (ibid). The potential cost reduction and efficiency gains from using big data and digital and remote systems are considerable.

### *Costing Tools and Approaches*

Design decisions are often heavily influenced by costs. Ex-ante estimates of the potential costs of a programme (and of different options and choices in design) can illustrate many of the trade-offs in design decisions on both size of eligible populations, transfer design and levels and potential behavioural effects.

Simple population-based estimates can be used for categorical entitlement based solely on age of *individuals*. Population projections and inter-censal estimates provide clear indications of cost of any programme in the costing of 'social protection floors' (ILO 2012). This approach *does not allow any consideration of household level, distributional or behavioural issues*. Sub-national populations by age may also be available from recent Census and may also be the subject of statistical office population estimates.

To capture more complex rules of entitlement and to enable distributional issues to be considered, household level micro-data are needed. Household level data can identify different intra-household assessment units: individuals, the nuclear family of parents and their children, and at the aggregate household level. Such differentiation can be crucial in multi-generational households to distinguish categorical entitlement appropriately. As previously stated and now re-emphasised, household level data is also crucial when income or consumption data is available as they also allow both the *modelling of entitlement rules* that target by household welfare level and *profiling of the resulting transfers by their effect on the overall household welfare distribution* – for example, poverty, quantile shares and incidence and inequality indices. Data from contemporary, representative household surveys that allow clear weighting up to national or other aggregate population levels is the standard for such micro-simulation. However, level micro-data census and administrative data and from civil registries and service providers can also be used. Non-household populations

will require data on institutional living or specific surveys of homeless/street living. Evidence on building social registries from mixed data sources is highly suggestive that ex-ante modelling of costs could be based on similar approaches, but sequencing of how systems are built will probably mean that ex-ante cost estimation precedes registry building and the ex-post cost analysis, such as World Bank's PEI<sup>27</sup>

Several iterative simulation-based options can help by assessing the costs and impacts of design assumptions at an early stage. One important consideration is how to demonstrate the results of micro-simulation transparently and clearly back to policy makers. One example of best practice is Development Analytics' Interactive Social Policy Simulator (ISPS)<sup>28</sup> that leaves policy makers with an interactive tool to assess options, their costs, and distributional consequences.

### Costings and Design Decisions

Cost estimates clearly show one fiscal consequence of policy design trade offs. Policy makers may be working to a fixed budget or not but the empirical trade offs between cost, effectiveness, and efficiency (a progressive pro-poor outcome) are demonstrable from cost estimates and modelled evidence of distributional impact. These same trade offs can be approached normatively, for instance if policy makers follow ex-ante high level political commitments to universal coverage or to scale back to focus on the poor. In either case, the combination of modelled costing estimates and distributional impacts enables a clear understanding of the coverage and generosity of transfers alongside the public expenditure consequences of different targeting approaches and of different transfer design/generosity. Clear and transparent indicators of programme performance can also be developed at the modelling stage. For example, the level of poverty reduction obtained for each unit of cost, or the proportion of total spending that goes to each quantile of the distribution. When faced with a fixed budget the modelling of costs and impacts can suggest optimal choices to maximise efficiency within such fixed budget assumptions. As we outline later, if such evidence is linked to the sources of finance and their anticipated flows and coverage the total fiscal package of benefits and taxes can be considered for its combined effects on poverty, inequality, and other distributional impacts. We now turn to potential sources of finance to build such a case.

<sup>27</sup> | See Partnership for Economic Inclusion (PEI) and its methodology: [www.peiglobal.org/sites/pei/files/2021-01/Appendixes.pdf](http://www.peiglobal.org/sites/pei/files/2021-01/Appendixes.pdf)

<sup>28</sup> | <https://www.developmentanalytics.org/social-policy-analysis>

## *Sources of Finance*

### **FISCAL SPACE AND DOMESTIC RESOURCE MOBILISATION (DRM).**

Identifying 'fiscal space' for additional finance that can be called upon to implement and/or extend current programmes is key to financing (Ortiz et al 2017). The overall size and composition of fiscal space are however always constrained. Monetary policy, interest rates, foreign exchange rates and flows and central bank deposits, will partly determine how much can be domestically and externally raised as revenue. Fiscal space cannot unsustainably expand. Fiscal consolidation across both spending and revenue (transfers and taxes in particular) would have to occur in the face of a prolonged structural government deficit. This means that overarching 'fiscal rules' on the level of government debt and other factors can constrain the size and composition of fiscal policy. Fiscal space is not progressively expandable and there are limits to incrementally and opportunistically stretching it. Raising the budget for social assistance will face a comparative marginal cost assessment in its role promoting inclusive growth and for longer-term poverty reduction against other calls for higher public spending on both infrastructure and on human capital investment through education and healthcare.

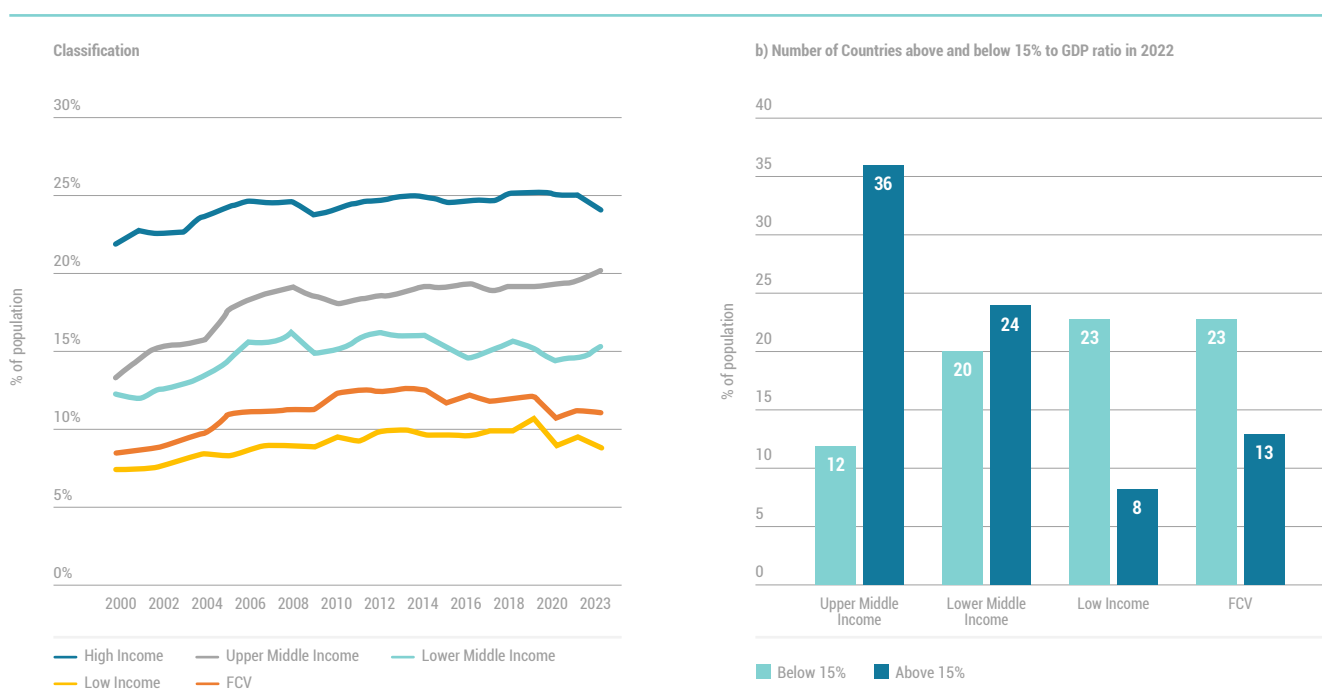
Fiscal space for social assistance may grow due to other macro-economic and wider fiscal policies. Indeed, the case for social assistance during hard economic times may be part of larger fiscal and monetary policy restructuring in which 'protection of the poor' in a fiscal consolidation is a key objective. For example, Sri Lanka's IMF granted Extended Fund Facility included commitments to both extend coverage and improve pro-poor targeting of social assistance (IMF 2023). In short, overall fiscal expenditures may actually shrink but social assistance's footprint can grow within that consolidation.

Domestic Resource Mobilisation (DRM) is a strategic approach to expanding and deepening sources of government revenue to fund social and public policy in poorer countries and is a crucial part of financing the SDGs and promoting economic growth in LICs and LMICs. National public debt has doubled as a share of GDP over the last decade for LMICs, and around 60 percent of low-income economies are in or at high risk of debt distress. This puts DRM at the forefront of the development agenda to sustain public investment as well as expansion of public services. Taxation sits at the heart of DRM and enhancing tax capacity and fiscal redistribution in developing countries is an essential part of this process. Taxation is a significant factor in 10 out of the 17 inter-connected SDGs through four broad pathways: (1) taxes generate the funds that finance government activities in support of the SDGs; (2) taxation affects equity and economic growth; (3) taxes influence people's behavior and choices, with implications for health outcomes, gender equity, and the environment; and, (4) fair and

equitable taxation promotes taxpayer trust in government and strengthens social contracts that underpin development.<sup>29</sup> A threshold level of tax relative to national GDP has been established as a target: 15%, following Gaspar et al's finding that higher growth was seen in those countries where tax revenues reach 15% of GDP (2016a, 2016b).

The general picture on taxation is shown in Figures 5 and b.

Figure 5. Tax to GDP ratio (%) by income Tax



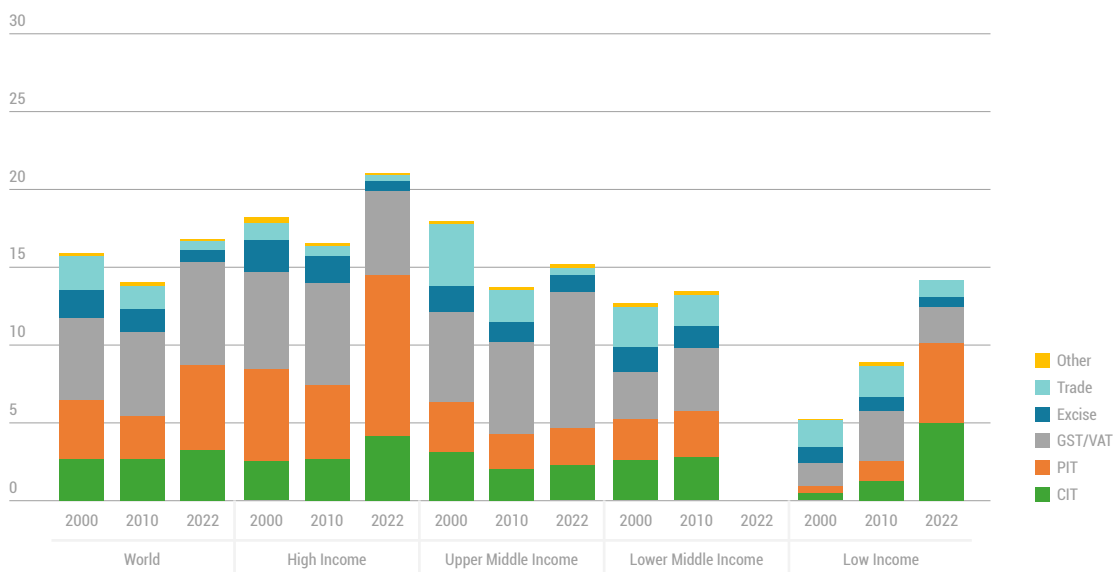
Source: IMF WEO Data (2024); Analysis by Ceren Ozer.

Figure 6 provides a more granular view on progress in both the level and composition of tax revenues: direct taxes: corporate income tax (CIT) and personal income tax (PIT) have much larger roles in higher and upper middle income countries (although the role is rising in LMICs and LICs) compared to indirect taxes. The progressive (pro poor/low income) outcomes of taxation on the household population stem from the design and interaction of direct and indirect taxes and overall distributive outcomes of transfers and taxes on the interaction between them.

Social assistance finance can reflect an expanding commitment to social spending and/or it can be part of a strategy to protect the poorest from higher tax incidence arising from tax reforms that are part of DRM. We can

29 | PCT Tax & SDGs Conference Report, 2018. <https://www.tax-platform.org/sites/pct/files/publications/130559-WP-ReportFinalMar.pdf>

Figure 6. Tax Composition and overall ratio to GDP: 2000, 2010 and 2022



Source: IMF GFS (2024); Analysis by Ceren Ozer.

label these approaches 'propositional' and 'protective,' respectively, but it is crucial if underlying issues of interaction and cumulation of taxes and transfers are considered in detail beneath the high level aims and advocacy that drive policy makers' headlines. DRM, including Medium term Revenue Strategies, together with reforms across tax policy and tax administration have had good effects in LICs (Akitobi et al 2019). Social assistance can facilitate tax reform and protect the poor. It is important *not to see different sources of and approaches to finance as mutually exclusive* and that each may form part of the potential financing package. It is also important to see the dynamic nature of fiscal space over time and against inflation, growth, and population change.

## Internal Domestic Fiscal Sources

Reducing demand by expanding social insurance is one medium term option. It is also the case that social insurance may compete for general revenue funds where these shore up social insurance pension funds that are not sufficient to meet obligations. Reforms to bring pension funding into balance and reduce concurrent subsidies to the funds (Hujo 2014) would be a medium to longer term source of funding for social assistance.

Reducing demand through saving programmes supported alongside or as part of social insurance is another option and, for example, Rwanda's Ejo Heza scheme allows those not in formal employment to voluntarily save for pensions as well as providing secondary pensions to those covered by social insurance (Asiimwe et al 2024). Commercial insurance and

savings schemes will rely on affordability and access to financial services, so-called 'financial inclusion.' Both voluntary social insurance saving schemes and commercial schemes are very likely to be selectively taken up by higher income groups. The growth of digital money sending and banking services has revolutionised transactional financial inclusion in many developing countries and is more widespread in their take up across low and high income groups, but, even so, may not have impacted on savings and investment behaviour of poorer populations as much (Isukul & Tantula 2021). Informal savings and loans – through community-based savings and loans schemes and through familial and community inter-household loans and transfers still dominate in many instances but are often made using digital money transfers.

Clear policies on promoting financial inclusion and supporting non-traditional banking-based financial services will help ensure access to credit even where formal financial services are weak. It is thus important to have expanding 'financial inclusion' to low-income populations as mitigator on social assistance demand.

Economic inclusion programmes, including women's empowerment and programmes to diversify income and employment opportunities are also elements of policies that can run parallel to or part of social assistance and can have impacts on lowering vulnerabilities and strengthening resilience with potential reductions in medium term demands for social assistance from low income (Güven et al 2021)

### Raising Non-tax revenues

Non-tax revenues are mostly from dividends; interest; royalties; sale of assets; rents from public assets; fees for government services or goods; licenses and regulatory charges; and fines and penalties. Such non-tax revenues are not usually large contributions to government budgets compared to tax revenues. Often reliable sources of revenue are under-recognised as a result. In some instances, such as fishing license fees in small island states they may be substantial. However, all countries will face choices in the regular fees and charges they set for public services, which, when well-designed, can encourage the efficient use of public resources. Mullins et al (2020) list problems with policy on non-tax revenues: *'lack of updating; poor initial pricing that does not reflect the value of the service provided; absence of regular review to determine if the fees and charges still achieve their purpose; the number of fees and charges may proliferate, becoming nuisance fees that burden businesses creating inefficiencies; lack of effective collection and monitoring; and lack of accountability by collecting government agencies'* (p. 14). It is unlikely that reform

of non-tax revenues would raise sufficient funds for a large social assistance programme.

### Tax Reform

Increasing tax revenue is one major potential source of DRM and thus for financing social assistance.

The difference between tax capacity (potential revenue) and revenue performance is the 'tax gap' and this gap can be formed of three areas (Glen-day et al 2019):

- » **Structural gaps** – In LICs and LMICs especially, structural constraints on tax revenue arise from the structure of the economy: the balance of formal, monetised, commercial activity that can be taxed versus informal production, trade, and employment. Large agrarian sectors with subsistence farming, home production and informal markets and trading, informal transfers and, of course, informal employment, have much lower capacity to tax. These may not represent 'potential revenue' in the short to medium term. In these economies a comparison of tax revenue to overall GDP, as shown earlier can be misleading as a considerable portion of GDP lies *outside* the capacity to tax (see McNabb et al 2021 and Bogetić et al 2021).
- » **Policy gaps** – arising from sub-optimal policy on the tax bases, tax rates, tax expenditures and other areas of tax policy.
- » **Administration, compliance, and performance gaps** – arising from *implementation* of tax policy and tax collection.

### STRUCTURAL TAX GAPS

It is important for social assistance finance to understand the links between informality (in the widest sense) and tax capacity. Direct income taxation is limited by the extent of the formal labour market: informal labour generates no direct taxation on cash and in-kind wages. Informal dwellings can be invisible in cadastres for property taxation. This leads to tax policy favouring indirect taxation in most LICs and LMICs. However, the structural tax gap is also largely present in indirect taxation. Much household expenditure of low income and rural households can be overwhelmingly obtained from the informal sector: informal markets, home production and informal transfers in kind. Understanding how this will affect the incidence of VAT, excise and sales taxes is crucial. This means that designing VAT tax exemptions on food in many LIC and LMIC economies would poorly protect the poor and may advantage the rich who use shops and supermarkets and other formalised retail outlets (Bachas et al. 2020). Tax incidence analysis show that the resulting tax expenditures flow to the better off (ibid). One important potential financing option is to replace such

allowances with improved social assistance transfers would be both fiscally and equitably optimal.

One major driver of increased formalisation in consumption and trade is digitalisation of transactions through cellular phone or other digital systems. These record and formalise transactions that were previously 'unseen' and create 'big data'. Using such data for tax design is possible but digitised payments systems may be designed and implemented explicitly not to do so (as per India's rapidly expanding digital payment infrastructure – (see Wordline (2024)), and taxing digital transactions may be regressive (see discussion below). Similarly, satellite imaging can improve property and business tax bases. Social assistance should not be a passive partner in such evolution but should ensure that registers are comprehensive and contemporaneous, and that MIS and payment systems use digital databases, payment, and financial services optimally.

## POLICY-RELATED TAX GAPS

Tax policy determines the structure and design of the tax system. Tax systems have a primary aim of raising revenue but can also address social and economic concerns. Good design minimises costs: of compliance, collection and also discourages avoidance and evasion. Taxes also affect behaviour: the decisions of households to save, work and invest in education and training; the decisions of firms to produce, create jobs, invest, and innovate, and the decisions of investors. Changing tax policy in relation to social assistance needs careful consideration of these trade-offs.

### Tax expenditures

Deliberate exemptions or under-taxation of economic activity should be equitable and justifiable. Resulting tax expenditures can be considerable and that may be the result of lobbying and political interest rather having clear economic, fiscal, or distributional basis. They *"are the least transparent forms of government spending and are not properly measured and recorded for most countries. Improved tax expenditure reporting and analysis, and elimination of cost ineffective tax expenditures should be an integral part of a country's DRM enhancement strategy"* (Glenday et al 2019 p.2). Tax expenditures are not often counted as public expenditure. The total 'lost revenue' from tax expenditures should be identified and treated as equivalent to public expenditure when considering potential fiscal space for financing social assistance.

## Direct taxes<sup>30</sup>

These are primarily income tax on individuals (PIT), taxing companies' profits or property taxes. Other forms of direct taxation such as hypothesized social and health insurance are not considered here. We concentrate on PIT of which there are three ways of increasing revenue.

- » Increases from growing taxable income levels.
- » Increasing the tax base
- » Reforming PIT structures (thresholds, tax-bands, tax rates)

Wage, interest, and dividend growth will be captured by existing policy and existing levels of administration and compliance and should raise revenue levels during periods of economic growth. But completely passive tax policy is not advisable and regular (annual) up rating the tax bands and thresholds in line with inflation is key to both protecting the poorest and matching tax take to rising incomes. Fiscal drag (sometimes known as 'bracket creep'), allowing tax thresholds and bands to fall below inflation, can increase tax revenue but should not erode the protection given to lower incomes through tax allowances and base rates of tax.

Expanding the tax base can increase revenue but has to be considered alongside the policy definition of 'taxable income' and structural tax gaps. Taxable income will explicitly recognise monetarised income from wages, interest, dividends, and other 'formal' sources. Income from home production (subsistence farming and other) is rarely taxable income unless it reaches a value that policy makers see as reasonable to recognise as liable to bear tax. Other informal incomes from non-registered businesses (often at household level) and self-employment usually rely on a test of 'registration' and thus of formalisation. In similar but distinct form are the informal earnings from 'informal waged employment' that relies more on contract with an 'employer' or formal registration of own account working. 'Presumption taxes' can capture informal businesses and promote registration. A full assessment of 'taxable' and 'non-taxable' income sources for low income populations, potential tax liability and resulting distributional consequences is crucial for assessing potential revenue for social assistance. In Sub-Saharan Africa, McNabb, and Granger (2021) note that PIT thresholds are often below the \$1.90 per capita daily poverty line.

Potential PIT reform can consider the income levels for liability: both the tax threshold and higher bands of income. Tax thresholds can contain considerable tax expenditures – for example by ignoring some sources of

<sup>30</sup> | I will not discuss wealth, inheritance, gift, and capital gains taxation here.

taxable income or of having additional allowances for 'dependents.' One important policy precedent has been the reform of tax allowances to remove children and to use the revenue gained to fund child transfers in the UK, which had progressive consequences. Allowances can also set off certain expenditures against tax.

The demographic base for taxation, which is normally an individual level tax can also be applied to 'married couples,' either through joint taxation or through 'allowances' for second earners. However, the labour market participation disincentives for women are considerable from such joint taxation approaches.

Reform of tax bands and tax rates are best seen as a mixture of ensuring progressive principles, maximising the tax take, and reconciling incentives. Progressivity is enshrined where incrementally higher tax rates apply to each band of income above the threshold.

Tax credits sit across social assistance policy and can assist in both financing and progressivity issues. 'Refundable tax credits' from PIT which are transfers of a kind – for example USA's EITC. Other tax credits are effectively transfers delivered through the tax system. Integration of social assistance transfers can also assist targeting of categorical transfers by treating transfers as taxable income and taxing back transfers to higher income groups.

## COMPANY AND BUSINESS TAXATION

These forms of direct taxation will not be considered in detail here but these taxes should be assessed to establish their efficiency and effectiveness in wider assessments of fiscal reform. But revenue from and large 'second order' effects of company taxation on the business environment and wider industrial policy should be a separate and distinct part of fiscal reform from any financial plan to fund social assistance. It can feed into fiscal space assessment, but the effects on the household population are not directly determinable – unlike those from direct and indirect taxes paid by households.

## PROPERTY TAXATION

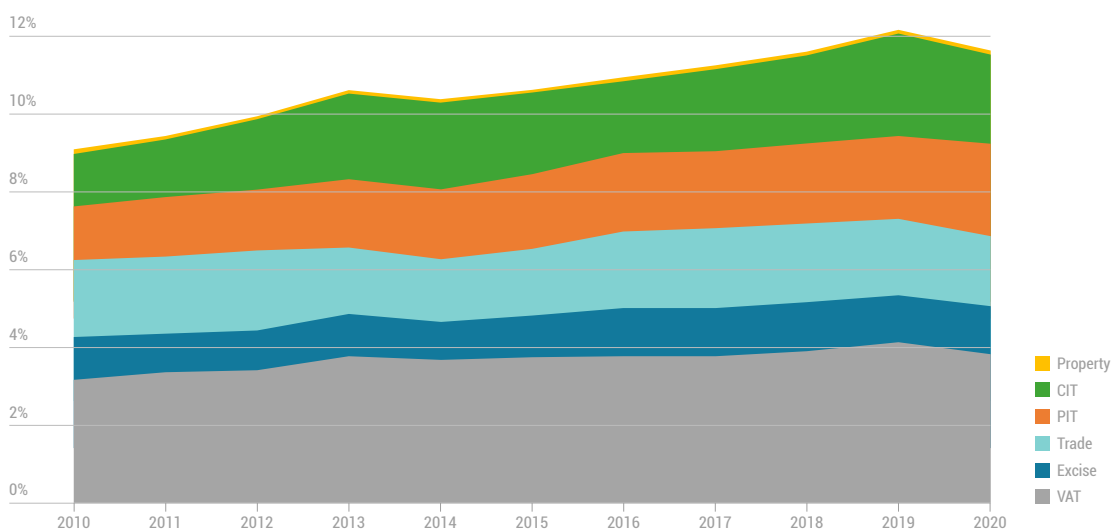
Generally regarded as a stable and predictable revenue source, but is mostly considered as revenue for local authorities. Social assistance is sometimes delegated and run at that lower level of government and is thus potentially a programme that can be considered for financing from it. However, for a national, centrally run, comprehensive safety net or categorical social assistance programme the logic of funding from local property tax

is a lot weaker – partly because of the comparatively low aggregate level of resources it would bring to the national exchequer. The advantages of property tax are several: it is easy to identify and difficult to evade because properties are physically immovable. In principle it is straightforward for governments to identify and tax properties, even where administrative capacity is limited.

## INDIRECT TAXES

Tax policy in LICs and LMICs is dominated by indirect taxation on the consumption of goods and services. Sales Taxes and Excise Duties (for instance on alcohol, tobacco, and petrol) are the most important ones and make up the largest proportion of tax revenues in LICs – see Figure 7 for data up to 2018.

Figure 7. Tax Revenue in LICs



Note: Annual changes, especially 2019-2020, may reflect missing or incomplete data

Source: Author's calculations from UNU-WIDER Government Revenue Dataset 2023

## VAT & Sales Taxes

Value Added Tax (VAT) has increasingly become the indirect tax of choice and, while tax rates are often quite high, revenues are reduced from exemptions and reduced rates. VAT is inherently regressive (represents a higher proportion of incomes of poorer households) but the extent depends on whether household income or consumption is used to measure incidence and on the impact of reduced rates of tax and on exemptions. Even when these taxes are roughly equally proportional across the distribution, "VAT can still have significant equity implications for the poor – potentially pushing some households into poverty" (Thomas 2020).

VAT exemptions often do not benefit the intended income groups/households in LICs and LMICs due to the structural gaps from informal expenditure discussed above. This means that reforms that broaden the tax base for VAT go very well with social assistance by simultaneously raising revenue and increasing social assistance support. If we return to our discussion of tax gaps, we can also see why 'exemptions' and lower tax rates, designed to be progressive and protect the poor, can be regressive because high income households capture them (by purchasing from supermarkets and other formalised retail. The evidence for the efficacy of such reforms is strong: Warwick et al (2002) demonstrate how incidence of VAT exemptions is regressive across countries, while such reforms in Colombia had a clear progressive and poverty protecting impact (OECD 2020).

Raising rates of tax makes household expenditures more expensive and contributes to net inflation and thus any proposal to do so should evaluate the need to finance a rise in transfer values accordingly, otherwise higher indirect taxes erode the value of social assistance. Higher rate 'luxury goods' tax rates can also be assessed in any potential reform.

### Excise and Duties

These are on specific goods and are often linked to either imports and/or to 'sin taxes' on 'undesirable' goods such as tobacco and alcohol have a price premium to discourage consumption. These taxes are often set in nominal amounts rather than consistently being set as a percentage tax rate. This makes them susceptible to fiscal drag unless regularly up rated to reflect inflation. The so-called 'sin taxes' on tobacco and alcohol are more likely to be hypothecated to healthcare financing, and excise duties on gasoline and diesel to road and transport related spending, (or increasingly seen as part of 'green taxation' and linked to carbon reduction targets). While excise on tobacco and alcohol are often portrayed as regressive in HICs based purely on their 'first order' incidence, a growing body of evidence indicates positive impacts of sin taxes on poverty and welfare in a variety of LMICs, once behavioural responses to price changes are accounted for. Poorer households reduce consumption of these products relatively more as prices rise and the medium- and long-term benefits from reducing consumption of these products, such as reduced medical bills and additional years of productive life, can increase household economic welfare and offset any short-term regressive impact. This means that cross-sectional evidence on 'incidence' of sin taxes should be balanced with longer term projections on longer-term and lifetime effects (Fuchs, Paz, and Paula 2019; Fuchs, Mandeville, and Alonso-Soria 2020; Fuchs and Icaza 2021, Global Tax Program 2022).

## ADMINISTRATION, COMPLIANCE, AND PERFORMANCE GAPS

More effective and efficient administration and collection of tax raises revenue- often delegated to a 'revenue collection agency' and separate from tax policy functions in governments. In developing economies, especially those characterised by high levels of informality, there is considerable evasion in addition. Collecting taxes is often as or more important than the structure of the tax system when optimising overall revenue. What reform options to tax administration can be considered alongside issues of design and policy? The issue of a digital tax-base is crucial, and reform of administrative systems and databases, particularly in the light of 'big data' systems that can cover the majority of the population. National identity systems, social and other registries, and business registries are key to optimal identification of potential taxpayers as a secondary function, subject to data protection considerations. Shared beneficiary data with PIT systems for categorical social assistance schemes (child benefit, social pensions) would be a key data investment if not already in place and would assist in reform across transfers and taxes (as previously discussed above).

Collection and compliance can be improved in a number of ways. Examples of success are:

- » the use of 'third party' information sharing on VAT: consumers sharing receipts for purchases to enter a lottery (e.g., in Sao Paulo (Naritomi, 2019)) and from through electronic payments (Das et al., 2022) and from electronic billing (Mascagni et al., 2021).
- » 'Withholding' Most countries use employers to withhold and pay taxes on behalf of employees (PAYE and similar) but designated large firms, credit card companies ('withholding agents') and government will also withhold business taxes from smaller firms transacting with them (Garriga and Tortarolo, 2022; Waseem, 2022) and Brockmeyer and Hernandez, 2019). Withholding reduces the rate and value of evasion.

Some commentators give high prominence to combatting illicit financial flows in order to finance social assistance (Ortiz et al 2015) of which international tax evasion is a part, but is also a wider issue of multinational taxation and the taxation of high net worth individuals. Combatting tax havens and other international entities to evade tax jurisdictions alongside more explicitly illegal transfer of criminal gains from corruption can increase revenues.

## *New forms of tax*

### Digital Services Tax

Digital trading in goods and services gives rise to changes in compliance and administration of direct and indirect taxes already in place (corporation taxes, sales taxes/VAT, and excise taxes). Digitalisation allows transactions across international jurisdictions without any necessary physical company infrastructure being located in countries where transactions occur (see ActionAid 2020). However, the opportunity for taxation arises from 'data formalisation' of transactions- previously informal purchases or transactions are now captured by the companies providing the digital services that underlie those transactions. Data provide a new potential tax base, and the rapid expansion of 'mobile money' digital financial services (DFS) in the past 10 years has also enabled low income and middle income countries to recognise and to tax such services as a clear way of extending the tax base into informal economic activity. The uptake of DFS via cellular phones has been rapid and widespread, 47 per cent of the population of sub-Saharan Africa (548 million) had a registered mobile money account in 2020 (Andersson-Manjang and Naghavi 2021) and this has allowed lower income households to have access to financial services for a range of activities – both relating to formal banking services, purchases of market monetary goods and services and informal transfers and exchange. In LICs mobile money accounts are over twice the number of commercial bank accounts and in LMICs the aggregate value of mobile money use is equal or more than commercial bank usage (Bazarbash et al. 2020).

Most countries in sub-Saharan Africa have imposed taxes on the value of transactions at rates between 0.5 and 2% (ICTD 2023), which result in higher and more direct impact on the consumer and has a larger regressive impact and also leads to strong behavioural changes – of adapting back to use of cash, of reducing transaction rates and values and of making differences with financial service costs of traditional banking services(ibid).

These taxes are unpopular with both providers and consumers and the impact of them has been negative in the short term (Uganda needed 18 months to return to levels of mobile money use after introduction, (Clifford 2020). The impacts have been evaluated only in the short to medium term but tend to support regressive findings. In Uganda, *'it is those conducting in smaller transactions sizes, predominately the poor, that bear the brunt of the tax'* ( ibid p. 24), and similarly in Ghana, *"the overall effect of the E-levy is highly regressive, with users in the bottom quintile paying the largest share as a proportion of their income"* (Anyidoho et al 2022, p. 3). These findings support the warnings from IMF on potential regressivity.

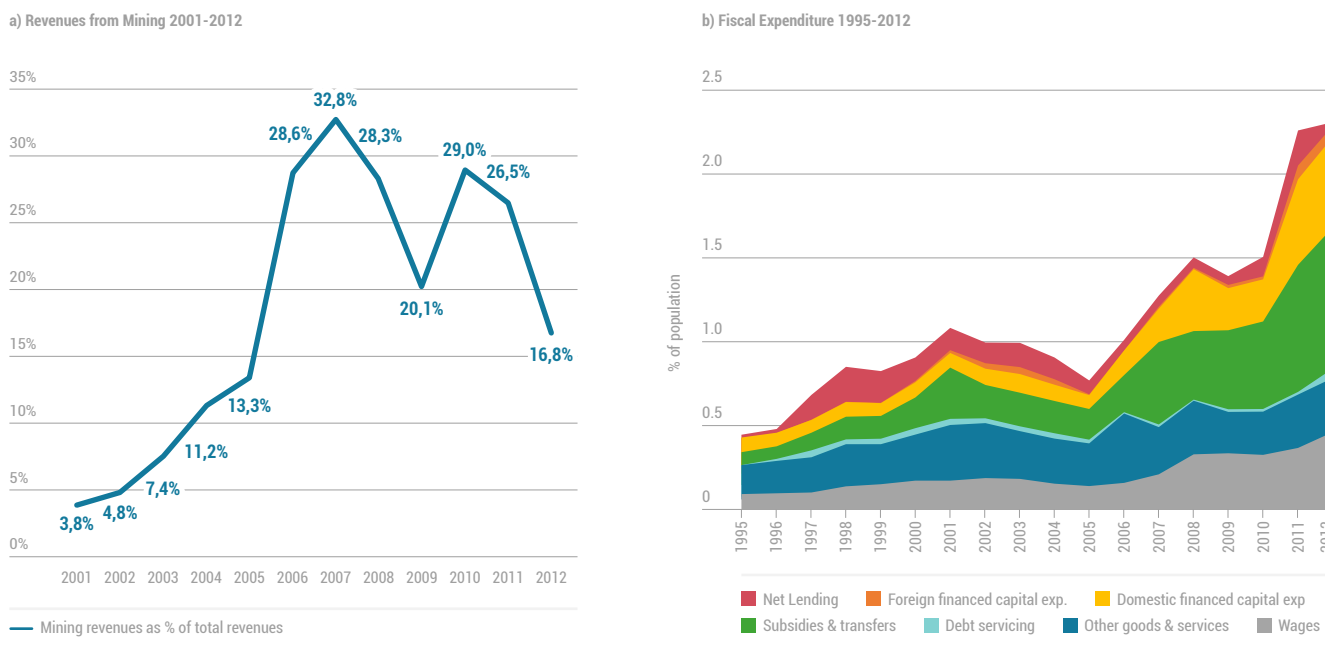
Financing social assistance from such taxation should be cautiously assessed and also be part of wider considerations on how to optimally administer tax and transfer systems and the relationship of social assistance to financial inclusion. Transfer payments by mobile and electronic transfer are efficient and have low unit costs, and policies that make payment and registration systems for transfers work most effectively and fairly with liabilities for taxation and user charges on money transfers, should be explored.

### Taxation of Extractive Industries

Extractive industries that exploit mineral and hydrocarbon resources provide a range of potential fiscal revenues: *"income taxes and royalties normally associated with the extractive industries the government's share can also include other taxes and fees, as well as obligations placed upon investors, such as making infrastructure investment, employing and/ or training residents, purchasing services and supplies from local businesses, and contributions to decommissioning and environmental costs. It is this total contribution to a developing country's economy that should be considered in evaluating fiscal take."* (UNDESA 2021 p. 59) Extractives have two characteristics that are important qualifiers on expected revenues when considering social assistance and other programmes: volatility of mineral and hydrocarbon prices and their finite nature. Creating funds from extractive revenues to smooth market fluctuations and to provide investment for sustainable medium to long term national fiscal 'wealth' resources is one structural approach. *"fiscal policy should aim to build a "wedge" between fiscal revenues and expenditures to break the transmission of externally determined instability from revenues to expenditures. This is the intended objective of sovereign stabilization and saving funds, but many resource-dependent countries have failed to realize this intention"* (Gankhuyag and Banzragch 2014). Sovereign Wealth Funds (SWFs) or similar can fund social assistance (for instance the Alaskan Permanent Fund Dividend provides an annual one-off transfer to all Alaskans) or from revenues that are not, or only partially allocated to such funds. See chapter 7 in this volume for a wider discussion on SWFs.

One important consideration is the potential short to medium term sustainability of social assistance finance if it relies on extractive related revenues. Figure 8 shows data on extractive revenues and social expenditure in Mongolia as an illustrative example. Over the period prior to and after introduction of the child grant, revenues from mining fluctuated widely, with clear growth between 2001 and 2007 and a clear overall decline between 2007 and 2012. Fiscal expenditures arising from increases in spending on subsidies and transfers and posited in part on expected continued growth in mining revenues, grew from 2005 to 2012.

Figure 8. Revenues from Extractive Industries and Fiscal Expenditures in Mongolia



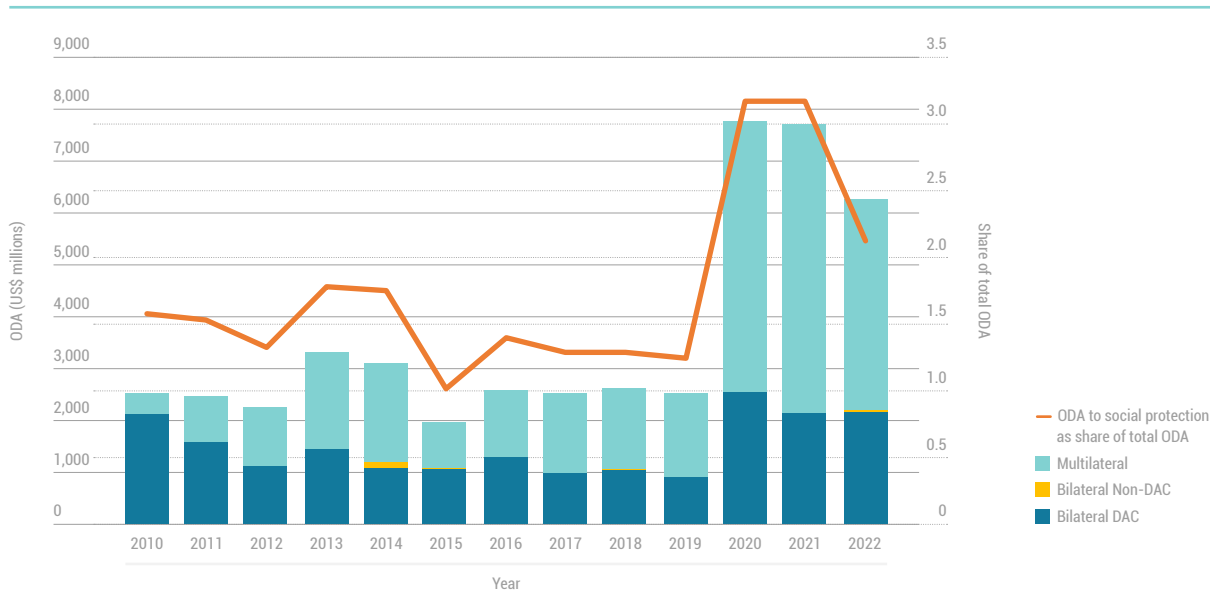
Multilateral policy guidance, resources and advisory and technical support should be part of higher-level DRM and fiscal decisions above and beyond the financing of social assistance. Indeed, extractive industries can be required to invest in public and social infrastructure (and hence lower demand for social assistance) as a partial alternative to development turnover tax (IISD 2023 and exemplified in Peru: Del Carpio 2018 and Guinea: UNCDF 2021) alongside longer standing an established forms of taxation, regulation, and royalty approaches (World Bank 2012; UNDESA 2021).

## Aid Finance

“Official development assistance” (ODA), is public funds transferred - either directly from one government to another through ‘bilateral aid,’ or indirectly through non-governmental organizations or a multilateral agency such as World Bank or regional development banks, ‘multilateral aid.’ Recently, there has been an increase in corporate philanthropy and private donors such as the Bill & Melinda Gates Foundation and the emergence of new donor countries: China, Brazil, India, Saudi Arabia, the United Arab Emirates, Qatar, and Kuwait for example, which has complicated an already complex set of international financial relationships.

Overseas Development Aid (ODA) finance for social assistance is complex as aid for the social protection sector are inconsistently defined<sup>31</sup> and the number and types of donors are several. The overall trend in levels of aid to social protection prior to the Covid pandemic (we assume that the vast majority of this is for non-contributory transfers and is thus for social assistance). Published data is only available for the pre-Covid period.

Figure 9. *Overseas Development Assistance for Social Protection: 2010-2022*



Source: OECD DAC data accessed November 2024 by Tony Kamninga ODI.

Figure 9 shows that 'traditional' DAC bilateral aid fell for social protection between 2010 and 2019 with multilateral aid growing to replace it, but overall, both sources amounting to 1-1.5 percent of all ODA. New 'non-DAC' bilateral aid has grown since 2014 but remain a small portion. DAC aid for social protection jumped significantly from 2020 in response to the Covid pandemic, with multilateral aid forming the largest proportion such increased ODA. Overall, aid levels to social protection as a proportion of all ODA doubled during 2020 and 2021 to over 3 per cent. The World Bank Group is by far the largest multilateral donor: pre-covid, 50% of total ODA and nearly 80% of multilateral ODA to the sector. The UN group contribute 12% and regional development banks (RDBs) another 7%. (McCord et al 2021)

<sup>31</sup> | OECD Development Assistance Committee (DAC) aid flows are captured in their Creditor Reporting system (CRS) that uses a sector (e.g., health, energy, agriculture) or other purpose category (e.g., general budget support, humanitarian aid) in total aid. Social Protection's definition does not match clear sectoral or purpose category definitions. Multi-sector codes or the code allocated to the largest component of the aid flow are also used. Definitely accurate estimates of social protection-based aid flows are not possible. CRS code 16010 is the main identifier of social protection sector. Bilateral aid flows will also go to multilateral donors (IFIs and UN Agencies) and thus require estimates of overlap to avoid double counting. Humanitarian aid flows are also contained in DAC but are not reconciled to UN-OCHA or other aid flow data.

The OECD's Development's Development Assistance Committee (DAC) outlines that funding must be concessional in character, with a grant element of at least 25 percent (using a fixed 10 percent rate of discount). Concessional loans are the major form of aid lending from development banks and IMF. ODA can be in the form of a loan or a grant and the overall proportion of all aid (not just social protection) given as grants has fallen from 77% in 2011 to 55% in 2018, while the proportion given as loans has risen from 12% to 30% reflecting the rise of multilateral agencies and other factors (Dodds et al 2021).

ODA should not be seen as an open-ended 100% funding commitment to a social assistance programme and national fiscal plans should clearly outline how domestic resources will grow over time to enable the programme to continue within national financing. In the case of aid to fund initial 'pilots' to be put in place to develop capacities and to prove the efficacy of transfers (Davis et al 2016), this may be a preliminary step to continued medium term funding and for aid to accompany national fiscal funding as the programme expands. On the other hand, humanitarian programmes and their finance have tended to be based on short to medium term support that is supplemental to and only occasionally integrated with national systems.

Humanitarian finance is often for fixed and short periods, but increasing emphasis is being given to 'resilience' funding to bridge humanitarian and 'development' funding of basic services – including safety nets and 'shock responsive' social assistance. The role of humanitarian funding has changed under the 'Grand Bargain' to refocus on ensuring that aid is maximised at the recipient level. Cash and voucher provision is seen as having much higher proportions of finance that reach recipients rather than on delivery systems and overheads, "... *cash and voucher-based programmes appear relatively efficient because they transfer high amounts directly to beneficiaries. They require less expensive delivery mechanisms than commodities and fewer staff than the provision of services.*" (Mowjee et al 2017 p.22). The implementation of the Grand Bargain has emphasised cash and voucher provision and national co-ordination of transfers between humanitarian agencies and NGOs through cash and voucher coordination mechanisms. One issue is how far such programmes are more closely linked (if not integrated) to national 'safety net' programmes of social assistance. (WFP 2020) and to other national policy delivery systems in health, nutrition, and education. The direction of longer-term financing of humanitarian based social assistance, i.e., cash, voucher and food aid to crisis affected populations, converge into a set of largely centrifugal issues:

- » Of dialling up and down 'one off' emergency appeal funding through INGOs and UN system alongside other year on year sources of ODA and other streams of finance

- » Of moving to the most efficient and effective modalities – which in remote and poorly served areas may remain 'in-kind' food aid.
- » Of developing medium term financing approaches where donors can commit to greater 'resilience' verses emergency response and on country system building and integration.
- » Of complex 'holistic' cross national sectoral and cross international agency/donor financing approaches<sup>32</sup>.

These issues become more important in countries with prolonged crises such as those in conflict affected countries such as Yemen, Afghanistan, DRC, and others. The ability to fiscally plan for the medium term and bring together financing for social assistance from national, humanitarian and development finance needs considerable investment and prioritisation in such contexts (OCHA 2015, Sabates-Wheeler et al 2022).

### *Energy Subsidy Reform and Climate Finance*

Climate finance for social assistance can be sourced domestically from subsidy reform and taxation, from carbon pricing, and/or from ODA. Changing the price of carbon, either through price mechanisms (and emission trading schemes), or through taxes, or through the elimination of price subsidies is central and has two structural economic impacts that are crucial to consider for social assistance: first, they are very large structural changes to the macro-economy that have impacts on firms, employment, trade, financial markets and on the population – the scale, extent sequencing and timetable for reform matters hugely - but overall, the potential revenues generated are very large indeed and thus social assistance – together with transitional support to employment and business- is a legitimate call on such resources; second, the distributional consequences of such structural changes can have regressive impacts (mostly based on evidence from HICs) that underpin the 'just transition' approach to climate change policy. Regressivity is not universal and differs by the fuel's incidence in consumption patterns of poorer and richer households (Coady et al 2015) and also according to tax and carbon pricing approach: "*different designs for carbon tax mechanisms play a key role in affecting distributional impacts as well as impacts in other policy arenas*" (Malerba 2023, p. 18). Political economy questions are crucial as it is perceived impact on fairness of fiscal policy from climate change policy that can matter more than empirical evidence - as per Nigerian riots following fuel price adjustment. Social assistance can thus be seen as part of compensation against

<sup>32</sup> | See suggestions for technical approaches to cross-sectoral humanitarian funding put forward by Samson (2019)

price changes as well as protection of the poor against such price changes but should also be seen as part of a wider policy package.

Malerba concludes that *"The practice of using cash transfers to mitigate energy price increases is widespread, but it needs to be designed carefully because in many low- and middle-income countries, it is difficult to reach and target the poorest"* (ibid p.15). But policy practice is best informed by reforms of energy subsidies to fund social assistance expansion. Revenue generated from subsidy reform is generally large (Gyöti et al estimate that *"30% of the carbon price revenue may already be enough to compensate poor and vulnerable households for the ensuing welfare losses"* 2021 p.10) Energy subsidy reform is one area of potential social assistance financing with a large prescriptive and applied literatures. There is a wide general advice backed by facilities for training and applied assistance (The ESMAP Energy Advice Management Assistance Programme; IMF Energy Subsidy Reform (ESR); World Bank Energy Subsidy Reform Facility (ESRF) are examples).

The literature on applied policy overview on the design and implementation – see Vagliasindi (2013) Alleyne et al (2013), OECD (2021) (Hamaizia & Moerenhout 2022). - provide applied evidence on types of reform and their relative success. One important element of successful implementation of reform and the use of social assistance to mitigate losses for low income households is the use of social registries to pre-identify and track needs arising from reform and underlying profiles of low income.

The nature and extent of energy subsidy reform will affect how social assistance is represented in policy and financing issues. Some reforms such as social tariffs for electricity are more limited than structural reform of energy pricing across the whole economy.

Turning to consider climate related OCA finance for social assistance there are both general and specific funds. Development aid in general has financed 'adaptive social protection' in LICs and LMICs that is a response to build resilience to co-variate shocks and thus is in large part related to climate change as a large proportion of shocks related to drought, floods, and other climate related risks. An example of this is the Sahel Adaptive Social Protection Program operating across six Sahelian countries—Burkina Faso, Chad, Mali, Mauritania, Niger, and Senegal. The programme explicitly aims to build programmes in a systems-based approach to protect *"vulnerable households adapt to the impacts of climate change but also to other covariate shocks"* (Kreidler et al 2023 p.) The explicit acknowledgement of 'adaptation' to the effects of climate change is now widely used in developing national and cross-national social assistance aid financing in multilateral and bilateral climate and development funds (Aleksandrova and Costella, 2021).

The UN Framework Convention on Climate Change set up the Green Climate Fund (GCF) to finance programmes and investments that either mitigate climate change or allow an adaptation to it. The role of social assistance in mitigation is peripheral but specific – supporting agricultural or other practices that reduce emissions, public works, and environmental cash transfers, for example – but the potential role in adaptation is huge and wide ranging – both in short term development of ‘adaptive social assistance’ programmes and longer term adaptation to changing living standards, migration and other climate related risks. Expansion of the low coverage of social assistance in many LICs and LMICs can thus be argued as directly and indirectly linked to climate change. Longhurst et al (2022) reviewed how GCF had responded to requests to finance social assistance and saw that more general requests to support adaptive social assistance had been refused as insufficiently specific to climate change causality and too based in general development approaches. The Philippines had successfully obtained finance to develop early action protocols for shock-responsive social protection designed to install and expand observation networks, generate hazard maps and risk-models, and develop early-action protocols, communication strategies and cyclone-response plans. No funding for transfers costs was included (ibid). Côte d’Ivoire and World Food Programme have received funding for specific gender-sensitive climate adaptation practices that grant women and youth access to improved agricultural inputs and equipment and benefit from utilizing climate information and index-based insurance to improve productivity<sup>33</sup>. The GCF’s mandate for financing excludes scaled expansion of social assistance as a response to climate change and instead is targeted on ‘additionality’ rather than gap-filling or replacing general development or humanitarian funding. (UNFCCC Standing Committee on Finance 2022, GCF 2023). The agreement in COP28 to provide finance for ‘loss and damage’ is being operationalised at the time of writing and how far it expands the opportunities for financing social assistance beyond ‘adaptation’ and ‘mitigation’ approaches is uncertain.

### *Hypothecated or ‘Earmarked’ Finance*

The matching of a particular source of finance to specific public expenditure is called hypothecation or ‘earmarking’, as initially discussed in Chapter 1 of this volume. In theoretical terms, it can be best considered as a thought experiment where there is alignment of every public expenditure commitment to a particular tax or revenue source (see Buchanan 1975, or

<sup>33</sup> | See [https://www.wfp.org/news/green-climate-fund-approves-wfps-us10-million-project-build-climate-resilience-cote-divoire?\\_ga=2.19640176.954573758.1690189092-784849053.1671707256](https://www.wfp.org/news/green-climate-fund-approves-wfps-us10-million-project-build-climate-resilience-cote-divoire?_ga=2.19640176.954573758.1690189092-784849053.1671707256)

example): health tax or contributions for healthcare, social insurance contributions for pensions and other benefits; education taxes, loans, and fees for education, and so on. In the real world it is a reflection of the scale and recurrent demand of social assistance. Fixed budgets usually result from a fixed revenue stream, and this means that in practice there may be mixed financing from general revenue alongside any core hypothecated allocation.

There are good grounds for social assistance being based on general revenue support.

- » Transfers to cover basic needs cannot raise 'user fees or other programme specific revenue support from its users.
- » Social assistance covers needs associated with other service sectors such as health and education and thus requires assessment of finance across ministerial budgetary boundaries.
- » The need for pooling to ensure horizontal equity is considerable – different funds for different sub-groups would reflect social and political bias and undermine consistent and equal treatment.
- » Funding is necessarily for vertically 'redistributive' reasons– either from sources that are not bound by levels of population-based need (business taxation, higher incomes being taxed), or from smoothing over the lifetime of populations who may fall into need. In simple terms, the 'rich' pay taxes, the poorer receive social assistance at any point in time, while prime aged workers pay taxes to fund social assistance for events or periods in their life where they have need for such support.
- » But the idea of smoothing risks brings in the issue of 'insurance' as an alternative source of finance: can the poor or others in need be supported by hypothecated insurance-based finance – either social insurance or subsidised private insurance? Social assistance may have a role for those who are 'uninsurable' (such as some disabled people or others who have reached pension age) or where premium costs are too high to be affordable. The regulatory and entitlement policies for such mixed financing are subject to huge trade-offs – to avoid cherry picking and ensure risk pooling.
- » Political economy may drive hypothecation in the case of climate change policies based on increasing carbon taxes and/or reducing subsidies – the resulting price increases may only be politically and electorally sustainable if explicitly or implicitly linked to compensation, and thus social assistance.
- » Project specific finance may well also be more common in LICs and LMICs due to aid-based finance and thus earmarking and separately assessing national domestic financial contributions (from general or earmarked sources) essential. One common financing approach is to have the one-off

capital costs of programmes financed by a concessional loan, and thus earmarked, while financing the recurrent costs of transfers from the programme are a mix of aid finance and national budgets.

The role of earmarking for social assistance thus partly lies in lacunae of social insurance. The smaller the population covered by earmarked contributory social insurance, the larger the need for demand led social assistance. The ILO prioritise formalisation and the extension of social insurance coverage as a key element for social protection finance (Ortiz et al 2019), while recent World Bank proposals see an alternative in long-term cross-sectional tax-based finance of non-contributory transfers (Packard et al 2019). Crucially, for low income countries with high levels of informality, any medium term financial strategy cannot reasonably rely on large-scale extensions of hypothecated social insurance as an alternative to social assistance as social insurance in such contexts is largely captured by elites – government employees and formally employed people in large firms.

Earmarked funding for social assistance is often found in smaller scale *specific funds for schemes that cover particular groups or contingencies*. An example is the various Chernobyl compensation programmes across ex-Soviet Union countries. These separate fund-related programmes are more common in 'fragmented' social assistance systems. Similarly, locally run social assistance programmes by sub-national authorities may have earmarked funding from local revenue streams such as property taxes and licencing revenue.

Standing back, the issue of earmarking is largely a trade off between finance based on pre-identified fixed funds with less flexibility and response-led financing. Demand led needs based on entitlement rights and income levels will necessarily need more financing flexibility. This means that short-term hypothecation can be optimal, in particular when a fiscal transition of magnitude is occurring (Iranian universal payments to coincide with energy subsidy reform, for example). Hypothecated universal demogrants to the whole population have arisen in contexts where resource flows from oil and gas (Alaska) and gambling (casino taxes in Native American lands), and the potential role of sovereign wealth trust funds in financing hypothecated social assistance in LICs and LMICs is a medium to long term consideration. Chapter 4 considers earmarked financing in OECD countries.

## *Fiscal and Political Process*

This section considers some of the high-level decisions and processes that surround social assistance finance by LIC and LMIC governments.

## Revenue and Spending: Fiscal Incidence

One key task in any financing proposal for social assistance is to bring together the transfer and revenue generation proposals into a combined profile. What are the effects of both transfers and the taxes/reforms to finance them on household incomes? Fiscal incidence analysis uses original pre-transfer incomes as a starting point and then considers the impact of transfers and taxes consecutively and cumulatively. The work of Commitment to Equity (CEQ) has established a methodology approach (Lustig 2018) that can estimate changes to 'disposable income' after taxes and transfers and to build on this to consider other forms of net income change after subsidy reform and services in kind. The importance of such estimates is borne out in the evidence base of from national and cross national CEQ analysis. An eight-country study (Inchauste & Lustig 2017) and more recent national studies (for example, Viet Nam in Rodriguez et al 2023) demonstrate several important points for those considering social assistance finance. First, it is essential to understand and quantify social assistance's fiscal component contribution to changes in the distribution, poverty, and inequality. This should be as programme specific and granular as makes sense – for instance, by separately assessing categorical and means-tested programmes. This allows a clear consideration of potential reforms and their outcomes within the sector. Second, it is additionally essential to identify, understand and quantify the tax and resource funds that occur alongside social assistance programmes and especially so where these are funding resources for the programme. The taxes and user charges that occur alongside social assistance can nullify their overall impact on poverty and inequality. Inchauste and Lustig show that gross changes to poverty reduction are sometimes counteracted: *'Poverty actually increases after direct and indirect taxes in the case of Bolivia, Ethiopia, Ghana, Guatemala, and Sri Lanka, even after taking into account the benefits of direct transfers. In those countries, the burden of indirect taxes is larger than the benefits from direct transfers at the bottom of the distribution. As a result, the net cash position of households worsens..... These results highlight that the tax and transfer system can increase poverty even if it is also redistributive'* (op-cit p. 12) And, in Viet Nam: *"the benefits received by the poor are outweighed by what they pay into the fiscal system and poverty is slightly increased by the fiscal system."* (Rodriguez et al 2023, p. 23).<sup>34</sup>

Fiscal incidence analysis then provides the profile of 'who gets what and who pays for it': and can consider issues coverage, overall costs and of

<sup>34</sup> | It can be important to acknowledge and attribute how changing distributional and poverty reduction outcomes are dependent on the underlying technical approach to household welfare measurement. The CEQ approach uses a 'household income' approach but in applied practice in developing countries uses household consumption as the welfare measure with the necessary caveats. Interpreting differences and changes that result from the computation of the welfare measure used for poverty and the attribution of transfers, taxes and user-charges to income or consumption are important.

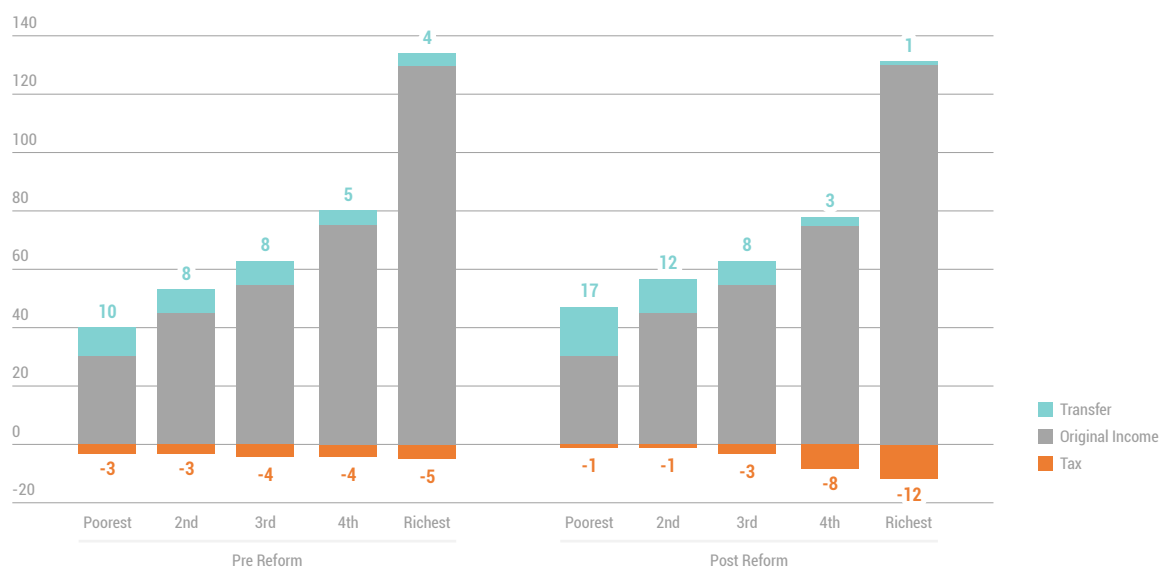
progressivity: of transfers and taxes as shares of household income and the overall shares of total aggregate taxes and transfer spending by income level (quantiles or poverty status, for example).

The policy choices and trade offs for social assistance and taxation are a small but essential agenda for overall tax policy, where the balance between direct and indirect taxes and taxation of businesses may be dictated by overall revenue needs rather than distributional consequences. The overlap between social assistance and taxation policy can be considered in two main ways: first, the position of poor and low-income households and second, the position of 'vulnerable' categories of the population – children, elders and disabled in particular. The CEQ literature concentrates on the first and the overall progressivity and incidence of taxes and transfers. The trade offs are largely reflective of the size and resources of the tax base – with large proportions of the population likely to have incomes below the mean, and the overlap between the structural tax gap and low income/rurality that can result from non-formalised retail and labour markets. Ensuring that the poorest are not directly taxed and ensuring that formalisation – in particular, registers and digital transaction and population databases – are designed to promote inclusion rather than just overt liability for tax. The trade offs for categorical populations are often about the efficiency and effectiveness of tax expenditures – in particular, tax allowances for 'dependents' and exemptions/lower rates for child, elder or disabled related goods and services. How far such expenditures could be better designed as part of social transfers is key.

### Policy Simulation

We discussed how to do costings of outline social assistance proposals using micro-simulation. We strongly suggest that 'fiscal incidence' is simulated in addition to understand the impacts and trade-offs of transfers and taxes together. Figure 11 gives an illustrative hypothetical reform of social assistance financed through taxation that falls on the household population directly. The 'pre-reform' incidence shows the combined tax and benefit incidence before the reform of social assistance. The 'post-reform' incidence shows the simulated changes to incidence following reform of both social assistance entitlement and of tax rules to raise revenue for it. The hypothetical reform shown in Figure 11 is progressive – raising social assistance incidence in the poorest quintiles and raising taxes in the richer.

Micro-simulation at its simplest provides simple arithmetic totals of inputs and outputs (so-called 'static simulation.' Policies that are likely to produce 'behavioural changes' can be more econometrically specified to estimate those effects (a 'dynamic' model) as our earlier discussion of the impacts of 'health taxes' illustrates. Reforms that alter the macro-economic

Figure 11. *Hypothetical Tax and Transfer Incidence in Social Assistance Reform*

Source: Author's calculations

environment, such as energy subsidies, will have repercussions across the industrial production and trade sectors as well as on household incomes and spending. A different form of modelling that takes into account these deeper macro-issues called 'computable general equilibrium' (CGE) models are best used to assess the impacts of policies in the overall economy<sup>35</sup>.

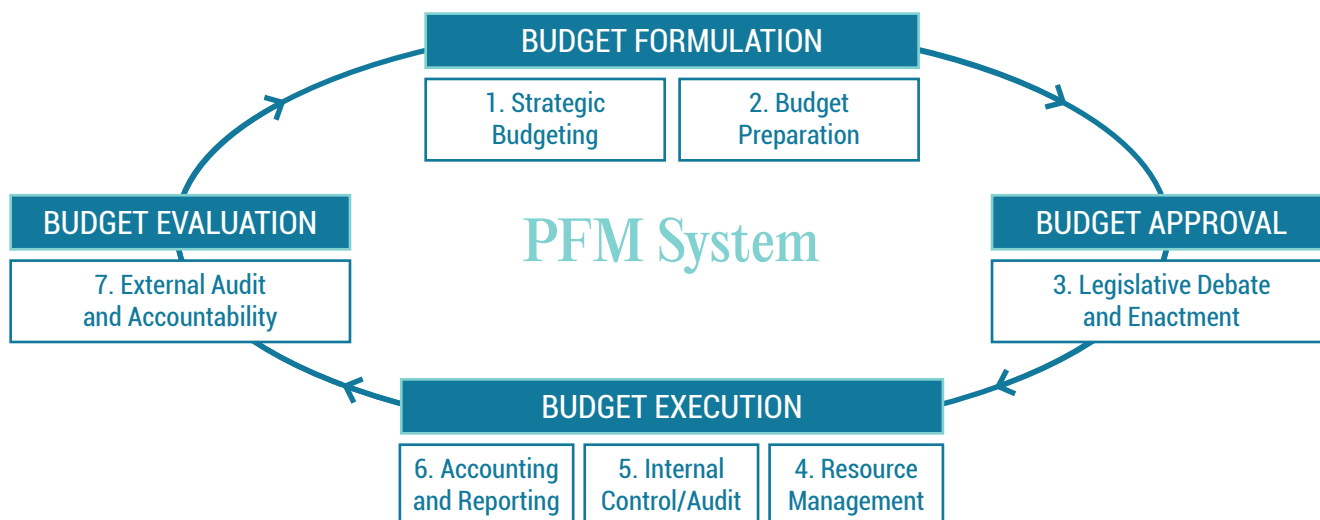
Micro-simulation models are available at the national level in many OECD countries. The 'Southmod' programme by UNWIDER has also produced models for selected developing countries (Decoster et al 2018) and LAT-INMOD is a regional microsimulation model for Latin American countries (Olivia 2015). The majority of developing countries will not have access to pre-built models and will have to develop a specific model for the proposed reform from household survey micro-data (or adapt previous models that have been used similarly). Tax policy departments in ministries of finance are likely to have macro-models and revenue collection agencies are likely to have administrative data to allow tax policy simulation. The ministries associated with social assistance are less likely to have economic and statistical capacities to model and this means that in many low income countries, external experts will likely be brought into model financing and programme design and coverage on a 'project by project' basis. The World Bank and other IFIs often fulfil this role as part of project development.

<sup>35</sup> | A not for profit organisation, Partnership for Economic Policy (PEP) works with local academics and policy makers in Africa, Asia and Latin America and has helped develop CGE models for countries. <https://www.pep-net.org/>

## Public Expenditure Process

Budget setting and public expenditure processes differ across countries but are part of what is commonly termed 'Public Financial Management.' Figure 12 outlines a simplified overview of the processes involved.

Figure 12. *Simple Model for Public Financial Management*



Source: Andrews et al Figure 1 p.2

The role of planning social assistance financing is mainly in 'Budget Formulation' and 'Budget Approval' but should also feed into 'Accounting and Reporting' for Budget Execution by having clear measurable indicators of performance.

It is crucial that financial plans for implementing large scale reform of social assistance are considered as part of strategic budgeting and feed into the broad policy goals of economic development, poverty reduction and SDG achievement but also feed into government financial targets. There may be expenditure 'ceilings' agreed through a set of 'Fiscal Rules' that indicate the maximum amount of funding available overall or to each spending entity or for specific objectives. The strategic budgeting phase can involve various levels and line ministries of government who put forward proposed budgets alongside the programmes, but can also involve civil society groups. Many countries aim to produce multi-year estimates through strategic budgeting processes, for instance through Medium Term Expenditure Frameworks (MTEF). This strategic level will also performance budgets that links policy objectives (that may be cross-ministerial and across local and central government) and expenditure.

It is also crucial that social assistance finance proposals include clear indicators of performance— for example on ‘take up,’ coverage, spending performance and effectiveness measures. These should be part of accounting and reporting requirements in public finance that can allow policy performance auditing alongside financial audit control and resource management.

Contingency funding for emergencies will also be part of budget setting and rely on both identifying funds that can be called upon and a clear set of rules that permits disbursement of such funds. A basic contingency budget can be a flexible pot that government can draw upon to meet unanticipated needs. The size of these funds can be set to a pre-defined limit. Some countries with high risks of disasters (e.g. Indonesia) will set contingency budgets within specific programmes such as social assistance. The Ethiopian Productive Safety Net is another specific example that has this facility. Further details on contingency funding and on externally available risk insurance are discussed in Chapter 6 and in Longhurst et al (2021).

## *Political Economy*

So far, we have set out technical approaches to social assistance finance. But much decision making will result from political economy and the national ‘institutions’— the laws, policies, and strategies, and the ‘organisations’ and political actors involved. Political elites and population subgroups are key when they represent organisations and political influence and determine the institutions that result in fiscal allocations to social assistance. Understanding the political incentives for and constraints on these fiscal policy decisions is the heart of the matter.

A first principle is that **the relationship between politics and social policy flows in both directions**: the political appetite for programmes will depend on *“social norms and ideological factors, such as the perceived causes of poverty and the preferences for redistribution”* (Bossuroy & Coudouel 2018) as well as direct political incentives of actors. The impact of programmes will thus feedback to alter these.

A second principle is that social assistance is one area of policy where **rapid economic or social changes can change the constraints on policy imposed by political economy**. The norms of political, economic, and social attitudes on and incentives for expansion of policy are often changed and both national and international actors catalyzed into policy action.

The third and deepest principle is that evidence and technical assessment, no matter how cogent, will not in themselves be sufficient to ensure

optimal policy development: the political processes and political economy need understanding and addressing to achieve programme development and implementation.

There are two main avenues for political economy in preparation of proposals to finance social assistance.

A specific analysis, 'Political Economy Analysis' (PEA) can be used to understand how political incentives can shape decisions and build a profile of political constraints and opportunities. The overall lessons from and guidance on PEAs suggest 7 key recommendations (Fitz et al 2014):

- 1) Ensure a specific focus on the financing problem. PEA can best influence successful policy if they engage with the specific and practical challenges of financing.
- 2) Identify the country-level drivers of decision making. Are they linked to the pursuit of political support? What deals are required between power-holding stakeholders?
- 3) Link PEA to broader country-level dynamics. Are there macro-economic issues (such as managing extractive resources) or other policy initiatives of importance (in health, education, community development, for example)
- 4) Identify how political constraints evolve and change in their malleability.
- 5) Coordinate PEA with national sectoral teams responsible for financing policy (for example, ministries of finance and economy alongside the policy ministry/agency)
- 6) Be clear on consultation and involvement of stakeholders: what issues need to be part of a shared dialogue and when is it best to step above them and be independent?
- 7) Ensure a commitment to PEA results. They are only worthwhile if they have an effect.

Financing proposals should include elements to cover costs arising from the 'research' agenda listed above and to allow for implementation that addresses core issues. The following are suggested:

- » Have a clear communication strategy and functional capacity to implement it.
  - build evidential support to 'bust myths' to support internal government actors and provide materials and support for external political advocates of change.

- resource and build a ‘fiscal policy’ constituency on the reform through media and through specific for and events that endow civil society and other agency partnerships.
  - produce clear and transparent communications on policy changes and their consequences that represent the technical and empirical basis for reform in simple language. These should be produced both prior and after policy changes.
  - Actively build and reinforce reputation for technical policy competency and leadership of reform process.
- » Fund an implementation approach and timetable to optimise the timing and sequencing of tax/subsidy/policy changes and social assistance transfers.
- Recognise constraints on uptake of transfers and ensure optimal access to transfers at and before the point at which policy changes – fund early registry formation and ‘pre-entitlement’ assessments. Build platforms for access to transfers and information on policy changes (web, mobile telephonic, social media)
  - Recognise and identify ‘losers’ and the associated changes to taxes and subsidies needed for reform and ensure that ‘transitional’ or early entitlement approaches are sequenced to precede or coincide with implementation of changed tax/subsidy entitlement.
  - Formulate grievance and redress mechanisms for social assistance scheme that enables prompt and efficient resolution of issues. These should have community as well as individual/claimant based.

## *Final Thoughts*

In short, this chapter sets a base on which readers can build additional knowledge and understanding of what can happen to finance social assistance in applied terms. A primer is a brief introduction that emphasises information that is foundational. We have focused on empirical profiling of needs, policy and funding sources that can build foundations for financing social assistance from a basic starting point. Of course, financing is inherently political rather than a set of purely technical analysis and profiles. Readers who want examples of how the political economy of policy making influences the financing and implementation of social assistance are pointed to the chapters on country case studies that follow in this book. The emphasis has been on understanding the drivers of cost (demand and design) and on options for *fiscal policy* to finance options that respond to those drivers. Larger issues of macro-economics and of public finance have been relegated to context. There is no discussion of increasing government borrowing to finance social assistance, in part because the main

audience is policy makers and analysts in LICs and LMICs, where government borrowing is very much constrained by debt history and current liabilities alongside recent macro-economic changes in interest rates and other factors. Concessionary loans are part of aid discussions covered earlier. Even so, any sustainable new borrowing would probably best focus on one-off investments in systems and administrative architecture (registries, for instance) rather than on recurrent transfer spending. That is not to say that governments who already have more mature social assistance programmes in place should not include them when considering the need for borrowing to keep social programmes in place, and thus social assistance at scale and generosity. It is also the case that debt restructuring can release funds for social programmes and social assistance in particular. The chapters in the book by IMF colleagues better address and fill these larger government finance gaps. While emergency and shock response are crucial areas for social assistance, the primer does not consider the issue of insurance against shocks, which is discussed in Chapter 6.

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# 3. THE STATE OF FINANCING SOCIAL ASSISTANCE IN LOW- AND MIDDLE-INCOME COUNTRIES

Emil Tesliuc, Claudia Rodriguez Alas, Usama Zafar, and Ana Sofia Martinez Cordova

This chapter investigates where financing for social assistance (SA) programs comes from in developing countries. The focus is on a subset of social assistance programs where the benefits are monetary, who were active in the recent period (2017-2022), from the developing countries covered in the ASPIRE database of the World Bank<sup>36</sup>. Most programs, especially in HICs and UMICs countries, are financed from general government resources, except few large countries where some programs are also financed from regional resources. Relatively few such countries borrow from IFIs to co-finance the transfers. For LMICs and especially LICs, the sources of financing are more diversified. Within LICs, an important distinction is between FCVs and non-FCV countries. In many FCV countries, the share of SA spending financed by donors is high. In conflict affected countries, CT programs financed and implemented by donor/humanitarian agencies are the majority and sometimes the only type of CT or even SA programs available. By level of economic development, CT programs dominate non-cash programs, except in LICs non-FCV countries.

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<sup>36</sup> | The Atlas of Social Protection Indicators of Resilience and Equity (ASPIRE) is the World Bank's premier compilation of indicators to analyze the size, composition, evolution, and distributional performance of SP programs. ASPIRE provides indicators for 139 countries on social assistance, social insurance and labor market programs based on program-level administrative data and national household survey data. More information on ASPIRE can be found on [www.worldbank.org/aspire](http://www.worldbank.org/aspire).

## *Section 1: How important are cash transfer programs in total social assistance programs in developing countries?*

Social assistance (SA) consists of measures designed to protect individuals and households against poverty and vulnerability. A distinctive feature of social assistance is their non-contributory character: that is, beneficiaries do not have to contribute financially to receive the benefits. These programs can provide benefits in the form of cash, in-kind, as well as services and targeted subsidies. ASPIRE classifies such programs according to eight different categories. 1) unconditional cash transfers<sup>37</sup>, 2) conditional cash transfers<sup>38</sup>, 3) social pensions<sup>39</sup>, 4) food and in-kind transfers<sup>40</sup>, 5) school feeding<sup>41</sup>, 6) public works, workfare, and direct job creation<sup>42</sup>, 7) fee waivers and targeted subsidies<sup>43</sup>, and 8) other social assistance including scholarships and educational allowances<sup>44</sup>.

<sup>37</sup> | Unconditional cash transfers offer periodic monetary transfers to beneficiaries with a view to provide regular and predictable income support. These transfers can be in the form of paper or electronic cash. They are unconditional as they aim to reduce poverty by providing cash without any conditions upon the receivers' actions. This category includes poverty-targeted cash transfers and last resort programs; family and child allowances (including orphan and vulnerable children benefits); public-private charity; non-contributory funeral grants and burial allowances; and other cash programs.

<sup>38</sup> | Conditional cash transfers offer periodic monetary transfers to beneficiaries with a view to provide regular and predictable income support. Just as with unconditional cash transfers, these transfers can be in the form of paper or electronic cash. However, they are conditional on the actions of the beneficiaries. To receive the transfer, participants have to satisfy specific conditionalities once admitted to the program. Conditions can be in a variety of areas; such as health, nutrition, education, and are usually included to encourage beneficiaries (already participating in the program) to receive additional benefits in the areas concerned.

<sup>39</sup> | Social pensions (also known as redistributive pensions) are regular monetary transfers provided to the elderly, those with disabilities, survivors, and war veterans. Unlike contributory pensions or social insurance programs, social pensions are non-contributory and do not require prior contributions. Social pensions may be universal or targeted (welfare pensions).

<sup>40</sup> | Food and in-kind transfers provide goods such as food but also include programs providing near-cash benefits such as paper and electronic food stamps and vouchers, food distribution programs, nutritional programs that involve therapeutic feeding distribution and promote good feeding practices, and school supplies distribution programs. This category excludes food-for-work programs and meals provided at schools, which are classified in other groups.

<sup>41</sup> | School feedings/take-home food programs supply meals or snacks for children at school to encourage their enrollment and attendance and improve their nutritional status and ability to learn as well as take-home food rations for children's families.

<sup>42</sup> | Public works, workfare and direct job creation programs provide support in cash (paper or electronic) or food (including food-for-training or food-for-assets programs). They offer short-term employment at low wages on labor-intensive projects, such as road construction and maintenance, irrigation infrastructure, reforestation, soil conservation, and social services. Support is typically in the form of either cash or food transfers.

<sup>43</sup> | Fee waivers and targeted subsidies are transfers designed to assist a subgroup of the population (beneficiaries) in meeting the costs of goods and services, and to ensure their affordability. Typically, the goods and services include the cost of education, housing, utilities, food, and transportation. This category also includes (i) tax exemptions targeted to the poor and (ii) fee waivers, where the target beneficiaries receive the services for free or reduced cost (and typically, the government compensates the producers).

<sup>44</sup> | The other SA programs category includes other non-contributory programs targeting the poor or vulnerable not included in the above categories.

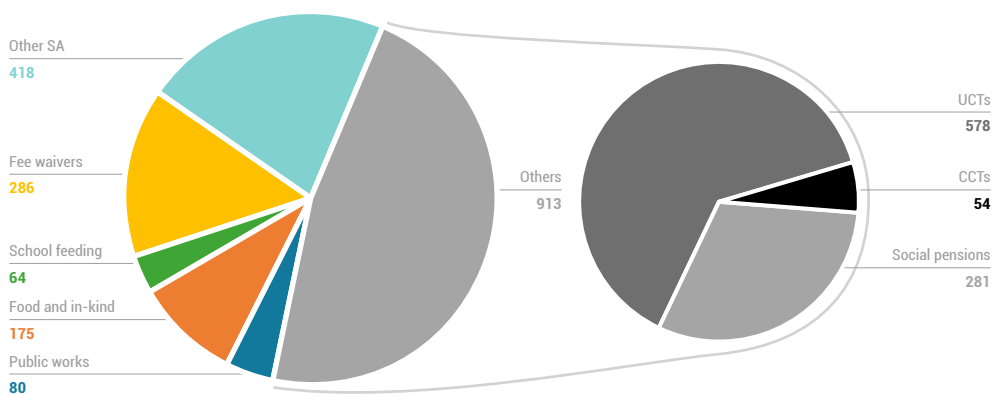
**Table 1. ASPIRE**  
*Classification for Social Assistance Programs*

Unconditional cash transfers	Emergency support in cash (including support to refugees/returning migrants)
	Family/children/orphan allowances and benefits
	Non-contributory funeral grants, burial allowances
	Poverty alleviation programs
	Public-private charity, including zakat
	Other cash transfers
Conditional cash transfers	Conditional cash transfers
Social pensions (non-contributory)	Disability social pensions/allowance/benefits
	Old age social pensions/allowance/benefits
	Survivorship social pensions/allowance/benefits
	War veteran pensions/allowances/benefits
Food and in-kind transfers	Emergency support (including refugees/returning migrants)
	Food stamps, rations and vouchers
	Food distribution programs
	In-kind emergency support (including refugees/returning migrants)
	Nutritional programs (therapeutic, supplementary and PLHIV)
	School supplies and uniforms
	Other food/in-kind program/transfer
School feeding	School feeding / take-home
Public works	Cash for work
	Food for work (including food for training, food for assets etc.)
Fee waivers and targeted subsidies	Educational fee waivers
	Housing subsidies, allowances and privileges
	Utility subsidies, allowances and privileges
	Transportation subsidies, allowances, and privileges
	Food subsidies
	Agricultural input subsidies
	Tax exemptions
	Other fee waivers and targeted subsidies
Other social assistance	Scholarships/education benefits
	Other social assistance (miscellaneous)

This study focuses on three types of program categories that provide monetary/cash benefits: conditional cash transfers, unconditional cash transfers and social pensions. These programs offer periodic monetary transfers to beneficiaries with the aim of reducing poverty and increasing their income. As all other social assistance, they do not require prior contributions from beneficiaries, but they can be conditional on the receiver's actions, as is the case for conditional cash transfers.

As of September 2023, the ASPIRE administrative data includes information for 1,936 social assistance programs from 111 countries<sup>45</sup>. On average, developing countries have operate about 17 social assistance programs that provide a mix of monetary/non-monetary benefits and social services. There is, however, significant variation in the number of programs across countries. While some developing countries prefer to implement many programs that are smaller in size with narrowly defined target groups and benefits, others have fewer but much larger programs in place that cover multiple target groups and provide different types of benefits under the same umbrella program. Irrespective of the size of programs, the data indicates all developing countries have put in place some form of social assistance to protect individuals and households against poverty and vulnerability.

Figure 1. *Number of Social Assistance Programs in ASPIRE Countries, by Program Category*



**Notes:** No. of countries: Total (111); LICs (19); LMICs (38); UMICs (42); HICs (12). UCTs include 54 programs funded/implemented by four humanitarian agencies (see Box 1)

Figure 1 shows the composition of different types of social assistance programs in developing countries. The data includes programs for which information on expenditure is available for at least one year between 2017 and 2022. The chart indicates that of the of the total 1,936 social assistance programs from developing countries, nearly half (913 or 47.2%)

<sup>45</sup> | See Annex 1 for the list of countries included.

provide monetary benefits to individuals, either electronically or via paper, in the form of UCTs, CCTs or non-contributory social pensions. The ASPIRE database includes a total of 578 UCTs, 54 CCTs and 281 social pension programs. The remaining 1,023 programs provide benefits in the form of in-kind transfers, social services, targeted subsidies, and scholarships.

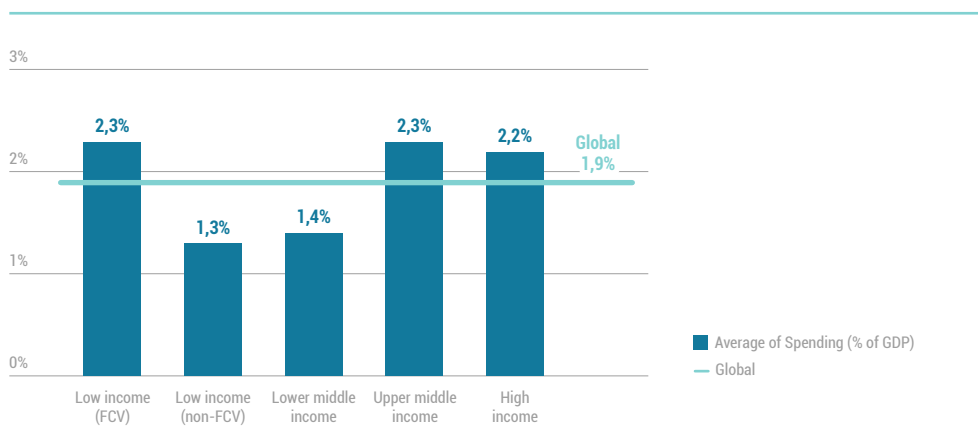
Among cash-based programs, UCTs are the most common instrument used to reach low-income and vulnerable households. Of the 913 programs that provide monetary benefits, 63% are classified as UCTs, followed by 31% social pensions (non-contributory) and 6% as CCTs. Moreover, the data also shows that all countries have at least one cash transfer program in place, reflecting the preference of using cash as an instrument to reach vulnerable populations.

### SPENDING ON SOCIAL ASSISTANCE

Developing countries spend, on average, nearly 1.9% percent of their GDP on social assistance, according to latest estimates from the ASPIRE administrative data from 111 countries where information on spending is available. The share of SA spending relative to GDP increases across income groups, from low- to high-income countries, except for a subset of low-income countries experiencing fragility, conflict, and violence (FCV). In these countries, the spending indicator includes the programs funded by four humanitarian organizations, namely World Food Program (WFP), Food and Agriculture Organization (FAO), United Nations International Children's Emergency Fund (UNICEF) and United Nations High Commissioner for Refugees (UNHCR) and sometimes domestically financed programs. As Figure 2 shows, spending relative to GDP in FCV countries is about 2.3%, the combined effect of donor-financed programs and a lower GDP per capita compared with the other non-FCV low-income countries.

Region-wise, social assistance spending is higher than the global average in South Asia (2.08%) and Europe and Central Asia (2.07%); followed by Middle East and North Africa (1.96%); Latin America and Caribbean (1.94%) and lower than the global average and East Asia and Pacific (1.56%) region. While the spending in Africa (1.8%) is slightly lower global average, it is important to note that the bulk of it is composed of programs funded by humanitarian agencies. The next sections looks at the financing of CT in 17 conflict affected countries.

Figure 2. Average Spending on Social Assistance, as Percentage of GDP, by Income Group



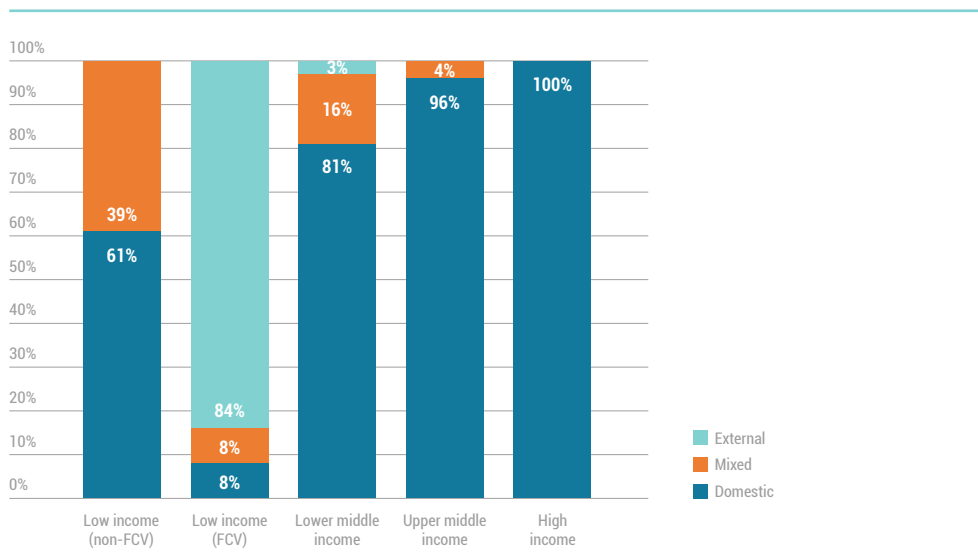
**Notes:** Based on most recent program-level administrative data from 2017 to 2022. Total social assistance expenditure for a country is calculated by aggregating program-level data for the most recent year available and includes spending on benefits and administrative costs. The percentage of expenditure in GDP is calculated as a simple average. For Afghanistan, the percentage in GDP is calculated using 2021 GDP numbers due to unavailability of 2022 GDP on the World Development Index (WDI) database. For Syria and Yemen, the percentage of GDP is similarly calculated using 2020 and 2018 data for the same reason. ASPIRE data covers nearly 80% of WBG client countries and is not representative of high-income countries. No. of countries: Total (111); LICs (19); LMICs (38); UMICs (42); HICs (12).

### THE RELATIVE SHARE OF CT PROGRAMS IN DEVELOPING COUNTRIES

We analyze social assistance programs implemented in developing countries during 2017-2021, by governments and humanitarian agencies, to examine how the preference for CT programs varies by the income-level of the country and by region.

Although cash transfers represent slightly less than half of the total number of programs globally, their share in total social assistance spending is much greater compared to other types of programs. Globally, nearly 68% of the spending on social assistance is composed of cash transfer programs, and their proportion in overall spending goes up considerably from low to high income countries, with the exception FCV countries. As figure 7 shows, high income countries spend up to 80% of their social assistance budgets on cash transfers, compared with LMICs (60%) and LICs (39%).

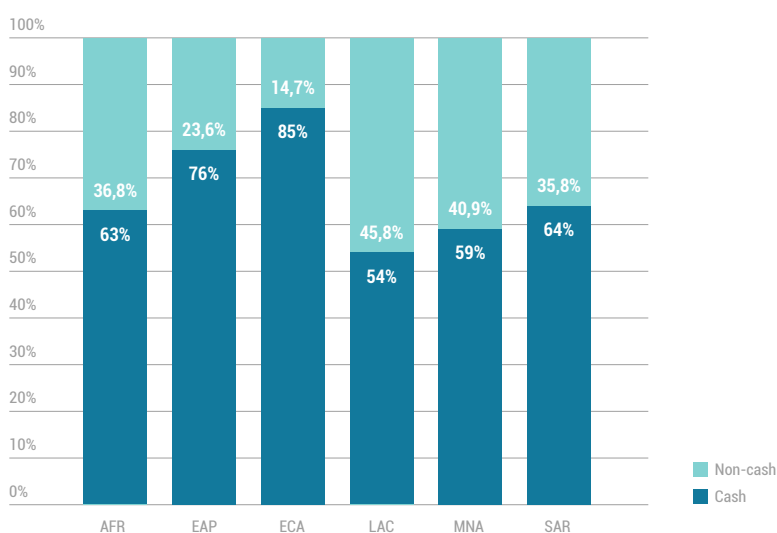
Figure 7. Composition of SA Spending, Cash vs. Non-cash Programs, by Income Group



**Notes:** Based on most recent program-level administrative data from 2017 to 2022. Total social assistance expenditure for a country is calculated by aggregating program-level data for the most recent year available and includes spending on benefits and administrative costs. The percentage of expenditure in GDP for the income group is calculated as a simple average of all countries within the category. For Afghanistan, the percentage in GDP is calculated using 2021 GDP numbers due to unavailability of 2022 GDP on the World Development Index (WDI) database. For Syria and Yemen, the percentage of GDP is similarly calculated using 2020 and 2018 data for the same reason. ASPIRE data covers nearly 80% of WBG client countries and is not representative of high-income countries. No. of countries: Total (111); LICs (19); LMICs (38); UMICs (42); HICs (12).

Region-wise, cash programs are considerably more prominent in ECA and EAP regions, where they make up nearly 85% and 76% of the overall spending on social assistance respectively, largely driven by unconditional cash transfers and non-contributory social pensions. Cash transfers make up nearly 64% of social assistance budgets in SAR, followed by 63% in Africa, driven mostly by humanitarian programs. Meanwhile, other instruments such as public works, food/in-kind transfers and school feeding programs also have considerable prevalence in the overall social assistance expenditure across different regions.

Figure 8. *Composition of SA Spending, by Category and Region*



**Notes:** Based on most recent program-level administrative data from 2017 to 2022. Total social assistance expenditure for a country is calculated by aggregating program-level data for the most recent year available and includes spending on benefits and administrative costs. The percentage of expenditure in GDP for the region is calculated as a simple average. For Afghanistan, the percentage in GDP is calculated using 2021 GDP numbers due to unavailability of 2022 GDP on the World Development Index (WDI) database. For Syria and Yemen, the percentage of GDP is similarly calculated using 2020 and 2018 data for the same reason. ASPIRE data covers nearly 80% of WBG client countries and is not representative of high-income countries. No. of countries: Total (111); LICs (19); LMICs (38); UMICs (42); HICs (12).

In the remainder of this chapter, we will shift our focus to the three types of cash transfer programs: UCT, CCT and social pensions.

## *Section 2: Main design parameters on how CTs are financed*

To understand where financing of cash transfers is coming from, we examine the type of financing sources used, which institutions are financing the programs and which institutions are implementing them.

ASPIRE collects several design parameters on how the programs are financed (Table 2). This includes the name and type of agency financing the program, the type of financing (domestic vs. external), the source of financing, and whether a program has any financing provided by the World Bank. This information is collected for the most recent year of the programs;

hence the evolution of financing sources for a program over the years is not part of the analysis.

**Table 2.** *Main design parameters on how social assistance programs are financed*

Name of funding agency	Names
Funding agency type	Central/federal government
	Regional/district/local government
	Development banks/multilateral organizations
	Bilateral organizations
	European Union
	UN agencies
	NGOs/private foundations
Type of financing	Domestic
	External
Source of financing	General revenue
	Earmarked funding
	Concessional loans
	Grants

Program financing agencies can be governmental or non-governmental organizations. Government agencies that implement programs include ministries or local government departments. External organizations can include development banks/multilateral organizations (e.g. World Bank and other development banks), bilateral organizations, United Nations (UN) agencies, NGOs and private foundations as well as the private sector.

The type of financing refers to whether financing for the program comes from domestic or external sources. In ASPIRE, domestic sources are those where the government finances a program internally through taxation or through repayable loans. External sources of financing are those that do not need to be repaid. As such, domestic resources are not only those that come directly from the government or from organizations within the country, but can also come from a variety of organizations, including international organizations and the private sector.

Financing sources give us more detail on where the money is coming from. A program can be financed using general revenues, earmarked funding,

concessional loans, or grants. General revenue refers to income governments receive primarily from the taxing authority. General revenues are usually deposited into a general fund, out of which routine expenses are paid. It may be used for any purpose and can be discretionary. Earmarked revenue is revenue that is kept separate from general revenue and used exclusively for a specific government expenditure program or a specific activity. It is automatically reserved for functions such as road maintenance, payroll for state workers and sometimes cash transfer programs. To finance cash transfer programs, repayable loans take the form of market-based or concessional loans, which are discounted loans that need to be repaid. These are provided by development banks/multilateral organizations (e.g. World Bank, regional development banks) and bilateral organizations. Grants can come from organizations such as the United Nations (UN), NGOs and private foundations, as well as the private sector. Note that while in some cases the terms loans and grants are used loosely, in ASPIRE, loans refer to funding that needs to be repaid, while grants do not.

The sources of financing are intimately linked with the type of financing. Given the ASPIRE definition of domestic and external sources, only programs financed by grants are considered external. All other sources of funding are considered as domestic.

In addition to the financing variables, ASPIRE also collects information on spending: time series data on total program expenditure and on donor expenditure. Total program expenditure includes spending on benefits as well as administrative expenditures coming from all sources (government and donors). In cases where total program expenditure is not reported by the program, ASPIRE uses expenditure on benefits. Donor expenditure is the sum of money spent by all donors of a program including their own administrative costs.

**Table 3.** *Expenditure data collected in ASPIRE*

Total program expenditure	Including expenditure on benefits and administrative costs from all institutions funding the program
Donor expenditure	Including expenditure on benefits and administrative costs from all donors funding the program

### *Section 3. Pattern of CT financing in developing countries*

Of the 913 cash transfer programs in ASPIRE administrative data active between 2017-2022, information on type of financing is available for 669 (73%) programs from 99 countries (Table 4). The data shows that the vast majority (88%) of social assistance programs in developing countries are financed through domestic sources, 9% are funded completely from external sources (such as grants from international donor agencies) while three percent have mixed sources of funding (i.e. both domestic and external).

**Table 4.** *Type of Financing for Cash Transfer Programs in Developing Countries. Number of CT programs financed from:*

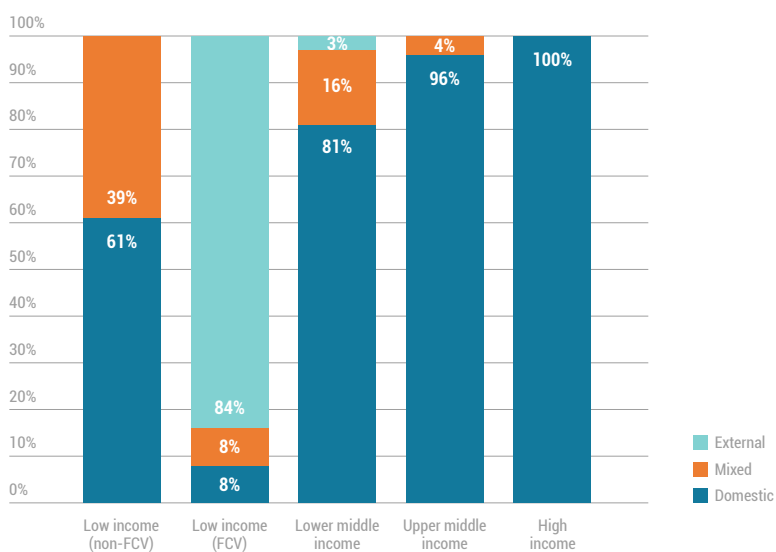
	Count	Percentage
Domestic	588	88%
External	59	9%
Mixed	22	3%
<b>Total</b>	<b>669</b>	<b>100%</b>

Lower income countries, given limited fiscal space, often rely on external sources such as grants from donor organizations or international NGOs to finance cash transfer programs and other social assistance programs. This is particularly true for countries going through conflict, fragility, and violence, as noted above. However, this source of financing falls rapidly as countries move up the income spectrum.

Figure 9 shows the composition of financing among cash transfer programs by income group. Within low-income countries, there is a stark variation in how programs are funded based on classification under FCV vs. non-FCV. For countries experiencing conflict, almost 84% of the overall spending on cash transfers is funded entirely through external grants, such as UN agencies, while only 8% of the spending is funded through domestic resources (including concessional loans).

For low-income non-FCV countries, the share of domestically-funded programs is closer to 61%. Nevertheless, nearly 39% of the programs are still partially funded through foreign grants. In lower-middle income countries, the share of domestically funded programs jumps to nearly 81%, with the remainder of the programs funded partially or completely from external sources. In UMICs and high-income countries, cash transfer programs are funded from domestic resources almost entirely.

**Figure 9. Composition of Type of Cash Transfer Financing, by Income Group.**  
*Number of CT programs financed weighted by spending*

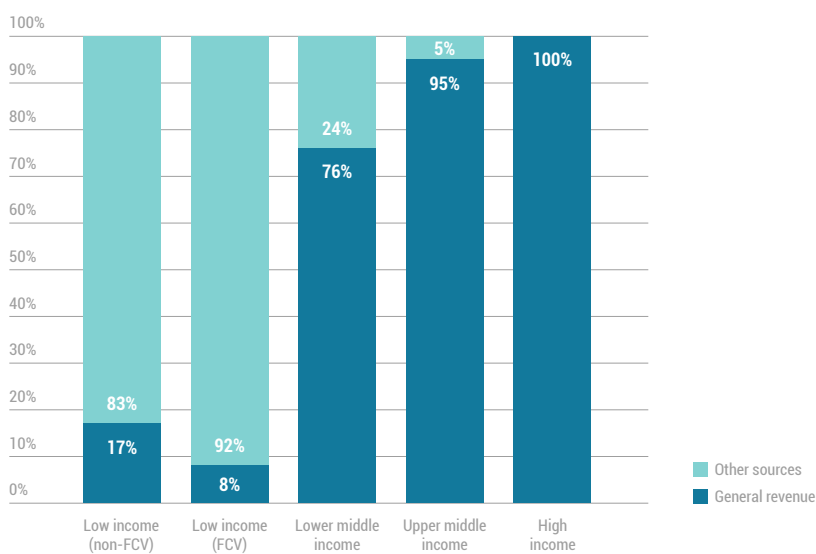


**Notes:** No. of programs: Total (669); LICs (non-FCV) (17); LICs (FCV) (55); LMICs (128); UMICs (399); HICs (70).

Of the 913 cash transfer programs in the ASPIRE database, information on sources of funding is available for 288 (30%) of the programs. Despite the data gaps, the available information offers solid insights into where the money for cash transfer programs comes from. Overall, nearly 68% of the funding for social assistance is financed through general revenue, while the rest is funded through other sources noted above, including several programs that have multiple sources of funding. There is, however, a vast difference between how SA is financed across the income spectrum. In low-income countries affected by conflict, only 8% of the programs are financed through general revenue, with the remaining programs funded mostly through external grants and some concessional loans. For non-FCV low-income countries, the share of general revenue rises only meagerly to 17% - twice as high as FCV countries. However, the situation changes considerably for lower-middle income countries, where over three-fourth of the programs are funded through general revenues while the rest of the funding comes from loans, grants, and earmarked funding. In upper-middle income countries, nearly 95% of the programs are financed through general revenue, with another 5% having a mix of other sources. Funding information for two high income countries indicate that the entire spending on social assistance is financed from domestic revenue.

Not all CT programs use a single source of financing; some use two or more sources, as illustrated in the multiple-response Tables 5 and 6. Table 5 reports the share of programs financed by 4 types of sources (general revenue, earmarked funds, concessional loans or grants); and Table 6 reports shares weighted by relative size of the program, i.e. % of GDP

Figure 10. Source of Financing for Social Assistance Programs, by Income Group



Notes: No. of programs: Total (266); LICs (non-FCV) (14); LICs (FCV) (55); LMICs (90); UMICs (88); HICs (19).

spent on a program. This information is available in ASPIRE only for 266 of the programs – it should be interpreted with caution. There is a consistent pattern in both tables: both the diversity of financing sources and the use of multiple financing sources for a program goes up from HICs to LICs. Programs in HICs use exclusively general revenues to finance the CT programs; UMICs use general revenue overwhelmingly (92% of the programs), but 13% of the program combine two or more financing sources. Low-income non-FCV countries rely on government funds (general revenue or earmarked) for about 28% of the program (25% of their relative spending), while using a lot of concessional loans and grants, including a combination of these (29% of the programs and 24% of the relative spending). As shown in section 1 on HCTs, FCV countries use mostly grants, or grants with other sources only in 7% of the programs or 10% of the relative spending.

	Low Income (non-FCV)	Low Income (FCV)	Lower Middle Income	Upper Middle Income	High Income	Total
General Revenue	21	7	83	92	100	68
Earmarked funding	7	4	4	9	0	6
Concessional loans	64	13	8	3	0	10
Grants	36	84	19	8	0	28
<b>Total</b>	<b>129</b>	<b>107</b>	<b>114</b>	<b>113</b>	<b>100</b>	<b>112</b>
Cases	100	100	100	100	100	100

Table 5. Share of financing sources by level of economic development of the country. (Multiple response variable: number of programs using this type of financing)

No of total cases: 266; or responses: 298

	Low Income (non-FCV)	Low Income (FCV)	Lower Middle Income	Upper Middle Income	High Income	Total
General Revenue	17	8	76	96	100	65
Earmarked funding	8	8	20	1	0	9
Concessional loans	59	2	5	13	0	10
Grants	39	92	8	10	0	30
<b>Total</b>	<b>124</b>	<b>110</b>	<b>109</b>	<b>120</b>	<b>100</b>	<b>113</b>
<b>Cases</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

**Table 6.** *Share of financing sources by level of economic development of the country. (Multiple response variable: program spending as % of GDP using this type of financing)*

No of total cases: 266; or responses: 298

We have a higher number of responses in ASPIRE for another multiple response variable, that tags the type of funding agency of a given program; this information is available for 641 of the 913 CT programs. Programs can receive financing from one agency or a blend of them. We distinguish 7 possible agencies. For HICs and UMICs, we learn that while most government financing comes from federal level (96% in HICs and 97% in UMICs), with a minority of programs being financed by regional or local government. In these settings, there is no blend of funding from more than one agency. Blended financing, however, is quite high among UMICs and non-FVC LICs (23% and respective 47% of the programs). Consistent with the information from Tables 5 and 6, we learned that FVC LICs receive the majority of their funding in the form of grants or concessional lending from UN agencies (grants), bilateral organizations or development banks (concessional loans).

	Low Income (non-FCV)	Low Income (FCV)	Lower Middle Income	Upper Middle Income	High Income	Total
Central/Federal Government	33	5	85	97	96	86
Regional/local government	0	0	9	2	4	3
Development banks/multilateral	73	18	16	1	0	7
Bilateral organizations	7	4	3	0	0	1
European Union	7	0	1	0	0	0
UN agencies	20	78	9	1	0	9
NGOs/private foundations	7	0	1	0	0	0
<b>Total</b>	<b>147</b>	<b>105</b>	<b>123</b>	<b>101</b>	<b>100</b>	<b>106</b>
<b>Cases</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

**Table 7.** *Type of funding agency by level of economic development of the country. (Multiple response variable: number of programs using this type of funding agency)*

No of total cases: 641; or responses: 682

	Low Income (non-FCV)	Low Income (FCV)	Lower Middle Income	Upper Middle Income	High Income	Total
Central/Federal Government	31	12	94	99	99	82
Regional/local government	0	0	1	1	1	1
Development banks/multilateral	84	10	24	6	0	12
Bilateral organizations	10	2	14	4	0	5
European Union	10	0	13	0	0	3
UN agencies	11	84	3	0	0	14
NGOs/private foundations	10	0	0	0	0	0
<b>Total</b>	<b>157</b>	<b>109</b>	<b>148</b>	<b>110</b>	<b>100</b>	<b>117</b>
<b>Cases</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

**Table 8.** *Type of funding agency by level of economic development of the country. (Multiple response variable: program spending as % of GDP using this type of funding agency)*

No of total cases: 641; or responses: 751

What we learned from this examination of the financing sources for CT programs in development countries? The overall pattern of financing of cash transfer programs shows a stable correlation with the level of development of the country. Among low-income countries, and especially fragile and conflict affected countries (FCVs), a large share of financing comes from humanitarian agencies and other external donors (grant-based). The share of domestically-financed CT programs is small, constrained by the low level of domestic revenue mobilization and many competing priorities for budgetary resources. The share of external financing drops significantly among LMICs and drops close to zero for UMICs and HICs.

Among UMICs and HICs, most of the financing is provided from domestic sources, especially from the general budget. The limited budgetary resources and capacity to plan and adjust budgets within year favors, in some countries, programs that have fixed number of beneficiaries (program quotas), sometimes with some of the applicants who comply with eligibility criteria placed on waiting lists. With higher level of economic development, among UMICs and HICs, some countries are using their higher capacity to generate and manage budgetary resources and finance some cash transfer programs using earmarked funds, sometimes performance-based grants. Among UMICs and HICs, cash transfers use flexible financing arrangements such as entitlement programs: programs with open eligibility and exit, which act as automatic fiscal stabilizers. This general pattern is quite robust to the statistics used: the number of programs or the size of the programs (measured either as the level of spending of the program or number of beneficiaries).

## CASH TRANSFERS IN HUMANITARIAN SETTINGS (HCTS)

Cash transfers are an effective instrument to reach poor and vulnerable households in times of emergencies, shocks, and disasters. In countries marred by fragility, conflict, and violence, cash-based interventions provide a fast and reliable mechanism to reach households/individuals that need assistance. Cash transfers also help reduce the risks that individuals face during a disaster or humanitarian crisis and allow them to maintain their capacity to spend on necessary goods and services. The United Nations High Commissioner for Refugees (UNHCR) notes that “cash transfers make people in need less likely to resort to harmful coping strategies, such as survival sex, child labor, family separation or forced marriage.”

Yet, despite the clear benefits of cash-based interventions, governments in low-income countries, particularly those facing humanitarian crises, often lack the fiscal space or capacity to meet the immediate needs of affected families/households. This financing/capacity gap is thus met by non-governmental humanitarian organizations, such as UN agencies, international NGOs, local charities/foundations, and the private sector.

In recent years, the role of humanitarian organizations in provision of cash transfers has grown considerably as the world has faced multiple and overlapping crises. Organizations such as WFP, UNHCR, UNICEF and FAO have all established cash transfers in humanitarian settings, providing a lifeline for families facing threats to their well-being. While some cash-based interventions are aligned with the national social safety net system, others operate without any involvement of the national governments, especially when the intended beneficiaries include refugees, forcibly displaced persons or undocumented individuals. Regardless of the specific nature of the intervention, their importance in the context of conflict and fragility provides a deeper understanding of social assistance financing in developing countries.

Over the past decade, there has been growing recognition of the cost effectiveness of cash transfers (CT) as a modality of assistance when seeking to alleviate various forms of human suffering. UN agencies such as FAO, UNHCR, UNICEF and WFP, as leading actors of global humanitarian assistance, have managed to routinely deploy cash assistance as one of their key interventions, at large scale. While the size of cash assistance increased in USD terms and relative to in-kind support, the gap between the rising number of people in need and the limited humanitarian funds available also grew. Based on a quantitative data collected with the support of the four agencies this section describes the level of humanitarian assistance through CTs in 17 conflict-affected countries. Furthermore, qualitative interviews with program managers from Afghanistan, Burkina Faso, Iraq, and Somalia unpack how the CTs are planned, budgeted, and their key implementation arrangements. We term them humanitarian CTs,

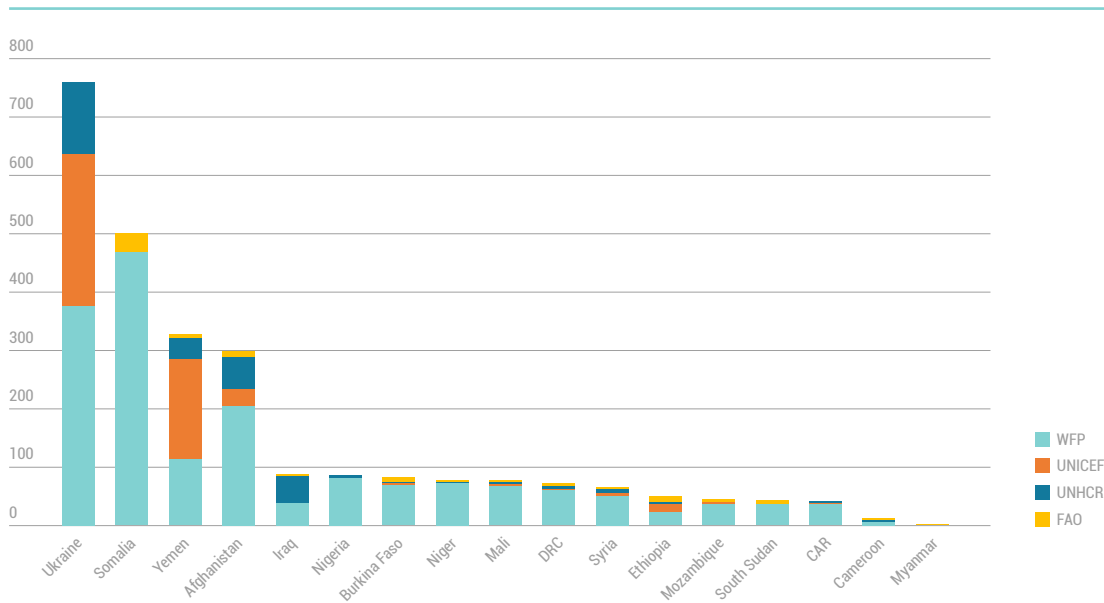
or HCTs, to distinguish them from the CTs operated by Governments, often under more stable conditions.

### Size and composition of the HCTs in 2021-2022

Cash assistance has come a long way as, before the 2010's, its share of the total humanitarian spendings was negligible – 1% in 2006 cash and vouchers combined (Barder et al. 2015) \*. The turnaround advocated and initiated by multiple humanitarian organizations, over the last years, has reflected the adoption of cash assistance as one of the key modalities to deliver aid (Holm-Nielsen et al. 2022) \*. This section looks at the size and composition of the HCT programs operated by the four largest humanitarian agencies (FAO, UNHCR, UNICEF and WFP) as of 2021-2022 in conflict-affected countries.

Figure 3 presents the spending level on HCTs of the 4 humanitarian agencies in 17 conflicts affected FCV countries.

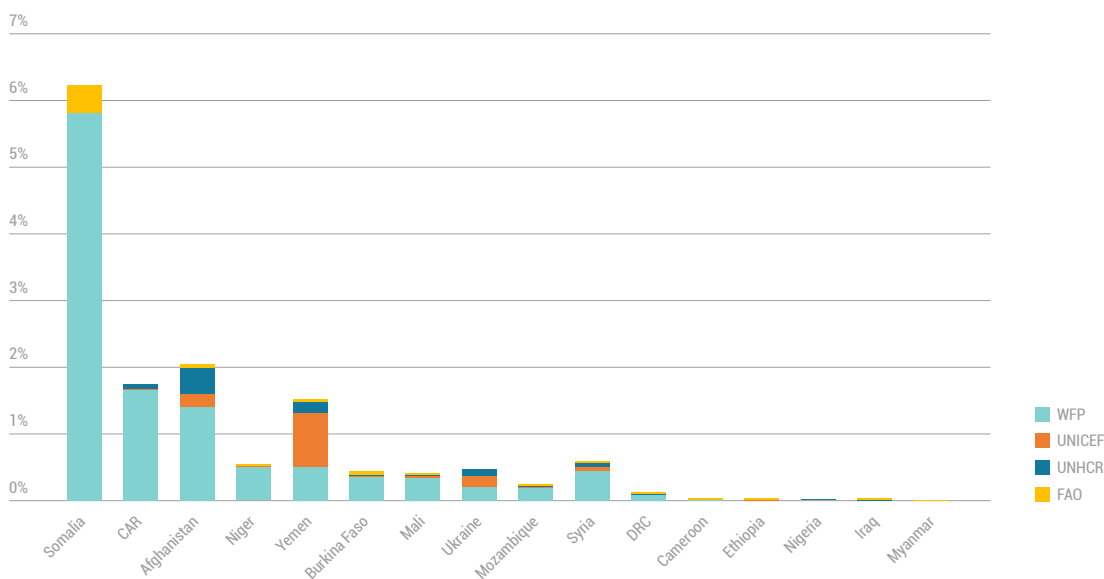
Figure 3. Expenditure on HCT in Conflict-affected Countries, Million USD, 2021-22



Note: Data refers to the latest year available (2022 for all agencies except FAO 2021). WFP has waived the humanitarian Interventions in Myanmar.

As of 2022, the four agencies – WFP, UNICEF, UNHCR and FAO – have mobilized and disbursed 2.62 billion USD through HCTs. Of this total, WFP accounts for 68%, followed by UNICEF (18.9), UNHCR (10.8) and FAO (2.3). As illustrated in Figure 4, seven programs in four countries (Ukraine, Somalia, Yemen, and Afghanistan) and three agencies (WFP, UNICEF and UNHCR) account for two thirds of the total spending. The largest HCT program was the one implemented by WFP in Somalia, amounting \$470 million. The amount of assistance for the other 13 countries was significantly smaller, averaging a total of 57 million per country for all four agencies combined.

Figure 4. Expenditure as % of GDP on HCTs in Conflict-affected Countries, 2021-22

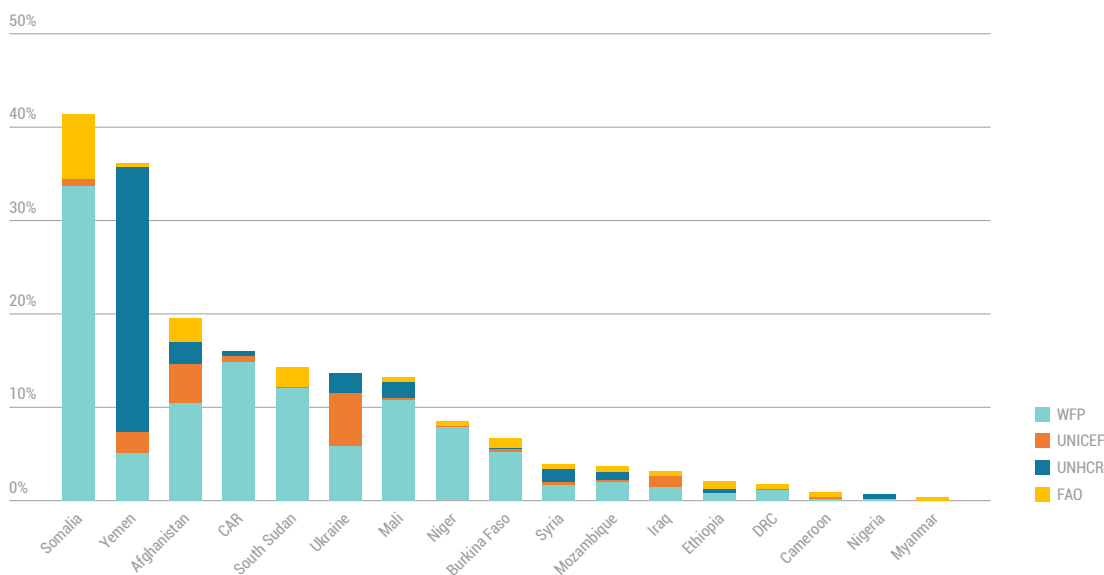


**Notes:** For Afghanistan, using 2021 GDP (current US\$) as 2022 data is not available; For Yemen, using 2018 GDP (current US\$); For Syria, using 2020 GDP (current US\$)

Relative to the countries' GDP, HCTs were the most important in Somalia (6.2%), Afghanistan (2.0%), CAR (1.7%) and Yemen (1.5%). In another 7 countries – Syria, Ukraine, Niger, Burkina Faso, Mali, Mozambique and DRC, spending on HCTs represented between 0.6% to 0.1%, while for Cameroon, Ethiopia, Nigeria, Iraq and Myanmar they were less than 0.05% (Figure 4).

In terms of the number of beneficiaries (see Table A3 in annex), the largest program in 2022 was WFP cash assistance program in Somalia with nearly 6 million individuals, followed up by Afghanistan and Mali with, respectively, 4.3 and 2.4 million beneficiaries. Somalia is also one of the countries where FAO implemented a large HCT program. UNICEF's largest program by spending was in Ukraine, and in terms of beneficiary numbers in Yemen with almost 1.5 million households. The largest program implemented by UNHCR had about 877 thousand households in Ukraine, the country where the agency spent the highest level of spending.

Relative to the population of the program, HCTs have high coverage in Somalia (41%) and Yemen (36%), with WFP covering the largest share of the population in Somalia and UNICEF in Yemen. In Afghanistan, CAR, South Sudan, Ukraine, Mali, Niger, and Burkina Faso they range between 7% and 20% of the total population. The coverage of HCT programs is lower in Syria, Mozambique, Iraq, Ethiopia, DCR, Cameroon, Nigeria and Myanmar (between 0.2% and 3.6% of the total population) (Figure 5).

Figure 5. *Humanitarian Assistance Beneficiaries as % of Total Population, by Agency*

Except for a few outliers, the level of per capita assistance per year falls within a narrow interval, ranging from 15 to 50 USD per capita per year. To arrive at this statistic, we estimated the number of direct and indirect beneficiaries of the programs implemented by FAO, UNICEF, and UNHCR, where the unit of assistance is the household, to arrive at the number of individuals being served. To convert the figures in individuals, we used the size of the average households in each country. There are also a few outliers, such as UNICEF and WFP in Ukraine (with 394 and 165 USD pc per year) and UNICEF in Burkina Faso (with 101 USD pc per year). The detailed information is included in the annex.

### Financing HCTs in conflict-affected countries

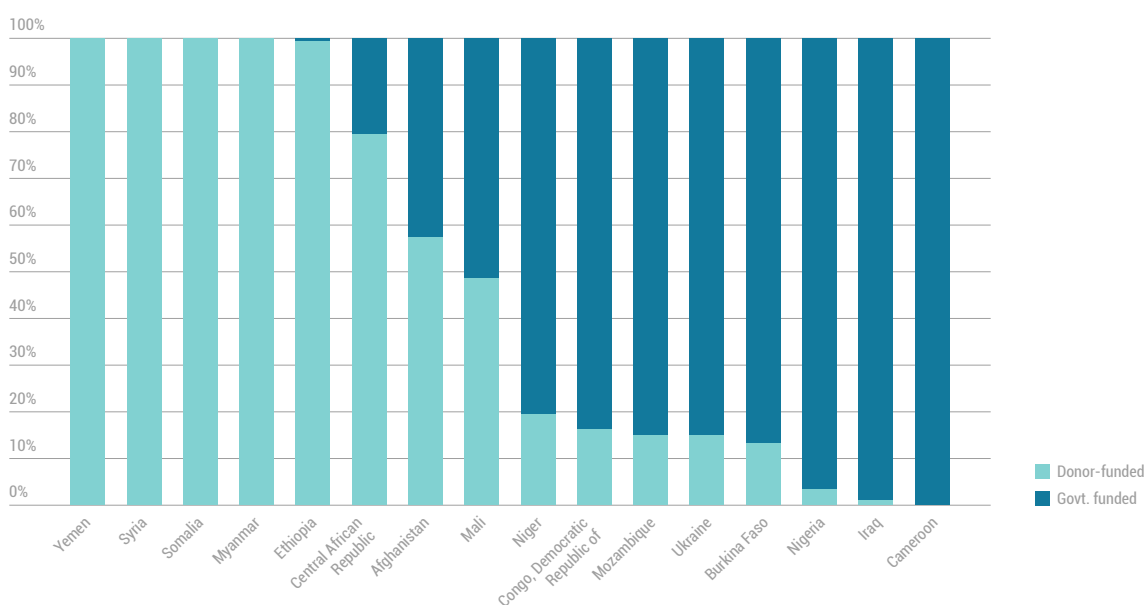
The financing sources for HCT programs (and other emergency assistance) are, in general, donations from OECD countries or international financial institutions, but the specifics vary across agencies and countries. As described below, the FAO budget for Somalia in 2023, of about \$100 million for HCTs, came from the US Bureau of Humanitarian Assistance (more than 50%), followed by Germany, the World Bank, and Norway. In Afghanistan, UNICEF assistance came primarily from the Asian Development Bank and the Afghanistan Trust Fund managed by the World Bank, as well as USAID, German, and Japanese governments. The UNHCR's HCT program in Iraq was financed primarily by the US Bureau of Population, Refugees, and Migration of the State Department, plus other contributions from the Gulf countries and Japan. The WFP cash transfer program in Burkina Faso was contributed by USAID (the largest share), followed by the EU and Germany.

(DMZ). Annex 1 described the local implementation arrangements of four HCT programs in Afghanistan, Burkina Faso, Iraq and Somalia.

### The importance of HCTs in the total SP spending of the conflict affected countries

The scope of humanitarian aid described in this section includes HCT programs supported by four UN agencies (FAO, UNICEF, UNHCR, WFP) in 17 countries experiencing conflict according to the World Bank’s list of FCV countries for Fiscal Year 2023. The analysis is focused on 16 of them, as we excluded South Sudan due to unavailability of GDP information for relevant analysis. The list of the countries is in Annex 2. In fact, in countries such as Ethiopia and Somalia, donor-funded programs make up the entire spending on social assistance. Outside of Africa, SP funding in Yemen, Syria and Myanmar also comes entirely from donor organizations, while nearly 57% of social assistance spending in Afghanistan is funded by donor-funded programs, as shown in Figure 6 below.

Figure 6. Share of Donor-Funded Expenditure in in FCV Countries



# STATISTICAL ANNEX

Table A1. *List of Countries in ASPIRE Administrative Data*

Country	Region	Income group	FCV
Afghanistan	SAR	Low income	Yes
Albania	ECA	Upper middle income	No
Algeria	MNA	Lower middle income	No
Argentina	LAC	Upper middle income	No
Armenia	ECA	Upper middle income	No
Azerbaijan	ECA	Upper middle income	No
Bangladesh	SAR	Lower middle income	No
Belarus	ECA	Upper middle income	No
Benin	AFR	Lower middle income	No
Bhutan	SAR	Lower middle income	No
Bolivia	LAC	Lower middle income	No
Bosnia and Herzegovina	ECA	Upper middle income	No
Botswana	AFR	Upper middle income	No
Brazil	LAC	Upper middle income	No
Bulgaria	ECA	Upper middle income	No
Burkina Faso	AFR	Low income	Yes
Burundi	AFR	Low income	No
Cabo Verde	AFR	Lower middle income	No
Cambodia	EAP	Lower middle income	No
Cameroon	AFR	Lower middle income	Yes
Central African Republic	AFR	Low income	Yes
Chad	AFR	Low income	No
Chile	LAC	High income	No
China	EAP	Upper middle income	No
Colombia	LAC	Upper middle income	No
Congo, Democratic Republic of	AFR	Low income	Yes
Congo, Republic of	AFR	Lower middle income	No
Cote d'Ivoire	AFR	Lower middle income	No
Czechia	ECA	High income	No
Djibouti	MNA	Lower middle income	No
Dominica	LAC	Upper middle income	No
Dominican Republic	LAC	Upper middle income	No
Ecuador	LAC	Upper middle income	No
Egypt, Arab Republic of	MNA	Lower middle income	No
El Salvador	LAC	Upper middle income	No
Estonia	ECA	High income	No
Eswatini	AFR	Lower middle income	No
Ethiopia	AFR	Low income	Yes
Fiji	EAP	Upper middle income	No
Gabon	AFR	Upper middle income	No
Georgia	ECA	Upper middle income	No
Ghana	AFR	Lower middle income	No
Grenada	LAC	Upper middle income	No
Guatemala	LAC	Upper middle income	No
Guinea-Bissau	AFR	Low income	No
Haiti	LAC	Lower middle income	No
Honduras	LAC	Lower middle income	No
Hungary	ECA	High income	No
India	SAR	Lower middle income	No
Indonesia	EAP	Upper middle income	No
Iran, Islamic Republic of	MNA	Lower middle income	No
Iraq	MNA	Upper middle income	Yes
Jamaica	LAC	Upper middle income	No
Kazakhstan	ECA	Upper middle income	No
Kenya	AFR	Lower middle income	No
Kosovo	ECA	Upper middle income	No
Kyrgyz Republic	ECA	Lower middle income	No
Lao People's Democratic Republic	EAP	Lower middle income	No
Latvia	ECA	High income	No
Lesotho	AFR	Lower middle income	No
Libya	MNA	Upper middle income	No

Country	Region	Income group	FCV
Lithuania	ECA	High income	No
Madagascar	AFR	Low income	No
Malawi	AFR	Low income	No
Malaysia	EAP	Upper middle income	No
Maldives	SAR	Upper middle income	No
Mali	AFR	Low income	Yes
Mauritania	AFR	Lower middle income	No
Mauritius	AFR	Upper middle income	No
Mexico	LAC	Upper middle income	No
Moldova	ECA	Upper middle income	No
Mongolia	EAP	Lower middle income	No
Montenegro	ECA	Upper middle income	No
Morocco	MNA	Lower middle income	No
Mozambique	AFR	Low income	Yes
Myanmar	EAP	Lower middle income	Yes
Namibia	AFR	Upper middle income	No
Nepal	SAR	Lower middle income	No
Niger	AFR	Low income	Yes
Nigeria	AFR	Lower middle income	Yes
North Macedonia	ECA	Upper middle income	No
Pakistan	SAR	Lower middle income	No
Panama	LAC	High income	No
Peru	LAC	Upper middle income	No
Philippines	EAP	Lower middle income	No
Poland	ECA	High income	No

Country	Region	Income group	FCV
Romania	ECA	High income	No
Russian Federation	ECA	Upper middle income	No
Rwanda	AFR	Low income	No
Sao Tome and Principe	AFR	Lower middle income	No
Senegal	AFR	Lower middle income	No
Serbia	ECA	Upper middle income	No
Seychelles	AFR	High income	No
Sierra Leone	AFR	Low income	No
Slovak Republic	ECA	High income	No
Somalia	AFR	Low income	Yes
South Africa	AFR	Upper middle income	No
Sri Lanka	SAR	Lower middle income	No
St. Lucia	LAC	Upper middle income	No
Syria	MNA	Low income	Yes
Tajikistan	ECA	Lower middle income	No
Thailand	EAP	Upper middle income	No
Togo	AFR	Low income	No
Tonga	EAP	Upper middle income	No
Trinidad and Tobago	LAC	High income	No
Tunisia	MNA	Lower middle income	No
Turkiye	ECA	Upper middle income	No
Ukraine	ECA	Lower middle income	Yes
Uzbekistan	ECA	Lower middle income	No
Yemen, Republic of	MNA	Low income	Yes
Zambia	AFR	Lower middle income	No

Table A2. *List of Conflict-Affected Countries*

Country	Region	Income Classification
Afghanistan	SAR	Low Income
Burkina Faso	AFW	Low Income
Cameroon	AFW	Lower Middle Income
Central African Republic	AFW	Low Income
Congo, Democratic Republic of	AFE	Low Income
Ethiopia	AFE	Low Income
Iraq	MNA	Upper Middle Income
Mali	AFW	Low Income
Mozambique	AFR	Low Income

Country	Region	Income Classification
Myanmar	EAP	Lower Middle Income
Niger	AFW	Low Income
Nigeria	AFW	Lower Middle Income
South Sudan		
Somalia	AFE	Low Income
Syria	MNA	Low Income
Ukraine	ECA	Lower Middle Income
Yemen, Republic of	MNA	Low Income

Table A3. Average Per Capita Annual Transfer for HCTs, 2021–2022

Country	FAO	UNICEF	UNHCR	WFP
Afghanistan	7	29	33	47
Burkina Faso	37	101	30	60
Cameroon	45	0	52	61
Central African Republic	0	54	26	47
Congo, Dem. Rep	14	92	71	45
Ethiopia	13	26	20	21
Iraq	50	0	84	56
Mali	87	16	31	28
Mozambique	11	14	41	50

Country	FAO	UNICEF	UNHCR	WFP
Myanmar	17	29	14	0
Niger	20	16	33	35
Nigeria	0	17	16	87
South Sudan				
Somalia	25	0	8	79
Syria	51	23	92	123
Ukraine	0	394	56	165
Yemen	54	18	53	64

## *Annex: A Qualitative Review of Budgeting, Financing, and Implementation of Humanitarian Cash Transfer (HCT) Programs*

In addition to quantitative data, the ASPIRE team conducted qualitative interviews with key representatives of the four UN agencies in Afghanistan, Burkina Faso, Iraq and Somalia to capture the implementation arrangements for the HCTs. The objective of the interview was to unpack the upstream decision-making of HCT programming with respect to the size of the interventions (number of beneficiaries, level of spending, sources of financing), as well as the implementation arrangements put in place to disburse cash to beneficiaries amid difficult country conditions. These case studies, while informative, should not be generalized to the whole portfolio of HCTs of the agencies, as each one of them refers to a specific country marked by a context of conflict.

### UNICEF'S CASH TRANSFERS IN AFGHANISTAN

**Budget planning.** The cash assistance provided by the UNICEF in Afghanistan is part of a cross-sectoral operation covering multiple areas of activity: food security, nutrition, and child protection. In consequence, the budget planning is determined at the level of the sector. It is based on the spending level from the previous year and the donors' pledges for contributions for the current year. Pledges do not materialize always, introducing a level of uncertainty with respect to program size. UNICEF estimates that the level of mobilized funds over the recent years has only covered between 40% and 50% of the population in need of humanitarian assistance in the country.

**Source of funding and predictability.** A positive development was the emergence of international financial institutions (IFIs) as main donors for cash transfer programs in Afghanistan, in particular the Asian Development Bank and the World Bank (through the Afghanistan Trust Fund). These relatively new donors complement the resources coming from more established donors such as US (through) USAID, Germany and Japan. The contributions of the IFIs are channeled through sectoral funding. The food security and nutrition sector attract more than 50% of the funds received by the UNICEF in Afghanistan. To ensure a steady support for the donors, UNICEF' resource mobilization strategy relies on the implementation of the HCTs in a transparent, accountable, and results-oriented manner. With respect to the volume of resources that could be mobilized in 2022 for the HCT and related interventions in the sector, the country team was not optimistic, given the other crises requiring humanitarian assistance in Ukraine, Sudan, and Yemen.

**Population covered by the program.** The identify the beneficiaries of the program The first step uses geographical targeting: the most vulnerable districts are identified using a multidimensional poverty index and a multidimensional Child vulnerability index. The second step uses categorical targeting: the UNICEF team prioritizes the categories considered as the most vulnerable in situation of humanitarian emergency including here pregnant and lactating women, households with children under two years old, or with disabilities, and women-headed households. This prioritization is aligned with the commitment of the agency to take into consideration the gender dimension in program planning. UNICEF's commitment to expand women's agency in their program is, however, limited by the restrictions imposed by the Afghanistan authorities that do not allow women to work with NGOs and UN agencies in any sector except health. These restrictions limit both the operational decisions and the implementation options.

**Benefit level.** Because of the heterogeneity of the country, the benefit level varies from a region to another according to the variation of the cost of living, as much as two to one. The changes in the cost of living are tracked through a monthly monitoring system of the markets. The benefit levels are then adjusted with the change in the local/regional cost of living.

**Implementation of the HCT program.** UNICEF resorts to implementation partnerships with local actors for the assessment and registration phase, payment, and third-party monitoring of the cash distribution. At present, the totality of financial assistance is provided through "cash-in-hand". The choice of this payment modality is in line with the preferences of the beneficiary population; the results of field surveys showed that more than 80% of the Afghans prefer cash. While mobile payments have been explored, they are not used due to technical and operational constraints.

**Country context and its impact on the implementation of the HCT program.**

The implementation of the HCT program is evidently influenced by the country context. To deliver the HCT to its intended beneficiaries, UNICEF must address many problems. The country is governed by regional de-facto authorities that are not recognized by the international community. The main challenge is to deliver “cash-in-hand” while dealing with the restrictions imposed by the regional (non-federal) authorities. These restrictions change often and are different from district to district.

**WFP'S CASH TRANSFERS IN BURKINA FASO**

**Budget planning, source of funding and predictability.** HCP represented 38% of the total humanitarian assistance for Burkina Faso in 2022. The WFP's cash transfer program is subject to an adjustable budget according to the needs generated by the humanitarian context and the operational feasibility. Typical contributors are donor countries among which the USAID provides the larger share followed by the EU and the German government (DMZ). However, the average annual financial gap is about 50%. As a result, WFP is constantly on lookout for more resources. To mobilize more funds, it relies on a funding strategy aiming to increase the contribution levels and based on the transparency, cost-effectiveness, and good track record in implementing humanitarian programs. WFP presents itself, among other humanitarian agencies or international NGOs, as a reliable humanitarian actor with good track record in providing diversified cash delivery and implementing solutions. This flexibility argument is combined with the agency's structural ability to deliver at scale with the required level of reactivity promising to “receive the funds today and deliver tomorrow”.

**Population covered by the program.** The determination of the number of individuals eligible to humanitarian cash transfers is based on a government-led analysis that considers different vulnerability factors. The number ranges generally between 2 and 3.5 million people per year identified as dependent from cash transfers especially in the “dreaded” lean season which is the most precarious period of the year lasting between the harvests from May to August. There is a marked increase in the number of vulnerable people from 2022 to 2023. The humanitarian cash assistance provided by WFP in Burkina Faso has reached two million internally displaced person (IDP) as of March 2023, from 1.2 million individuals in 2022. The ongoing arrivals of IDPs from conflicts combined with climatic shocks and economic difficulties have increased the pool of people who cannot cover their basic needs and, consequently, increased the target number of beneficiaries considered by the agency.

**Benefit level.** In Burkina Faso, the food distribution could be up to 3 times more costly than cash. Cash transfers, on the other hand, can be influenced

by the changes in the local cost of living. The prices and the market conditions are monitored through monthly market surveys, that are shared with donors to best inform them on the conditions and constraints in the field.

**Implementation of the HCT program.** To implement the HCP, WFP works with a network of NGOs with the goal of strengthening the local capacity to contribute to the humanitarian assistance and enhancing the localization of a sustainable know-how. Besides, the agency resorts to diversified types of financial service providers selected according to the field's delivery constraints that often precondition the modality. About 30% of cash transfers are mobile money paid by mobile service operators. Then, cash is delivered mostly through formal bank institutions for beneficiaries who don't have access to the mobile money service. In rural areas that are not covered by banks nor mobile money operators, WFP works with local micro-financial institutions. In regions where cash cannot be delivered due to security reasons, WFP works with local merchants and retailers to provide the quasi-cash, restricted electronic vouchers.

**Country context and its impact on the implementation of the HCT program.** Until five years ago, when the first emergency operation was launched, institutions and population in Burkina Faso haven't been familiar with humanitarian cash programs. The national and local authorities haven't had the knowledge to support and adhere to this type of interventions. The overall implementation and operation processes were unknown and new for them. This has created a resistance at national and local levels that has been hindering the feasibility of the humanitarian cash transfers until today. Recently, the WFP has been instructed by the government to suspend all cash transfers in at least three hotspots because of the reticence of the local authorities. This obliged the agency to switch from cash to in-kind assistance and to deal with several challenges including time lead and not matching the donors' and beneficiaries' preferences. These restrictions are consequently expected to decrease the share of the cash assistance that represented 38% of the total humanitarian financing in 2022.

## UNHCR'S CASH TRANSFERS IN IRAQ

Budget, population covered and sources of financing. In 2022, UNHCR provided two types of humanitarian cash transfer programs in Iraq: (i) a monthly multi-purpose cash assistance dedicated to refugees and (ii) 2 to 4 months multi-purpose cash grants to IDPs. The multi-purpose cash assistance is a multi-donor funded program financed by different donors including the US, specifically from the Bureau of Population, Refugees, and Migration of the State Department, the Gulf countries, Japan, and others.

The caseload of the multi-purpose cash assistance program for refugees is based on fund availability and eligibility is determined based on vulnerability targeting model using proxy means test (PMT) while the eligibility for IDPs was determined using harmonized tool (Integrated Socio-Economic Vulnerability -ISEA) that is based on households' visits. The ISEA was developed by the cash working group of Iraq- currently known as Iraq Cash Form (ICF).

In 2022, the budget for the refugee program was roughly US\$20 million and supported 6,500 household per month over 12 months. Similar number of target beneficiaries was implemented in 2021. In addition, a one-off winter support was provided to 22,966 HH (78,293 individuals) amounting to 3.8 million USD. The multipurpose cash grant program for IDPs had a budget of USD21.9 million in 2022, provided to a total of 22,119 households (127,863 persons).

Implementation of the HCT programs: program for refugees. The refugee population in Iraq is registered in the database of the UNHCR along with their biometrics. The socio-economic vulnerability is determined through a PMT model that uses the registration data, allowing UNHCR to prioritize the most vulnerable. Beneficiary households continue to receive the cash assistance for a period of one year before being taken-out from the beneficiaries list. However, some small numbers of beneficiaries were re-included to receive MPCA for additional twelve months if found eligible through PMT and fall under group 1 (the most vulnerable profiles). In addition, some beneficiaries may eventually be removed from the program in case of resettlement, spontaneous departures outside Iraq, and failure to renew their registration with UNHCR. In such cases, the opportunity is given to others who are the most vulnerable.

For the delivery of the monthly cash assistance to refugees, UNHCR has established partnerships with local financial service institutions in Iraq such as "Zain Cash/Iraq Wallet" and Nass Wallet that utilize the agency's biometrics through iris scan and using an app developed in partnership with "Iris Guard".

UNHCR additionally contributed to loosening of rigid financial regulation in partnership with the Iraqi Central Bank to the benefit of the refugees by gaining the recognition of its certificate as a temporary identification document allowing to open wallet with the financial service provider and to access financial assistance from different entities.

**Implementation of the HCT programs: program for IDPs.** The implementation of the multipurpose cash assistance for IDPs is harmonized with other agencies in Iraq through the guidance of cash working group (CWG). Since 2019, CWG has developed harmonized tools and approaches, including the calculation of Minimum Expenditure Baskets, Vulnerability thresholds,

transfer values, monitoring and others. Unlike the refugees, no biometrics are collected from IDPs, and consequently the cash assistance is delivered using e-wallets that need to be activated by the recipient upon presentation of valid documents. As the UN Humanitarian Country Team (UNHCT) decided to move away from individual assistance as of 2023, individual assistance to IDPs through cash was discontinued by UNHCR as of January 2023.

UNHCR moved to mobile money since 2019. The implementation was widely accepted by the IDPs due to its coverage, cost effectiveness, reachability and flexibility. In 2020 and 2021, UNHCR was able to scale up and successfully implemented the cash assistance in support of the COVID-19 pandemic. UNHCR was able to deliver more than US\$50 million during the pandemic through its financial service partners. Most of the people in Iraq are also familiar with the mobile money modality as most of the organizations use this type of service delivery including WFP and the Government.

Beside its humanitarian interventions in Iraq, UNHCR also created synergies with key government institutions and line ministries. In fact, the data of the IDPs established by the agency from 2019 to 2022 that includes over one million records were valuable for the inclusion of IDPs into the government's social safety net program and specifically at the level of eligibility and prioritization.

### FAO'S CASH TRANSFERS IN SOMALIA

**Population covered by the program.** In 2023, FAO HCT aims to reach about 1.2 million individuals in Somalia. During planning phase, the beneficiary target was determined based on an estimate of the number of people facing crisis and the level of food insecurity. FSNAU works with the government of Somalia and other stakeholders to complete these assessments twice a year. At the time of writing, 6.5 million people were facing crisis or worse food security outcomes in a country of about 17 million people. As FAO's operations are focused on the rural areas, the corresponding caseload was estimated to 3.3 million. Humanitarian interventions prioritize those most in need and, categories with the highest IPC\* levels (three and above); the other levels are covered by non-humanitarian programs if they have the funding. Among the population that is most affected by acute food insecurity, some categories are further prioritized: households with female head, child head, with elderly or chronically ill persons, families forced to displacement due to active or chronic shocks are prioritized. All these criteria were used to estimate the target beneficiary population of 1.2 million.

**Budget, source of funding and predictability.** In 2022, FAO Somalia spent US\$34.7 million on cash and voucher assistance to help vulnerable rural households access food and protect their livelihoods. Beside the "filtering"

process outlined above, two main factors have an impact on the level of beneficiaries' target number: the available funds and the severity of the crisis. The resources allocated determine the ability of any institution to reach those in need. However, increasing the planned number of targeted people accordingly to the increase of the available funds is an FAO decision. In addition, the local context in Somalia is characterized by a complex crisis from a combination of natural disasters, widespread poverty, conflicts with AL-Shabab, exacerbates already dire conditions.

Severe crisis generates higher levels of appeal and visibility to the chronic condition in the country and often correlates with substantial increase in humanitarian funding levels. Up to 50-70% of the funds received by FAO Somalia are dedicated to the humanitarian assistance. In 2023, a budget of US\$100 million is being allocated to humanitarian cash transfers. USAID's Bureau for Humanitarian Assistance contributes a substantial share of FAO Somalia's cash and voucher assistance alongside the government of Germany, Denmark, UN CERF, the World Bank and Norway among others. FAO consolidate a long-term partnership with donors based on its expertise to deliver at scale and to take advantage from its reliable and credible image.

**Implementation of the HCT program.** FAO works with local partners with roots in the communities where we deliver assistance to reach the people in need. We select these partners through a competitive process every other year. We also work with local financial service providers usually mobile money operators (telecommunications companies) who provide financial services through mobile money wallets that can receive cash transfers and enable peer-to-peer transactions and local agro-dealers to deliver agriculture inputs to protect livelihoods.

All the HCTs were delivered through mobile money payments. The decision of privileging mobile money cash transfer is an adopted guideline by FAO in Somalia, motivated predominantly by the cost efficiency and the capacity to reach rural communities and aligns with the grand bargain agreement. This is improving FAO's efficiency and effectiveness because the cost of transportation and distribution of humanitarian in-kind assistance items could be twice the cost of purchase in some locations in Somalia. Additionally, FAO Somalia saved more than fifty percent of the fees it pays to financial service providers such as money agents who charge 4.5% services fee when it migrated to mobile money payment with a service fee of 2%. - the recipients don't pay any charges for the received mobile transfer which is equivalent to the minimum expenditure basket (MEB). Beside the cost saving aspect, mobile money operators offer a "precious" ease of reach in rural areas that are not covered by banks due to the lack of economic incentives, higher security risk in areas not controlled by the government due to the conflict and where the humanitarian assistance is needed the most.

# PART 2.

*Thematic  
deep dives:  
selected  
issues*

# 4. A SNAPSHOT OF EARMARKING ISSUES AND PRACTICES

Herwig Immervoll

## *Introduction*

Tying government revenues to specific expenditure categories narrows budgetary flexibility and can crowd out public resources for other spending categories (Buchanan, 1963). But it may help with planning resource envelopes for key policy priorities, including social protection. “Earmarking”, the practice of protecting revenue sources for designated types of government expenditure, may also strengthen public support for taxes or tax increases (Guillaud and Zemmour, 2023; OECD, 2020).<sup>1</sup>

This chapter provides an overview of different forms of earmarking in the OECD area, including social contributions, designated revenues from direct and indirect taxes, as well as related forms of “committed” social-protection financing, such as tax expenditures with a social purpose. It compares financing models, illustrates trends, and discusses specific examples of earmarking for insurance and assistance programmes, including from emerging revenue sources linked to climate-change mitigation.

## *Earmarking: advantages, challenges, trade-offs*

The advantages and challenges of earmarking vary between countries, and they depend on the specific features and objectives of both the social protection programme and the revenue source in question.

<sup>1</sup> | This chapter builds on a presentation given at a 2023 workshop on social assistance financing organised by the World Bank. Florentin Kerschbaumer contributed to an early draft. The author gratefully acknowledges helpful comments workshop participants, from delegates to the Working Party on Social Policy, as well as from Willem Adema, Bert Brys, Michele Cecchini, Maxime Ladaïque, Delphine Moretti, Scherie Nicol, Mark Pearson, Monika Queisser, Michael Sicsic and Kurt van Dender (OECD), Laurent Aujean, Olivier Bontout and Gilberto Gambini (European Commission) and Ugo Gentilini (World Bank). All errors and views are the author’s. In particular, the paper may not represent the views of the OECD, the World Bank, or member countries of either organisation.

## *Revenue stability / counter-cyclical support*

A stable revenue source is attractive for ensuring that social programmes remain viable over time. Yet revenues from individual funding sources are typically not stable but pro-cyclical, unless discretionary tax-policy measures compensate for cyclical movements in the tax base. Even revenue sources that provide broadly stable funding constrain the ability of social programmes to fulfil a desired stabilisation role during economic shocks and downturns, when social spending might need to be stepped up.

In general, earmarked financing for rights-based social programmes therefore needs to be backed up by financing from other specific sources or, implicitly, by general government revenue. From a political economy point of view, earmarking can act as a backstop in periodic budget negotiations, effectively providing a certain funding floor. But, in some cases, obtaining ad-hoc additional budget allocations, e.g., during an economic crisis, could also become more difficult when significant funds are already tied to social programmes. Indeed, one motivation for earmarking can be to discourage overspending on certain programmes.

## *Transparency*

Earmarking can help with clarifying the purpose of a specific tax, as well as the cost of a government programme and the resulting burdens for taxpayers. For instance, governments may wish to draw greater attention to the use of specific tax revenues and associated benefits. If earmarking mechanisms are clearly understood, and an earmarked revenue finances all or most of a government programme, this can aid budgeting transparency for policymakers, taxpayers, beneficiaries and voters. In practice, however, the link between revenue source and programme spending can become blurred, e.g., when a revenue source is earmarked to finance not one programme but several. Relatedly, a given social programme may be financed from a range of different sources, some of which may be earmarked and others not.

Earmarking provisions themselves can also remain opaque, for instance when the underlying legal rules remain vague, or when earmarking takes the form of a political commitment ('soft' earmarking), without explicit legal stipulations. Tax expenditures with a social purpose are a specific type of earmarking that is common in OECD countries. They reduce revenues from specific taxes (e.g., the income tax in the case of child tax credits) but the earmarked nature of this financing source may not be immediately evident to voters or decisionmakers. Moreover, although tax expenditures can be large (see below), their size and evolution may not be well understood, as they are typically not subject to the same scrutiny and reporting standards

as direct government spending (OECD, 2023; Redonda and Neubig, 2018; OECD, 2018).

### *Regular evaluation*

As any use of public funds, the practice and extent of earmarking should be accompanied by systematic and periodic assessments, and possibly by sunset clauses, to ensure accountability and an efficient use of government revenues.

If revenue sources are earmarked for one or more specific programmes, this requires careful consideration when assessing programme performance, and when deciding whether a programme should be maintained, expanded or rolled back. For instance, the distribution of tax burdens varies greatly by revenue source, e.g., with income tax burdens more “progressive” than social contributions or consumption taxes. Social transfers may therefore be more progressive, or less so, after accounting for the taxes that finance them (Immervoll and Richardson, 2011).

For some social-expenditure categories (e.g., healthcare) intended programme outcomes may be reinforced through earmarked taxes. For instance, using fiscal measures for health-promotion purposes has become more common. Notable examples are excise duties on alcohol, tobacco or on foods with a high fat, salt or sugar content (Sassi, Belloni and Capobianco, 2013). If the poor spend high shares of their budgets on taxed goods, such excise duties may have adverse distributional consequences, though there is evidence that health-related benefits are also greater for low-income groups (Paraje et al., 2023).

### *Fiscal space*

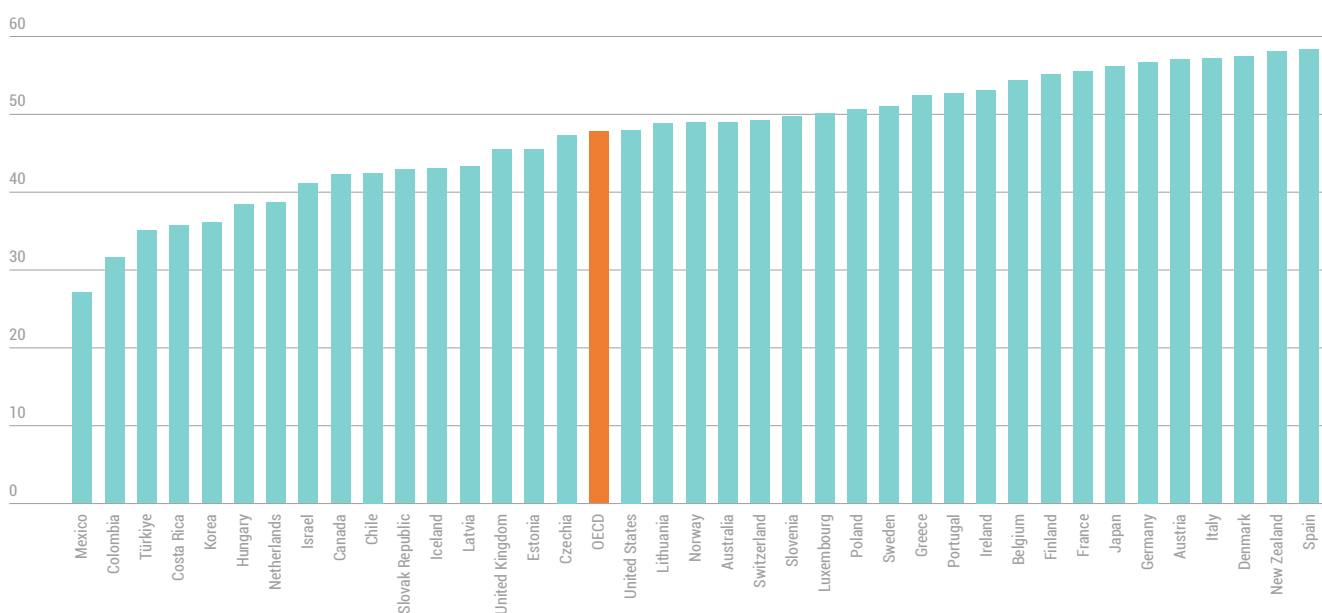
When fiscal space is tight, earmarking may become more difficult, and the associated trade-offs can be more apparent. From an overall budgeting point of view, an expectation of escalating budget pressures may call for redoubling efforts to analyse existing expenditures and raise overall spending efficiency, rather than ring-fencing specific revenue sources. Yet, when fiscal adjustments trigger comprehensive reviews of spending priorities and envelopes, maintaining or expanding earmarking can also appear more attractive, notably for line ministries seeking to maintain adequate resources for vital government programmes, e.g., those supporting the poorest.

In the OECD area, social spending already accounted for nearly half of all government spending before the COVID pandemic (Figure 1, Panel A). Budget pressures have been growing since then, following unprecedented support measures during the COVID pandemic and cost-of-living crisis

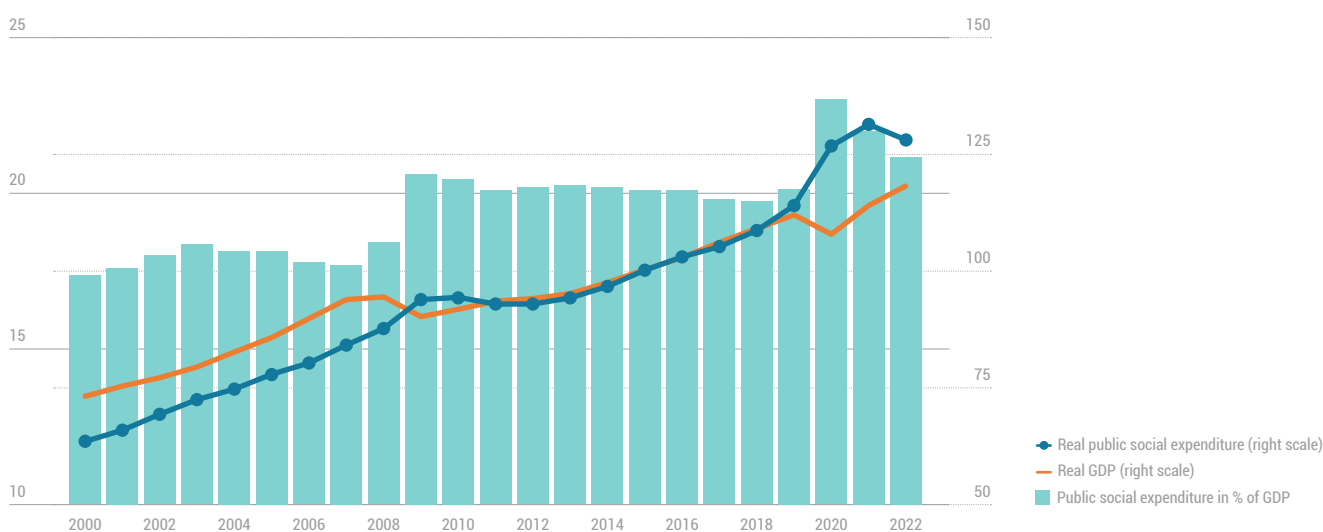
(Figure 1, Panel B). In the medium term, the demands for social support, and the fiscal space for providing it, are set to diverge further. Reasons include expectations of lower economic growth, higher interest rates, the greater spending linked to an ageing population, the costs of climate-change mitigation and adaptation, as well as new national security risks and the disappearance of the so-called “peace dividend” (OECD, 2023; OECD, 2023).

**Figure 1. Social protection in the OECD accounted for much of government spending before the pandemic, and increased strongly during it**

a) Panel A. Public social expenditure in 2019, % of total general government expenditure



b) Panel B. Public social spending, on average across the OECD 2000-2022, % of GDP



Note: Panel A: OECD refers to the unweighted average of the countries shown. Panel B: real public social expenditure and real GDP is shown relative to 2015 (2015=100). For EU countries data for 2020-2022 were estimated on basis of OECD Economic Outlook 112 (November 2022) and DG ECFIN (2022), the European Union's Annual Macro-economic database (AMECO) as in November 2022. For the United Kingdom, data for 2021 were estimated on basis of OECD Economic Outlook 112 (November 2022) and National Accounts Blue Book 2022. For Korea and the United States, data for 2021-22 were estimated based on national budget data. Spending totals for 2020 and 2021 are subject to revision, but these are likely to be small; estimates for 2022 are subject to data revisions to spending and GDP. The public social expenditure to GDP ratio for 2020 is estimated based on trend in OECD-35; for 2021 and 2022 it is estimated based on trend in OECD-26. Data for real trends in public social expenditure and GDP refer to OECD-31 countries with available data, i.e., OECD countries except Australia, Canada, Colombia, Costa Rica, Japan, Mexico, and Türkiye. Real trend in public social expenditure for 2022 is estimated based on trend in OECD-26. Public social expenditure is deflated using CPI and GDP is deflated using GDP deflator. Source: OECD (2023) OECD Social Expenditure database, [www.oecd.org/social/expenditure.html](http://www.oecd.org/social/expenditure.html).

## *Prevalence of earmarking in the OECD area*

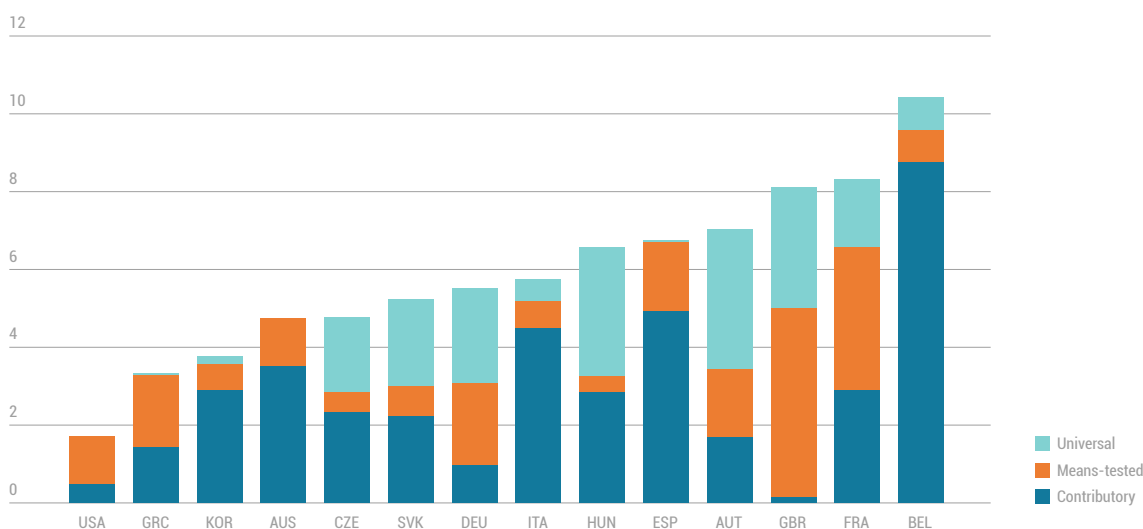
Earmarked financing is more common in some types of social protection system than in others. Social security contributions normally finance some or most of the cost of specific social programmes, and they confer entitlement by definition. The actual links between social contributions and associated entitlements, however, differ strongly across countries and programmes. While all social contributions open entitlement in one way or another, entitlement *levels* can vary weakly or strongly with contributions paid. In some cases, there may also be no link at all, as often in the case of health services for example, which people may receive regardless of the actual contributions paid. Other taxes can be earmarked for social purposes, but without securing individual rights. This is the case for payroll taxes, for example. The terms 'social contribution' and 'payroll tax' are sometimes used interchangeably, and they can be levied on a similar or identical income base. Yet, the presence or absence of a link between payments and entitlements is the distinguishing feature between these revenue categories.<sup>2</sup>

With social insurance being the dominant type of social provision in a number of OECD countries, country differences in the use of earmarking reflect the balance between insurance and assistance provisions. As an illustration, Figure 2 shows that the relative size of contributory, targeted and universal ("categorical") transfers for working-age support varies enormously across countries – and differences are also large for public pensions (OECD, 2021). There is therefore no representative social-protection financing model in the OECD area, and no straightforward association between spending levels and the main entitlement criterion. For instance, Australia and the United Kingdom rely almost entirely on social assistance transfers, whereas in Belgium, Italy and Spain social insurance programmes account for more than two thirds of support payments.

Using available OECD and Eurostat data, Figure 3 shows breakdowns of social spending by financing source across 37 OECD countries. Australia, Denmark and New Zealand finance spending exclusively through general revenue. Several European countries (notably Czechia, Estonia, Hungary, the Netherlands, the Slovak Republic and Slovenia) rely predominantly on contributions. A majority of countries use a mix, however, with general-revenue financing typically being the main funding source.

<sup>2</sup> | For instance, the OECD Revenue Statistics defines social contributions as "compulsory payments to general government that confer an entitlement to receive a (contingent) future social benefit. Such payments are usually earmarked to finance social benefits".

**Figure 2. Social assistance and contribution-based support: big country differences. Government transfers as a share of total household incomes, by main entitlement criterion, working-age**



Note: Excluding old-age pensions. Countries are ranked by the share of working-age benefits in total gross household incomes. Benefits that are both contributory and means-tested, e.g. unemployment assistance (*Notstandshilfe*) in Austria, are counted as contributory. For the United States, disability benefits (Supplemental Social Security) and veteran benefits (both regular veterans' disability pension and service-related disability pension) are contributory.

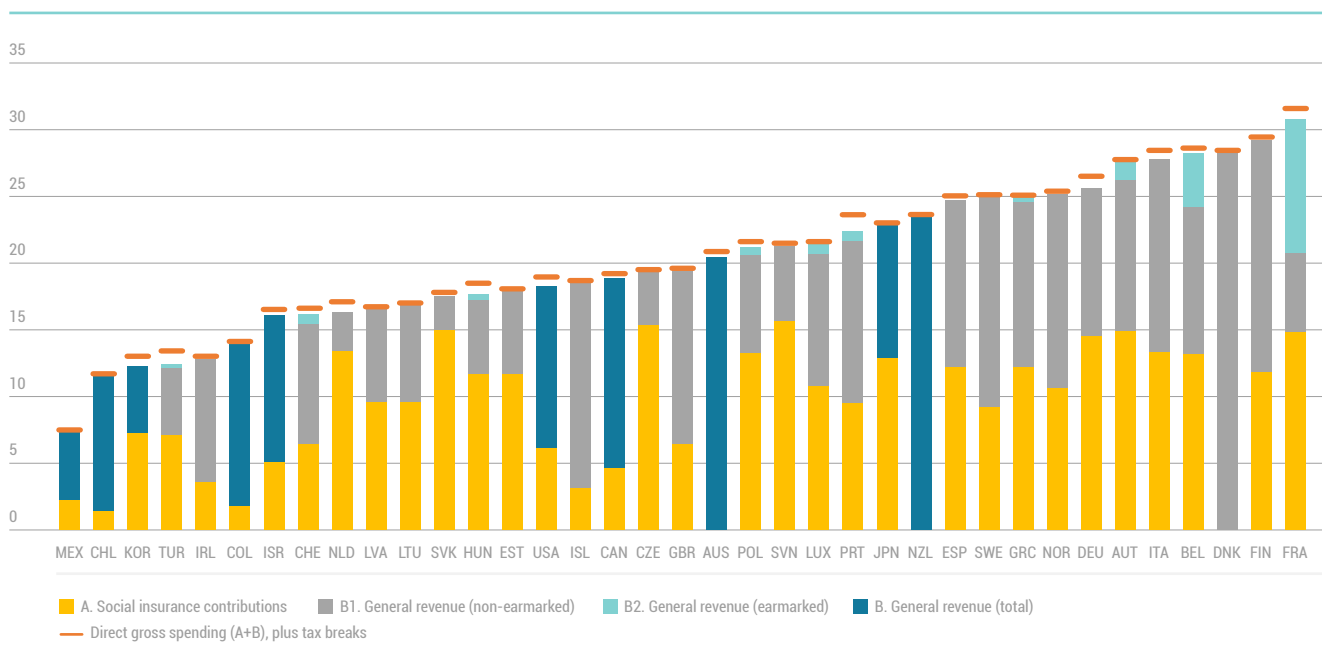
Source: (OECD, 2023<sub>[13]</sub>), using EU-SILC (EU statistics on income and living conditions, 2018), except for the United Kingdom (2016), GSOEP (German Socio-Economic Panel, 2018 wave), KLIPS (Korean Labour and Income Panel Study, 2019 wave), HILDA (The Household, Income and Labour Dynamics in Australia Survey, 2018 wave), Survey of Income and Program Participation, with data referring to 2016.

The breakdowns in the figure are approximate (see notes for limitations) but show that earmarking in OECD countries is mostly synonymous with levying of social contributions. For most countries with information on earmarked general revenue, estimates were either zero, or small, representing less than 5% of public social expenditures (Greece, Hungary, Lithuania, Luxembourg, Poland, Portugal, Türkiye). Only Austria (5%), Belgium (14%) and France (32%) relied on earmarked general revenue for sizeable shares of social protection financing, accounting for more than 5% of public spending.

In addition, most countries provide tax concessions with a social purpose, e.g., in the form of tax allowances or tax credits for children that are similar to cash benefits.<sup>3</sup> Such tax expenditures are thus also earmarked for social support and they can be sizeable, amounting to 1.3% of GDP in Portugal, and close to 1% of GDP in France, Germany, Hungary, Korea, the Netherlands and Türkiye.

<sup>3</sup> | Other tax breaks may encourage employers and/or individuals to organise or purchase private insurance. Such tax breaks are not shown in Figure 3, although they could also be considered as tax expenditures earmarked for social purposes. They can be large in countries where private insurance is common, e.g. just under 2% of GDP in the United States (OECD, 2023).

**Figure 3. Earmarking is very common, but its extent is modest outside of social insurance.**  
Gross social expenditure by financing source, 2019



Note: Countries are ranked by direct gross spending (i.e., without counting tax breaks). Tax breaks refer to tax expenditures with a social purpose, similar to cash benefits (such as tax credits). Approximate breakdown of revenue used for financing public social spending (including public old age and survivor pensions, income support to the working-age population and children, health, and all other social services except health). Shown shares of social contribution financing represent upper bounds, as social expenditure totals exclude administration costs (i.e., the costs incurred with the provision of cash or in-kind benefits), whereas social contributions may finance costs related to the administration of insurance institutions (administration costs of social protection systems in European countries range from 1% to 6% of total spending, while evidence from the US suggests that the costs of administering a non-means tested benefit represents 1–2% of total spending (Browne and Immervoll, 2017)). The share of general government contributions is calculated as the *residual* by subtracting social contribution revenues from public social spending totals. It therefore includes *all* sources of social protection financing other than social contributions, including also debt financing and withdrawals or property income from public pension reserve funds or sovereign wealth funds. Breakdowns of the “general government contributions” category into “earmarked taxes” and “non-earmarked general revenue” are available for European countries only, and the earmarked category refers to proceeds from taxes and levies which, by law, can be used only to finance social protection (European Commission, 2022). For the United Kingdom, the share of earmarked general revenue refers to 2018, the last year available in the European Union ESSPROS data.

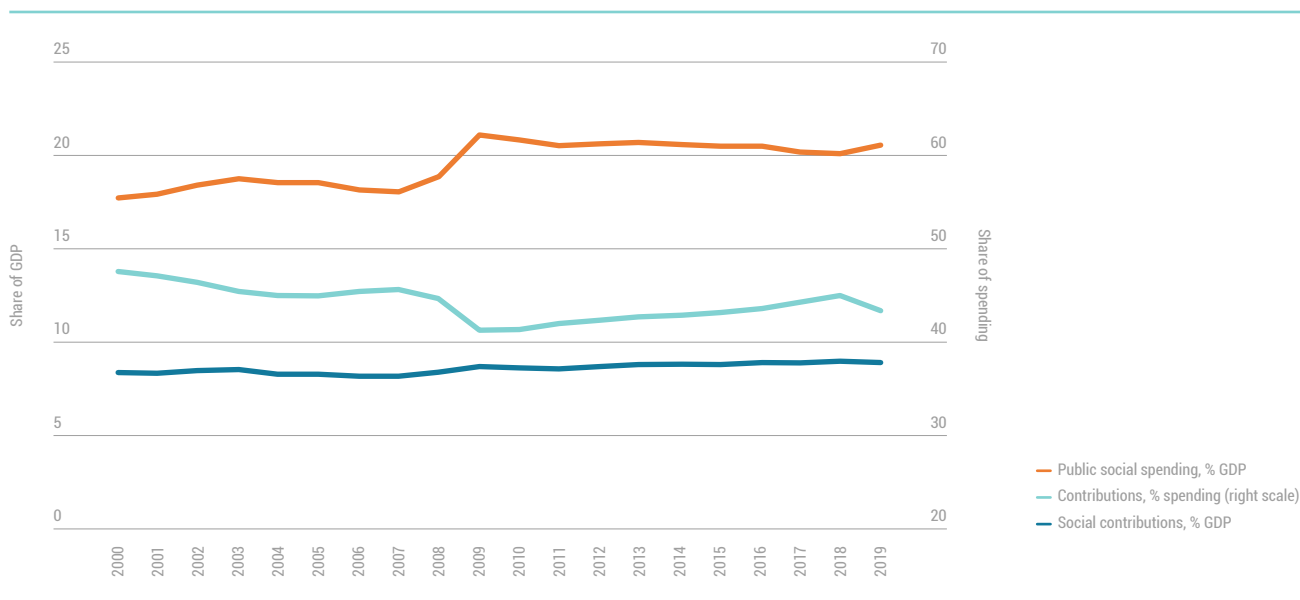
Source: OECD Social Expenditure Database (<http://oe.cd/soex>), OECD Revenue Statistics (for social contributions), ESSPROS (for breakdowns of the “general revenue” category in European countries).

There has been a long-standing debate whether using social insurance as a main source for social-protection financing is sustainable considering population ageing and high levels of on-wage labour costs in a number of OECD countries. The debate has intensified recently, with the emergence of new forms of work that have partly remained outside the scope of social contribution payments and might result in lower revenues (OECD, 2019; World Bank, 2018).

Yet, over the past two decades, social contributions have in fact increased as a share of GDP in the OECD area, from 8.4% in 2000, to 8.9% in 2019 (Figure 4). As a share of total financing, social contributions did fall, from 47.5% of spending in 2000, to 43.5% in 2019. The decline was notable after 2000, as labour-income shares declined markedly, and especially following the global financial crisis, when employment rates fell strongly. But the trend reversed as labour markets recovered, and the social contribution share actually increased every year between 2010 and 2018 (the observed decline in 2019 was not due to lower contributions but to increased social

spending totals). Just before the pandemic, the share was very close to that in the mid-2000s.

Figure 4. *Social contribution revenues in the OECD have remained relatively flat*



Note: OECD-36, excluding Colombia and Costa Rica (spending data pre-2010 not available).

Source: OECD Social Expenditure Database (<http://oe.cd/socx>), OECD Revenue Statistics (for social contributions).

## *Earmarking outside of social insurance: country examples*

In practice, earmarking of tax revenues takes different forms, with 'harder' or 'softer' commitments of funds to specific programmes. 'Soft' earmarking (not shown in Figure 3 and Figure 4 above) might take the form of a political commitment, rather than a legally binding budget rule. When, as in the examples below, legal requirements to spend revenues on social protection are in place, these can be broad (e.g., to spend on a certain branch, such as family support or health) or specific (e.g., to spend on one or several specific programmes). Revenues may pass through an autonomous fund or other form of dedicated financing vehicle from which money cannot be easily redirected. And earmarked funds may comprise all receipts from a specific revenue source, a certain part of it, or a certain prescribed amount or fraction of programme expenditures.

The examples below of tax-revenue earmarking include several with progressive elements, where higher-income earners typically pay more. This contrasts with social contributions, which are typically not progressive (and often have regressive elements, such as contribution ceilings). In addition, some countries commit non-tax revenues to specific social programmes.

Examples are income from the US State of Alaska Permanent Fund (to pay out a varying annual “basic income” to residents), and lottery and other betting/gambling revenues in Portugal, with just under one third of revenues allocated to the Ministry of Labour, Solidarity and Social Security.<sup>4,5</sup>

### *Family benefits in Austria*

The *Familienlastenausgleichfonds* (FLAF), established in 1967, is an earmarked autonomous fund in Austria that pays for various child and family benefits. The FLAF is financed mainly by employers, through a payroll tax equivalent to 3.9% of the gross wage bill. It also receives smaller contributions from an earmarked transfer from income and corporation tax revenue. Its total budget stood at EUR 7bn (2019), with 5.5bn coming from earmarked payroll taxes, equivalent to about 1.4% of GDP. The biggest expenditure of the FLAF is Austria's universal child benefit (Familienbeihilfe). It also pays for some smaller benefits such as public transport subsidies for students, subsidies for school textbooks, and it provides partial financing for parental-leave benefits.

### *Disability benefits in Poland*

Since 2019, Poland operates an earmarked payroll tax amounting to 0.15% of the wage bill of most employees, but increasing to 4% of the wage bill for wages above PLN 1 million per year (the so-called 'solidarity income'). Receipts from this payroll tax are earmarked to a variety of social assistance benefits for people with disabilities, including cash benefits, in-kind assistance, and paying for carers (Chłoń-Domińczak and Szarfenberg, 2019).

### *Minimum pension in Portugal*

Portugal introduced a special supplement to its property tax (AIMI) in 2017. It has been levied annually on properties worth more than EUR 600 000 at a progressive rate that has ranged from 0.6% to 1.5%, with revenues earmarked to the Social Security Financial Stabilisation Fund (FEFSS). From 2018, part of corporate income tax revenue has also been earmarked to the FEFSS, increasing from an initial 0.5% to 2% from 2021. Pay-outs from the

<sup>4</sup> | The Alaska Permanent Fund pays out about half of fund earnings to state residents in the form of an annual income (the Permanent Fund Dividend). Although the dividend formula is based on average earnings over a number of years, pay-outs vary strongly between years as they are financed by investment income (rather than the state oil revenues that make up the fund).

<sup>5</sup> | Portugal Decree-Law No. 56/2006. The value of this allocation was approximately EUR 240 million in 2019 (Departamento de Jogos de Santa Casa de Misericórdia de Lisboa, 2020).

FEFSS guarantee a minimum social pension paid to each elderly person irrespective of their contribution history. As such, it is considered a special-purpose vehicle that finances the gap between pension pay-outs and current contributions that are a result of the social pension (Perista, 2019).

### *State social assistance and federal Medicare Tax in the United States*

A number of US states levy taxes that are earmarked for social assistance purposes (National Conference of State Legislatures, 2008). For example, Colorado earmarks a small share of its tax on the revenue of hydrocarbon extraction to provide means-tested energy subsidies for low-income households. Florida earmarks a share of the revenue from fees related to real-estate transactions for the provision of social housing. Similarly, Iowa earmarks a share of real-estate tax revenues for social housing purposes.

On the federal level, a large part of Medicare resources come from earmarked taxes, though non-earmarked general revenue is the main source of Medicare financing (Steuerle and Garrett, 2022). Since 1965, the Medicare programme has been providing free health insurance to elderly individuals (65 and older) and to individuals receiving disability benefits. A main source of financing is an earmarked payroll tax levied on both employers and employees, at a rate of 1.45% for each and paid into a trust fund. Since 2010, there is an additional progressive charge for high-wage earners (0.9% for earnings in excess of USD 200 000 in 2023). A small additional part of earmarked Medicare funding comes from income taxes that are levied on social security income (old-age, survivor and disability benefits).

### *Rebalancing of social-protection financing in France*

France has the highest level of social spending in the OECD (Figure 1), with old-age support and health care accounting for about 80% of the spending increase in the past 10-15 years. Until the 1990s, France financed social protection mainly through social contributions. The financing mix has become much more diverse since then and contributions now represent some 60% of spending (Huteau, 2019). One driver behind this trend were multiple rounds of reductions in contributions paid for by employers, as part of efforts to dampen the cost of employing low-wage workers in particular. The overall rate of social contributions is now around 36% for an average-wage worker. Employers pay a large majority (28%) of that total, but this falls to almost zero for minimum-wage workers.

To partly compensate for the resulting financing gap, revenues from health-related taxes (excise duties on alcohol and tobacco) were allocated to social protection. More importantly, the so-called Generalised Social Contribution (*contribution sociale généralisée*, CSG), first introduced in 1991, was scaled up massively, and now accounts for two thirds of the general revenue that is available for social spending. Social contributions typically finance replacement benefits (such as public pensions and unemployment insurance), while CSG revenue is earmarked for health and solidarity benefits, including also the solidarity elements of old-age pensions and related benefits. Since 2018-19, a fraction of CSG revenue has been allocated to finance unemployment insurance, with social contributions for unemployment reduced to zero at the same time for employees (but left unchanged for employers).

Despite its name, CSG is in fact an income tax, though distinct from the personal income tax, and paid at rate between 6% to 10% on almost all incomes. Lower rates are levied on pensions and unemployment benefits, and higher rates apply to income from capital and also gambling. Despite a tax base that is much broader than that of social contributions, in practice 75% of CSG revenue come from labour income, which is currently taxed at 9.2%. CSG rates are mostly flat, i.e., independent of income levels, though they are progressive for pensions, with a zero rate for low-income pensions, increasing in steps to 8.3%. There is a continuing debate on how to ensure sufficient revenues for financing social protection in France, while also simplifying the system, making it more progressive, and possibly broadening the base further. Proposals in the debate include also merging the (individual) CSG with the (joint / family-based) personal income tax.

### *Earmarking revenues from the value added tax (“social VAT”)*

An option also discussed in France, and implemented in a number of OECD countries, consists of earmarking a portion of revenues from the value added tax for social spending (“social VAT”):

- » Between 1987 and 1989 Denmark abolished employers' social security contributions for unemployment and invalidity insurance, financing the measure by raising the VAT rate by 3 percentage points to 25%.
- » In Germany, the Merkel government raised the VAT rate from 16% to 19% in 2007. This increase can be likened to a social VAT, as social security contributions were subsequently lowered, resulting in a reduction of contribution revenues equivalent to approximately 1 percentage point of

VAT. A 2017 report published by the Ministry of Labour and Social Affairs considered VAT as a possible source of future social protection financing, though since then the political debate around this topic has remained relatively muted.

- » Japan increased the VAT rate from 5% to 8% in 2014, and then to 10% in 2019, while introducing a reduced rate (8%) for most food items. The entire additional revenue was allocated to social security, including for measures aimed at supporting younger generations, such as free childcare and pre-school.

In principle, there is considerable scope for raising additional revenue from VAT in OECD countries: the VAT revenue ratio (actual VAT revenue divided by theoretical revenue from collecting taxes on all goods at a uniform rate) stands at around 56% across OECD countries on average, essentially the same level as in 2000 (OECD, 2022). Additional VAT revenue can be broadly earmarked for social purposes, e.g., by re-allocating tax expenditure, such as the cost of poorly targeted preferential rates, towards social transfers.<sup>6</sup> In recent years, however, VAT rates were in fact sometimes reduced (OECD, 2023). Rate reductions were relatively common in Europe, typically on a temporary basis as part of cost-of-living support aiming to counter steep price increases for energy and/or food. There was also a notable trend of leveraging the VAT system for the green transition, e.g., by lowering VAT rates on low-carbon goods and infrastructure (e.g., electric vehicles or heat pumps), or by exempting them from VAT altogether. Yet, increased stringency of such exemptions in countries with more mature low-emission car markets indicates that these preferential VAT provisions are often temporary as well.

### *Earmarking in the context of a green transition*

Carbon pricing can take various forms, such as emissions trading systems, excise duties or explicit carbon taxes (OECD, 2022). Explicit carbon taxes were first introduced in Finland in 1990 and in Norway in 1991, with several countries introducing or announcing them since then.<sup>7</sup> The OECD's (2022) Tax Policy Reforms report notes that "promoting environmental sustainability has become increasingly central to the policy goals of taxing energy and vehicle use". As part of its Fit for 55 package, the European Union

<sup>6</sup> | The earmarking is 'broad' as a strict longer-term correspondence between social spending and higher VAT revenue can raise technical difficulties (one would need to know what VAT revenue would have been each year, had preferential rates remained in place).

<sup>7</sup> | In Europe, carbon tax rates in 2021 ranged from 7 cent/tonne of CO<sub>2</sub> in Poland to 116 Euro/tonne in Sweden. Other OECD countries operating an explicit carbon tax at a national level include Austria, Canada, Chile, Denmark, Estonia, Finland, France, Iceland, Ireland, Japan, Latvia, Luxembourg, Mexico, Netherlands, Norway, Portugal, Slovenia, Spain, Switzerland and United Kingdom (OECD, 2019; OECD, 2022).

plans to extend carbon pricing to transportation and residential sectors. In addition, countries variously committed to phasing out of fossil fuel subsidies, which effectively lower carbon prices and encourage wasteful consumption (G20 Leaders Statement, 2009; OECD/IEA, 2021). Reducing subsidies for fossil fuel has equivalent consequences to pricing carbon emissions and can also generate significant budgetary space (OECD, 2021; Black et al., 2023; OECD, 2023).

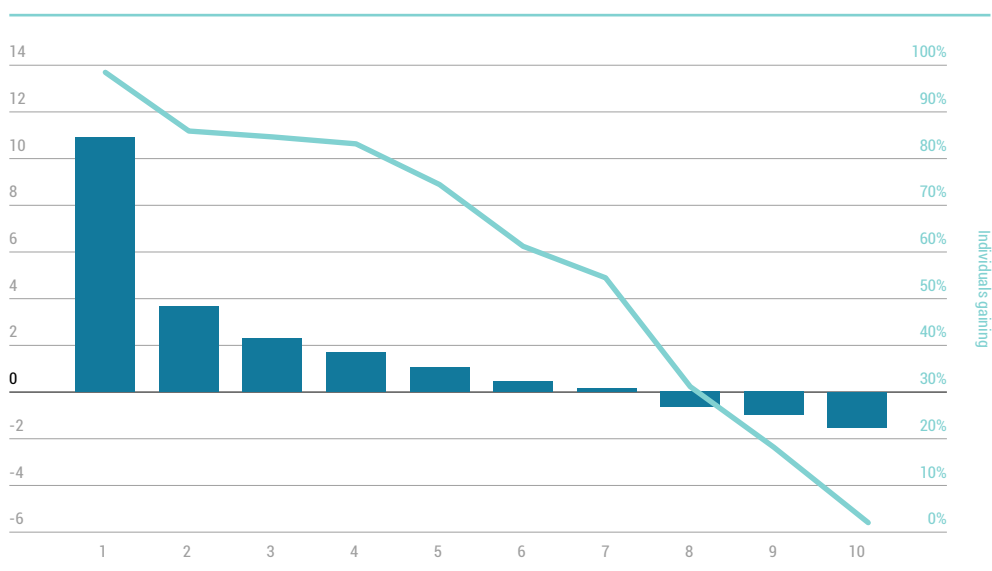
Marten and van Dender (2019) take stock of the use of revenues from different carbon pricing measures across 40 OECD and G20 economies, see also (World Bank, 2019). As in the case of health taxes mentioned above, revenues from carbon pricing are not a stable source of financing and will eventually subside once they achieve their objective of significantly reducing carbon emissions. Similar to other government revenues, those from carbon pricing are also subject to competing demands, and this may limit the scope for earmarking them for social protection. Yet, there are reasons why carbon revenues could play a significant role in financing social protection:

- » First, at commonly discussed carbon price trajectories, prospective revenues are sizeable. For instance, a recent evaluation of a moderate proposed carbon tax of EUR 60/tonne of CO<sub>2</sub> in Lithuania estimates total revenues to exceed 1% of GDP (Immervoll et al., 2023);
- » Second, although rising carbon prices will, and are designed to, narrow the tax base eventually, this is a gradual process and the negative impact on revenues can and should be compensated by increasing rates further. Escalating prices are, implicitly or explicitly, indeed part of existing national and international de-carbonisation commitments. Carbon price revenues are therefore set to decline at some point, but this is a matter of decades, not years;
- » Third, social protection has a key enabling role by cushioning adjustment costs for affected households, ensuring that adjustment costs are shared equitably, and this promoting majority support for mitigation measures during a green transition (Dechezleprêtre et al., 2022). The associated resource needs are therefore arguably temporary rather than permanent. It may thus not be a fundamental problem that revenues diminish once the transition is, in fact, successfully completed. Figure 5 provides an illustration of how government transfers financed by a carbon tax may cushion households' adjustment burdens.

A number of countries have earmarked carbon pricing revenues to social protection programmes. For instance, Austria enacted a 32.50 EUR/t carbon tax in 2022 and recycles all revenue in the form of cash payments. The system uses location-based targeting, whereby residents in regions with greater dependence on carbon-heavy activities (e.g., private transport if

public transport is comparatively difficult to access) receive more support (OECD, 2022). Switzerland introduced a carbon tax of 12 CHF/t in 2008, and has increased it in steps to 120 CHF/t in 2022, with an annual revenue of about CHF 1.2bn. Two thirds of revenues are distributed as a lump-sum transfer, in the form of reduced health insurance rates (FOEN (Swiss Federal Office for the Environment), 2023). Ireland employed a 'soft' type of earmarking on a 48.50 EUR/t carbon tax that was put in place in 2010. As part of the reform, there was a political commitment to use a share of revenues for raising social assistance benefits for households with children, and to provide retraining for workers in carbon-intensive sectors.

**Figure 5. Country example: A lump-sum transfer financed by a carbon tax can make a majority better off. Average gains and losses in Lithuania (% of household income) and individuals, by income group (deciles)**



Note: Incidence of a comprehensive EUR 60/t carbon tax in Lithuania with revenues paid to households in the form of a uniform lump-sum transfer, and accounting for households' consumption changes in response to higher prices. Source: (Immervoll et al., 2023).

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# 5. WHAT LESSONS FOR SOCIAL ASSISTANCE FROM HEALTH FINANCING?

Ceren Ozer, Danielle Elena Bloom and Mahvish Shaukat

If there is one thing that the COVID -19 pandemic has made abundantly clear, it is the critical nature of investments in health and other social priorities. The World Bank 2022 poverty and shared prosperity report highlights that in 2020 alone, the number of people living below the extreme poverty line rose by over 70 million, the largest one-year increase since global poverty monitoring began in 1990 (World Bank 2021). Further, during COVID-19, the health sector in countries around the world was strained to the limit- and received a needed injection in human and financial resources in order to meet emerging challenges. Across economies, health sector spending increased by on average between .9- 1.5 percent of GDP in 2020 (Garcia-Escribano et al 2022). However, not all countries will be able to maintain these trends. Evolving funding needs aside, many countries will face challenges to return to even pre-pandemic health financing levels - for instance, in 41 countries government spending is expected to remain lower than before COVID- 19 until 2027 (Kurowski et al. 2023). This situation will be exacerbated by other forces including impacts of global inflation and economic downturn.

For many countries, this confluence of pressures will restrict their ability to strengthen preparedness and also limit progress towards Universal Health Coverage. UHC means that all people and communities can use the promotive, preventive, curative, rehabilitative, and palliative health services they need, of sufficient quality to be effective, while also ensuring that the use of these services does not expose them to financial hardship (WHO 2010). Further, limiting investments in population health can hamper the accumulation of human capital, with small differences in the immediate term compounding into larger future gaps (World Bank 2019a). Investments in primary health care in particular can support long run savings through better health in early childhood as a foundation for improved productivity, reduced health expenditure and other social gains (Tandon et al 2021). Indeed, there

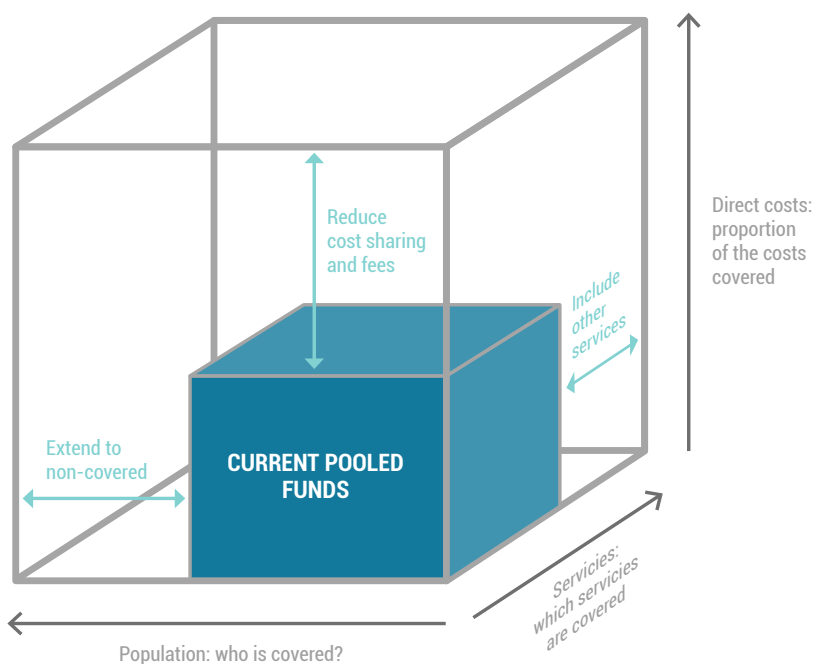
is a need to secure public resources and prioritize expenditures that contribute to human capital accumulation and utilization including for the health sector and as a way to improve health systems, population health, and over time, economic productivity and growth (World Bank 2021).

Social spending, including on health, social protection and education, plays a key role in supporting the wellbeing of populations in the immediate term and over the long run. However, despite these clear benefits, countries may face similar challenges in financing priorities such as social protection as they do in financing their health sectors and movement towards UHC. The way that the health sector has mobilized financing in order to achieve the goals of UHC can bear lessons for broader social protection efforts. To this end, the frameworks used to discuss UHC and health financing will be laid out in this brief, with a set of specific challenges explored in detail related to how financing arrangements are structured.

There are three main policy dimensions embedded in the concept of UHC, namely, who is covered, for what services, and for how much. Figure 1 presents one of the most common visuals used in health financing for depicting UHC and health financing interactions (WHO 2008). The blue square represents the current pooled funds for the health sector, while the outer dimensions of the cube present the theoretical boundaries of full coverage for the entire population in which a given scheme is operating.

**Figure 1.**  
*Dimensions  
of Universal  
Health  
Coverage*

Three dimensions  
to consider  
when moving  
towards universal  
coverage



On the x axis, "population: who is covered" indicates how many people within a given population are included in UHC schemes given available

funds, with “extension to non-covered” indicating how much is needed to include those not currently enrolled.

On the z axis, “services: which are covered?” indicates what is included in the benefits package linked to an existing scheme, with the arrow indicating the gap needed to expand services to a comprehensive package.

The y axis represents “direct costs” and the proportion of these costs that are covered by the scheme in question through prepayment or existing pooled resources, versus cost sharing or fees at point of service.

As a comparator, similar dimensions exist for social protection; examining the degree of financial protection and risk coverage, services included and the populations that are covered by a plan (see figure 2, Ulrichs and White-Kaba 2019; World Bank 2022). These similarities make the lessons around financing Universal Health Coverage all the more pertinent for broader social protection.

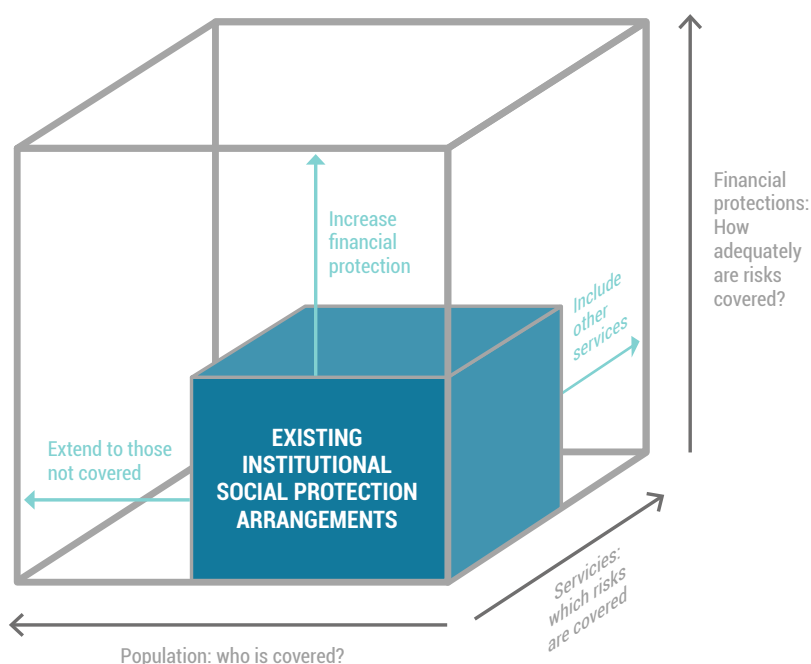
## *The role of health financing and UHC*

Health financing, or the funds available to cover the population, services, and costs related to provision of care, are at the heart of UHC- providing the necessary resources to meet UHC goals (Kutzin 2013). To this end, health financing concerns itself with primarily three dimensions: how and what financial resources are mobilized or raised; how these resources are pooled to ensure equity and efficiency objectives; and whether these resources are used strategically to purchase health services as a part of the benefits package.

Revenue raising concerns itself with the various sources of financing, including from donor, private, government and individual resources. Indeed, the concept of “space” or budgetary room that might be created to accommodate further health spending includes a number of pillars such as the macrofiscal environment, direct revenue raising efforts, improved borrowing, enhanced efficiency, or increased reliance on external resources for health (Tandon and Cashin, 2010). Social protection also concerns itself with the concept of fiscal space, or the financial resources that can be called upon to finance current programs (Ortiz et al 2019). It is also important to note that health or social sector actors may not exert direct control over a number of these pillars, and can most directly influence efficiency at the sectoral or expenditure level (for instance, improved technical or allocative efficiency), as well as support increased overall level of resources through actions such as budget advocacy. Indeed, there is a special role for public financing in UHC: in the health sector, no country has moved

towards UHC without significant reliance on domestic public revenue (Tandon et al 2021).

Figure 2.  
*Dimensions  
of Social  
Protection*



Pooling relates to how various prepaid resources are combined to ensure that the risk of paying for ill health is spread across all members of a pool, and not just borne by those individuals who fall ill- which would otherwise result in access based on affordability. Combining funds to create a pool of resources of sufficient size helps to reduce fragmentation and allow for funds to be channeled appropriately across income groups and according to population need, and not ability to pay (WHO 2010). Low levels of domestic public spending for health in LMICs lead to higher levels of out-of-pocket spending at point of care, contributing to inefficiency through fragmented pooling as well as inequitable access (Tandon et al 2010). To this end, there is a strong interaction between different financing sources and their ability to finance UHC in a way that is adequate, sustainable, efficient and equitable.

Purchasing relates to how resources are used to buy services from providers. In the health sector, estimates state that from 20-40% of all resources are wasted (WHO 2010).<sup>8</sup> Various strategies are thus put forward to improve efficiency, including the concept of strategic purchasing as a way to maximize use of resources. Strategic purchasing considers a number of

<sup>8</sup> | The top ten leading sources include high priced medicines, use of substandard medicines, inappropriate use, over-use of products and services, issues with health workforce, inappropriate hospital workforce, inappropriate hospital size, medical errors, health system leakages, or inefficient mix of interventions (see WHO 2010).

levers including payment mechanisms, provider selection and contracting mechanisms (public and/or private), determination of what services are being purchased according to a clear benefits package, and other factors as a part of improving how services are ultimately delivered (SPARC 2020).

What makes purchasing strategic is predominantly the use of information and incentives at the provider level to help maximize performance that are in alignment with the financial management architecture of a country (WHO 2018). In any given system, purchasers can use an appropriate mix of output-based payment mechanisms based on level of care and with the right incentives in order to ensure that resources are used to purchase high quality services, and reduce issues such as moral hazard. For instance, use of capitation-based mechanisms at the primary care level incentivizes providers to maximize for the number of patients that they see. In tertiary care or hospital settings, where specialized services are administered, payment mechanisms need to be designed to cover costs related to the complexity of care. To this end, key to health financing is an understanding that it is not only the level or mix of financing elements that matters, but how those sources are used to purchase services as well as other needed components such as infrastructure, medicines and supplies that will ensure a well-functioning health system. Using strategic purchasing as a lever is one way for the health sector to ensure efficient use of funding in order to conserve public resources, as well as justify additional investments.

The underlying message is that how countries finance their health systems and use resources to achieve UHC goals matters. Health financing arrangements should not determine, but can influence how health systems are structured, and in turn, help to contribute directly to meeting UHC intermediate objectives of equity, efficiency, and transparency and accountability, and ultimately support utilization relative to need, quality, and universal financial protection (Kutzin 2013).

In terms of structure, there are two typologies that have historically dominated discussions around UHC financing: Social Health Insurance (SHI) and National Health Insurance (NHI). SHI schemes have typically referred to public insurance that is funded through earmarked payroll taxes or other contribution-based prepayment mechanisms, while NHI is largely non-contributory and tax funded- when required, collecting contributions in most cases only for specialized services. However, these labels are often misnomers as many countries with earmarked payroll taxes call their schemes NHI (Cashin and Dossou 2021), and further, contributions premiums and copays alone largely don't cover the cost of health care and require significant bolstering with domestic public revenue. In reality, there are a number of different financing elements that can be combined to create a public system, including fully tax- financed care, mandatory or

voluntary contributory insurance, or a combination of different arrangements (Cashin and Dossou 2021). To this end, Universal Health Coverage should be defined broadly based on how well financing arrangements meet the needs of the entire population, instead of how well they fit into these specific categories (Kutzin 2013).

There are other related issues in health financing and social protection. No country has moved to UHC without significant reliance on domestic public revenue (Tandon et al. 2021). However, the way that systems are structured in order to depend on those public funds- implicitly or explicitly- has an impact on how well health systems function. As such a closer examination of issues that link to how systems are funded is warranted in order to understand how health financing contributes to UHC goals, an examination which can also provide lessons for broader social protection efforts. To this end three issues will be unpacked: the need for domestic public revenue as a financing source, the role of earmarking, and coverage of the poor as it relates to national insurance schemes intended to move countries towards UHC.

### *The need for domestic public revenue as the primary source of financing*

The pandemic created both opportunities and challenges for health expenditures. For instance, from 2000-2019 government spending on health became more unequal with lower income countries falling further behind. However, during the first year of the pandemic, all countries increased per capita spending on health as well as broader social protection, with low- and lower-income countries also prioritizing spending in education. Moving forward, countries will face challenges in maintaining these trends, and in some cases, will take years to reach even pre-pandemic levels. Further, public debt accumulation across all income groups will create future challenges for funding across sectors (Kurowski et al 2023).

Moving forward, domestic public funding will continue to play a critical and growing role in financing movement towards UHC, and as the most predictable, stable and efficient source of funds (Tandon et al. 2021). However, these resources will be further stretched in contexts where challenges with sufficiency and sustainability of resources that existed before the pandemic persist. For instance, in countries that were heavily donor reliant, dependency on external financing will cause sustainability issues, and including for countries facing donor transition for particular programs such as HIV/AIDs or immunization, where governments are now expected to pick up related health care costs. These trends can be exacerbated by a history

of issues such as crowding out of domestic funding and verticalization- or the siloing of approaches that deal with specific sub-topics off from the health system - which make a transition back to domestic funding in certain areas a challenge from both a financing and systems perspective (Tandon et al. 2021).

Further, in most low- and middle-income countries, OOP makes up on average 39% of total health spending, and can lead to catastrophic health expenditure- pushing millions of people annually into poverty (Tandon et al. 2021). In countries where out of pocket financing makes up a large portion of costs, domestic public resources will be asked to stretch even further in order to make up shortfalls as well as support transition towards more equitable and sustainable sources of finance.

Contribution-based health insurance mechanisms also rely significantly on domestic public revenue (Tandon et al. 2021), a trend that will likely increase over time as countries seek to supplement contributory regimes while also expanding care. Further, social health insurance funded by labor taxes can also lead to inequality and fragmentation (Yazbek et al 2020), with the contributory share often comprising a very small portion of total health spending. For instance, in an analysis of 18 LMIC countries with SHI systems in place, the proportion of health spending funded by SHI contributions ranged from 19% in Viet Nam to <1% in 80% of the countries (World Bank 2019b). Further, payroll taxes can reduce the rate of labor market formalization by raising costs of labor, and can also fluctuate with respect to both needs and contribution amounts as demographic patterns shift. Additionally, collecting contributions can often be an expensive exercise in and of itself, leading to high administrative costs and overheads (Wagstaff et al 2019). This has led some countries to transition away from contributory elements of their schemes. For instance, as Thailand struggled to collect contributions from the informal sector, they eventually extended noncontributory coverage to 75% of the population (Tandon et al 2021). To this end, health systems that are implicitly structured to rely on domestic public sources versus contributions as their primary source are inherently more sustainable.

Especially as countries move into recovery from the COVID-19 pandemic and cope with pressures of global inflation, they will look for additional resources to fund sector priorities. In this context, revenue sources such as health taxes, or excise taxes imposed on products such as tobacco, alcohol, and sugar-sweetened beverages (SSBs), are gaining purchase as a key mechanism to raise revenue through the general budget. Because excise taxes can be used to target specific goods and services, they differ from other types of indirect taxes such as VAT and GST; or import taxes. In this way, they are used to tax products that damage health and generate

negative externalities- harm to society; and negative internalities- harm to oneself. When well designed - with a focus on the right rate, structures, and base, and supported by complementary administrative measures- they constitute one of the most cost-effective ways to support their primary goal of reducing consumption of unhealthy products and saving lives, and can also be used to raise revenue- while also reducing burden on the health system (World Bank 2023a, Petit and Nagy 2016, Petit P, Mansour M, Wingender P 2021). Further, health taxes can raise revenue even in times of high inflation, when designed to include mechanisms of indexation that account for both inflation and income growth (World Bank 2023b).

### *Health sector financing and earmarking*

The role of earmarking often comes up as a way to protect resources for health sector priorities. Earmarking is the process of taking all or a portion of total revenue from a tax or group of taxes and setting it aside for a designated expenditure purpose. Earmarking can take many different forms: as an additional tax that is directed towards the expenditure priority, as a portion of an existing tax, as the sole source, or in conjunction with other sources of financing for an expenditure priority. The expenditure priority may also be broad/at the sectoral level, or targeted at a specific program or population. Finally, earmarking might be hard or soft, with soft earmarks being more flexible and aligned to standard budget processes, while with hard earmarks the amount designated to specific expenditure purposes is fixed.<sup>9</sup>

In 2017, partners at R4D and WHO conducted a study that aimed to look at the global experience with earmarking in health and as a part of the Montreux Collaborative Agenda. The motivation for this work was to try and get a more nuanced perspective about the pros and cons of earmarking to get a sense of what works, what doesn't work, and why. The work included a database and set of 6 case study countries, including Philippines, Indonesia, South Africa, Viet Nam, Estonia and Ghana. While the study found some positive examples of earmarking, it also flagged challenges with resource management, earmark design, and importantly, whether resources actually lead to a net increase in revenue for the sector over time.

At the time of writing, there were more than 80 countries applying nearly 130 different earmarking policies. These earmarks occur across more than 10 different revenue sources, such as payroll or income tax, different consumption taxes and debt relief. To this end, a total of 62 countries earmarked payroll taxes for the population or formal sector workers as a

<sup>9</sup> | World Bank Global Tax Program publication on health tax revenue use, forthcoming.

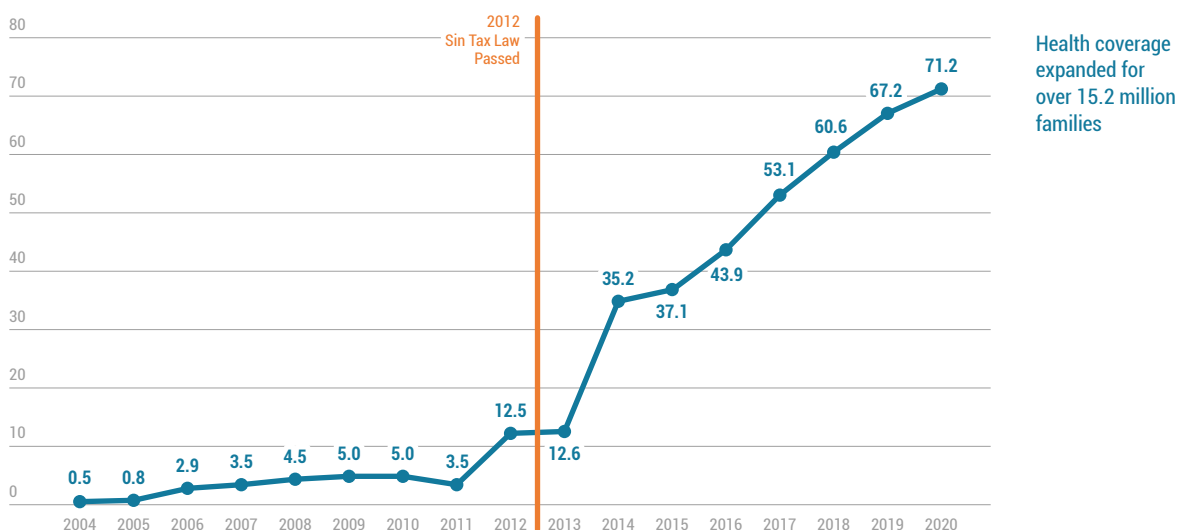
part of a public scheme. However, a number of countries faced significant challenges with sustainability of earmarked revenue from payroll taxes in particular. For instance, in Estonia payroll taxes were used to fund the Estonian Health Insurance Fund, including health and pension contributions at 13% and 20% of employee wages and self-employed earnings respectively. Collected as a part of mandatory social tax, employers contributed on behalf of employees and self-employed workers paid fixed premiums to obtain coverage. While the hard earmark provided more than 90% of resources and has helped to advance priorities, shortfalls occurred for the first time in 2016 and needed to be covered by reserves as there was no ability to increase the contribution rate. To this end, the government began looking to expand the contribution base (Cashin et al 2017). Indeed, today many high-income countries are also looking to expand their funding sources away from social health insurance earmarks (for example, France), especially as populations age and labor markets contract (Yazbek et al 2020). For low and lower middle-income countries with different structural and economic constraints, including a high degree of informalization, further challenges ensue in terms of sustainability and sufficiency of revenue.

Two other examples of earmarking for health insurance that do not focus explicitly on earmarked payroll taxes include Philippines and Ghana. With Ghana, while earmarks established to fund National Health Insurance were agreeably instrumental in establishing the scheme, there remain significant issues with additionality and efficiency. Established in 2003, Ghana NHIS was funded initially by a hard 2.5 percentage point earmark on each of VAT and Social security- however overall revenue to the health sector- both per capita and as a share of GDP- returned to pre-earmark levels over time. Additionally, while the earmarked funds provide on average 91 percent of NHIS's funding and 26 percent of resources for public programs in the health sector, Ghana's NHIS continues to face financial sustainability challenges including increasing costs of medical claims due to rising population coverage of the scheme and utilization of health services, delays in the release of funds and inadequate expenditure controls leading to reduced efficiency. As such, the NHIS began experiencing financing deficits in 2009, utilizing investment income to finance the gap.

In the Philippines a soft earmark for health introduced as a part of the 2021 Sin tax reform included revenue from tobacco alcohol, and eventually SSBs as well as lotteries. Over time, the earmarks have provided significant resources for the health sector, tripling revenue for health over five years (2013-2018), decreasing smoking prevalence, and expanding coverage by paying for health insurance premiums for the poor by using a national poverty targeting system to select beneficiaries. In this way, the government has expanded coverage to over 15.2 million families (see figure 3) (Ozer et al 2020). However, the way that earmarked resources in the Philippines are

monitored, reported and managed contribute significantly to the success of the reform efforts, and it cannot be taken for granted that these capacities will be present in all contexts.<sup>10</sup>

Figure 3. *Health coverage expansion in Philippines post 2012*



Indeed, there is still a lot to learn about the structure of these policies, what elements contribute to success or failure, or what success or failure might mean in a particular context. To this end, the discussion on earmarking has expanded around the topic of health taxes. Health taxes are important in and of themselves- they are a powerful tool to reduce consumption of harmful products and can reduce costs that governments and individuals (i.e. via out of pocket payments) bear due to NCDs (Tandon et al 2021). However, health taxes are an underleveraged revenue-raising resource that can be used to support fiscal recovery and strengthen the general budget. In the current global context, health taxes are also being explored to simultaneously support targeted revenue use for specific sectors, programs or populations and as a way to meet particular policy objectives, including to supplement resources for social health insurance. Current research aimed to look specifically at health tax revenue use finds approximately 75 country examples where health earmarks are or have been in place for tobacco, alcohol and SSBs, and represent a total of more than 100 different revenue earmarks on health taxes alone.<sup>11</sup> However, preliminary evidence looking more deeply at country experience in this area finds that a host of implementation challenges limit the effective management

<sup>10</sup> | World Bank Global Tax Program publication on health tax revenue use, forthcoming

<sup>11</sup> | World Bank Global Tax Program publication on health tax revenue use, forthcoming

of these earmarks, including the existing macrofiscal context and public financial management capacities. Further, the research has uncovered examples where revenue to target programs or populations increased in conjunction with a health tax reform, but outside of the context of earmarking. This finding opens two new categories of reform for consideration: complementary policy commitments which are taken by the target recipient at the time of health tax reform, but are not directly funded by the new revenue source, as well as direct commitments that are again not legislated as an earmark, but can be tracked against a specific commitment via regular budget channels.<sup>12</sup> Research forthcoming in 2023 will unpack these issues further, and examine factors in the existing macrofiscal and systems context that are critical for countries to consider.

### *Funding coverage for poor populations*

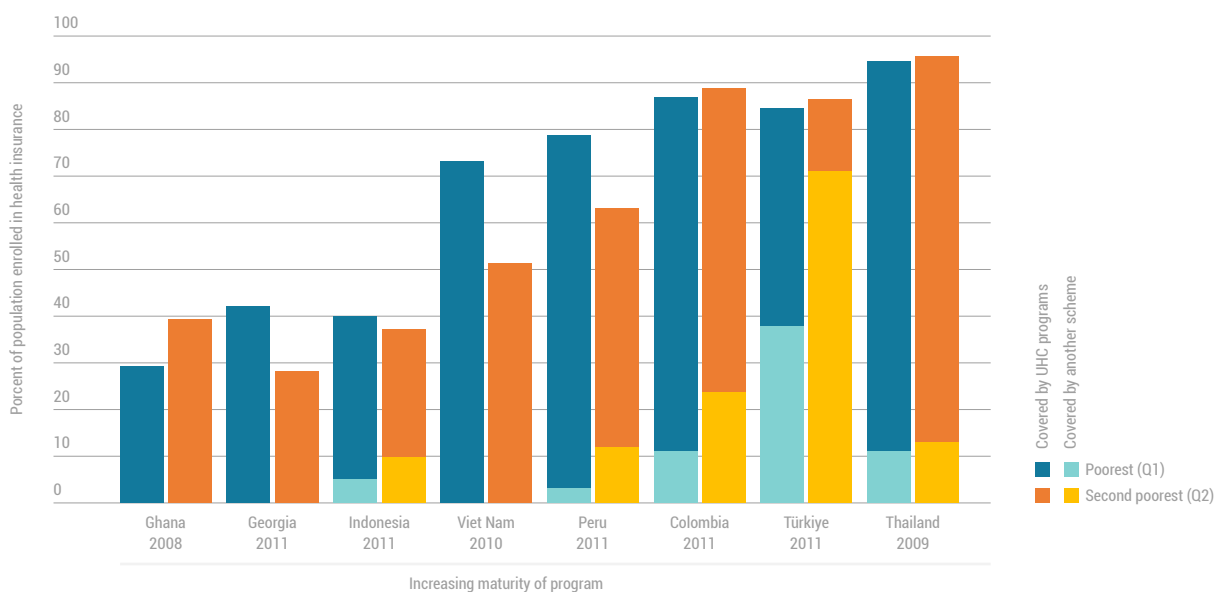
There is also a need to focus on the link between how health care is financed and how these policies are used to extend coverage to poor and vulnerable populations. Countries' journeys towards UHC don't always follow the same pathway. For instance, some may start first by using public financing to make coverage available to the whole population- but prioritizing those interventions that target the poor, such as those that tackle NCDs and injuries- while others may provide a larger package to the whole population, but with a variety of payment mechanisms including copayment that exempts the poorest populations (Jamison et al 2013).

A review of 26 countries' experiences with expanding coverage to poor populations included a distillation of the various pathways that can be used to achieve movement towards UHC, with an explicit focus on expanding coverage on the poor. Coverage included broad programs or those targeted at add-on packages of specific services (maternal health; HIV), and thus ranged from coverage of 3-90% of the total population, depending on the intent and targets of the program. These could be grouped into two general approaches. The first included supply side programs, which invested in expansion of capacity of service provision amongst services typically used by the poor, including primary health care. The second included demand side programs that attached resource to identified poor and vulnerable and specific services that they use, and could either be embedded in, or autonomous from SHI. Across all models, however, there was variation in the degree of success in enrolling the poor and the vulnerable, with the most significant predictor of coverage being the maturity of the program, or

<sup>12</sup> | World Bank Global Tax Program publication on health tax revenue use, forthcoming

the number of years since the program was established from the time that recent household surveys were conducted (figure 4) (Cotlear et al 2017).

Figure 4. *Enrolment of poor by maturity of UHC schemes*

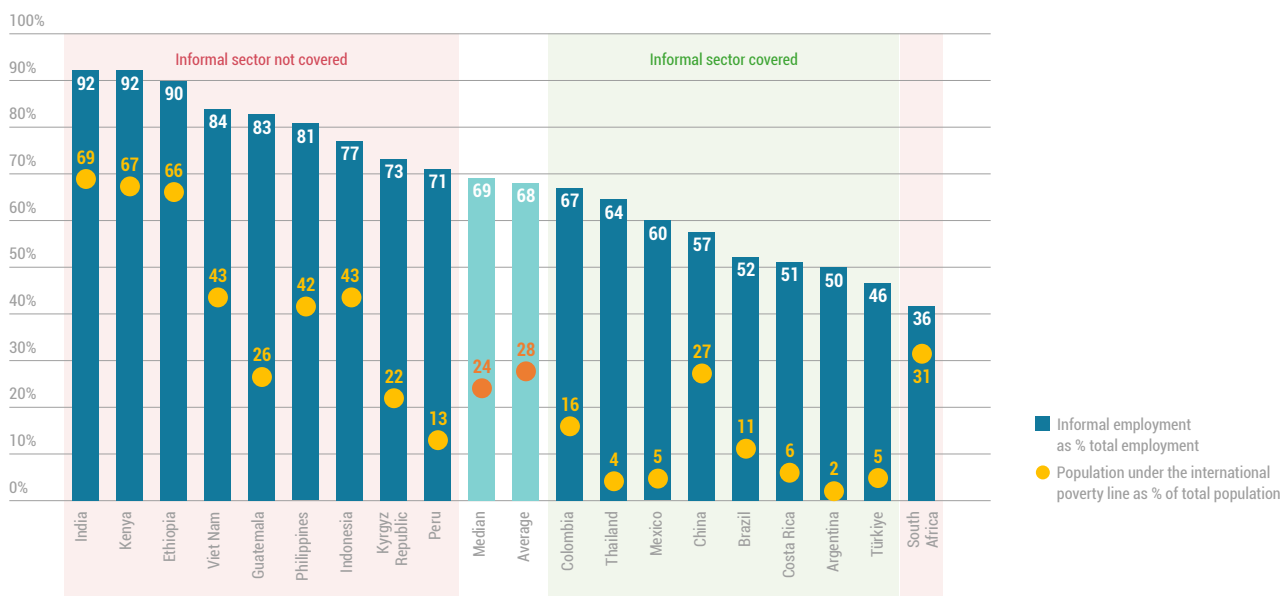


Other studies point to additional lessons for how to improve enrollment of the poor including universal eligibility, removing the voluntary nature of schemes or tailoring enrollment processes to the needs of members, as well as improving knowledge of entitlements, reducing geographic barriers and reducing copayments (Watson et al 2021).

Beyond this, while programs with explicit targeting may help to improve equity and access for the poor, they may also fail to address the issue of a “missing middle”, for instance, population groups that are, or have been, engaged in informal sector work, and are not poor enough to benefit from state subsidized contributions to insurance premiums (Mahal et al 2024). This can be especially true in counties with high levels of informality, high poverty rates, and low government revenue. Figure 5 (Cotlear et al 2017) shows the number of countries that have the informal sector covered based on the size of the informal sector and population under the international poverty line.

However, these challenges can be exacerbated where there is voluntary enrolment, leading to high proportions of uncovered individuals, and again pointing to the benefits of tax financed non-contributory regimes. For instance, in Colombia, failure to collect contributions from both formal and informal sector workers led to a loss to the scheme of 2.75% of GDP in forgone revenue; In Mexico only 8% of those in the richest income quintile

Figure 5. Share of Informal Employment and of Poor Population



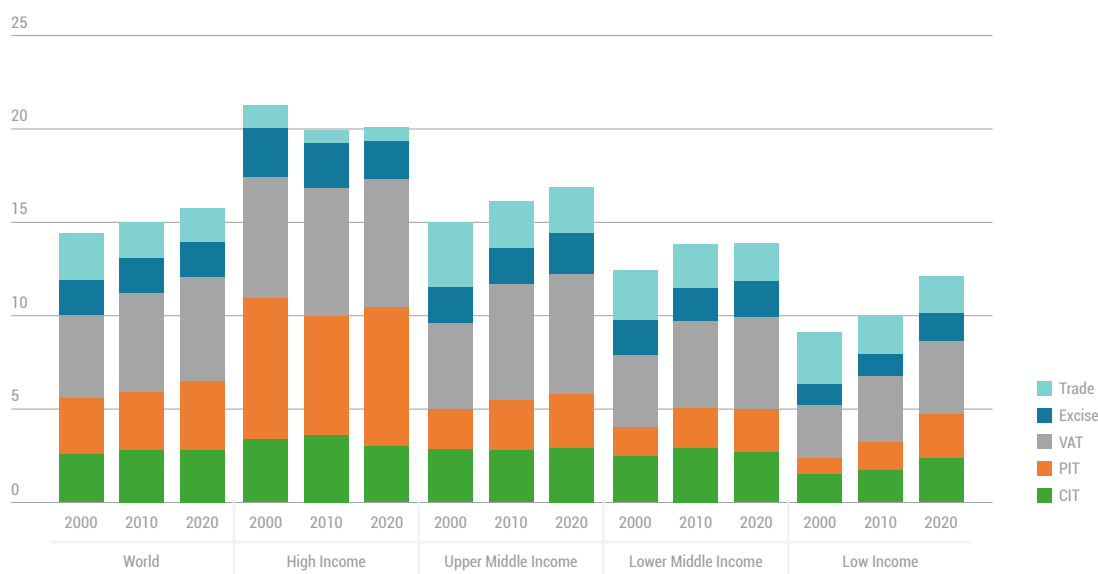
contributed, and less than half of what they were supposed to (Wagstaff 2010). Moving towards mandatory, non-contributory insurance is one of the best ways to cover this segment of the population. For instance, Thailand originally targeted public subsidies to the poor by setting up a Targeting Registry (TR) and charging the non-poor informal sector to participate in UHC programs. However, this approach was abandoned and instead subsidies were extended to all informal populations using the TR to perform outreach, but not as a way to identify beneficiaries (Cotlear et al 2017).

While the NHI and SHI dichotomy is still present in the literature and nomenclature used by countries to describe health financing schemes, global acceptance is growing of the fact that contributory health insurance schemes are inefficient and tend to exclude the poorest and most vulnerable populations (Yazbeck et al 2023). For instance, more recent research in SSA has shown that of eight countries implementing a mix of mandatory and voluntary contribution based insurance schemes, only three (Gabon, Ghana and Rwanda) have been able to cover a significant share of the population, but not without challenges. Further, these countries do not perform better than others on UHC indicators including resources mobilization, service coverage or financial protection (Cashin and Dossou 2021). Additionally, a study of health insurance schemes in SSA found that only four out of 36 countries examined had coverage above 20% (Gabon, Ghana and Rwanda, as well as Burundi), and which all included substantial tax funding (Barasa et al 2021).

## VAT and health financing: insights for social assistance

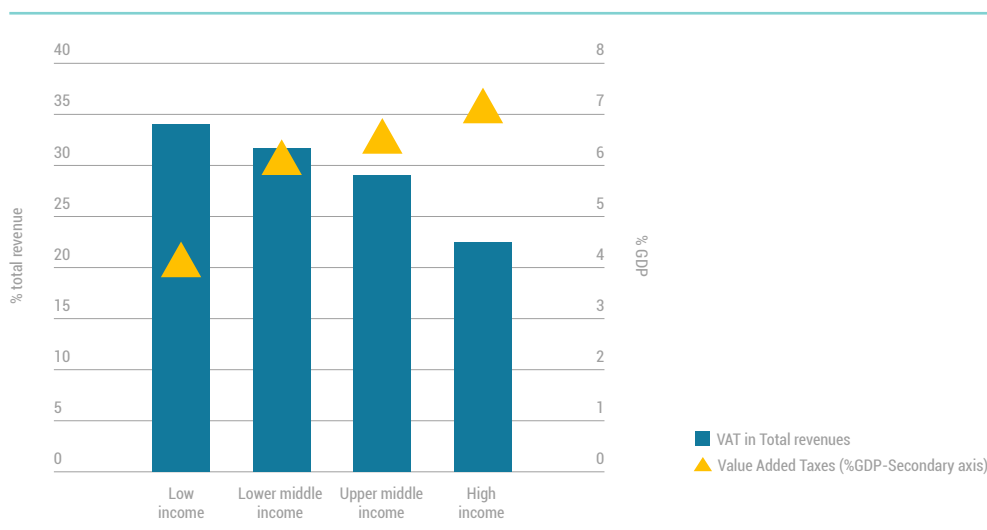
The value-added tax (VAT) is a significant source of revenue in most countries around the world (Brockmeyer et al. 2024). Figure 6 presents a decomposition of tax as percent of GDP by tax type across country income groups. Although the introduction of VAT is rather new—VAT regimes were introduced in Europe in the 1960s and 1970s, and during the 1980s and after for most others—VAT is implemented in over 170 countries today and accounts for about one-third of total tax revenues (IMF 2020). On average, low-income countries collect 35% of their total tax revenues through VAT (Figure 7-left axis), which translates to about 4 percent of GDP (Figure 7-right axis). By comparison, high-income countries collect about 22% of their total tax revenues through VAT (Figure 4-left axis).

Figure 6. Tax collection as percent of GDP by tax types and by country income classification



The VAT is appealing because it can be production and revenue efficient. The VAT seeks to tax the value added at each stage of a product's production chain, where *value added* is defined as the difference between the value of a firm's output and that of its intermediate non-labor inputs (Brockmeyer et al. 2024). In the standard VAT regime, firms offset the VAT they have been charged on their purchases ("input VAT") against the liability ("output VAT") on their sales, remitting only the net amount due (Crawford et al. 2010). In the textbook version of the VAT where the tax is levied in this way on all transactions in the production chain, no net revenue is collected from the taxation of intermediate goods and the ultimate base of the tax is final consumption (Crawford et al. 2010). This textbook version of the VAT does not distort firms' production decisions, and is therefore

Figure 7. VAT's contribution to Revenue



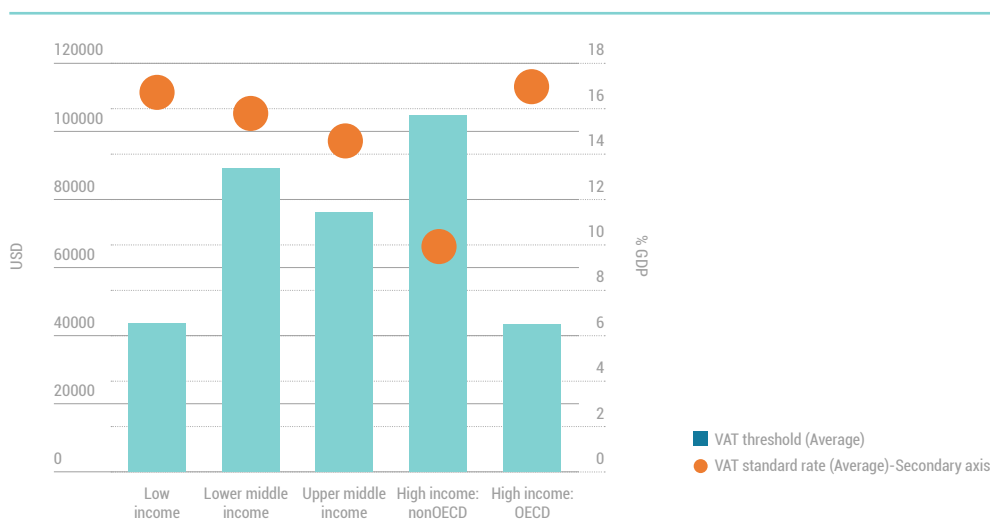
Source: GFS dataset

production efficient. Because the VAT also generates a paper trail on firm transactions as sellers and buyers report transactions to the government, it is also more robust to evasion than other indirect taxes and therefore revenue efficient.

Real-world applications of the VAT often deviate from the textbook model, which may create inefficiencies and revenue losses. For example, the VAT is designed to be broad-based, including all or most firms in the economy to facilitate enforcement and revenue collection (Brockmeyer et al. 2024). In practice, however, VAT regimes have a minimum size threshold below which firms are not required to register in the VAT system. This threshold is implemented because the compliance and administrative costs of levying the tax on small firms are thought to be greater than the production inefficiency and revenue losses that occur when exempting these firms (Brockmeyer et al. 2024, Thomas 2024). Figure 8 (left axis) shows how the average VAT threshold varies across country income groups. In another deviation from the textbook model, many countries offer reduced rates or exemptions for certain goods and services to achieve distributional goals (Thomas 2024). Figure 5 (orange diamonds corresponding to right axis) shows the standard VAT rate is around 17 percent across country income groups, but this masks the reduced rate for certain goods and services in many countries, as shown in Figure 9.

VAT implementation is particularly challenging in LMICs and LICs due to their economic structures. Large informal sectors and the prevalence of small-scale firms narrow the tax base and increase administrative costs. The administrative cost of managing a VAT can be up to three times larger in LICs compared to high-income countries (Crandall et al. 2021). Limited administrative capacity may slow VAT refunds, which a firm is entitled

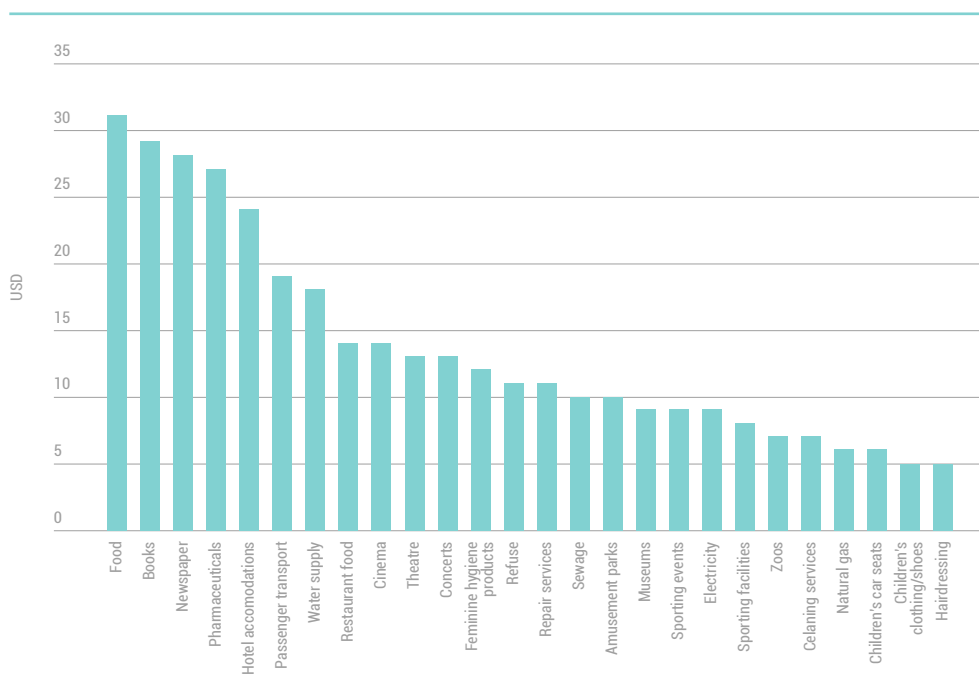
Figure 8. VAT Threshold by income groups



Note: Outlier thresholds—Chad, Singapore, Liberia, and Congo Rep.—are excluded in order not to skew the income group averages.

Source: GFS dataset; IMF VAT rates and threshold data; WB staff analysis

Figure 9. Common reduced VAT rates in OECD countries, 2022



Source: Thomas (2024)

to when input credits exceed the VAT paid on output, constraining firm liquidity (Brockmeyer et al. 2024). Compliance costs for firms may also be higher in LMICs due to lack of knowledge and capacity constraints (Tourek 2022). In this context, unlike the textbook model, a VAT may create economic distortions: for example, Gadenne et al. (2019) find the VAT encourages segmentation of firms into formal and informal production networks in India. Despite these shortcomings, the VAT may still be preferable to alternatives such as turnover or retail sales tax (Brockmeyer et al. 2024).

As with other consumption taxes, a key concern about the VAT is its potential regressivity given poorer households consume most of their income. Empirical work using fiscal incidence analysis generally find indirect taxes (mainly VAT) to be neutral or slightly regressive with respect to income. World Bank 2022; Thomas 2022 presents an alternative approach measuring VAT burdens with respect to expenditure and finds the VAT to be proportional or even slightly progressive. An analysis of 94 economies finds the share of total tax paid by households is similar across the income distribution: the richest households pay 30-40 percent of all indirect taxes, while the bottom half of the distribution pays 20-25 percent (World Bank 2022). However, poorer households pay at least as high a share of their income in indirect taxes as richer households, indicating indirect taxes are either neutral (mainly in LMICs and LICs) or regressive (mainly in HICs).

VAT tax expenditures in the form of reduced rates and exemptions for certain goods and services are often introduced with the goal to reduce the regressivity of the VAT in LMICs and LICs. VAT tax expenditures are the main form of tax expenditure in LMICs and LICs. In 2020, VAT tax expenditures comprised approximately 1.3 percent of GDP in low- and middle-income countries compared to 0.8 percent of GDP in high-income countries (Benitez et al. 2023). Furthermore, the goods and services preferred under VAT regimes - often foods and staples - typically make up a larger share of household consumption baskets in lower income countries (USDA 2023).

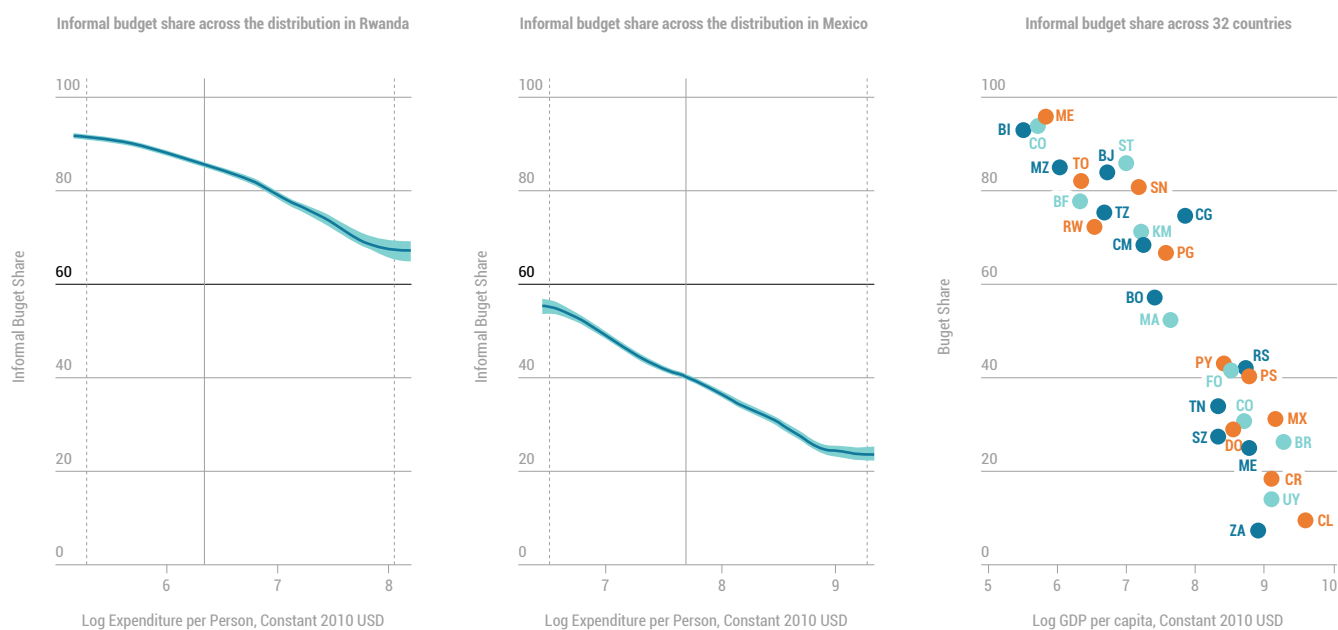
Though VAT tax expenditures are often introduced to reduce tax burdens on poorer households, they are inefficient for several reasons. First, preferential treatment for certain goods and services narrows the tax base and reduces total revenue collection. In LICs, VAT revenue yield as a percent of GDP is about 2 percentage points lower than in high-income countries due to a combination of exemptions, reduced rates, and administration gaps (Benitez et al. 2023).<sup>13</sup> Second, preferential treatment creates production inefficiencies by distorting firms' input choices as well as consumers' final consumption choices (Brockmeyer et al. 2024). Third, multiple tax rates increase the complexity of the VAT system, increasing administrative and compliance costs, and potentially creating opportunities for tax avoidance and evasion (Brockmeyer et al. 2024, Thomas 2024, Fisman and Wei 2004).

VAT tax expenditures are also largely ineffective in achieving distributional goals. First, because richer households spend more on preferred goods and services in absolute terms, they obtain a larger implicit subsidy from reduced rates and exemptions (Warwick et al. 2022). Second, as shown in

<sup>13</sup> | A recent IMF working paper finds that tax policy reforms, combined with tax capacity improvements, can increase tax-to-GDP ratio in LMICs as much as 9 percent of GDP (Benitez et al. 2023).

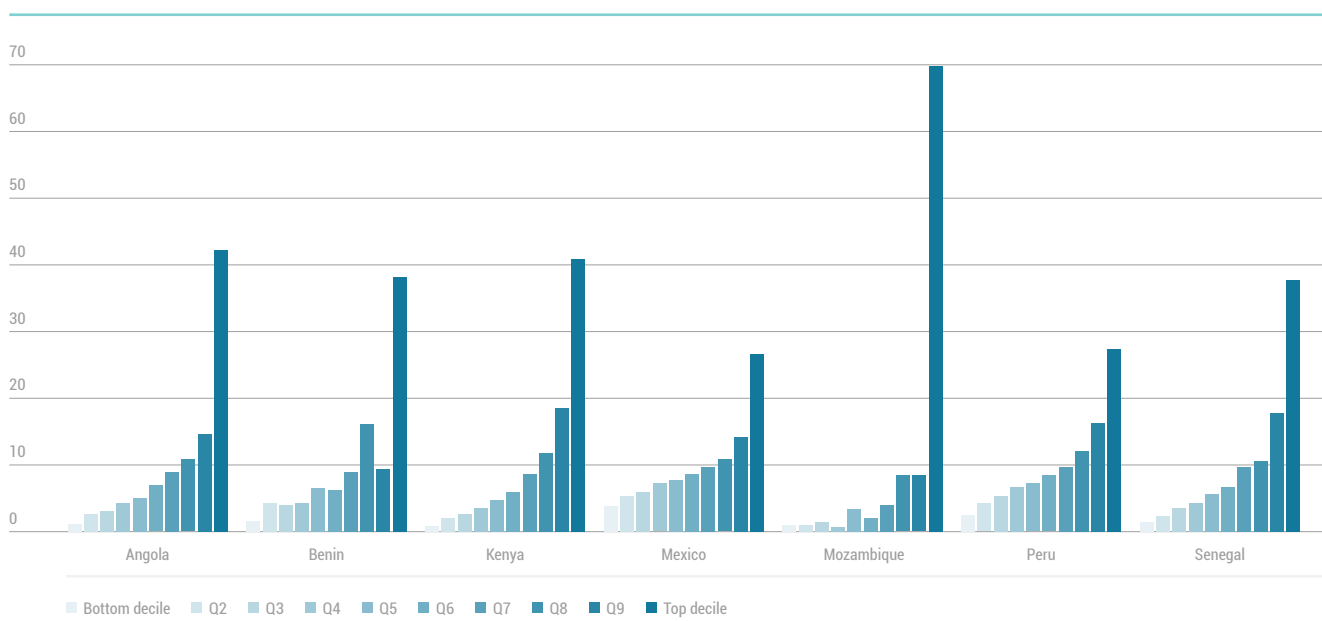
Figure 10, poorer households both within and across countries are more likely to purchase goods from informal sellers outside of the VAT system (Bachas et al. 2023). This implies poorer households face a lower effective VAT rate than richer households, but it also implies poorer households benefit less from VAT tax expenditures designed to reduce the burden of indirect taxes (World Bank 2022).<sup>14</sup> Instead, VAT tax expenditures disproportionately benefit richer households. Third, there may be imperfect pass-through of reduced rates and exemptions to retail prices. In a study of a temporary VAT cut in Argentina, Benzarti et al. (2024) find evidence for asymmetric pass-through: prices decrease too little in response to VAT cuts, and too much after these cuts are repealed. Poor households suffer disproportionately as they are more likely to shop at stores where pass-through is more asymmetric. Finally, smaller firms face higher effective VAT rates than larger firms likely because they do not claim exemptions or reduced rates as often as larger firms. This may be due to smaller firms' lack of knowledge of preferential VAT rates or high compliance costs. Together, the evidence on who benefits from reduced rates and exemptions *in practice* undermines the rationale for VAT tax expenditures as an effective policy tool to protect poorer households (Brockmeyer et al 2024). This is summarized in Figure 11 which uses country-level microsimulation models to show most VAT tax expenditures benefit the top deciles of the income distribution in various countries (Inchauste et al 2025).

Figure 10. *Informal budget share*



Source: Bachas, 2023

<sup>14</sup> Accounting for informality can change assessments of the VAT's regressivity. Bachas et al. 2020 show under certain assumptions, accounting for informality implies indirect taxation *reduces* inequality slightly.

Figure 11. *Share of VAT exemptions and reduced rates, by decile*

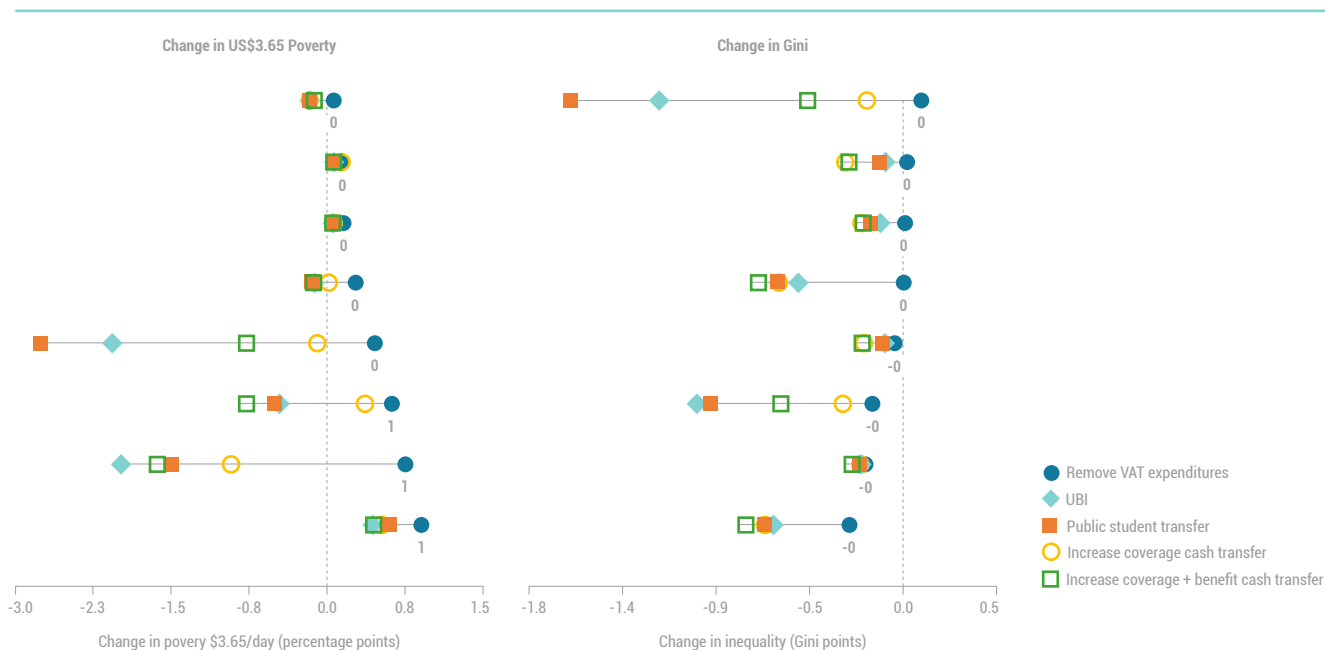
Source: (Inchauste et al 2025)

VAT reforms eliminating exemptions and reduced rates can generate a significant increase in tax-to-GDP ratios *and* reduce poverty and inequality when coupled with better targeted programs such as cash transfers financed by the increase in revenue. Warwick et al. (2022) use tax-benefit microsimulation models to compare the effectiveness of VAT tax expenditures to cash transfers in achieving distributional goals in six LMICs. The authors find existing cash transfer programs better target poorer households than reduced VAT rates and exemptions. Cash transfer programs are not perfect: existing programs often have limited coverage due to eligibility requirements, suggesting the need for program reforms to ensure widespread compensation for VAT base-broadening reforms. The authors also find a hypothetical universal benefit financed by a broader VAT tax base would create large net gains for the poorest households, reducing inequality and most measures of extreme poverty in each of the six countries. These results are supported by earlier work: For example, Crawford et al. (2010) argue preferential VAT rates in the UK should be eliminated given the availability of better redistributive instruments such as means-tested transfer programs. Van Oort (2018) finds poorer households would benefit from the removal of reduced VAT rates in South Africa if the revenue was used to extend existing cash transfers using simulations.

In recent work, Inchauste et al (2025) find that removing VAT tax expenditures on all non-food items and allocating half of the subsequent fiscal savings to social assistance programs would reduce poverty and inequality in a variety of countries. The authors use fiscal microsimulation models developed by the World Bank to estimate changes in poverty and

inequality in the following scenarios: i) removal of VAT expenditures on all non-food products; ii) removal of VAT expenditures with a universal basic income transfer; iii) removal of VAT expenditures on all non-food products with a cash transfer directed to primary and secondary students in public schools; iv) removal of VAT expenditures on all non-food products with an increase in the coverage of the main cash transfer program; and v) removal of VAT expenditures on all non-food products with an increase in the generosity and coverage of the main cash transfer program. The results, presented in Figure 12, suggest removing VAT expenditures without a complementary policy to protect poorer households would increase poverty (Figure 12a) and leave inequality largely unchanged (Figure 12b). Introducing complementary policies financed by fiscal savings from the VAT reform could reduce poverty in some cases (Figure 12a), and significantly reduce inequality in most cases (Figure 12b). This result holds allowing for VAT exemptions for food items to remain in place.

Figure 12.



Source: World Bank simulations based on country-level microsimulation models.

The call for VAT reforms is in line with broader World Bank recommendations to address poverty and inequality through direct transfers rather than indirect subsidies. Indirect subsidies, including those for energy and agriculture, can be regressive, distortionary, difficult-to-remove, and not well-suited for their intended purposes (World Bank 2022, World Bank 2023). In contrast, well-targeted direct transfers benefit mostly poorer households, and are typically less costly and less distortionary (World Bank 2022, World Bank 2023).

New digital technologies provide additional opportunities to achieve the advantages of a broad-based, single-rate VAT while protecting poorer households. A “personalized VAT” refers to a VAT system that includes transfers targeted to the poorest declines of the population to compensate for taxes paid (Barreix et al. 2022). These transfers, or VAT cashbacks, have become possible due to advances in digital technology that allow for electronic tracking and matching of invoices (in some countries, this is done in real-time) combined with administrative records of low-income households often collected through social assistance program. VAT cashbacks may be more effective than cash transfers in settings where capacity constraints limit effective targeting of cash transfers (Swistak and de la Feria 2024). They may also be more feasible in settings where political economy considerations prevent the removal of VAT tax expenditures even when coupled with cash transfers (Swistak and de la Feria 2024). Whether VAT cashbacks are more effective in practice - and in what contexts - is an important question for future research. The World Bank is leading some of this work: for example, a team will be evaluating a recent targeted VAT rebate for low-income families in the state of Rio Grande do Sul, Brazil. The program is a model for a potential national-level VAT cashback.<sup>15</sup>

## *Conclusion*

Lessons learned from financing countries movement towards UHC can provide input to the discourse on social protection. Health financing is central to supporting movement towards Universal Health Coverage, and the frameworks that social protection, UHC, and health financing scholars use to define the bounds of these approaches are complementary. On the health financing side, the legacy of how systems structured can have implications for equity, coverage, and sustainability of funding and must be considered as the starting point for reforms. While earmarking has been used in context specific settings, the success of these efforts is often dependent on the macrofiscal context- how frequently earmarking is used in a particular country as a regular modality- as well as the public financial management capacities in place. Issues with earmarked payroll taxes in particular can be exacerbated in low and lower middle income country settings due to high degrees of labor market informality. There is no one pathway towards UHC: however, moving towards systems that are predominantly funded by domestic public resources, and financed through regular budget channels, have the greatest potential to support UHC goals.

<sup>15</sup> | See <https://blogs.iadb.org/gestion-fiscal/es/iva-personalizado-experiencia-latinoamericana-y-su-importancia-para-las-administraciones-tributarias/> (IADB 2021) for a discussion of how 5 countries in Latin America have implemented a personalized VAT system in recent years.

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# 6. A ‘RISK DEAL’: THE MISSING ELEMENT FOR CONNECTING MONEY-IN AND MONEY-OUT

Zahrah Nesbitt-Ahmed, Daniel J Clarke, Lydia Poole and Theodore Talbot

## *Introduction*

Globally, the impact of disasters is on an upward trajectory, with the frequency and severity of climate-related disasters increasing (IPCC 2022). The UN's General Assembly midterm review of the implementation of the Sendai Framework for Disaster Risk Reduction (2015–2030) notes that in the past 20 years the frequency of climate-related disasters has almost doubled, with the proportion of people affected by disasters having increased from 1.1% over the period 2005–2014 to 2.0% over 2012–2021.<sup>16</sup> The average annual number of disaster-affected people during the period 2015–2021 was 150 million people per year (UNGA 2023). The compounding and protracted nature of disasters presents a critical development challenge, particularly for low- and middle-income countries, undermining efforts to reduce poverty, and further deepening existing inequalities and vulnerability (Hallegatte et al. 2020). In this context, where disasters are anticipated to increase, a growing number of governments and international agencies are finding new ways to respond more efficiently and effectively to shocks. This includes leveraging national social protection systems (Scott 2022) – and particularly social assistance in the form of cash transfers, which has expanded considerably in low- and middle-income countries in the past few decades.

Increasingly, it is theorised that social protection systems – when adapted – can be used to strengthen shock response in the wake of disasters, including climate shocks (Anderson 2021; Costella et al. 2021; Tenzing 2020; Ulrichs et al. 2019), and in addressing gender- and age-related risks and vulnerabilities to climate stresses and shocks (Jordan et al. 2021; Lowe et al. 2019;

<sup>16</sup> | Part of this increase is due to improvements in government reporting on disasters.

Nesbitt-Ahmed 2023; Perezniето and Holmes 2020). Governments in low- and middle-income countries, such as Kenya and Malawi, are working with development partners to include shock-responsive elements in their social protection programmes (Lung 2022). UN agencies including the World Food Programme, Food and Agriculture Organization and United Nations Children's Fund are also working with governments to deliver shock-responsive and or adaptive social protection programming in both their development and their humanitarian operations (FAO 2022; UNICEF 2019; WFP 2022).

It is important to place these positive shifts, in perspective, and to qualify that in many low- and middle-income countries affected by disasters overall levels of finance for shock-responsive social protection are low (Longhurst et al. 2021).<sup>17</sup> Moreover, financing shock-responsive social protection in low- and middle-income countries is often a mosaic of funding from a mix of sectoral sources and actors, including domestic and donor funds, with low-income countries relying heavily on donor funds (McCord et al. 2021).

Crisis financing, in low and middle-income countries has historically been reactive. Governments often rely heavily on ex-post financing, including budget reallocations. This can have significant opportunity costs, impacting economic growth and recovery (Allan and Bayley 2023).<sup>18</sup> Crisis financing from international donors has also historically been highly reactive (Poole et al. 2020). This is starting to change, however, and the feasibility and acceptance of arranging financing in advance of shocks is building.

International development financing for pre-arranged financing (PAF) grew steadily over the five-year period 2017–2021, from US\$177.2 million in 2017 to US\$1.9 billion in 2021 (Plichta and Poole 2023). Overall, this represents a small proportion of international development financing for preventing, preparing for and responding to crises, at just 2.7% of total crisis financing flows in 2021 and 2.2% of crisis financing across the five-year period 2017–2021 (ibid.). However, while the baseline remains low, international policy dialogue is increasingly concerned with ensuring predictable financing for shocks. Most notably, at the United Nations Framework Convention on Climate Change Conference of the Parties meeting in Egypt in November 2022 (COP27), PAF was elevated to a key focus of international

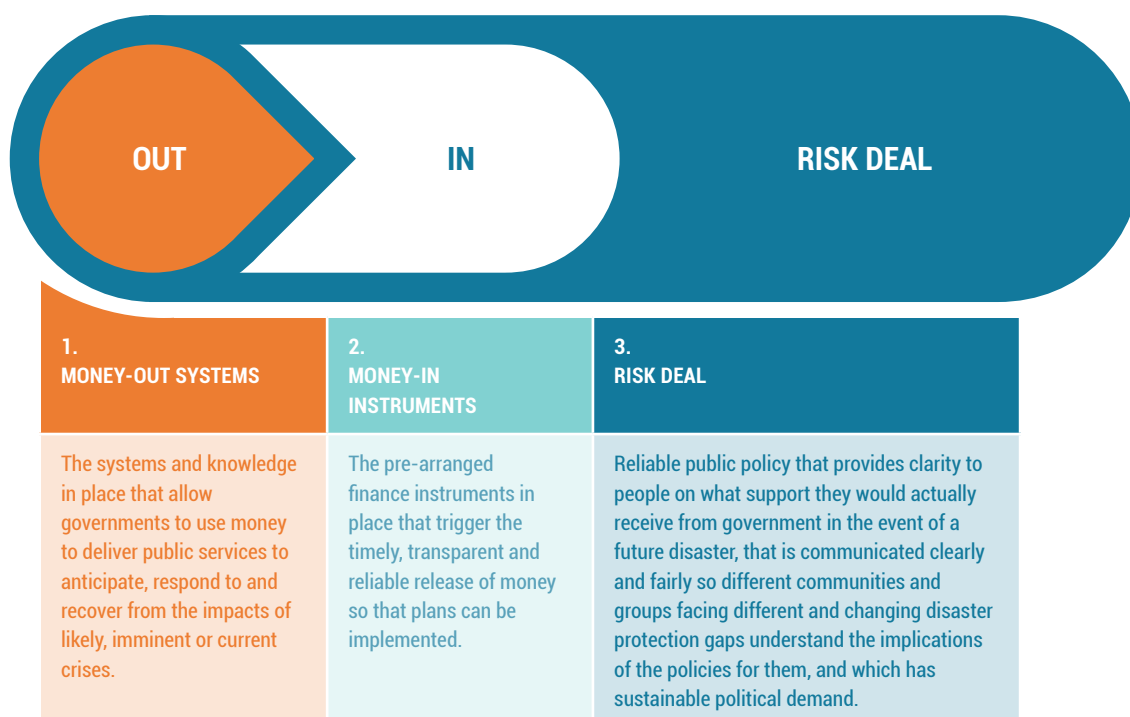
<sup>17</sup> | In 2019, prior to the covid-19 pandemic, a little over 1 per cent (or US\$2.4 billion) of total overseas development assistance (ODA) – estimated at US\$180 billion – was for routine social protection provision. It is unclear how much of that was for shock-responsive social protection as it is currently not possible to estimate the proportion of development or humanitarian ODA allocated to shock-responsive social protection due to limitations in the granularity of the data collected by the Organisation for Economic Co-operation and Development (Longhurst et al. 2021).

<sup>18</sup> | Research commissioned by the Centre for Disaster Protection into the opportunity costs of budget reallocations to finance responses to covid-19 in Ethiopia, Pakistan, South Africa and Albania found that 'the impact of budget reallocations, in terms of opportunity cost of returns forgone from diverted funds, was significant. For covid-19, in the countries studied and for the time periods analysed, this cost is estimated to have been of the order of 0.5–2 % of GDP[...] Moreover, the opportunity cost multiple for budget reallocations is estimated to be in the region of 1.2–1.6, meaning each dollar mobilised incurs an opportunity cost of between US\$1.20 and US\$1.60' (Allan and Bayley 2023).

climate policy with the formal launch of the G7- and V20-backed Global Shield against Climate Risks, and the landmark agreement among the Parties to establish a fund to respond to Loss and Damage.

There is growing innovation, investment and interest, therefore, in both 'money-in' and 'money-out' elements of effective disaster response, yet neither is yet reliably effective in its own right and they typically do not work in concert. The missing link bringing these two elements together is a 'risk deal' that acts to both clarify and shift the social contract to better protect at-risk people and help strengthen their resilience, and provides incentives for risk reduction and preparedness (see Figure 1). Risk deals are born out of political commitments, but they become durable through the delivery of reliable public policy and action. The three elements are mutually reinforcing and depend on one another for their success.

Figure 1. *Getting disaster risk financing right*



Approaches to realising effective shock responsive social protection are described in detail elsewhere in this volume. Therefore, this chapter focusses on the 'risk deal', the settlement between governments and their citizens clarifying what it is reasonable to expect when disasters happen, and the 'money-in' element, with a particular focus on the potential for arranging financing for disaster response in advance.

This chapter argues that, done well, disaster risk financing (DRF) can contribute to political risk deals, providing clarity to people on what support they would receive from government in the event of a disaster - both in terms of maintained and expanded public services - and clarity across line ministries over what responses they need to prepare to deliver, enabling all stakeholders to better understand risk and plan their options for when it happens. DRF is therefore not only a technical mechanism for financing disaster response, but can be part of a systemic shift. Specifically, it can facilitate a move away from political leaders treating (and being rewarded for treating) disasters like surprises, towards public policy with clear communication that people facing risk can better rely on, that can be improved upon incrementally over time, creating power for people facing risk, and which is intentional in its links to broader public policy.

### Box 1. *Glossary of key terms*

**Disaster Risk Financing (DRF)** - financing that promotes and specifically targets a specific disaster risk, arranged before a potential shock. This can include paying to prevent and reduce the risk, as well as paying to prepare for and respond to a shock.

**Pre-Arranged Finance (PAF)** - financing that has been approved in advance and that is guaranteed to be released to a specific recipient when a specific pre-identified trigger condition is met. The trigger may be based on objective data or models related to impact, forecasts, or projections of need, or on subjective policy decisions by the recipient.

The Centre for Disaster Protection defines disaster risk finance (DRF) as financing for all disaster risk management (DRM) activities; that is, for preventing and reducing disaster risk, and preparing for and responding to shocks. Across this

range of DRM actions, DRF instruments include a range of budgetary and financial mechanisms, which are agreed on and established in advance of potential shocks.

The Centre uses a particular definition of pre-arranged financing (PAF) that may differ from others' uses of the term. In general terms, PAF includes financial arrangements established in advance for a variety of planned or expected purposes. According to the Centre's definition, it specifically concerns PAF for disasters.

PAF is a specific sub-set of DRF instruments and approaches that focus on ensuring funds are available to respond to shocks, and in some cases undertake specific preparedness actions. The unique distinguishing property of PAF by the Centre's definition is that financing has not only been arranged in advance of a shock, but that funds will be released or triggered based on agreed conditions.

### *Element 3: Forging a risk deal*

We use the term 'disaster risk deal' for a situation where disaster-contingent public policy is reliable – that is to say, it can be relied on and trusted by people – for a range of potential disasters.

Many governments around the world make significant investments to provide reliable, contingent public policy for other risks – take pensions policy and the risk faced by individuals that they might outlive their assets, for example. Many people around the world want to know what support their government will provide them in old age; responding to this, many governments aim to provide reliable pensions policy. Governments routinely communicate with individuals about what support they can expect to receive from government (and equally the limits of such support), introducing legal protections that make it challenging for future governments to renege on commitments made. Reliable pensions policy can bring significant benefits, allowing people to plan better for old age, allowing governments to plan better for their share of the costs, and facilitating better public scrutiny of policy (Barr 2020).

The situation for disaster risks is similar in many respects, though political demand is weaker in many countries. This is partly because scrutiny of disaster-contingent public policy is more challenging than scrutiny of pensions policy, as people are getting older all the time and the consequences of this are readily apparent, whereas disasters tend to occur infrequently, so the implications of disaster policy cannot be directly observed (Healy and Malhotra 2009). This unobservability means that public interest in reliable disaster policy often does not evolve into helpful political incentives, with political leaders rewarded for discretionary post-disaster policy and not rewarded for disaster preparedness (Clarke and Dercon 2016).

There are exceptions: agricultural producers are often successful in obtaining commitments from government for reliable support in the aftermath of disasters that affect agricultural production, often manifesting as highly subsidised, regulated agricultural insurance schemes (Mahul and Stutley 2010). Similarly, homeowners often obtain commitments from government for reliable support in the aftermath of disasters that damage homes, either through insurance-backed schemes such as Mexico's Natural Disasters Fund (FONDEN) or Morocco's Solidarity Fund for Catastrophic Events (FSEC), both of which provide insurance-backed support for low-income housing damaged by disasters. However, the most vulnerable groups, usually those most affected by disasters, often do not benefit from such risk deals.

Nevertheless, demand for reliable disaster policy (risk deals) is growing in many countries, particularly those experiencing more or greater disasters, and particularly for subsidised agricultural or homeowner insurance

schemes. National risk deals are often developed through the rejection of ad hoc approaches to public policy in the aftermath of crises.

There is also a high level of demand from stakeholders in the international crisis financing system, both for the system to deliver more reliable support to the most at-risk people and for it to provide more help to support countries to forge risk deals. A recent spate of high-level international policy initiatives – the Bridgetown Agenda, the V20 Accra-Marrakech agenda, the World Bank Evolution Roadmap and the G7-V20 Global Shield against Climate Risks – all include predictable DRF as a core ambition.

This section reviews the potential economic benefits of risk deals, then outlines three dimensions of reliability that require particular attention from policymakers: transparent communications, timeconsistent policy, and the conversion of implicit contingent liabilities to explicit contingent liabilities.

### *Benefits of reliable public policy*

There are three main welfare benefits from governments providing reliable shock response.

First, the best documented – and probably most significant – benefits from reliable shock response come from allowing people to plan and giving them the confidence to invest in their future. While we know of no studies that have directly looked at ex-ante benefits of reliable shock-responsive social protection, a large number of studies look at the ex-ante benefits of commercial insurance for rural households in extreme poverty or at risk of falling into extreme poverty. These studies find that uninsured risk substantially reduces productivity, whether a shock occurs or not (Hill et al. 2021).<sup>19</sup> If people do not know whether they will receive support, or what support they will receive, they will be less willing to make productive investments out of fear that a shock will affect them at a time when they have no liquidity. If people trust that insurance will help them cope in extreme years, they are willing to make more productive investments, increasing their ability to move out of poverty. The welfare benefits from this shift in precautionary behaviour can be large – larger than the welfare benefits from actual

<sup>19</sup> Hill et al. (2021) summarise the evidence as follows: 'There are 10 studies across contexts and products showing that productive investments increase significantly when insurance is provided: Bulte et al. (2020) for multiperil crop insurance in Kenya; Stoeffler et al. (2020) for area yield in Burkina Faso; Hill et al. (2019) for rainfall and area yield insurance in Bangladesh; Jensen et al. (2017) for livestock insurance in Kenya; Cai (2016) for area-yield insurance in China; Fuchs and Wolff (2016) for rainfall index insurance in Mexico; Cai et al. (2015) for swine insurance in China; Mobarak and Rosenzweig (2013) for rainfall index insurance in India; Elabed and Carter (2014) for area yield insurance in Mali; and Karlan et al. (2014) for rainfall index insurance in Ghana. The range of impact is about a 15%–30% increase in farm investment (Carter and Chiu, 2020). Insurance does not encourage households to necessarily take inappropriate levels of risk but allows households to reduce costly risk-avoidance behaviour.'

insurance payouts (Carter and Chiu, 2018). There is already strong evidence that social transfers can strengthen the social contract (Sabates-Wheeler et al. 2017). We theorise that having social protection that also provides reliable support against the impact of shocks is likely to strengthen the social contract further, while delivering economic and welfare gains beyond the direct benefits from the transfers themselves. Reliability itself is socially valuable, over and above the support actually provided after shocks.

Second, converting unreliable to reliable public policy can reduce the cost to line ministries of delivering shock response. Not knowing what government policy might be in the event of a disaster can lead to line ministries underinvesting in preparedness relative to the socially efficient level of investment, or investing in the wrong kind of preparedness for the wrong people for the wrong hazards. There are few published cost benefit analyses of investments to strengthen the shockresponsiveness of social protection systems; but there are a number of careful cost benefit analyses of the benefits of preparedness for humanitarian response, including cash response, which suggest that such investments made wisely can be valuable (BCG 2015; DEPP 2018). There are also more extreme examples of the benefits of reliable public policy for disaster reconstruction, such as the Government of Japan's approach to post-disaster reconstruction for life-line infrastructure. In advance of the Tōhoku earthquake and tsunami in 2011, the Japanese government had signed a contingent service contract with a construction company for post-disaster reconstruction, leading to key highways being rebuilt within two weeks of the disaster. Such rapid reconstruction would not have been possible at any cost without reliable policy and contingent contracting in advance.

Third, shifting from implicit to explicit contingent liabilities can be used to create (political) power for those at risk, as upfront planning allows for greater participation and co-creation of solutions with affected or at-risk communities. A paper specifically reviewing recent experiences in this area (Switheren 2023) highlights the potential for increasing accountability in disaster response when policy is supported by PAF for response. It provides recent examples of building accountability through increasing transparency, participation and answerability. The main conclusion is that this link between DRF and improved accountability is not automatic and that much more needs to be done to ensure accountability in DRF programmes.

### *Transparent communications*

Reliable public policy on how social protection systems will be used to respond to a range of potential shocks must be transparently communicated to potential recipients. Public policy should not be secret or obfuscated,

nor presented in a misleading way. A government must be able to explain how it would use social protection systems for response to shocks so recipients of social protection programmes can understand what support would be provided to them, for what shocks (both shock type and intensity), and what conditions would apply to the support (e.g. if the person must be pre-registered). This is a high bar, going far beyond access to information, to effective communication.

Achieving this will not be easy as there are often low levels of awareness among recipients about social protection programmes, the benefits they are eligible for and how to access them. Communicating about social protection programmes is challenging in its own right; that difficulty is compounded when it comes to communicating what would be offered in the aftermath of a range of potential disasters. For example, an assessment of the Indian government's social protection response to covid-19 suggests that only 41% of programme recipients were fully aware of the benefits they were eligible to receive (Aadil et al. 2020), suggesting that even fewer would have been able to predict what benefits they would be eligible for before covid-19 hit India. Moreover, a qualitative evaluation of Kenya's Hunger Safety Net Programme highlighted that although emergency (i.e. disaster-contingent) transfers to households were based on objective criteria, households did not understand the criteria and found the transfers to be unpredictable; this limited the impact of the transfers compared with regular programming (Farhat et al. 2018). In general, lack of information and ineffective communication can lead to exclusion of deserving recipients, lack of credibility, erosion of trust in governments and, most importantly, the poor impact of social protection programmes (Wright et al. 2020).

It is possible to provide clear and fair communications about disaster-contingent benefits. In well-regulated environments, insurance companies are required to provide transparent and not misleading information on disaster insurance contracts before the contracts come into force (see Insurance Core Principles 19.6–19.7). While not precisely the same as communicating disastercontingent social protection support, there are sufficient similarities that those operating social protection schemes should be able to learn lessons from well-regulated insurance companies and their regulators, such as using plain language, focusing on the quality of communications rather than their quantity, and being intentional about who provides information.

Individual social protection programmes have already learnt many of these lessons. For an example of the importance of who provides information, in north-east Nigeria (Borno, Yobe and Adamawa states), 96% of respondents in a Cash Barometer perception survey said they preferred receiving information about access to assistance through their community leaders and responded positively to the information they received (CALP 2020).

Without analysing the culture of participation and customary information flows, it is difficult to encourage equitable engagement across crisis-affected groups. At the same time, communicating what the shock response would be in the event of a shock must be context specific, drawing on and engaging with the knowledge and needs of communities.

Once social protection programme recipients know about and understand information about a programme – specifically, about the programme's adaptation due to a shock or crisis, linked to the above –the recipients and their wider communities should be able to interact with the government and service providers to provide feedback, raise complaints or appeal over exclusion from a social protection programme when it is adapted following a shock (Pereznieto and Holmes 2023). They should also know that their complaints will be dealt with in an appropriate and timely manner. In other words, they should be able to hold government accountable for the information communicated to them.

### *Time-consistent public policy*

Reliable public policy must be time consistent in the economic sense of the word; that is, future policymakers should not have incentives to renege on or change public policy in the face of an actual shock. Current policy may be time consistent if it accurately captures what policymakers would do in the event of a disaster or if the political costs of deviating from a stated policy are sufficiently high (e.g. if deviating from the stated policy could lead to costly lawsuits). Reliable public policy is typically built around some combination of political commitments, laws or other legal commitments, and financial commitments.

In the absence of commitment devices, governments may have incentives to provide ambiguous, and unrealistically high or unrealistically low promises to voters. They may prefer ambiguity to reduce pre-disaster scrutiny of public policy and to make it easier to direct any benefits to elites or other preferred groups in the event of a disaster. They may wish to present unrealistically high estimates for support they will provide in the hope of winning votes at no cost today (and hoping that a disaster does not actually occur). And they may have incentives to present unrealistically low estimates for how much support they will provide in the hope that households and communities will invest more in self-protection, thereby limiting the need for a government response. Moreover, these incentives can change rapidly from government to government.

These challenges notwithstanding, the willingness and ability of a government to provide clarity and certainty for its citizens both helps to build the

social contract, and has economic and welfare payoffs. We now turn to the issue of financial commitment devices.

## *Converting implicit contingent liabilities to explicit contingent liabilities*

A fundamental enabling condition of a risk deal is whether a government acknowledges the potential costs arising from shock response. In the language of fiscal risk management, a key question is whether the government considers the cost of shock response to be an implicit or an explicit contingent liability (see Box 2). Shifting from treating shock response as an implicit contingent liability to an explicit contingent liability is necessary (though not sufficient) for reliable public policy responses to shocks. It is also very challenging.

### *Box 2. What are contingent liabilities?*

**Contingent liabilities** are obligations to pay costs associated with a possible, but uncertain, future event. Because there is no obligation to pay unless the event occurs, contingent liabilities might not be formally listed as liabilities on an organisation's balance sheet. Contingent liabilities might be explicit or implicit.

**Explicit contingent liabilities** are contractual commitments to make certain payments if a particular event occurs; the basis of these

commitments can be contracts, laws or clear policy statements.

**Implicit contingent liabilities** are political or moral obligations of the government to make payments; for example, in the event of a crisis or a disaster – governments do not recognise these liabilities until a particular event occurs. Implicit contingent liabilities are difficult to assess, let alone manage in a consistent manner, precisely because of their implicit nature.

Source: Centre for Disaster Protection (n.d.)

A large body of experience and work on fiscal risk management around the world strongly points to the benefits of governments converting implicit liabilities to explicit liabilities. This recommendation has come from decades of experience with fiscal risks ranging from pension liabilities to banking crises. All too often, if a government keeps such risks as implicit contingent liabilities the risks are often not properly assessed and managed in the interests of taxpayers, and end up resulting in very high costs to the government and wider society. HM Treasury (2020) reviews UK failures and subsequent action from this perspective; Beck and Sheppard (2023)

makes the case that German government failures in response to covid-19 should be viewed in this light; and Poole et al. (2020) review failures in the international crisis financing system from this perspective.

A practical example outside the realm of natural hazards is bank failure in Australia (OECD 2013). Over a long period, successive Australian governments stated that bank deposits were not guaranteed. Yet repeatedly, when faced with bank failure the government bailed out depositors. The government could never credibly pre-commit that deposits would be forfeited; ultimately, the government introduced a constrained bank deposit insurance scheme. This converted what was an implicit contingent liability to an explicit contingent liability. It also allowed the government to place clear boundaries around what government support would be, making it easier for banks and consumers to understand their residual risks. The basic idea underlying this is very similar to the Samaritan's dilemma in Buchanan (1977 [1999]), where a well-intentioned 'Samaritan' (in this case a government) cares about a recipient and provides them with implicit insurance against risk, but cannot commit to provide explicit insurance, leading to poor incentives and economic inefficiency. Converting implicit contingent liabilities to explicit liabilities can lead to better risk management, and incentives for beneficiaries or the private sector to reduce risk.

OECD (2013) proposes that governments should always convert implicit liabilities to explicit liabilities, unless the government can reliably pre-commit that it will not take measures in response to the risks stemming from the implicit liability. It is rare that a government can credibly pre-commit that it will not use social protection mechanisms for shock response; it follows that most governments should convert these implicit contingent liabilities to explicit contingent liabilities.

The role of PAF for explicit contingent liabilities is explored next.

## *Element 2: Securing predictable finance in advance*

Where countries use social protection schemes to respond to shocks, most of the finance for such responses is unplanned. For example, very little of the finance used to scale social protection systems in the wake of covid-19 was planned. Where finance was planned, mostly it was in the form of crisis response funds; the fund manager had discretion over whether to fund covid-19 response through social protection systems or not.

This is part of a broader pattern in low-income countries where crisis response is financed overwhelmingly with unplanned crisis financing, both from government and international humanitarian funding. Where funds are

pre-arranged or set aside in advance, they are rarely earmarked for particular crisis response actions such as social protection responses. There is no guarantee that unplanned crisis financing, particularly from international sources, will ever arrive. When it does, it is likely to be programmed through parallel response systems and not through government-led shock-responsive social protection.

A 'mature' approach to preparing for shocks would include a far higher proportion of funding that was pre-arranged and set aside in advance; of this funding, far more would be clearly designated or earmarked for pre-agreed crisis response purposes, including shock-responsive social protection. Countries would, then, rely far less on unplanned financing responses.

Figure 2 provides a typology of five different types of financing for shock-responsive social protection. In a mature system, a much higher proportion of funds would fall within the category of PAF, and a higher proportion of both crisis response funds and PAF would be earmarked for pre-agreed purposes.

Figure 2. *A typology of financing for shock-responsive social protection*

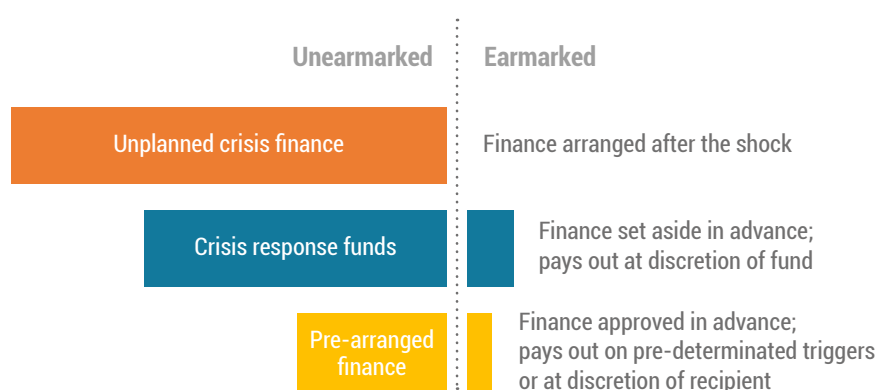


Table 1 provides some examples of instruments that would fit into each of the categories presented.

Taking steps to pre-agree financing for shock response is a critical step. Without it, it is not possible to provide clarity to people about what to expect and assurance that they can rely on the response. However, PAF by itself is not sufficient. To be able to provide assurances, there also needs to be clarity over 'money-out'; that is, what the funds will be used for.

Very few low- and middle-income countries have budgetary mechanisms that allow their finance ministries to provide line ministries with earmarked PAF. Moreover, few public financial management systems in low-income

Table 1. *Examples of risk financing instruments*

INSTRUMENT	NOT EARMARKED FOR SOCIAL PROTECTION BEFORE SHOCK	EARMARKED FOR SOCIAL PROTECTION BEFORE SHOCK
Pre-arranged finance (PAF)	<ul style="list-style-type: none"> <li>– Sovereign contingent credit from international financial institutions (IFIs), such as the US\$4 billion disbursed by World Bank Cat-DDOs (Plichta and Poole, 2023).</li> <li>– Most sovereign insurance, such as the US\$270 million and £125 million of claims payments paid by the Caribbean Catastrophe Risk Insurance Facility and African Risk Capacity, respectively.</li> <li>– Sovereign catastrophe (cat) bonds, such as the \$395 million of payouts provided by World Bank-issued cat bonds (Plichta and Poole, 2023).</li> <li>– Debt pause clauses, such as the clauses integrated into debt issued by Grenada, Barbados and the Bahamas (Mustapha et al. 2023).</li> </ul>	<ul style="list-style-type: none"> <li>– A small number of internationally supported shock-responsive social protection systems with PAF.</li> <li>– Humanitarian anticipatory cash. In 2022, US\$137.6 million was available within agreed anticipatory action frameworks, of which US\$54 million was triggered or disbursed when activation thresholds were met (Anticipation Hub 2023). Much of this was earmarked for cash transfers.</li> </ul>
Crisis response funds	<ul style="list-style-type: none"> <li>– Most national disaster reserve funds and general budget contingencies.</li> <li>– Most international pooled crisis funds, such as the International Development Association's Crisis Response Window or the United Nations Centre Emergency Response Fund.</li> </ul>	<ul style="list-style-type: none"> <li>– A very small number of contingency funds that can only be used for social protection expenditures and where disbursements are at the discretion of an external funder, such as US Agency for International Development crisis modifiers (Peters and Pichon, 2017).</li> </ul>
Unplanned crisis finance	<ul style="list-style-type: none"> <li>– Most discretionary budget reallocations (by governments, IFIs or donors), humanitarian appeals, borrowing, asset sales, tax increases.</li> </ul>	– N/A

countries would realistically be able to implement such a mechanism in the near future, with many governments struggling to form credible budgets for current liabilities, let alone contingent ones (Allan and Paterson 2019). Many middle-income countries, and some low-income countries, have some form of disaster fund that can be triggered by the head of state or a relevant minister, a type of crisis response fund; but public financial management systems are often not strong enough to credibly pre-commit the funds allocated to them. Beyond this, the only budgetary mechanisms at their disposal are for unplanned crisis finance.

To be able to implement PAF – and, in particular, earmarked PAF – most countries would need to rely on off-balance sheet mechanisms, either by strengthening disaster funds or using financial instruments offered by development banks or development insurers.

Currently, most internationally supported sovereign PAF by volume is unearmarked. This includes aid-subsidised contingent credit or insurance instruments that disburse funding as general budget support. Far less is earmarked and therefore able to support countries to translate implicit contingent liabilities to explicit contingent liabilities, and shift the social contract (as discussed in section 2: Element 3). The incentives are generally skewed towards unearmarked rather than earmarked PAF. For example,

the World Bank's unearmarked contingent credit instrument (the Cat-DDO) is available to the poorest countries on an 'allocate US\$1, get US\$4' basis, but their earmarked contingent credit instruments ('contingent investment project financing' and contingency emergency resource components) are only available on an 'allocate US\$1, get US\$1' offering (Clarke and Dercon 2023).<sup>20</sup> For the former, a social protection implementer will not know how much money would come their way in the event of a disaster until the disaster had started. This does not allow any shift in the social contract or any meaningful increase in reliability for programme recipients.

Unearmarked PAF may be helpful for finance ministries from a macro-fiscal perspective. After more than a decade of experimentation by international organisations, however, there is no evidence that it supports more reliable public policy, as defined in the previous section, or produces any of the benefits that might be achieved from more reliable public policy.

A large part of the value added of international financial institutions (IFIs) is for IFIs to offer low-income countries part of their balance sheet, in which those countries can do things they would not be able to do on their own balance sheets, such as to commit to multi-year projects. Development banks and development insurers should expand and incentivise their offer for earmarked PAF for shock-responsive social protection.

This argument differs from accepted guidance on PAF, which mostly focuses on financial planning for finance ministries, not reliable PAF for social protection risk deals. Our proposition is most similar to that of Scott (2022), albeit consolidating the number of financing categories, and adding the earmarked/unearmarked dimension. It also draws on Lung (2022), which challenges the applicability of received DRF wisdom for social protection in fragile states. Our presentation differs from current mainstream DRF doctrine in two ways.

First, most research on DRF reduces governments to a single financial entity – the finance ministry – whose objective is to avoid the risk of the finance ministry running out of money for what it wants to do in the aftermath of a disaster. When presented in this way, the question of how to arrange shock response financing is reduced to an exercise in actuarial ruin theory, similar to the question of how to run an insurance company without becoming insolvent.

<sup>20</sup> | Effective 1 July 2022. When a Cat-DDO is financed from the IDA Country Allocation, the Crisis Response Window will finance 25% of the Cat-DDO amount, with an additional 25% financed by the Country Allocation and the remaining 50% financed by IDA general resources.

The problem here is that very few low- and middle-income countries' finance ministries have budgetary mechanisms that allow them to pre-commit to providing reliable finance to line ministries in the event of a disaster. Treating a government as a single unitary entity is misleading: even if the finance ministry knows it will have sufficient funding for disaster response, if it has no mechanism to be able to pre-commit this money to the social protection system, the finance is not predictable for the line ministry. If it is not predictable for the line ministry it cannot be used to clarify the social protection risk deal with potential recipients. Many countries have off-balance sheet mechanisms, whether they are disaster funds or financing agreements with IFIs; but disaster funds rarely commit to earmarked funding and IFI financing arrangements typically only include known expenditures, not disaster-contingent expenditures. Only high-income countries have contingent liability approval frameworks that allow line ministries to sign up to explicit contingent liabilities.

Treating governments as unitary agents whose objective is to avoid ruin is only really a helpful framework for some upper-middle- and high-income countries, where finance ministries can pre-commit to line ministries and this pre-commitment can form the basis for a risk deal. Despite this, however, it remains the dominant framing for DRF for low- and middle-income countries, possibly contributing to the dearth of IFI instruments that provide earmarked PAF, and a focus by international actors on national DRF strategies rather than social protection-specific DRF strategies (Lung 2022).

Second, most presentations of layered financial strategies include large numbers of financial instruments, typically ordered by their supposed appropriateness to shocks of different frequencies (Clarke et al. 2017; Ghesquière and Mahul 2010). This can encourage the idea that the best financial strategies involve countries buying a lot of instruments, with contingent credit at the bottom of the stack and insurance at the top. This is rarely the case for social protection financing in fragile states, where the fixed costs (both pecuniary and non-pecuniary) can be very large for each instrument, and therefore where getting one instrument working well is typically both cheaper and better than starting out trying to implement multiple instruments (Lung 2022). The idea that there are general economic principles that mean specific instruments are more cost-effective than others at different return periods is largely unfounded: whether a particular instrument is efficient for a particular return period is extremely sensitive to economic and commercial factors and to instrument design (Clarke et al. 2017) – there is no generic ordering of instruments appropriate to all countries, and most generic layered risk finance diagrams are not directly applicable to specific countries.

The finance ministries of most low- and middle-income countries themselves are unable to credibly commit to earmarked PAF for social protection, thereby prohibiting reliable public policy for social protection shock response. Strengthening off-balance sheet budgetary instruments such as disaster funds to provide PAF may be possible in some countries. But for many countries it does seem that international organisations could play a key role, offering their balance sheets to countries to allow them to put in place earmarked PAF for social protection that can form the basis for forging a stronger risk deal. To achieve this, international organisations should revisit the financial concessionality of earmarked PAF (the top right cell in Table 1) and, in particular, ensure that such instruments are at least as concessional as unplanned crisis finance.

## *Conclusion*

There has been increasing demand for and commitment to financing and delivering disaster response systems by low- and middle-income country governments and international actors. Yet, when a disaster strikes, in many countries, social protection systems – while expanding – still need to be strengthened to adjust to shocks. Furthermore, too little finance is pre-arranged and earmarked for shock-responsive social protection. At the same time, the DRF discourse has focused on ensuring finance ministries avoid liquidity crunches during disasters. This chapter proposes that greater focus should be paid to providing PAF to specific public services to allow countries to clarify and intentionally shift risk deals, including social protection risk deals.

We agree with humanitarians and fiscal hawks alike that governments that cannot reliably commit not to use social protection systems as part of disaster response should at least commit to use them to some degree, including arranging predictable finance and strengthening their social protection systems for shock-responsive delivery. For fiscal hawks, this helps to get potential disaster response costs on the government's balance sheet, turning a potentially unlimited implicit contingent liability into a bounded explicit contingent liability with better scrutiny and risk controls. For humanitarians, committing to use social protection systems for disaster response allows line ministries and people to plan and manage risks better.

The same argument also holds for international actors. Following the experience of covid-19, and in the context of increasing pressure for loss and damage finance, few international actors can credibly commit that they will not fund social protection response in a time of crisis, and therefore they should commit in advance to finance it to at least some degree, providing predictable finance to countries and supporting system strengthening.

They should support the development of national social protection risk deals rather than undermining such attempts by treating every disaster like a surprise. This is also true for global funds, including the Loss and Damage Fund itself as well as other parts of the emerging mosaic of solutions to address Loss and Damage, such as the Global Shield against Climate Risks, an initiative that explicitly aims to provide and facilitate more and better pre-arranged financial protection against climate- and disaster-related risks for vulnerable people and countries. Unless these funds can commit not to fund social protection systems, they should make clear commitments to provide reliable finance that strengthens national social protection risk deals.

With the rising frequency and impact of disaster, this chapter offers a three-part solution at the intersection of social protection, disaster risk management and public financial management policy: namely, intentionally shifting the social contract through reliable public policy so potential recipients of social protection programmes receive information that can be trusted (Element 3); putting in place proper financial planning, including arranging finance in advance, so that shock response can be implemented fast when it is needed (Element 2); and strengthening social protection systems to be able to deliver shock response (Element 1).

These processes are challenging and often take a long time, particularly shaping the social contract. But this should not be a reason to be dissuaded from trying. Transparency, time consistency and accountability are all equally relevant factors for making social protection systems shock-responsive to disasters. International organisations have a special role to play both in channelling international climate and disaster finance through social protection systems, and in offering governments earmarked PAF instruments that many governments are unable to replicate on their own balance sheets, given the level of development of their public financial management systems.

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# 7. SOCIAL ASSISTANCE AND NATURAL RESOURCES: WHAT ROLE FOR SOVEREIGN WEALTH FUNDS?

Diego López and Andrew Waddington

## *Introduction*

With 181 funds managing roughly US\$12 trillion, sovereign wealth funds (SWFs) are significant pools of capital. Policymakers have long debated the tradeoff between establishing SWFs, historically seen as long-term savings vehicles, and tackling immediate macroeconomic or development needs. The sheer size of the existing SWFs, coupled with the myriad of challenges facing the international community and subsequent strain on many countries' public finances, has reinvigorated the debate on balancing the immediate needs of citizens against those of future generations.

The creation of 17 new SWFs within the past four years suggests countries increasingly see the utility of state-owned investment vehicles. However, beneath the top-line number is another important observation: 65% of these new funds are strategic investment vehicles that often pursue dual objectives of addressing immediate macroeconomic and development goals and long-term savings.

While national development is a broad term, and there are varying approaches to addressing the issue, there is a noticeable trend of sovereign investors supporting their countries' public services and social protection programs. Despite the trend, some country authorities and experts are more cautious, expressing concerns that an increased focus on solving immediate domestic challenges risks depleting existing wealth on ineffective programs or projects (that may be politically popular in the short-term), or inadvertently exacerbating inequality. As policymakers grapple with these considerations, domestic pressure on governments to bring

forward spending from SWFs is likely to build, so countries should begin thinking about the balance as early as possible.

This paper does not intend to resolve the debate; instead, it provides context, exploring what SWFs are doing to help support the countries' public services and vulnerable populations. The first section provides an overview of the SWF industry, highlighting the diversity of missions, funding sources, and investment restrictions. The second section identifies the broad methods sovereign investors use to contribute to public services and social protection. The third section presents case studies that illustrate the varying approaches, and the final section offers concluding thoughts.

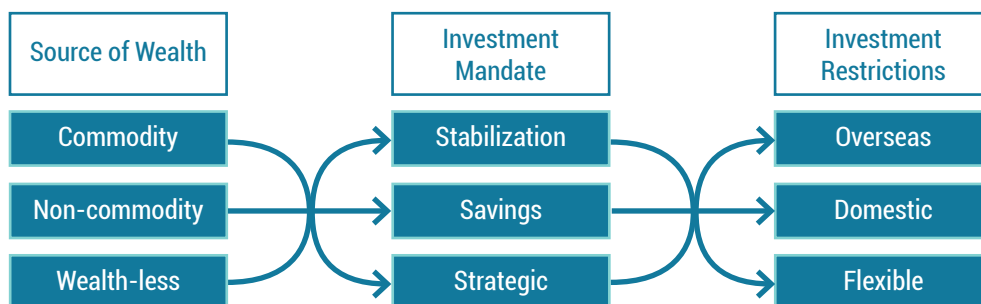
## *A Primer on SWFs*

Modern SWFs can trace their roots to the early 19th century in the United States when several states established land trusts to finance their public education systems. The most notable was Texas, which established the Permanent School Fund in 1854. The next iteration of SWFs emerged in the Middle East in the latter half of the 20th century to help newly independent countries manage their commodity revenue; however, it was in the early 2000s that the term sovereign wealth fund was coined, and sovereign wealth funds gained more attention, particularly their activities throughout the Global Financial Crisis.

In 2007, the International Monetary Fund (IMF) defined SWFs as *“special investment funds created or owned by governments to hold foreign assets for long-term purposes, typically funded from reserves or other foreign currency sources [...]”* (Das, 2007). However, since then, the industry has evolved significantly, and that definition has become largely obsolete: some SWFs do not hold a single foreign asset, some others do not only hold assets for long-term purposes, and there is an increasing number of funds established as pools of assets (Divakaram et al., 2022).

To capture the greater diversity in sovereign investors, a more inclusive definition is *“investment vehicles owned by national or regional governments that buy, hold, and sell securities and/or assets on behalf of their citizenry in pursuit of financial and/or economic returns.”* In practice, some characteristics result in very different types of funds.

Figure 1 illustrates the potential combinations of characteristics defining sovereign wealth funds, including the source of wealth, investment mandate, and investment restrictions. Each combination makes a unique type of investment institution, which partially explains how they deploy capital and behave.



First, SWFs can be classified into three different groups according to their source of wealth:

- » **Commodity-based** SWFs that invest the revenues derived from the sale of commodities, including oil, gas, copper, phosphate, and diamonds, usually to avoid the resource curse or Dutch disease (Natural Resource Governance Institute, [2015](#)) and for diversification purposes, like Abu Dhabi Investment Authority (ADIA). Contrary to popular beliefs, the proportion of commodity-based funds as a percentage of the total has been decreasing over time, and they only represent 58% of SWF capital today.
- » **Non-commodity-based** SWFs that manage foreign exchange reserves, budget surpluses, issuance of securities, and/or proceeds from governments' land sales or other privatizations, such as the Korea Investment Corporation (KIC). In practice, these funds may have an ongoing arrangement for injections and withdrawals (e.g., up to 50% of the net investment return), or may have had a one-off injection of capital at its inception, which must be grown over time.
- » **Wealth-less** SWFs that have not been injected with significant capital but have received stakes in national companies to be managed and/or privatized, such as Kazakhstan's Samruk-Kazyna (SK). Some of these funds may have the additional objective of acting as catalyzers to attract further foreign direct investment into their country. These kinds of funds have become particularly popular in the past few years.

Second, SWFs can be classified into three major categories according to their investment mandate:

- » **Stabilization or "rainy-day" funds** that act as buffer mechanisms, benefitting from fiscal surpluses in good years and covering fiscal deficits in times of uncertainty and market shocks, such as Chile's Economic and Social Stabilization Fund (ESSF). These funds may use counter-cyclical fiscal tools to insulate the economy from market shocks, balance large capital inflows and outflows caused by volatility, and protect the exchange rate.

- » **Savings, capital maximization, or intragenerational funds** that have no explicit obligations and are designed to ensure the transfer of wealth to future generations in the long term, like Singapore's GIC Private Ltd (GIC). These also include reserve investment corporations and pension reserve funds (not to be confused with public pension funds), which may have been defined separately in the past but, in practice, keep a very similar risk and investment profile.
- » **Strategic or development funds** that combine a financial goal with an economic mission, contributing to the development and/or catalyzing foreign capital into the domestic economy, like the Ireland Strategic Investment Fund (ISIF).

Certain SWFs may have more than one mandate, e.g., Nigeria Sovereign Investment Authority (NSIA) is divided into a stabilization fund, a future generations fund, and an infrastructure development fund.

Finally, there are three types of SWFs grouped according to their investment preferences or restrictions:

- » **Overseas investors** that cannot invest in domestic securities, most prominently Norway's Government Pension Fund Global (GPF), via Norges Bank Investment Management (NBIM).
- » **Domestic investors** designed to invest at home only and to attract further capital into the national economy, such as India's National Investment and Infrastructure Fund (NIIF).
- » **Flexible investors** that can invest both at home and abroad, e.g., Abu Dhabi's Mubadala Investment Company.

SWFs are therefore highly heterogeneous with different origins, missions, and restrictions, but they all share the goal of preserving capital and/or portfolios they have been given and of maximizing returns. This is paramount to understanding how SWFs behave and how they contribute to public services and social protection.

## *Connecting Sovereign Wealth Funds with Public Services and Social Protections*

Demographic trends and societal challenges are increasing the need for greater spending on public services and social protections, at a time when other public policy priorities are competing for government financing. To supplement government financing and initiatives, SWFs are contributing resources to support public services and ensure that the citizenry,

particularly the vulnerable, has access to education, adequate healthcare, and affordable housing.

Broadly, SWFs' contributions to societal benefits can be classified into four categories:

- 1) **Direct cash contributions to beneficiaries.** Some sovereign investors make cash distributions to citizens or residents, generally through yearly dividends. In some cases, these transfers apply to all citizens or residents; in others, they apply only to specific segments (e.g., low-income individuals). For some funds, these transfers are annual, while in other instances, the payments are ad hoc. Section 1 explores the cases of the National Fund of the Republic of Kazakhstan (NFRK), Fundo Soberano de Maricá, and the Libya Investment Authority (LIA) in more detail.
- 2) **Annual contributions are earmarked for government to spend on public services and/or social protection initiatives.** Certain SWFs are responsible for providing dividends to the federal or subnational government, who then spend those transfers on strengthening the social contract with their citizens. In some cases, these payments are systematic and annual; other SWFs make these payments based on ad-hoc conditions (e.g., based on investment returns or budget deficit). Section 2 elaborates on the cases of the Singaporean system, the State Oil Fund of Azerbaijan (SOFAZ), and the Palestine Investment Fund (PIF).
- 3) **Establish non-profit foundations, support/create social development programs, or donate to existing charities.** Some SWFs are active within the country's social development environment. They may contribute financially or provide other benefits/skills to existing non-profits or create new ones. In these cases, the SWF takes an active and direct role (as opposed to the previous section, where the government leads the initiatives). Section 3 highlights the Indonesia Investment Authority and Caisse des Depots et Consignations of Tunisia (CDC).
- 4) **Pursue investments in underserved sectors that will improve the public services within the country or benefit vulnerable segments of society.** The sovereign investors target investments in underserved sectors or those deemed important for their domestic development. Health, education, and supporting domestic entrepreneurs and startups are popular investment targets. The Sovereign Fund of Egypt and the Khazanah Nasional Berhad of Malaysia offer examples of this kind of approach.

It is important to note that many funds contribute in multiple ways, and this combination is evident in the selected case studies. Also, as described in the previous section, the structure and mission of the fund will determine, in part, how it can contribute to providing social benefits and services within

a given country. For example, stabilization funds have conservative investment portfolios and are unlikely to pursue investments that stray from liquid and safe assets. Their ability, however, to help countries weather economic or financial crises is a positive societal benefit and an implicit tool in maintaining existing government spending on public services and social protection. Strategic and savings funds are more flexible in mission and operation and, therefore, offer their respective governments the ability to take a more explicit role in funding social services and protections for citizens.

Robust governance structures and transparency are critical for all sovereign investors, particularly those who make direct cash transfers or support current public services and social protection initiatives. Corruption, especially the temptation to use sovereign funds to gain political favor or support, is a key risk. While each country will adopt a governance structure that suits its context, there must be adequate transparency and accountability.

## DIRECT CONTRIBUTIONS (E.G., DIVIDENDS, EARMARKED FUNDS TO GOVERNMENT, DONATIONS, ETC.).

### 1. Direct cash transfers to beneficiaries (aggregated AuM: US\$ 157 bn)

The most explicit form of SWFs benefiting current generations is through direct cash transfers. The most notable example is the Alaska Permanent Fund, which distributes a yearly dividend to all Alaska residents. Other funds, such as the Southern Ute Indian Tribe Growth Fund, make ad-hoc dividend payments when returns are abnormally high. A third group of funds, such as Sharjah Asset Management, makes ad-hoc payments to citizens in certain industries in recognition of challenging circumstances. As the case studies below illustrate, other funds provide financial support for certain expenses, such as education or housing, or for the poor.

In-depth case studies:

#### » National Fund of the Republic of Kazakhstan, Kazakhstan (NFRK, US\$ 74 bn)

The National Fund of the Republic of Kazakhstan (NFRK) was established in 2000 to manage the revenue generated from the sale of the country's vast mineral resources and the privatization of state-owned enterprises. Given the economy's dependence on oil, the Fund's design sought to minimize the effects of volatile oil prices on the federal budget (stabilization fund) and serve as a savings vehicle. The country's central bank, the National Bank of Kazakhstan, manages the Fund, and most of the assets are invested conservatively in stocks and bonds.

Effective January 1, 2024, the government authorized 50 percent of the NFRK's investment income to be transferred to the National Fund for Children. Under the new system, all Kazakhstani children under 18 years old are eligible to receive yearly contributions in USD to a special savings account, which continues to be invested in financial instruments. Once the child reaches adulthood, the accrued funds may be spent on educational or housing expenses. Any money not spent will be credited to the beneficiary's pension account. The National Bank of Kazakhstan sends a report to the Unified Accumulative Pension Fund (UAPF) on income generated over the year, and the UAPF maintains a database of eligible children. Once the child reaches 18 years old, he/she applies to "authorized operators" (i.e., designated financial institutions and the National Postal Operator) with receipts of eligible expenses. Once approved, the money is transferred to the individual's special savings account.

As of April 2024, the NFRK has allocated US\$ 696 million to 6,919,131 children born between January 2006 and December 2023. The distribution amounts will continue to grow according to the annual returns of the NFRK.

The Kazakhstani government has also used another state-owned investor, Baiterek (AuM US\$ 22 billion), to bolster social welfare within the country. Baiterek, through its subsidiaries, provides affordable housing for Kazakhstani families. It provides loans for the population, guaranteeing housing construction and subsidizing mortgages for low-income families and individuals.

» **Libya Investment Authority, Libya (LIA, US\$ 68 bn)**

The Libyan Investment Authority (LIA) is the sovereign wealth fund in Libya. Following the easing of international sanctions, the Libyan government established LIA in 2006, intending to preserve wealth and ensure prosperity for future generations. The Fund is estimated to have invested in over 550 companies across Africa, Europe, Asia, and North America; however, the political unrest since 2011 has led to freezes on many of those assets.

While the majority of LIA's portfolio is held abroad, the government used one of the Fund's subsidiaries, the Economic and Social Development Fund (ESFD), to provide financial resources to low-income individuals and families. While the Fund, established in 2006, invested on a commercial basis, it distributed part of its returns to low-income individuals and families. The social welfare component targeted the 300,000 poorest families in the country, providing a trust fund-like account for each beneficiary. Holders of these accounts were also entitled to dividend payments by the Fund, which were to be spent on housing, education, medical expenses, and seed capital for starting new businesses.

According to [reports](#), there were 184,864 beneficiary families by the end of 2008 and the Fund distributed US\$ 575 million. In 2013, the Fund [allegedly](#) had a deficit of US\$ 4.3 billion, receiving an average of US\$ 390 million in income and spending US\$ 936 million per year. After 2011, the fund sold most of its assets abroad but maintained its stake in numerous domestic companies, including Wahda and Sahara Banks. As of February 2024, there are calls to restart the fund's investment projects.

» **The Sovereign Wealth Fund of Maricá (AuM \$320 million)**

The Sovereign Wealth Fund of Maricá is the sovereign wealth fund of Maricá, a Brazilian municipality within the state of Rio de Janeiro. It is one of seven other Brazilian municipalities that have formed sub-national sovereign wealth funds to help manage excess commodity revenue. Of the revenue from oil and gas royalties, between 5-15% is transferred to Maricá's SWF. Operationalized in 2017, the Fund helps smooth government spending and ensures the city's social protection programs will outlast commodity revenue. The SWF invests in variable-income, fixed-income, structured products, and real estate.

In 2020, the Fund redeemed US\$ 3.8 million to capitalize the [Programa Fomenta](#), a COVID initiative initially designed to provide credit lines to small and medium-sized local entrepreneurs but has since expanded to cover a wide range of companies and investments within the municipality.

Long-term, the Fund is designed to ensure the longevity of the two largest social programs, the Citizens' Basic Income and the Tarifa Zero program. The former provides US\$39 per month to individuals who have lived in Maricá for 3 years and earn three times less than the federal monthly minimum wage, while the latter program provides free public transportation within the municipality. There are roughly 42,000 beneficiaries (25% of the population) of the basic income program. Distributions are made in Mumbuca, a digital currency managed by the community development bank, Mumbuca Bank, and can only be spent within Maricá.

## 2. Earmarked Funds to Government (aggregated AuM: US\$ 1,100 bn)

Sovereign investors may also be asked to provide their government (whether federal or subnational) with annual dividends, and the governments are then required to spend the cash transfers on socio-economic development. In the U.S. there are a variety of subnational funds, such as the Texas Permanent Fund, that help fund the respective state's public education system by annually transferring cash to public schools. Other funds, such as the Israel Citizens' Fund, are authorized to transfer a certain percentage

of its assets to the state budget to be spent on education, social welfare, and economic development.

In-depth case studies:

» **State Oil Fund of Azerbaijan, Azerbaijan (SOFAZ, US\$ 56 bn)**

In 1999, the Azerbaijani government established the State Oil Fund of Azerbaijan (SOFAZ) to accumulate and preserve the nation's oil and gas revenues for future generations. Situated within the country's national oil strategy, the mission of the Fund is to transform finite hydrocarbon reserves into financial assets that provide income for current and future generations.

In addition to significant transfers to the government's budget, the Fund supports social welfare programs within the country. It has supported two government initiatives aimed at strengthening the educational levels of its citizens: the State Program on Education of Azerbaijani Youth Abroad, supporting citizens studying abroad, and the State Program on Raising Competitiveness of Higher Education in Azerbaijan. SOFAZ has contributed US\$ 127 million and US\$ 37 million, respectively.

Since 2001, SOFAZ has financed programs designed to improve the social condition of refugees and internally displaced persons. These initiatives provide support for those in the Karabakh region. SOFAZ's resources have contributed to building residential homes, high-rise buildings, social and cultural centers, and other infrastructure projects designed to help settle refugees and IDPs in various districts. (The Fund lists the impact [here](#).)

The Fund transferred the necessary resources to the state treasury accounts of the State Committee for Refugees and Internally Displaced Persons and the Social Development Fund for Internally Displaced Persons.

» **GIC Private Ltd. (US\$ 769 bn) and Temasek Holdings (US\$ 288 bn), Singapore**

Singapore has extensive foreign reserves and manages them across three sovereign entities. The Monetary Authority of Singapore, the city-state's central bank, manages the official reserves. The second entity, Temasek Holdings, was established in 1974 as a private investment company wholly owned by the Ministry of Finance to serve as a holding company for several SOEs. Since 2002, Temasek has evolved beyond its initial remit and is an active global investor. The third institution, the Government Investment Corporation (GIC), was launched in 1981 to manage the majority of the financial assets of the government. GIC was the first non-commodity-based sovereign wealth fund.

Temasek and GIC provide consistent transfers to the federal budget through the net investment returns contribution (NIRC) system. The government then allocates those funds to projects designed to improve the social compact, such as education, healthcare, and transport infrastructure. In 2023, the NIRC contributed about 20% of the government's budget, or US\$ 17.2 billion.

» **Palestine Investment Fund, Palestinian territories (PIF, US\$ 1 bn)**

The Palestine Investment Fund (AuM US\$ 1 bn) is the country's sovereign wealth fund. Established in 2003, the PIF acts as a development fund, targeting strategic and underserved sectors and commercial returns. In addition to deploying its own capital, PIF has been the Palestinian Authority's (PA) primary investment vehicle for channeling capital in the West Bank and Gaza. Each year, the Board of Directors is responsible for authorizing a dividend to the state's treasury. Since its inception, the Fund has provided over US\$ 1.1 billion in dividends (US\$ 20 million in 2022).

The Fund has two primary investment arms: the Aswaq Investment Portfolio, which targets investments in capital markets that offer attractive returns and finance long-term development projects; and the Amaar Real Estate and Tourism Development Company, which manages a portfolio of real estate, tourism, infrastructure, and strategic resources, including Masaader, a renewable energy subsidiary.

In 2014, the PIF established the non-profit Palestine for Development Foundation (PsDF) to serve as its impact investment and corporate social responsibility arm. The focus is on supporting entrepreneurship, human capital (e.g., the Development Impact Bond Program), and micro, small, and medium-sized enterprises (MSMEs). While the PIF is governed by the PA, it has invested in Gaza through a grant facility for MSMEs and direct investments, including in the territory's power plant and natural gas fields.

The Fund also administers the Lebanon Economic Empowerment Program, which aims to help Palestinian refugees in Lebanon. In partnership with four Palestinian and Lebanese financial institutions, the program provides loans ranging from \$500 to \$5,000 for income-generating projects. To date, the program has extended over 4,058 loans, totaling \$7.25 million. Roughly 50% of the loans have been allocated to youth and 25% to women. The Fund also committed US\$ 25 million to the Tamkeen Fund, a US\$ 500 million investment vehicle established by the Islamic Development Bank targeting projects with a developmental and social impact.

### 3. Donations/Social Development Programs/Foundations (aggregated AuM: US\$ 493 bn)

SWFs also support public services and social welfare by establishing non-profit foundations, supporting or creating social development programs, or donating to existing charities. Some funds, such as Abu Dhabi's Mubadala, choose to donate to existing charities. Other funds, such as the Crown Investments Corporation of Saskatchewan, provide bursaries to vulnerable members of society (e.g., indigenous students) to support educational goals. Some funds, such as the Korea Investment Corporation, decide to create programs or policies within their organizations to support the professional development of the socially vulnerable. In times of war or natural disasters, SWFs may be asked to reinvent themselves and provide goods or services to local groups, such as the State Property Fund of Ukraine supporting local businesses in the early days of the Russian invasion.

In-depth case studies:

#### » **Indonesia Investment Authority (INA, AuM \$9 billion)**

The Indonesia Investment Authority (INA) was established in 2020 to facilitate foreign investment and support the country's infrastructure needs. Initially capitalized with US\$ 5 billion from the Indonesian government, the Fund has raised an additional \$4.3 billion from other sovereign investors. Modeled after India's NIIF, the INA is primarily focused on transport and logistics, green energy and transformation, digitalization and digital infrastructure, and healthcare. The Fund has devised three investment schemes: i) direct investments and co-investments; ii) a platform model dedicated to investing in a specific theme; and iii) a GP-LP scheme that is yet to be put into practice.

The INA looks beyond its financial and economic impact and is working to improve the social conditions within the country. The INA Social Program for Inclusivity, Resilience, and Empowerment (INSPIRE) shows commitment to social progress and allows the organization to engage with communities, foster growth, and work for change. The beneficiaries are people with disabilities, women, and children.

The Fund has partnered with Kita Setara, an organization working to build a shared learning space for people with disabilities. INA has hosted fundraisers and donated the proceeds to support the organization. The Fund has also developed a relationship with Yayasan Cahaya Mutiara Ubud, a foundation for people with disabilities in Bali. The relationship allows INA staff to engage and learn from its community and, in exchange, donate goods and services.

» **Caisse des Depots et Consignations (Tunisia, US\$ 3 bn)**

In 2011, following the Arab Spring, the government of Tunisia established the Caisse des Depots et des Consignations (CDC) as the country's sovereign wealth fund. Modeled on the French CDC and the Moroccan CDG (Caisse de Depots et de Gestion), the Fund independently manages a portion of the state's financial assets and invests in the local economy, focusing on promoting SMEs, particularly in less developed regions.

The CDC supports sustainable development within the country, through its investments and participation in programs targeted at improving the living conditions of the most vulnerable. For example, the CDC partnered with the Spanish foundation la Caixa to finance Programme Incorpora. The initiative sought to help those excluded from the labor market, such as people with disabilities, young people, and single mothers. The program, which was implemented by the International Organization for Migration, provided training for the excluded and explored the best methodologies for fostering integration. In addition to providing financing, the CDC also worked with domestic companies to create more employment opportunities for at-risk groups.

Additionally, the CDC is a shareholder in Zitouna Tamkeen (ZT), an economic empowerment institution designed to use Islamic microfinance to improve the economic prospects of the most vulnerable.<sup>21</sup> As of 2020, ZT, with a total portfolio of roughly US\$26 million, has financed over 12,000 income-generating projects, resulting in over 40,000 jobs.

The CDC has also participated in several initiatives focused on strengthening the start-up ecosystem within Tunisia. For example, EnLien, a partnership with the French Development Agency (AFD), has provided technical assistance to over 500 entrepreneurial pursuits and directly financed 309 of them. The work has a particular focus on generating more employment opportunities for women. CDC also invested US\$43 million in ANAVA, the first euro-denominated fund of funds within Tunisia that aims to improve the financing and international expansion of Tunisian startups.

## INDIRECT CONTRIBUTIONS (E.G., INVESTMENTS TARGETING SOCIAL SERVICES OR WELFARE)

### 4. SWFs with investments targeting social services or welfare (aggregated AuM: US\$ 169 bn)

SWFs also pursue investments in underserved sectors that will improve public services within the country or benefit vulnerable segments of

<sup>21</sup> | Another partner is Jaida Fund, which is partly owned by the Caisse de Dépôt et de Gestion of Morocco, a state-owned investor, and France's Caisse des Dépôts et Consignations.

society. As large capital allocators, sovereign investors can prioritize investments in underserved sectors or those deemed important for their domestic development. Many of these funds have broad mandates and are in developing countries, such as the National Development Fund of Saudi Arabia and Senegal's FONSIS; however, some sovereigns in developed countries, such as Spain's COFIDES, allocate a percentage of their portfolios to focus on domestic social impact. Other funds, such as the Nigeria Sovereign Investment Authority, invest in social infrastructure that promotes economic development in underserved regions.

In-depth case studies:

» **The Sovereign Fund of Egypt, TSFE (Egypt, US\$ 2 bn)**

The Sovereign Fund of Egypt (TSFE), established in 2019, seeks to contribute to the sustainable economic development of Egypt. TSFE is funded through the transfer of underutilized state assets and maintains an independent budget, carrying surpluses over each year. The Fund aims to attract private investment to Egypt and improve the efficiency of existing state-owned assets. The portfolio, which is built around the UN SDGs and Egypt's 2030 plan, is divided across five sub-funds: TSFE Infrastructure and Utilities sub-fund; TSFE Healthcare and Pharmaceuticals sub-fund; Tourism, Real Estate, and Antiquities sub-fund; TSFE Financial Services and Fintech sub-fund; and the TSFE Pre-IPO sub-fund. Additionally, the Fund has identified other priority areas, such as education and agriculture, that may eventually develop into separate sub-funds.

The Fund has made several investments in improving affordable schooling and higher education for all tiers of society and expanding skill-based education. For example, in October 2022, the Fund joined the Egypt Education Program, of which TSFE is the anchor investor, to acquire a majority stake in Saleh el Telmeez (SET), an educational provider serving millions of K-12 Egyptian students. TSFE explained the motivation of the transaction was to expand educational content to middle and lower-income individuals across the country.

In January 2023, TSFE, through its healthcare sub-fund, and B Investments Holding S.A.E. ("B Investments"), BPE Partners' investment vehicle, announced two agreements to invest over US\$ 80 million in healthcare and pharmaceutical distribution in Egypt. The first agreement saw TSFE commit US\$ 4 million to B Healthcare Investments, and the second agreement announced BPE Partners committed additional capital to TSFE's healthcare sub-fund, targeting investments in pharmaceutical distribution and trade services, with under-served cities in Egypt as the priority.

» **Khazanah Nasional Berhad, Malaysia (Khazanah, US\$ 30 bn)**

Khazanah Nasional Berhad (Khazanah), incorporated in 1993, is Malaysia's strategic investment fund. The Fund's portfolio is categorized into four sections: i) the investments portfolio (US\$ 26.6 billion), which operates as a savings vehicle for future generations; ii) the Dana Impak Portfolio (US\$1.2 billion); developmental assets (US\$ 1 billion), which functions as a development fund targeting assets poised to deliver long-term positive economic impact; and iv) special situations (assets which require active management to turn around challenging situations).

Khazanah launched the Dana Impak Fund in 2021, aiming to allocate US\$1.2 billion over five years to increase Malaysia's economic competitiveness and build national resilience while delivering socio-economic benefits and impact to the community. As an important component of the government's Advancing Malaysia strategy, the Dana Impak Fund targets investments in digital society and tech, food and energy security, decent work and social mobility, quality health and education, and building climate resilience. To help measure the impact of specific investments, the Fund developed the SEMARAK framework, an impact assessment tool adapted to the Malaysian context.

In 2023, the Fund disbursed US\$ 187 million in the Future Malaysia Program, the Future Malaysia Skills, MSME Digitalization, and the Khazanah Impact Innovation Challenge (aimed at tackling the climate challenge for Malaysia's food security). Khazanah also has several affiliated organizations (e.g., Yayasan Hasanah) that work to deliver societal value for Malaysians.

## *Concluding Thoughts*

Fiscal and development pressures are driving governments to seek innovative financing solutions—leading some SWFs to focus on national and human development, prompting a change in their allocation of resources across the long-term, medium-term, and present. Some of these initiatives have focused on the current generation (e.g., cash transfers to citizens and contributions to non-profits), while others retain traditional medium- and long-term objectives (e.g., government transfers and investments in education and affordable housing).

The evolution of SWFs requires certain thinking. Historically, these funds have been long-term savings vehicles or countercyclical fiscal buffers, so the shift to a development function can lead to concerns of scope creep, which, critics fear, will squander existing national wealth. Two other risks are corruption and investment decisions driven by short-term political objectives. Corruption—always a risk with SWFs, as the recent case of Malaysia's 1MDB demonstrates—is more likely when the fund transfers

cash (or dividends) to current generations or invests in domestic development projects. In countries where SWFs directly finance public services or welfare initiatives, there may be a temptation to use resources to buy political loyalty or fund overly ambitious projects with little chance of success (i.e., white elephants). Often, these investments are politically expedient but deplete resources without accomplishing their stated objectives (e.g., the Oil Stabilization Fund of Iran funding social projects and subsidies).

There are several steps SWFs can take to mitigate these risks. SWFs should have a clear mission aligned with the government's macroeconomic framework and political economy. The fund's objective should determine its operations and what role, if any, it will play in funding human development and social welfare programs.<sup>22</sup> Policymakers should also establish sufficient governance structures that hold SWFs accountable. When SWFs are active in the domestic economy, there should be coordination with monetary and fiscal authorities. Finally, SWFs should improve transparency, particularly around development projects and cash transfers, with eligibility criteria, amounts, transfer mechanisms, and purpose publicly available. Deeper insights into the operations and performance of the fund will help SWFs enhance public trust.

Greater transparency will also help inform the debate on the effectiveness of SWFs in helping to fund public services and human development. While the case studies above illustrate the work currently being done, it is often difficult to gauge the scale of these programs, as the data publicly available is limited—making it difficult to discern if these initiatives are significant or a facade. More work in this area is needed to help ensure that SWFs efficiently utilize their collective US\$ 12 trillion portfolio for the greatest societal benefit.

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<sup>22</sup> Funds with multiple mandates should delineate the size of the respective portfolios and the corresponding investment strategies and activities.

# PART 3.

*Explaining  
scale-up:  
fiscal, political  
economy and  
delivery lessons  
from six case  
studies*

# 8.

## MACRO-FISCAL DIMENSIONS OF SOCIAL ASSISTANCE EXPANSION

Nicolo Bird and Emine Hanedar

### *Introduction*

The expansion of social assistance programs, or social safety nets (SSNs), has become a crucial policy tool for emerging market and developing economies (EMDEs) seeking to alleviate poverty and bolster economic stability. The growth of SSNs in EMDEs—particularly through direct cash or in-kind transfers—has significantly contributed to the decline in global poverty (Barrientos, 2013). The expansion of national SSNs has been attributed to different factors, including economic development, increased fiscal space, democratization, and rising economic inequality and subsequent demands for redistribution (Dorlach, 2020; Huber & Stevens, 2012; Niño-Zarazúa et al., 2021; Seekings, 2012). Another literature focuses on advances in technology and state capacity, innovations in digital technologies related to (mobile) banking, civil registration and vital statistics (CRVS), and government management information systems (MIS) (Bird & Hanedar, 2023; Prady et al., 2020).

While the literature on the development of welfare states and redistribution preferences in EMDEs is expanding, it remains less comprehensive than the literature focused on advanced economies (AEs), which has been studied in greater detail (Esping-Andersen, 1990; Lindert, 2004; Milanovic, 2000). The availability of better cross-country and historical data in AEs contributes to more nuanced comparative analyses and a deeper understanding of trends in social spending.

Despite significant differences in social spending between EMDEs and AEs, historical trends reveal notable similarities. Recent research by Lindert (2021) indicates that, although AEs spend substantially more on health and social protection than EMDEs, the latter spend more on social programs compared to AEs at similar GDP levels, historically. This suggests that, despite the widespread differences in social spending, convergence is possible as countries develop. However, the mechanisms through which

economic development leads to increased social spending remain unclear, and the challenges facing SSN expansion in EMDEs may differ from those in AEs. EMDEs are often constrained by limited fiscal space, fragile institutions, weaker state capacity, and political instability. Conversely, EMDEs are also more likely to receive external financial support from international organizations and donors to expand SSNs, particularly during periods of weaker macroeconomic and fiscal conditions.

Section 2 investigates how macro-fiscal contexts, both before and after reform, have influenced the expansion of SSNs through six recent case studies of emerging and developing countries: Brazil (2001-07), Egypt (2013-19), Pakistan (2005-11), the Philippines (2007-13), Senegal (2013-19), and Zambia (2012-18). The study addresses the following questions for each country: What were the macroeconomic conditions, such as GDP growth and inflation, during the expansion of SSNs? Did the levels of poverty, or economic inequality influence policy decisions? Were fiscal balances improving or deteriorating during this period, and was this due to rising or declining revenues or expenditures? These questions are explored across case studies to identify commonalities and differences in a comparative approach.

Section 3 summarizes the results from the case studies. EMDEs have introduced or expanded SSNs during both times of increasing and declining growth, and both improving and declining fiscal stances. Typically, governments have expanded SSNs in times of growing economic growth and fiscal space, with greater allocation of towards social spending (e.g., Brazil and the Philippines); but also, SSNs have been expanded to protect vulnerable groups in times of economic downturns (e.g. Pakistan, Zambia) and/or during fiscal consolidations (e.g., Egypt, Pakistan and Senegal). Moreover, grants have contributed to the expansion of SSNs in LICs (e.g., Senegal and Zambia).

Overall, these findings suggests that while macroeconomic factors do impact the motivation for expanding SSNs, their interaction with political economy and socio-economic dynamics are essential to contextualizing these episodes. Looking forward, narrowing the data gaps on SSNs across countries and time would limit the ability to draw broader conclusions.

## *Case Studies*

### **BRAZIL**

*The main objective of Programa Bolsa Familia (PBF) was to reduce deep inequality and significant poverty. While macro-economic factors were not the main motivation behind the introduction of social assistance, the favorable macro-fiscal context supported the rapid expansion between 2004*

and 2014. This expansion occurred in an evolving fiscal context in Brazil, as tight fiscal and monetary policies implemented in the late 1990s supported greater social spending in the mid-2000s.

### Macroeconomic and Social Context

**The expansion of PBF occurred in a favorable macroeconomic context and improved structural conditions.** Brazil's external position strengthened during the years PBF was introduced and subsequently expanded. Favorable global market conditions, including rising demand and commodity prices contributed to high trade and current account surpluses. Positive financial market sentiment, abundant global liquidity, and high domestic interest rates further boosted capital inflows. The three macroeconomic pillars during the presidency of Fernando Henrique Cardoso (1998-2002) included a primary surplus target, an inflation target, and a flexible exchange rate (Orair & Gobetti, 2017). These policies were maintained during the first mandate of the Luiz Inácio Lula da Silva government (2002-2005). The result was a significant decrease in inflation both before and during the period PBF was rolled out, as inflation decreased from 12.5 percent in 2002 to 3.1 percent in 2006. Increased trade openness and improved public infrastructure further contributed to economic growth during the 2000s.

**The Brazilian economy was recovering from instability in international markets in 1998 and subsequent pressures in 2002.** Financial turbulence in emerging markets and corporate scandals in developed economies led to a decrease in risk appetite and capital outflows by investors. Both the Lula da Silva government's commitment to the macroeconomic pillars and a loan of unprecedented size, agreed with the IMF in September 2002, helped manage existing vulnerabilities before the change in macroeconomic outlook (dos Santos, 2005).

**PBF contributed to reducing high income equality and poverty rates in Brazil.** The Gini index for Brazil in 2001 was among the largest in the world at 58.4. Despite its stable middle income status, extreme poverty in country was 13 percent. During the first mandate of the Lula da Silva government, structural reforms focused on economic growth and poverty reduction to complement sound fiscal and monetary policies, expanding on the policies originally introduced during the Henrique Cardoso government. PBF played an integral role in poverty and inequality reduction in Brazil, with empirical studies estimating that the program was responsible for 17 percent of observed inequality reduction between 2001 and 2006 and 10 percent of the reduction in inequality between 2001 and 2015, with especially large impacts in rural areas (de Souza et al. 2019).

## Fiscal Context

**Improved fiscal balances accompanied reforms to social assistance.** The fiscal deficit decreased over the mid-2000s, going from 4.1 percent of GDP in 2002 to 2.7 percent in 2007. Meanwhile, debt-to-GDP remained on a downward trend, going from 76.1 percent to 63 percent of GDP over the same period (Figure 1.C.). Fiscal discipline over the 2002-2005 period favored the macroeconomic climate, with the introduction of social policies being accompanied by overall improving fiscal balances.

**Fiscal policy became less restrictive during the 2005-2010 period.** While the first mandate of the Lula da Silva government advanced a continuation of fiscal policy from the Henrique Cardoso government, the second term fiscal policy turned to more expansionary measures. Tax deductions on priority investments and exemptions to state-owned companies from contributing to the primary surplus led to a less restrictive fiscal regime. These measures were accompanied by the reduction of the surplus target, leading to a gradual decrease in primary surplus between 2004 and 2010 (Orair & Gobetti, 2017). Overall balances were not severely affected, nonetheless, largely driven by booming growth during the second half of the decade.

## Revenue Assessment

**Revenues as a share of GDP increased significantly during the years PBF was introduced.** Government revenues increased between 2001 and 2004 from 33.1 to 35.3 percent of GDP, driven substantially by greater local tax revenues and indirect taxes, particularly VAT. Economic dynamism during the 2002-2005 period largely contributed to large increases in tax revenue, as fiscal targets were maintained.

**Tax policy during the 2005-2010 period prioritized tax cuts.** During the second mandate of the Lula da Silva government (2005-2010), tax policy was reoriented towards greater tax cuts. That change was relevant, because it interrupted a two-decade rising trend of the tax burden until 2005, after which the tax burden became more stable. Despite tax cuts, revenue kept up with the accelerated pace of GDP growth, giving more freedom in terms of fiscal policy to support social spending. Between 2011–2014, Brazil experienced an economic downturn, which reduced tax-to-GDP as the previous tax cuts were maintained.

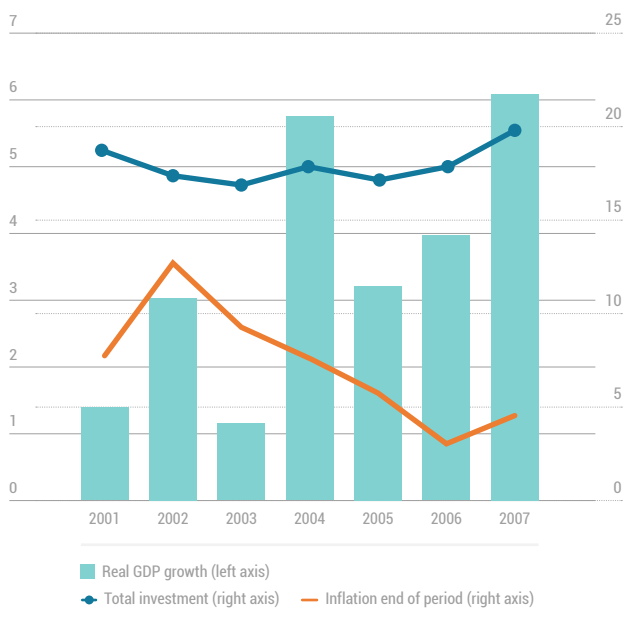
## Expenditure Assessment

**Government expenditure increased over the period PBF was rolled out.** The introduction of PBF concurred with unprecedented high government spending, with total government expenditure reaching 41 percent of GDP in

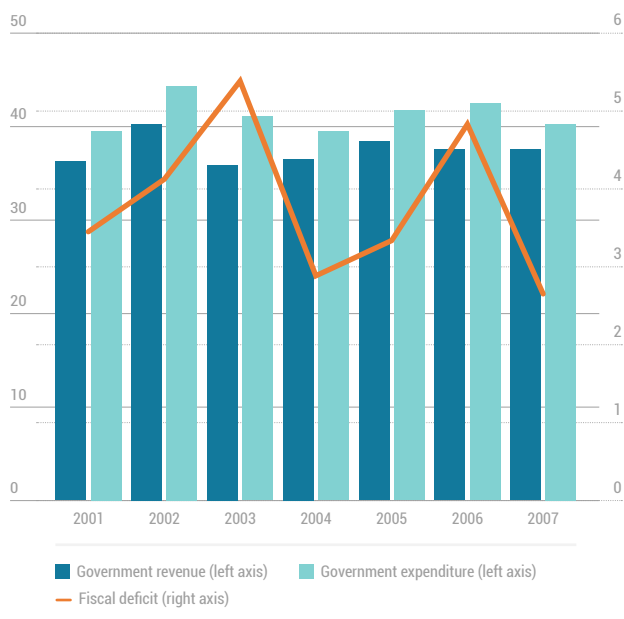
2003. Favorable economic conditions during the 2005-2010 period, opened the fiscal space to larger expenditures, particularly public investment. Expenditure on PBF increased as coverage expanded, almost doubling from 0.24 percent of GDP in 2004 to 0.46 percent in 2013. In terms of other social spending, general government current expenditure on education increased over the 2001-2007 period from 3.8 to 5 percent of GDP, while current spending on health changed little over the same period (Figure 1.D). A long-term perspective shows that social spending had increased rapidly after the years of military dictatorship, with federal social spending increasing from 9.1 percent of GDP to 13.7 percent between 1991 and 2015, driven substantially by expenditure on social benefits for pensions and unemployment.

### Box 1. Macro-fiscal Figures for Brazil

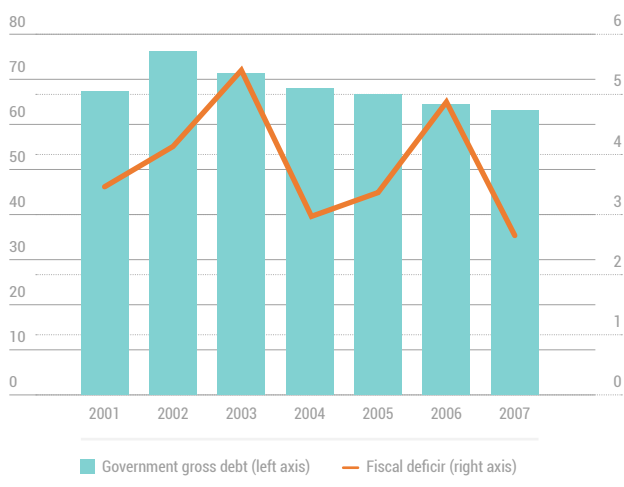
1.A. Growth, investment, and inflation



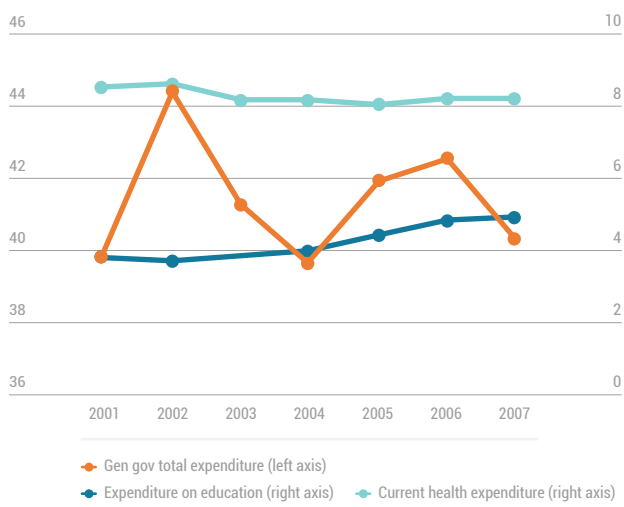
1.B. Revenue, expenditure and fiscal deficit



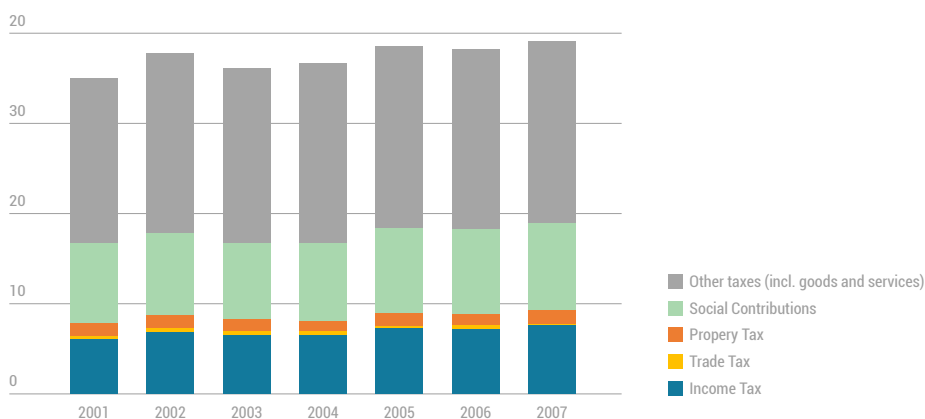
1.C. Government debt and fiscal deficit



1.D. General government expenditure



1.E. Disaggregated general government revenue



Note: Values are in Percent of GDP unless indicated otherwise.

Sources: WEO, WoRLD, World Bank Databank.

## EGYPT

*Despite implemented in an unfavorable macro-economic and fiscal context during 2017-19, the Takaful and Karama (TK) allocations proceeded as planned. Strong commitment to strengthening social assistance and the relatively small budget for TK seem key reasons. Currently, the coverage of TK increased significantly to more than 5 million households in Fiscal Year (FY)23 and allocations did not change despite the significant fiscal consolidation in subsequent years. As of FY23 TK is fully financed through the budget.*

### Macroeconomic and Social Context

**The years before the implementation of the Takaful and Karama program (TK) were characterized by the 2011 political instability which reduced confidence, economic activity, and tourism.** TK was launched in 2015 with the support of US \$400 million the World Bank under the Development Policy Financing (DPF). In preceding years Egypt had suffered from low and non-inclusive growth and high unemployment (IMF, 2015a). Against the 2011 events, structural economic problems were unaddressed. In 2014, Egypt adopted a new constitution with a new elected president with structural reforms to pursue inclusive growth, job creation, promoting investment, fiscal adjustment to bring debt under control and protecting the poor. As part of this commitment, the TK was launched. Egypt started also implementing some other reforms, including fuel subsidy reform.

**The implementation of TK coincided with a very unfavorable macro-economic environment.** Egypt suffered a balance of payments problem, including from an overvalued exchange rate, persistent inflation, large budget deficits, rising public debt, and low growth with high unemployment. In 2016, a home-grown IMF supported program was launched. As part of the adjustment the exchange rate was floated, and strong fiscal consolidation was launched to place public debt on a declining path. The program envisaged an adjustment in the primary balance of 5½ percent of GDP over 2017-2019. To this end, key measures were the introduction of the VAT and phasing out fuel subsidies, the latter which exceeded 3 percent of GDP in FY17.

**Strengthening social protection was a critical component of the government's program aimed to ease the burden of macroeconomic adjustment on the vulnerable.** The program included commitments to direct about 1 percent of GDP of the fiscal savings to such as food subsidies, cash transfers to the elderly and low-income families, and other targeted social programs in the first year of the program; the introduction of the VAT and energy price increases were included as prior actions. The overall objective was to move from inefficient energy subsidies to better-targeted programs that directly support vulnerable households.

## Fiscal Context

**Public debt reached its peak in 2017 and rapidly declined on the back of strong fiscal consolidation.** Public debt increased from 79.8 percent of GDP in 2013 to 97.8 percent of GDP in 2017. The main driver of the public debt was the high fiscal deficit which was on average 11.3 percent of GDP in the preceding years. The reduction of the primary balance by 4.2 percent of GDP over three years, reduced the public debt significantly to a remarkable 80.1 percent of GDP in 2019. The launch of TK was initially not directly related to the 2017 program or the energy subsidy reform but to the reforms as planned in 2014. At the early stages of the program, the coverage of TK was not high enough to help mitigate the impact of the adjustment program. However, as the coverage of TK increased significantly over the period 2017-2019, it became a key factor in protecting poor households from adverse macro-economic developments. Efforts to further expand the coverage of TK remain as key policy objectives.

## Revenue Assessment

**Despite reform efforts revenues remained fairly stable in this period.** Total revenues declined from a peak of 20.4 percent in 2014 to 16.8 percent in 2019, while total tax revenues increased from 11.6 percent in 2014 to 13.2 percent in 2019.<sup>69</sup> A key measure increasing tax revenues was the replacement of the sales tax with the VAT in 2016. In 2018, the authorities embarked on a path of increasing tax revenues under the medium-term Revenue Strategy. As part of this strategy and general budget discussions the authorities implemented several smaller measures especially in indirect taxes such as excises to increase revenue. The authorities also implemented several measures to strengthen revenue administration. While tax revenues had increased prior to COVID-19 there is room to increase taxes further, especially through the income tax, to support investments in priority sectors as health, education and infrastructure. There are no earmarked taxes for the Takaful and Karama which are financed through general revenues.

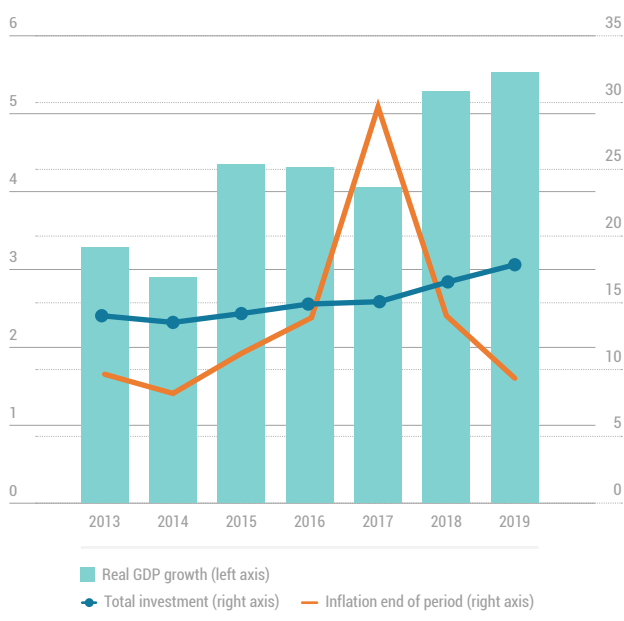
## Expenditure Assessment

**The level and composition of primary spending has changed significantly during the implementation period of the TK.** During the consolidation period, government spending decreased substantially, from 33.9 percent of in 2014 to 26.9 percent in 2019. Meanwhile, spending on TK increased from 0.03 percent of GDP in FY2016 to 0.33 percent of GDP in FY20. Initially, the WB financed the entire TK. Recently, contribution varied and as of FY22 contributions reduced to almost zero. Spending on the TK increased to 0.3 percent of GDP in FY20 after which it declined to 0.2 percent of GDP.<sup>70</sup> The fuel subsidy reform led to a reduction of fuel subsidies from 4 percent of GDP in FY15 to 0.6 percent of GDP in FY20. The wage bill reform in the

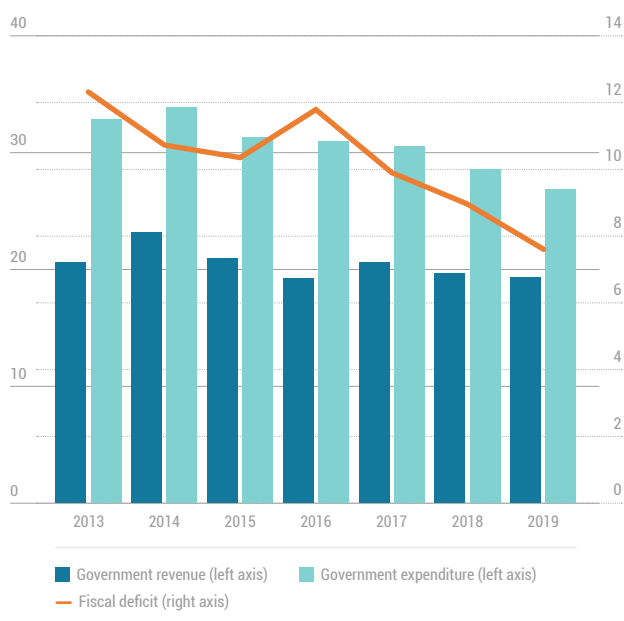
years before the introduction of the TK, reduced the wage bill from 8 percent in FY15 to 5 percent of GDP in FY20. In 2016, The Egyptian constitution mandated gradually a total of 10 percent of GDP in three years minimum allocations on health, education and research and development. In practice, this commitment has not always been met, as education spending has declined in recent years (see chart 2.D).

## Box 2. Macro-fiscal Figures for Egypt

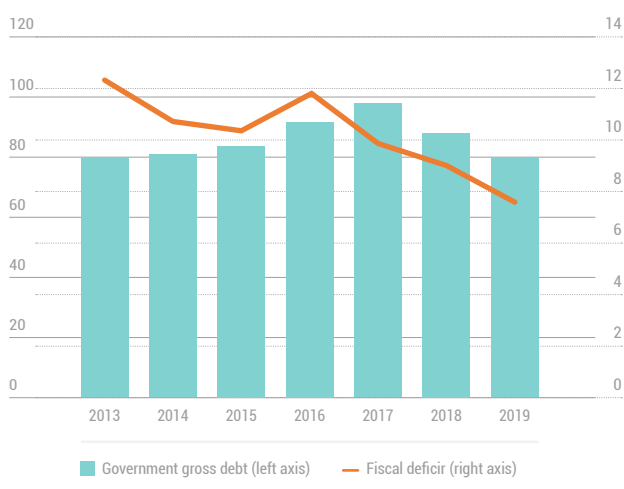
1.A. Growth, investment, and inflation



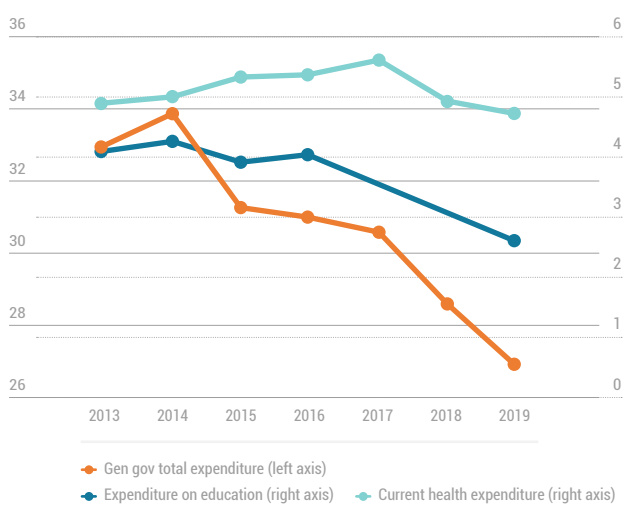
1.B. Revenue, expenditure and fiscal deficit



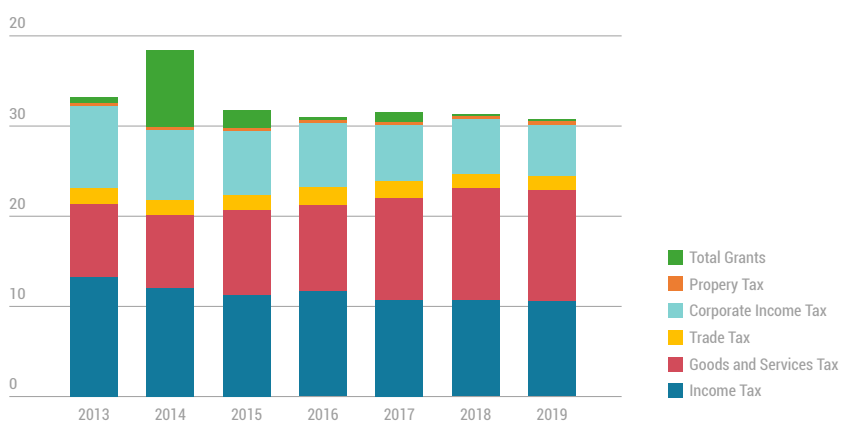
1.C. Government debt and fiscal deficit



1.D. General government expenditure



1.E. Disaggregated general government revenue



Note: Values are in Percent of GDP unless indicated otherwise.

Sources: WEO, WoRLD, World Bank Databank.

## PAKISTAN

*In the early 2000s, Pakistan experienced robust economic growth driven by effective macroeconomic management and structural reforms, although inflation and external imbalances emerged by 2007. The 2007-2008 period brought significant shocks, including global crises and security issues, which worsened the current account deficit and led to high inflation. In response, Pakistan launched a stabilization program with IMF support in October 2008, aimed at restoring financial stability while protecting the poor. Despite improvements in economic activity and inflation control during the program, fiscal challenges persisted, with public debt and expenditures remaining high.*

### Macroeconomic and Social Context

**In the early 2000s, Pakistan experienced notable economic performance.**

Strong macroeconomic management and structural reforms resulted in high growth, a reduction in debt, and an improved business climate. Pro-poor policies contributed to a reduction in poverty, although further efforts were necessary to decrease poverty over the medium term. Following the successful implementation of two IMF-supported programs in the early 2000s, economic growth remained robust in 2007, bolstered by favorable global economic conditions and expansionary economic policies. However, inflation began to rise, and external imbalances emerged. Between 2005 and 2008, economic performance remained strong, but external imbalances worsened. While substantial capital inflows led to a surplus in the overall balance of payments, the current account deficit continued to widen. Given the political context, the scope for tightening macroeconomic policies appeared limited.

**In 2007-2008, Pakistan faced significant shocks, including the energy and food crises, global financial turmoil, and adverse security developments.**

The current account deficit widened further, net capital inflows declined sharply, the currency depreciated substantially, and inflation surged to double digits. A delay in passing through higher international prices to domestic consumers resulted in a large increase in the fiscal deficit. The monetization of the fiscal deficit by the State Bank of Pakistan further exacerbated inflation and led to a significant decline in international reserves.

**In October 2008, the authorities initiated a stabilization program aimed at restoring financial stability while safeguarding the poor.**

This program was supported by an IMF Stand-By Arrangement. The IMF-supported program had two primary objectives: restoring macroeconomic stability and confidence through the tightening of macroeconomic policies and ensuring social stability with adequate support for the poor and vulnerable populations in Pakistan. The policies outlined in the program were designed to achieve these interrelated objectives. The program envisaged a significant

tightening of fiscal and monetary policies to reduce inflation and strengthen the external position, including several structural measures in the fiscal and financial sectors. During the IMF-supported program, economic activity began to rebound, inflation declined, and, crucially, a full-blown crisis was averted. Over the period between 2001 and 2010, extreme poverty declined substantially, from 33.3 to 9.6 percent (World Bank, n.d.).

### Fiscal Context

**Public debt increased in 2008 and fluctuated around 55 percent of GDP in the aftermath of the crises.** Public debt had decreased from 47.9 percent of GDP in 2005 to 44.2 percent of GDP in 2007 due to favorable debt dynamics. The fiscal deficit more than doubled from 3.3 percent of GDP in 2006 to 7.1 percent of GDP during the crisis year of 2008. Although it decreased to 5 percent of GDP in 2009, it rose again to approximately 6.7 percent in 2011. The government aimed to control spending, scaled back borrowing from the State Bank of Pakistan, and implemented some tax and administrative reforms. Tax revenue collections failed to improve and, in fact, decreased as tax reform efforts were hampered by insufficient political support. Despite a reduction in total spending by 1.25 percent of GDP, high expenditures on subsidies, security, and interest, as well as a 15 percent salary increase, crowded out more productive spending.

### Revenue Assessment

**Government tax revenue was under 9 percent of GDP, one of the lowest levels globally.** Tax compliance was low due to inadequate public services and perceived unfairness in the tax system. Agriculture, a major sector in Pakistan, was outside the tax base. Additionally, only 1 percent of the population filed taxes. Revenues collected by provinces were minimal and contributed only a small share to provincial spending. Tax revenues increased by 0.75 percentage points from 2005 to 2008 due to strong economic activity and improvements in tax administration. However, progress in broadening the tax base was limited. During 2008-2011, the authorities implemented some reforms in tax administration and removed certain exemptions, but these measures were insufficient to prevent the tax-to-GDP ratio from declining to 9.5 percent of GDP, on par with the tax-to-GDP level of 2005.

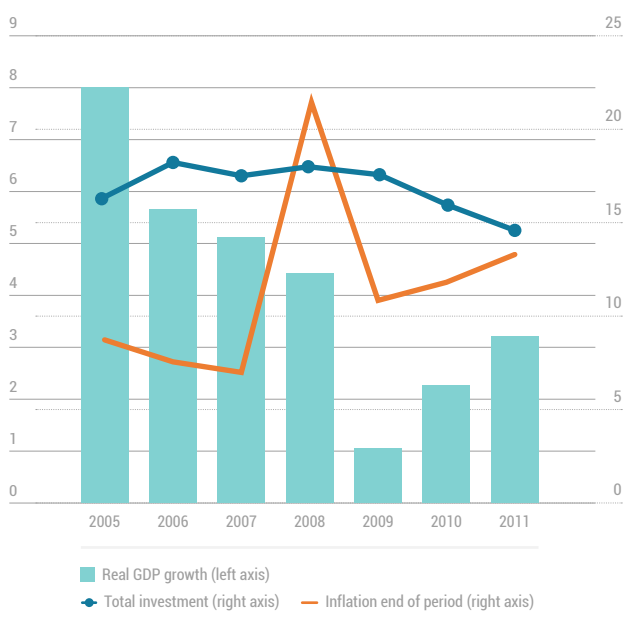
### Expenditure Assessment

**Expenditures increased during the crisis year and subsequently decreased but remained well above the 2005 level.** Spending averaged 20 percent of GDP between 2008 and 2011. Interest payments constituted a significant portion of total spending, averaging 4.5 percent of GDP during this

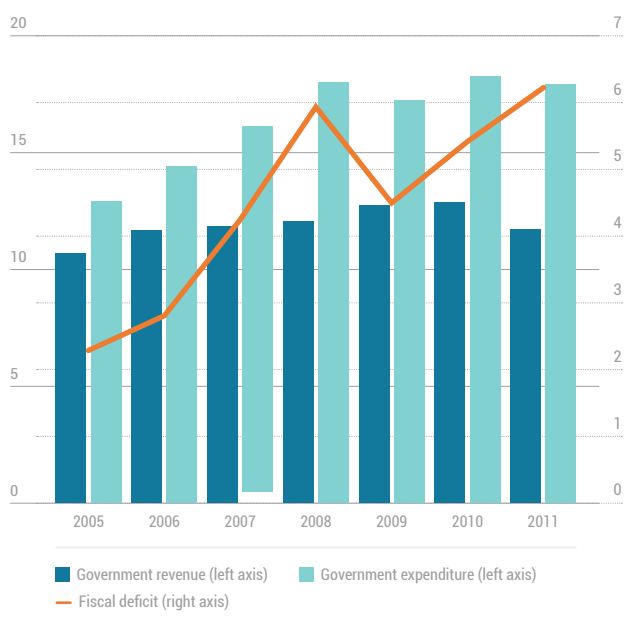
period. Defense spending also remained broadly around 2.5 percent of GDP post-crisis. Large, untargeted electricity subsidies reached approximately 1.5 percent of GDP in 2010/11 due to high subsidy levels and poor collection efforts. Increasing investment in infrastructure and education remained a key priority throughout these years.

### Box 3. Macro-fiscal Figures for Pakistan

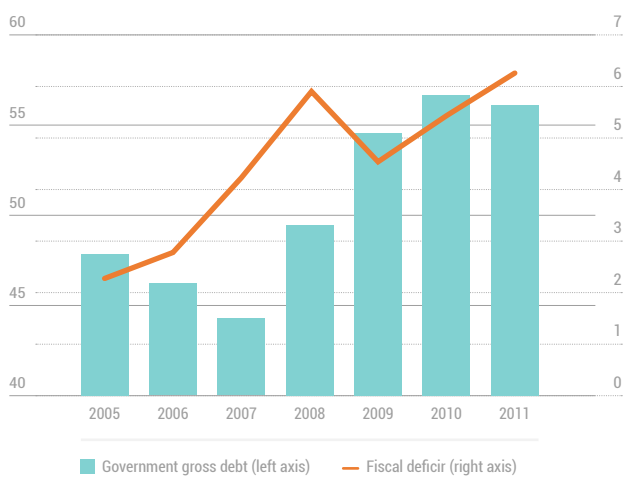
1.A. Growth, investment, and inflation



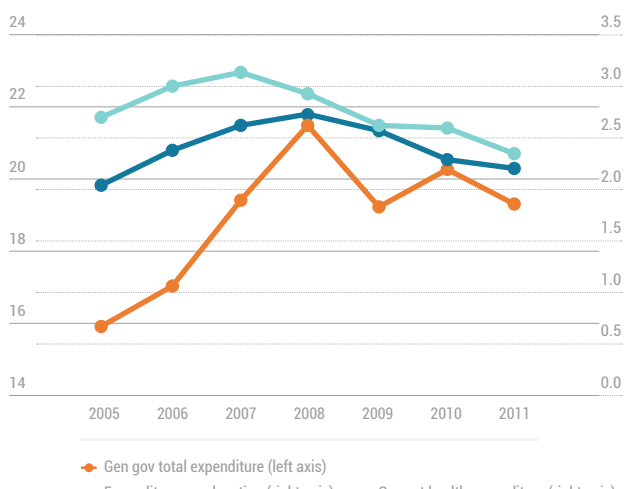
1.B. Revenue, expenditure and fiscal deficit



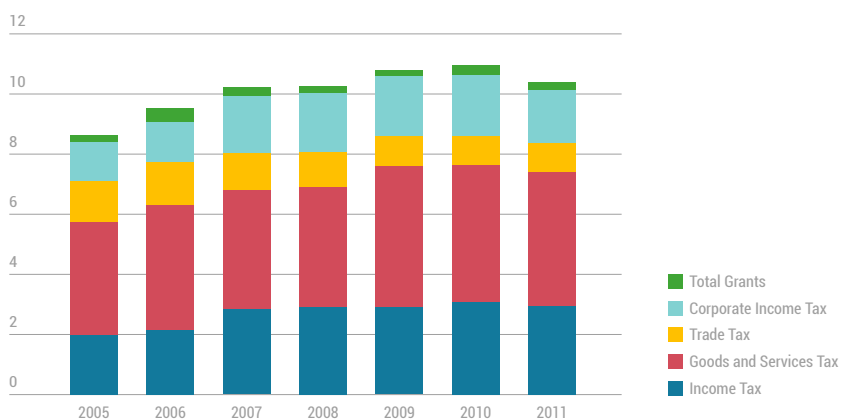
1.C. Government debt and fiscal deficit



1.D. General government expenditure



1.E. Disaggregated general government revenue



Note: Values are in Percent of GDP unless indicated otherwise.

Sources: WEO, WoRLD, World Bank Databank.

## PHILIPPINES

*Before the implementation of the Pantawid Pamilya Pilipino Program (Pantawid Pamilya or 4Ps) in 2008, the Philippine economy experienced strong growth, driven by critical reforms in taxation, the power sector, and the banking system. However, growth declined sharply during the global financial crisis, though it rebounded strongly in 2010 due to supportive macroeconomic policies and strong private demand. Despite significant reductions in public debt and improved investor confidence, high fiscal deficits and low revenue generation remained challenges. The scaling up of 4Ps from 2010 onward saw increased public expenditure focused on SSNs and infrastructure, while efforts to broaden the tax base and enhance revenue collection were crucial for addressing fiscal constraints.*

### Macroeconomic and Social Context

**The Philippine economy exhibited robust growth in the years preceding the implementation of the 4Ps.** By early 2004, the Philippines was at a pivotal juncture, requiring comprehensive reforms to address economic vulnerabilities and achieve a sustainable fiscal position. Three critical actions were identified: tax measures (including raising rates on excise duties and VAT), power sector reforms, and strengthening the banking system. By 2005, progress in implementing these reforms was evident, with GDP growth surpassing expectations. However, despite a notable recovery in exports, high unemployment persisted. GDP grew by just over 6 percent in 2004, moderated to approximately 5.25 percent in 2005 and 2006, and increased to 6.5 percent in 2007. By 2007, positive investor responses to recent economic policies, coupled with fiscal and power sector reforms, reduced public debt and improved investor confidence. The capital account improved, the peso strengthened, and sovereign debt spreads decreased, leading to a slight reduction in poverty. Although poverty fell during the 1990s, the decrease was relatively modest due to slower economic growth compared to regional peers.

**The scaling up of the 4Ps occurred in a context of volatile growth, amidst the global financial crisis.** GDP growth declined from 6.5 percent of GDP in 2007 to 1.5 percent in 2009. Following the slowdown during the global financial crisis, economic growth rebounded strongly in 2010, reaching 7.4 percent. This recovery was supported by favorable macroeconomic policies and strong private demand. Inflation remained low, and external inflows contributed to a significant surplus in the balance of payments. Strong policies enabled the government to create policy space to navigate global uncertainties post-crisis. The 4Ps was introduced in 2008 and expanded significantly in 2010, eventually reaching 11 percent of the population by 2011.

## Fiscal Context

**Public debt decreased significantly due to robust economic growth and fiscal measures, declining by approximately 17.5 percent of GDP from 2004 to 2010.** Despite this reduction, public debt remained high at 48 percent of GDP. The primary focus of debt management was to reduce gross financing needs and exchange rate risk. The fiscal deficit decreased to about 0.6 percent of GDP in 2009 and 2010 but rose to approximately 2 percent of GDP in 2011, remaining high compared to regional peers. Limited fiscal space, characterized by high debt and low revenue, necessitated a fiscal strategy focused on enhancing tax administration and reorienting expenditure towards social sectors and infrastructure.

## Revenue Assessment

**Revenue trends were volatile between 2004 and 2013, with a gradual increase.** Revenues rose from 12.5 percent of GDP in 2004 to 18 percent in 2007. This was driven in part by measures increasing revenues, notably a rise in excise duty rates across products in January 2005; and the introduction of the *reformed VAT, which raised VAT rate from 10 to 12 percent in February 2006*. Revenue later fell to around 16.25 percent of GDP on average in 2009 and 2010, with a gradual recovery to 18 percent by 2013. Tax revenues were particularly volatile during this period, having decreased from 14.5 percent of GDP in 2004 to 12.5 percent in 2010 but improved back to 14 percent by 2013. The decline in tax revenues during 2009 and 2010 was primarily due to the erosion of the tax base, exacerbated by cyclical and legislative measures that eroded revenue, such as increased personal income tax exemptions and the replacement of VAT on power transmission with a franchise tax. On the other hand, measures to broaden the tax base and simplify the tax system were crucial, to increase revenue in the Philippines.

## Expenditure Assessment

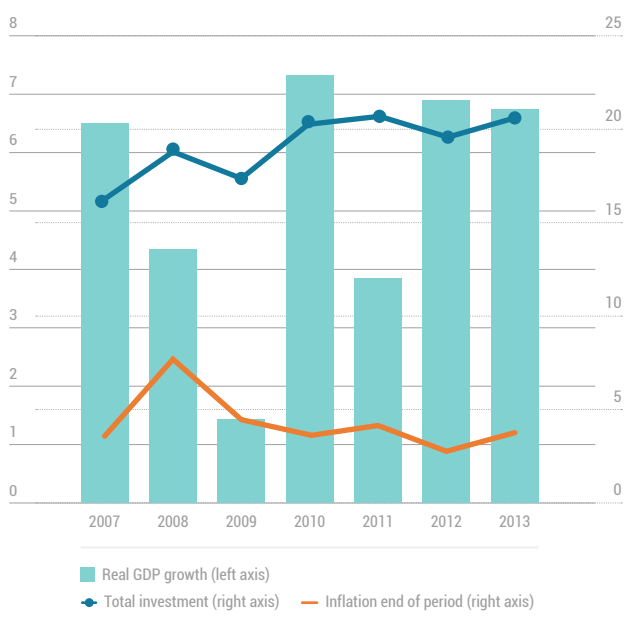
**Public expenditure decreased over the reform period, notably due to lower interest payments and wage bill spending.** Public expenditure declined by nearly 2 percent of GDP from 2004 to 2010. Over the same period, interest payments fell from 5.7 to 3.3 percent of GDP. Prior to the 4Ps program, expenditures decreased by 1.5 percent of GDP, although primary expenditure (excluding interest payments) remained largely unchanged. During the initial years of scaling up of the 4Ps (2007-2010), expenditures increased slightly by 0.5 percentage points of GDP, with primary expenditure rising by about 1 percent of GDP. The reduction in interest payments was often offset by higher spending or less reduction in other expenditure items.

**Spending on health and education was safeguarded despite expenditure consolidation.** Spending on health and education was largely untouched

despite consolidation efforts. This was part of a government project to re-orient public spending to support growth, with a focus on enhancing social safety nets, infrastructure, governance, and human capital, as well as improving access to finance for the poor. Meanwhile, the wage bill decreased from 5.8 percent of GDP in 2004 to 5.2 percent in 2010.

### Box 4. Macro-fiscal Figures for Philippines

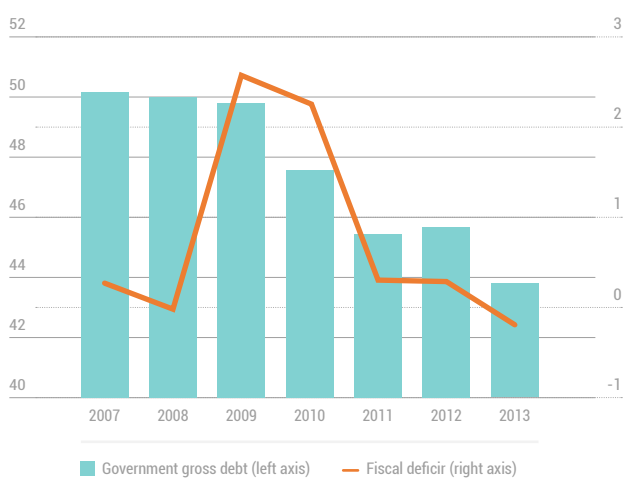
1.A. Growth, investment, and inflation



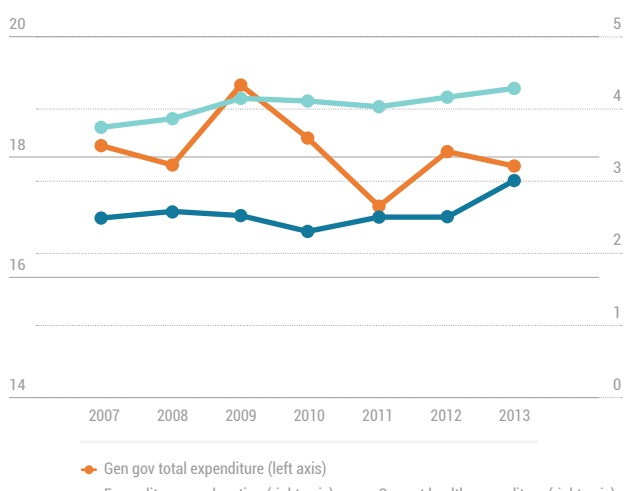
1.B. Revenue, expenditure and fiscal deficit



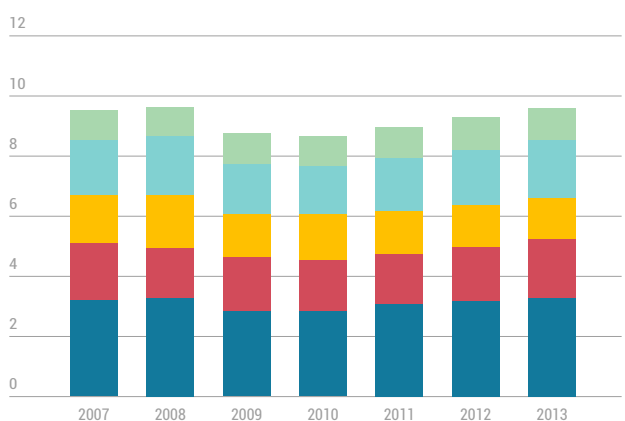
1.C. Government debt and fiscal deficit



1.D. General government expenditure



1.E. Disaggregated general government revenue



- Social Contributions
- Corporate Income Tax
- Trade Tax
- Goods and Services Tax
- Income Tax

Note: Values are in Percent of GDP unless indicated otherwise.

Sources: WEO, WoRLD, World Bank Databank.

## SENEGAL

*Senegal introduced its flagship SSN in a context of strong and stable economic growth and rising investment, with fiscal consolidation measures and new grants leading to a deficit reduction and gradual revenue mobilization improvements. However, tax expenditures, low tax administration capacity, weak governance, and high informality hindered even greater macro-fiscal gains. While social spending increased during consolidation, mixed effectiveness of education and health policy hindered further social progress.*

### Macroeconomic and Social Context

**The expansion of SSNs in Senegal took place in the context of economic recovery and reform.** Despite positive long-term growth overall, Senegal's growth decline in the years prior to reform. Sluggish economic performance in Senegal was notably affected by a series of exogenous shocks, including spikes in food and fuel prices, the global financial crisis, regional droughts and floods, and later spillovers from Ebola. The newly elected government in 2012 proposed ambitious growth strategy (*Plan Sénégal Émergent*) which, along with more favorable macroeconomic conditions, contributed to a GDP growth above 6 percent over 2014-18. Total investment increased substantially, from 21 percent of GDP in 2011 to on average 25.2 percent over 2012-16.

**Inclusive growth was limited in the years prior to SSN reform.** People living under the national poverty line declined from 68 percent in 1994-95 to 48 percent in 2005-06 to 47 percent in 2011. Although economic growth did decrease from 4.5 to 3.3 percent during the latter period. Although economic growth was found to be pro-poor between 1995 and 2001, inequality increased thereafter, and income growth among the poorest households remained limited. Geographic inequalities also characterized Senegal, with the poverty rate in rural areas reaching 57 percent in 2011 (IMF, 2012). Despite significant economic growth over 2014-18, more efforts could have been made to support SMEs and broad-based economic development (IMF, 2017).

### Fiscal Context

**The government introduced a strategy for fiscal consolidation and address social and development needs.** While the fiscal deficit had been below 4 percent of GDP in 2007, it steadily widened in the next years, reaching 6.7 percent in 2011. In November 2012, Senegalese authorities set a medium-term fiscal objective with IMF support to reduce the fiscal deficit below 5 percent of GDP over 2013-14, and below 4 percent by 2015 (IMF, 2012).

**The fiscal stance improved through consolidation efforts and external financing.** The fiscal deficit decreased following consolidation, going from 4.9 percent of GDP in 2011 to 4.3 percent in 2013 to 3.3 percent in 2016. This was achieved by increasing revenues –notably through financing from grants– and rationalizing public consumption (IMF, 2017). Gross government debt increased over the period from 28.5 percent of GDP in 2010 to 36.9 percent in 2013 to 47.5 in 2016.

### Revenue Assessment

**Total revenue increased with the introduction of SSNs, driven by predominantly by grants and –to a lesser extent– tax mobilization.** Grants supported Senegal's growth strategy and narrowed its fiscal deficit. Total grants amounted to 2 percent of GDP on average per year between 2011-13 and 2015-18.<sup>71</sup> Meanwhile, tax-to-GDP increased gradually from 15 percent in 2010 to 15.2 percent in 2014-15, to 15.9 percent in 2016. Tax revenue temporarily decreased in 2013 due to the overall impact of a personal income tax (PIT) reform but rebounded from 2014 onward. The gradual increase in tax revenue was driven notably by rising income tax revenue. The 2012 reform of the tax code laid the foundation for progressive improvement in tax policy, notably by streamlining tax expenditures, simplifying and making the PIT more progressive, and eliminating of a regressive income splitting scheme (Akitoby et al. 2019).

**Slow implementations of tax administration reforms impeded further revenue mobilization.** Although the government developed considerable plans to raise revenues, capacity constraints lingered and hindered greater revenue mobilization in the years after the fiscal consolidation measures were adopted. Weak collection enforcement, inefficient audit procedures, and widespread VAT evasion all contributed to lower-than-expected tax revenue. The Senegalese case shows that tax reforms need to be supplemented by efforts to raise taxpayer compliance to improve revenue mobilization (IMF, 2019).

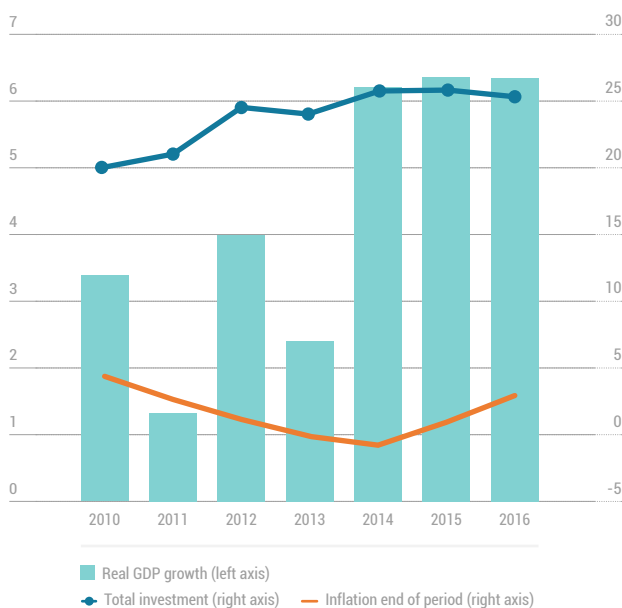
### Expenditure Assessment

**Fuel and electricity subsidies comprised a significant share of government expenditure.** Prior to the introduction of SSNs, the authorities relied largely on subsidies to food, electricity and fuel to support the vulnerable, despite poor targeting, as well as reductions in VAT and excise taxes. In 2012, electricity subsidies alone exceeded public health spending (IMF, 2012). Fuel and electricity subsidies were gradually reduced, but not removed entirely, representing 0.5 percent of GDP in 2016.

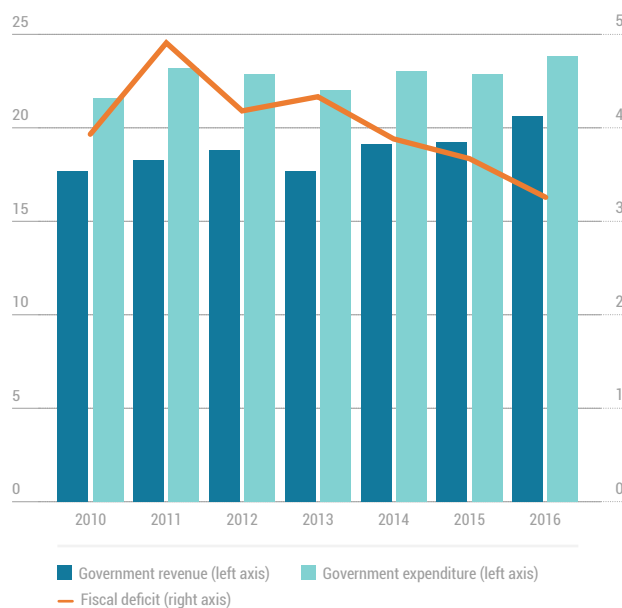
**Both total and social government expenditures slightly increased during fiscal consolidation.** Although government expenditure measured as a percent of GDP decreased in 2013, it increased to above pre-2012 levels, thereafter, reaching 24 percent of GDP. The roll-out of SSNs did not seem crowd other social spending, as current health expenditure remained consistently around 4.4 percent of GDP. Meanwhile, current education spending increased to percent 5.7 percent in 2013, but then stabilized around 5 percent of GDP in 2016 (Niang & Mbaye 2020). However, increased social spending did not always translate into large improvements in human capital in the case of Senegal. The policy challenge therefore shifted to quality social spending and a greater focus on program efficiency.

### Box 5. Macro-fiscal Figures for Senegal

1.A. Growth, investment, and inflation



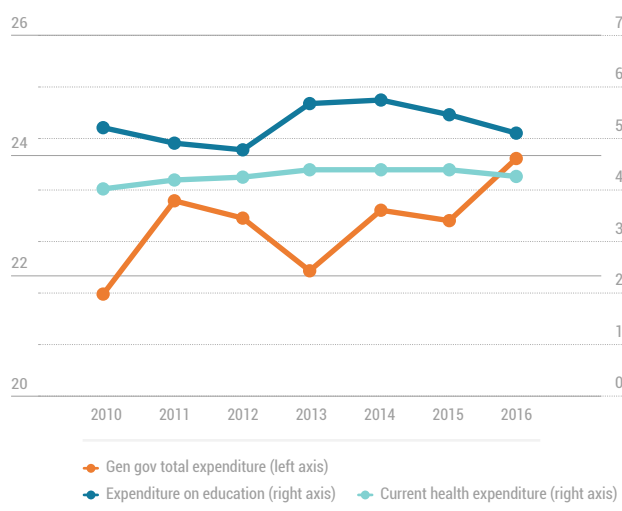
1.B. Revenue, expenditure and fiscal deficit



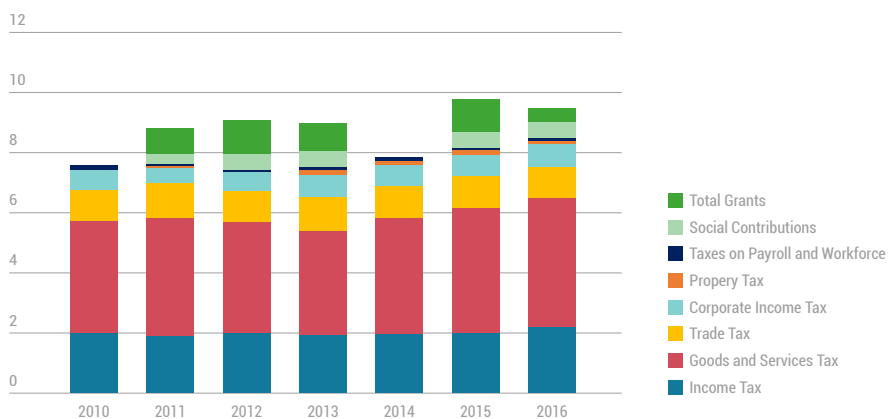
1.C. Government debt and fiscal deficit



1.D. General government expenditure



1.E. Disaggregated general government revenue



Note: Values are in Percent of GDP unless indicated otherwise.

Sources: WEO, WoRLD, World Bank Databank.

## ZAMBIA

*Social safety nets were introduced in Zambia as it entered a period of lower economic growth due notably to lower commodity prices. Although government expenditure increased between 2014 and 2016, tax-to-GDP remained constant, leading to growing fiscal deficits and rising debt-to-GDP. Subsidy reform to fuel, agricultural inputs and electricity supported fiscal consolidation and created additional fiscal space.*

### Macroeconomic and Social Context

**SSNs were expanded in Zambia over a period of declining GDP growth and rising inflation.** Driven by the mineral sector, foreign investment and economic growth in Zambia increased but remained vulnerable to global conditions. Although GDP grew on average 5.8 percent between 2011-2014, it declined to 3.4 percent over 2015-17 due to lower copper prices and reduced economic activities. Inflation ranged between 6-8 percent over 2011-17, except for 2015 when it increased to 21.1 percent following a sharp currency depreciation in response to fiscal imbalances (IMF, 2017b). The Social Cash Transfer (SCT), the country's flagship program, was quickly expanded from 2014 onward after consolidating smaller SSN programs in a larger program targeting poverty nationally (Arruda & Dubois, 2018).

**Growth in Zambia was driven by mineral and construction sectors had only partial impacts on inclusivity.** Economic development over the period was predominantly in capital-intensive sectors that did not create sufficient jobs for greater inclusivity. Meanwhile, labor-intensive agriculture and services sectors experienced weak productivity growth. Inequalities expanded between urban and rural areas, as growth in urban areas was found to be higher and pro-poor, while growth in rural areas was found to be relatively lower and pro-rich (IM) (IMF, 2015b). Barriers to more inclusive growth include a weak financial sector, weak business environment, human capital constraints, and lacking infrastructures. The Sixth National Development Plan (2013–16) developed well-aligned objectives with the country's needs, but implementation could have been more focused and adaptive (ibid).

### Fiscal Context

**The fiscal deficit increased significantly through the SCT expansion.** In 2015, the fiscal deficit reached 9.5 percent of GDP due to shortfalls in revenue, spending overruns on subsidies, a larger interest bill than budgeted, and arrears on VAT payment. The fiscal deficit reached 5.7 percent in 2016 due to reduced VAT and custom duties collection, and subsidy overruns. Despite the significant currency depreciation, imports fell only minimally as fuel and electricity imports rose to cope with domestic power shortages (IMF, 2017b).

**Fiscal imbalances caused debt to increase rapidly since 2011.** Gross general government debt increased more than tripled from 2011 (20.8 percent of GDP) to 2017 (66.3 percent). Debt accumulation was driven mainly by external debt and the sharp currency depreciation in 2015. External debt quadrupled between 2011 (8 percent of GDP) and 2016 (36.5 percent) (IMF, 2017b). Debt-to-GDP continued to grow over the years since 2017, reaching 97.4 percent in 2019 and 128.7 percent in 2020.

### Revenue Assessment

**While total revenue remained relatively constant over the reform years, grants compensated for lower tax revenue.** Between 2012 and 2016, Zambia received annual grants, on average, of 1.5 percent of GDP. Although grants contributed to lowering the deficit, they also impacted rising debt-to-GDP. Tax-to-GDP meanwhile progressively decreased from 15.8 percent of GDP in 2011 to 14.8 percent in 2017, with notably a sharp decline in 2016 when tax revenue was just 13 percent of GDP. Broadly, declining trade taxes over time were not substituted by increased domestic revenue mobilization, which instead declined in 2015 and 2016. Lower tax revenue was driven notably by VAT, which declined from 6.1 percent of GDP in 2014 to 4.4 percent in 2015 and 3.7 percent in 2016 (it recovered thereafter). Meanwhile, income tax also declined substantially, going from 7.9 percent of GDP in 2011 to 6.5 percent in 2017.

**Low tax-to-GDP reflected weak revenue mobilization capacity in Zambia.** Widespread tax incentives, multiple income tax rates, exemptions and zero-rated goods translated into low VAT efficiency and CIT productivity (IMF 2017b). Lack of structural measures were needed, notably improving the monitoring of tax compliance and land titling. Disorganized taxpayer data, weak tax-auditing capacity, and limited monitoring of large tax contributors negatively affected needed to enact a more robust revenue mobilization.

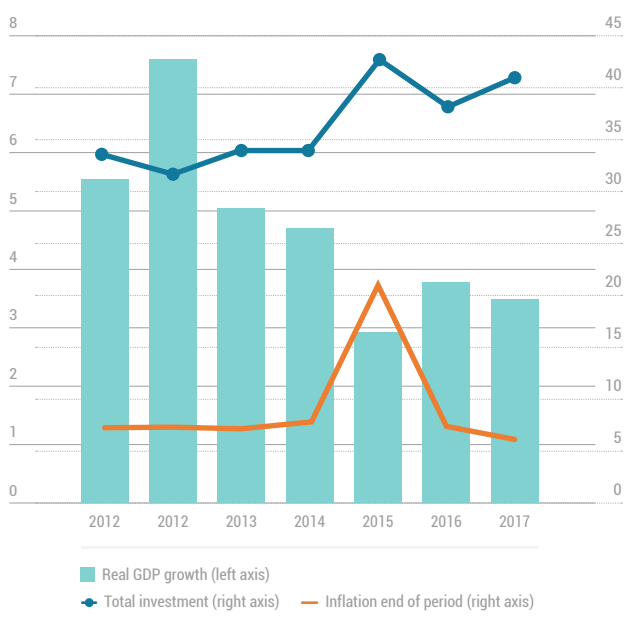
### Expenditure Assessment

**The expansion of SSNs was implemented while reforming certain subsidies.** Government subsidies to fuel, agricultural inputs and electricity amounted to 2 percent of GDP in 2014. Fuel and electricity subsidies were found to be widely regressive, while agricultural subsidies tended to be inefficient (IMF 2017b). The government took steps to reform these subsidies, most notably by removing the fuel subsidy by charging cost-recovery in October 2016. Measures were also taken to gradually phase-out electricity subsidies and reform subsidies for agricultural inputs by shifting to an e-voucher system to reduce operational costs. Therefore, the expansion of the SCT happened as part of government strategy to shift away from certain blank subsidies to more targeted assistance, which improved the progressivity of fiscal spending (De la Fuente et al. 2017).

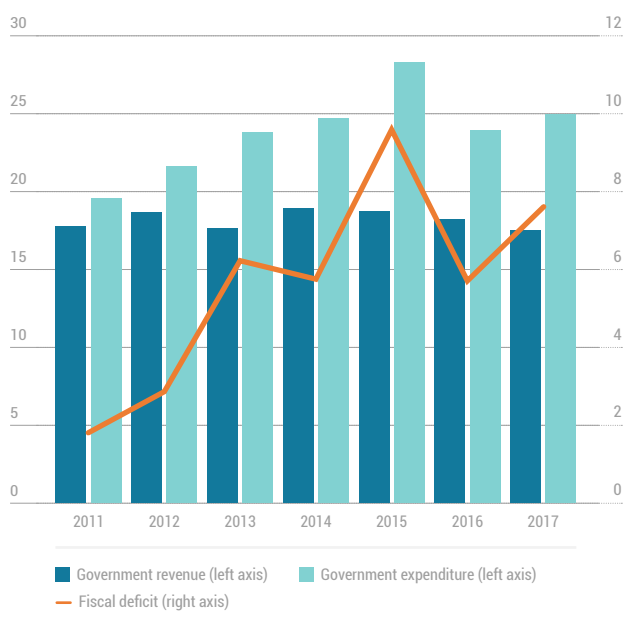
**Government expenditure in percent of GDP slightly increased during the SCT expansion, while social spending fluctuated.** Both total and social expenditure significantly fluctuated year-to-year, indicating volatilities affecting fiscal policy. Total government expenditure steadily increased from 19.5 percent of GDP in 2011 to 25 percent in 2017. Social sectors showed greater fluctuations. Health spending rose from 3.8 percent of GDP in 2011 to 5.2 percent in 2014 but lowered again to 3.7 percent in 2017. Meanwhile education spending increased over time from 3.5 to 4.4 percent between 2011 and 2017.

### Box 6. Macro-fiscal Figures for Zambia

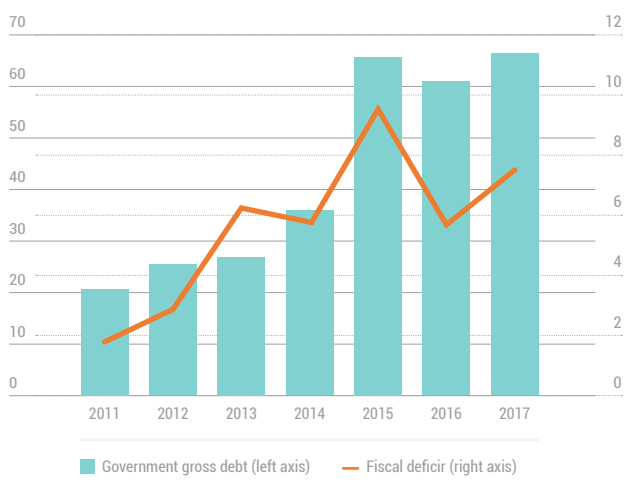
1.A. Growth, investment, and inflation



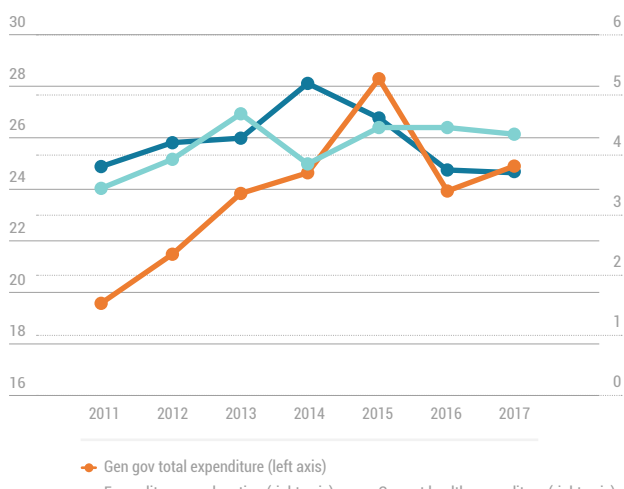
1.B. Revenue, expenditure and fiscal deficit



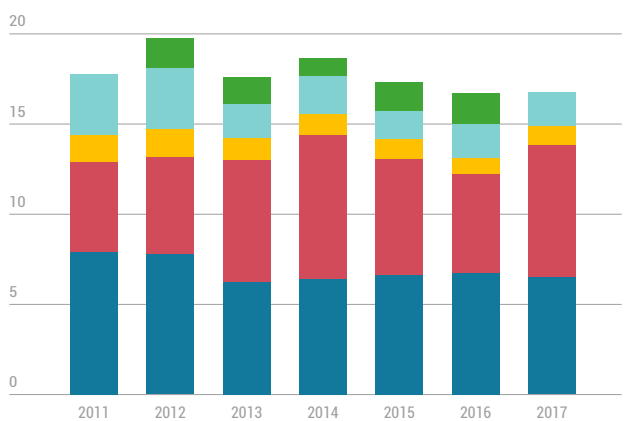
1.C. Government debt and fiscal deficit



1.D. General government expenditure



1.E. Disaggregated general government revenue



- Total Grants
- Corporate Income Tax
- Trade Tax
- Goods and Services Tax
- Income Tax

Note: Values are in Percent of GDP unless noted otherwise.

Sources: WEO, WoRLD, World Bank Databank.

## *Summary of Findings*

Experiences from the six countries surveyed reveal no definitive causality between growth rates, fiscal balances, and the expansion of SSNs. In some cases, such as Brazil and the Philippines, SSNs were introduced amid rising economic growth and improving fiscal balances. Conversely, in other countries like Pakistan and Zambia, SSNs were expanded in response to declining GDP and/or worsening fiscal balances. In Egypt, Pakistan and Senegal, governments expanded SSNs during fiscal consolidation efforts, often to offset negative impacts to the vulnerable.

Given the absence of a clear relationship, examining how political economy and socio-economic dimensions interact with macroeconomic conditions may provide insights into how growth dynamics influence SSNs (see Chapters 9 and 10). For example, financing conditionalities by the IMF, World Bank, or other donors during fiscal consolidations often include conditionality aimed at more targeted social policies, illustrating international political support for SSNs. Additionally, rising inequalities and expanded suffrage may lead to increased pressure from electorates in EMDEs for more redistributive policies and inclusive growth.

In summary, macro-fiscal dynamics may impact the introduction of SSNs through various channels: some tend to be pro-cyclical, and others counter-cyclical. If governments implement SSNs in diverse macroeconomic contexts and for varying reasons, political will appears to be the key driver of SSN expansion. Identifying the political and socio-economic dynamics at play, and how these interact with macro-economic conditions, is crucial for understanding the foundations of SSN reforms.

Future research on the macro-fiscal impacts of SSNs could build on the findings presented in this chapter to determine whether these results are generalizable. Unfortunately, data limitations on SSN indicators hinder such assessments, as both panel and time-series international data on SSN expenditure and coverage are lacking, particularly in EMDEs. Improved data on SSNs—such as reform episodes, expenditure, and coverage—would be essential for a more comprehensive understanding of the interactions between economic growth, fiscal policy, and the expansion of SSNs.

Table 1. *Macro-fiscal results from case studies*

Country	Year of Expansion	Income level GDPPC (Int. PPP)	Macro-economy GDP Growth	Fiscal Balance Deficit	Poverty 2017 PPP, LVA (\$2.15; \$3.65; \$6.85)	Inequality Gini Index LVA
Brazil	2004	UMIC / EME \$12.393	Rising	Improving	Moderate 11.1; 24.4; 47.3	High 56.6
Egypt	2016	LMIC / EME \$11.216	Rising	Improving	Moderate/Low 0.9; 13.2; 64.5	Moderate/Low 31.8
Pakistan	2008	LMIC / EME \$4.219	Declining	Stable	Moderate 14.9; 60.6; 91.4	Low 29.7
Philippines	2010	LMIC / EME \$5.971	Volatile/ Rising	Volatile/ Improving	Moderate 11.3; 35.3; 66.1	Moderate/High 46.3
Senegal	2013	LIC \$2.777	Rising	Stable	Moderate/High 41.0; 71.0; 90.9	Moderate 40.7
Zambia	2014	LIC \$3.380	Declining	Declining	High 61.4; 77.5; 90.7	High 57.1

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# 9. THE POLITICAL ECONOMY OF SOCIAL ASSISTANCE EXPANSION

Jayatheerth Seetharaman, Ugo Gentilini and Colin Andrews,  
with Sherine Al Shawarby, Pedro Arruda, Ibrahim Dia, Camilo Gudmalin,  
Ahsan Rana, and Neo Simutanyi

## *Introduction*

Political economy considers the socioeconomic drivers that influence policymakers when designing policies and studies the complex interaction between economic systems and political forces (Hacker et al., 2021). Various political and non-political actors, as well as aspects of state capacity and institutional strength, impact policy decisions and outcomes. This chapter's analysis is grounded in four critical political economy factors: key players, strategic enablers, resistance to cash transfers, and soft factors. These factors influence how policy is shaped and, in turn, motivate the state's ability to achieve social protection objectives and expand social assistance programs.

Achieving the long-term success of social assistance programs requires synchronizing several factors, including political economy considerations, financing, public acceptance, and the programs' adaptability. Political economy analyses are crucial for evaluating, systematizing, and operationalizing cash transfer programs. This chapter provides a political economy analysis to understand the sociopolitical levers determining their expansion. It builds upon the central foundation of the alignment between various actors involved in the social provision supply chain while also considering the impact of socioeconomic factors that inspire collective and coordinated action.

The state is often understood as a formal government apparatus comprising laws, institutions, and officials. Yet, the state also embeds broader principles, beliefs, and social practices that define political order and legitimacy (Steinberger, 2005). Under this conceptualization, a well-functioning state relies on the active participation of various non-political actors, including civil society, bureaucrats, citizens, and international organizations. In low and middle-income countries, the role of development partners is also critical in shaping social protection systems. Each of these actors

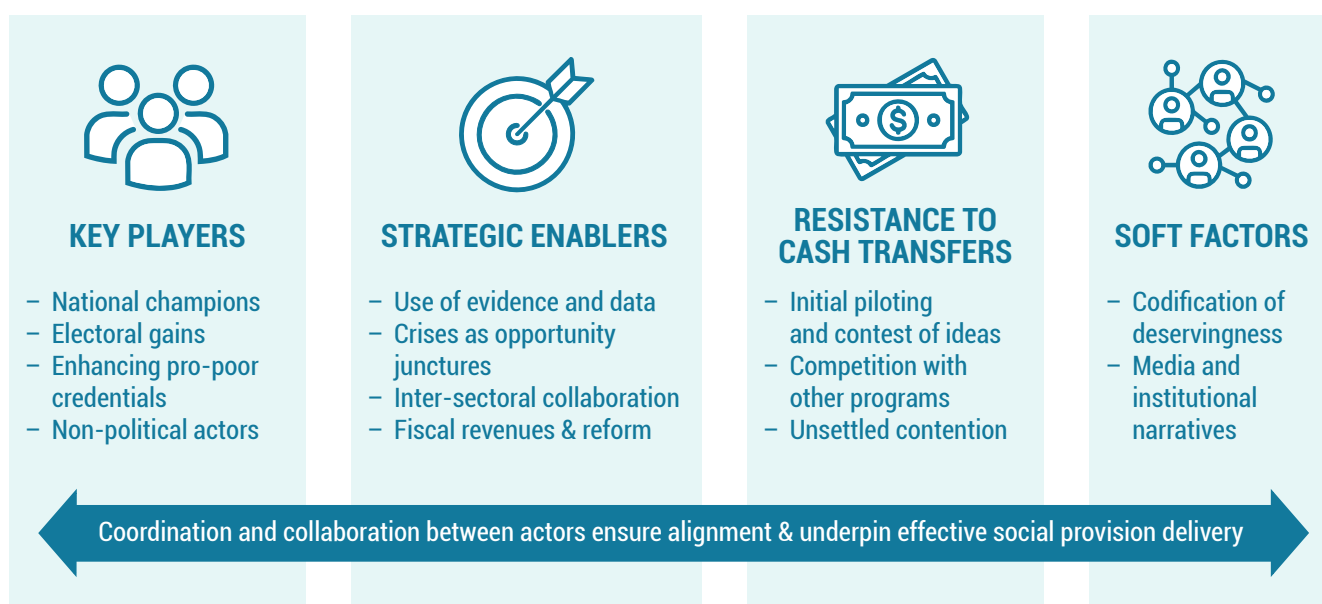
influences political action and plays an essential part in designing, delivering, and evaluating social assistance programs.

Competing actors vying for limited resources influence political decisions. The will of political actors, driven by both politically strategic and altruistic motives, plays a central role in determining whether social safety nets receive the necessary resources and support to function effectively (Lavers, 2022). While politicians' actions are at the core of determining political economy dynamics, other agents, such as civil society organizations, bureaucrats, and international donors, actively participate in designing and implementing policy. Together, they shape the provision of safety nets and create the conditions that enable or hinder their success.

Coordination and collaboration between various political and non-political actors underpin effective and efficient social assistance delivery. In this context, certain players who serve as flagbearers of social programs play a crucial role in ensuring alignment amongst various ministries and non-political actors, which is essential for effective social protection. Their actions are influenced by aspects such as the political climate and the availability of data and evidence to support program implementation. Sociocultural norms and practices, as well as the impact of media narratives, also impact the appetite for modifying the social contract in this context. Political economy factors are, therefore, a complex interwoven web of determinants of effective social protection delivery.

Figure 1 sets out the political economy analysis framework applied in this chapter to investigate the drivers of social assistance expansion.

Figure 1. *Political economy analysis framework*



This study examines cases from six countries, focusing on their flagship cash transfer programs to explore the effects of each factor: Brazil's Bolsa Familia Program (PBF), Egypt's Takaful and Karama Program (TKP), Pakistan's Benazir Income Support Program (BISP), the Philippines' Pantawid Familya Program (4Ps), Senegal's National Family Security Grant Program (PNBSF), and Zambia's Social Cash Transfer Program (SCT).

The chapter is structured as follows. Section 2 sets out the role of key players in establishing, promoting, and delivering social assistance, focusing on national champions, electoral outcomes, and non-political actors. Section 3 explores the strategic enablers that create the necessary circumstances for scaling social programs by considering aspects such as the importance of evidence, the impact of crises, and inter-sectoral collaboration. Section 4 explores the criticisms and resistance to cash transfer programs and their political economy impacts on program scale-ups. Section 5 dissects the role of soft factors, such as codification of deservingness and media narratives, in driving the expansion of social assistance. Finally, the chapter concludes with key findings from the case studies and a discussion on the external validity of these findings.

## *Key Players*

The successful operationalization of social assistance programs hinges on the involvement of key actors. National champions—policymakers or influential leaders within central governments—are critical in ensuring these programs receive the political backing and resources needed to overcome socioeconomic barriers. Policymakers in low-income countries (LICs) and lower-middle-income countries (LMICs) face a significant trade-off in resource allocation: balancing the need for policies that promote rapid economic growth with those that strengthen the social contract through social assistance. The role of national champions is vital in navigating this trade-off to ensure that social safety nets receive the attention and funding they require.

Social assistance supports vulnerable populations and yields reciprocal benefits for policymakers. By implementing and expanding SA programs, policymakers enhance their pro-poor credentials, which can boost their political standing and generate electoral gains. Thus, social assistance programs become a tool for poverty alleviation and reinforcing the political legitimacy of those who champion them.

In addition to political actors, non-political stakeholders such as civil society organizations, bureaucrats, donors, and economic players are essential for effectively designing, financing, and delivering social assistance. They contribute to the SA supply chain, from advocating for the needs of people

experiencing poverty to shaping program design and ensuring benefits reach those in need. Their involvement is vital to maintaining the efficiency and integrity of social safety nets.

This section explores the multifaceted roles of key ministers, the political benefits derived from social assistance, and the relevance of non-political actors. It highlights how political will, policy trade-offs, and cross-sectoral collaboration drive social assistance programs' initiation, scaling, and sustainability.

## NATIONAL CHAMPIONS

The role of national champions, i.e., political stakeholders in central ministries who lead the operationalization of social assistance programs, is critical for establishing policy priorities and taking ownership of the social protection agenda. They establish a clear voice through government to ensure the alignment and harmonization of policy and political objectives and serve as a crucial conduit for the coordination and collaboration of different political agencies.

National champions serve as the voice for initializing and establishing social safety nets. They play a critical role in garnering political will to increase the scale and reach of social assistance programs, ensure sufficient funding, prevent leakages in the coverage and delivery of benefits, and establish protocols for monitoring and evaluating program efficacy. The establishment and evolution of the Takaful and Karama Program in Egypt illustrate this.

Political cycles can also significantly impact the provision of social assistance. Election promises and the buy-in of heads of state contribute to sufficient funding for programs, relationships with external donors, and program scaling. Electoral outcomes and the buy-in of presidents to the social protection agenda in Zambia highlight the impact of political cycles on the delivery of social programs.

## Takaful and Karama Program and the role of a national champion in Egypt

### Background

The Takaful and Karama Program (TKP) is Egypt's flagship cash transfer program. The program was launched in 2015 and supports over four million poor and vulnerable people through cash transfers.<sup>1</sup>

<sup>1</sup> | <https://www.worldbank.org/en/results/2024/05/28/promoting-inclusive-human-capital-development-and-building-resilience-in-egypt-through-cash-transfer-programs>

Ghada Waly, the former Minister of Social Solidarity, drove the success of Egypt's TKP. Waly played a pivotal role in establishing the TKP and overcoming the country's fragmentation of social safety nets. A former Managing Director for the Social Fund for Development and Assistant Resident Representative at the United Nations Development Program (UNDP), Waly served as the Minister of the Ministry for Social Solidarity (MOSS) from March 2014 until December 2019.

Waly's previous postings in government and international organizations and experience in delivering social programs positioned her well to champion the social protection agenda in Egypt. Her involvement in the "Ain El Sira" conditional cash transfer (CCT) pilot project paved the way for a national CCT program inspired by the successful models adopted in Latin American countries. Her deep understanding of politics and bureaucracy, gained from her previous positions in the government, allowed her to navigate the complexities involved in implementing the program. Her connections with donors and international institutions, cultivated during her work at the UNDP, enabled her to secure further support for the new TKP program.

As the champion for the TKP, Ghada Waly assembled a highly effective team of ministry staff and external hires, contributing to the program's success. A World Bank loan and grant in 2015, which provided necessary funds for staffing, developing the operations manual, amending laws to adopt the TKP, and training social workers on aspects of the program's targeting and delivery, facilitated the program's establishment in its early stages.<sup>2</sup>

### Coordination and collaboration with the Ministry of Finance

Ghada Waly collaborated with other ministries to drive the program's success. In particular, the collaboration between MOSS and the Ministry of Finance was pivotal in operationalizing the TKP. Both ministers shared a common vision of prioritizing social protection measures for vulnerable groups and sustaining financing for social programs.

The alignment between the two ministries was evident in the FY16 budget draft presented by Hany Dimian, the former Minister of Finance, to the parliament. Two principles of the budget anchored the social assistance narrative. The first principle required economic reforms to include measures ensuring social protection for the most vulnerable groups or improving their living conditions through redistribution. The second principle emphasized the need to adequately fund social measures while preserving

<sup>2</sup> | This grant supported the development of a Proxy Mean Testing tool, operational costs of consultants, training of social local units, procurement of tablets, PCs, IT infrastructure, information, and communication materials.

the integrity and stability of the economic structure. Experts praised TKP as a “brilliant example” of how fiscal spending can enhance social welfare while maintaining macroeconomic stability by building on the foundations of this progressive budget.

The Ministry of Finance recognized the challenges of allocating resources in the context of competing priorities and tradeoffs. Still, it remained committed to investing resources in programs that yielded the highest social return. Even with the World Bank’s first loan guaranteeing sufficient resources for TKP, Dimian allocated additional resources in the contingency line for the program. MOSS pressed the Ministry of Finance to provide contingency funding to protect people experiencing poverty from the likely hardships of the economic reform package and to ensure MOSS had additional funds to implement the TKP as needed. This proactive approach ensured that the program had adequate funding and long-term sustainability.

The alignment and effective communication between the two ministries clarified the development goals, managed the electorate’s expectations, and helped the government navigate the complexities of program implementation. The leadership and coordination of both ministries were instrumental in achieving and expanding the TKP. At the same time, strategic resource allocation ensured the program faced minimal deterrence in securing funding and maintaining sufficiency and sustainability.

### Challenges and Resistance

The TKP faced significant challenges and resistance during its inception, particularly concerning the feasibility of the program’s operational aspects. Resistance stemmed from the need for more understanding and concerns about the program’s feasibility, particularly regarding eligibility criteria, targeting, and implementation capacity.

The Ministry of Health and Population and the Ministry of Education expressed concerns about the feasibility of the eligibility criteria. Concerns about measuring the degree of disability required to qualify for the program and issues relating to conditionality and targeting, such as inefficient delivery systems and implementation capacity, threatened to derail the program. To alleviate these concerns, MOSS coordinated with these ministries to redevelop various aspects of program design and involved pertinent ministries and government officials in launching the program.

The new cash transfer program also resulted in insecurity, discontent, and challenges from vested interests, particularly those responsible for delivering the existing Daman social pension program. Waly’s prompt and clear communication, as well as the initiation of workshops for social workers,

were essential for distinguishing the need for the new program to replace the Daman program and adequately preparing staff to deliver on the clear mandate of the TKP.

Ghada Waly and her team at MOSS adopted a participatory approach. They ensured that parliament members played a crucial role during the launch of TKP by actively transmitting applicant forms and overcoming system delays. Their engagement in this aspect of the program exemplified their commitment and collaboration, contributing to its successful implementation.

The program's purpose, philosophy, objectives, target groups, and targeting mechanisms were shared and explained to relevant parties, building trust and garnering support. This process engaged relevant ministers and governors in regions where the program would be implemented. Waly extended invitations to ministers and governors to attend launch events for the program, aiming to gain their support. Additionally, she participated in the Governors' Council meetings, which were unprecedented for her role, to explain the program's strategy and objectives. These efforts underscored transparency and accountability throughout the program and aimed to engage parliament members actively in the new program.

These measures played a vital role in establishing trust among stakeholders and fostering a shared understanding and commitment to the program's goals. Equally significant, these efforts and accomplishments were carried out promptly to transform the program into a tangible reality and proactively address further resistance that could jeopardize or impede progress.

The coordinated efforts resulted in acquiring the necessary buy-in from various sections of government. Minister Dimian stated, "TKP was elevated from just a budget line to a presidential initiative that the president sponsors and monitors." Without the president's political backing, it is unlikely that the program would have swiftly received the necessary budget and institutional framework for its successful implementation.

In championing the TKP, Ghada Waly and, subsequently, Nevine el-Kabbaj (the current Minister of MOSS) have grown the program into the most extensive cash transfer program in the Middle East and North Africa (MENA) region.

### Championing Social Cash Transfers in Zambia

The provision of Social Cash Transfers (SCT), Zambia's flagship social safety nets program, across various political cycles further illustrates the importance of national champions in driving social assistance.

SCT was introduced as an unconditional cash transfer (UCT) program in 2003 to reduce extreme poverty and eliminate intergenerational poverty transfer in Zambia. The Department of Social Welfare operates the program under the auspices of the Zambian Ministry of Community Development and Social Services. As of 2022, it provides UCTs to over one million households.<sup>3</sup> The operation and scale of the SCT have been directly influenced by the political party and president in power in the last two decades, as illustrated below.

### Rupiah Banda and the Movement for Multi-party Democracy

The ascendance of Rupiah Banda, from the Movement for Multi-Party Democracy (“MMPD”), as President in 2008 saw the replacement of the incumbent Finance Minister Ng’andu Magande with Situmbeko Musokotwane. Magande had been opposed to the SCT program, arguing that it only helped perpetuate dependency, while the new Minister of Finance, Musokotwane, was very supportive of the program (Kapendula & Seekings, 2016 and Siachiwena, 2021).

The appointment of a new and sympathetic Finance Minister drove development partners to approach the government with a proposal to scale up SCTs to more districts and commit funds for the scale-up. Evidence from studies shows that the SCT program reduced extreme poverty, increased food security, improved child well-being, improved living conditions, and contributed to greater productivity and asset ownership (Pruce, 2023; Schüring & Lawson-McDowall, 2011), further enhancing political will from various sections of government. Persuaded by evidence from evaluation studies, the program’s footprint expanded from the original four districts to thirteen districts in 2010.<sup>4</sup>

### Michael Sata, Edgar Lungu and the Patriotic Front

In 2011, a pro-poor populist leader, Michael Sata, was elected president. An internal policy debate between radicals and moderates within the ruling Patriotic Front (“PF”) delayed a decisive decision on scaling up the program (Siachiwena, 2017; Pruce & Hickey, 2019). However, the emergence of a faction, led by Vice President Guy Scott and senior cabinet ministers, that promoted the ruling party’s pro-poor and pro-people agenda used the

3 | <https://www.unicef.org/zambia/media/2571/file/Zambia-SCT-factsheet-2022.pdf> 086

4 | In 2010 it was introduced in Katete as a social pension, targeting older persons aged 60 years and above, regardless of socioeconomic status. It was further extended to cover children as a way of responding to the problem of child poverty, through the child grant model with pilots in three districts, Kalabo, Shangombo and Kaputa districts. The child grant program is an unconditional cash transfer program targeted at households with children under 5 years of age. It started in 2010, pursuing the same objectives as the Social Cash Transfer Program, but with specific focus on children’s school enrolment and reducing the rate of mortality, morbidity, stunting and wasting among children under 5 years of age (Pruce & Hickey, 2016; Chiwele, 2010).

evidence presented by donors to persuade President Sata to scale up the SCT program. They argued that the scale-up of the SCT would allow the government to honor its manifesto pledge of “more money in your pockets” and appeal to poor people in rural areas, which the PF had previously excluded in development programs.

Thus, the 2011 change of government, coupled with an overarching desire to introduce a program that would earn the PF government instant popularity with the rural poor and intensive lobbying from donors, combined to persuade the government to scale up the SCT.

To translate the commitment into action, the Government set out a policy framework for social protection through the 2014 National Social Protection Policy (NSPP). The unprecedented increase in the budget allocation to SCT contributed to scaling the program to more than 70 districts, increasing overall coverage. The increase also coincided with a reduction in donor contributions to the program from 75% to 25% to enhance government ownership.

In October 2014, President Sata was replaced by Edgar Lungu, the PF Secretary General and Defense and Justice Minister. Elected with a narrow electoral mandate of less than 2% over his main rival, Hakainde Hichilema, Lungu committed to continuing with his predecessor's policies.

Like his predecessor, he saw the SCT as a valuable tool for increasing his popularity among people experiencing poverty. However, budget disbursements to the SCT fell dramatically between 2015 and 2020. While the low budget disbursements to the SCT program between 2015 and 2020 were partly due to a fiscal crisis occasioned by rising foreign debt, low revenue receipts from copper exports, and inflationary pressures, the government also diverted funds meant for SCT to other areas, such as FISP and empowerment programs, to broaden its electoral appeal.

### Hakainde Hichilema and the United Party for National Development

In the August 2021 elections, Hakainde Hichilema and the United Party for National Development (UPND) were elected to office on a platform of social protection policy commitments. Hichilema also reappointed Situmbe-ko Musokotwane as Finance Minister.

Musokotwane's reappointment was seen as a sign to deliver on the election promises and a means to develop a social contract with people experiencing poverty to enhance the new government's popularity. In 2021, the SCT program expanded to all 116 districts by increasing the beneficiaries and the transfer value. The number of beneficiaries rose from 185,000 in 2015 to 880,000 in 2021 and to 1,021,000 beneficiaries at the end of 2022. The

government increased the budget allocation to the SCT for the following year, reaching approximately 1,374,500 beneficiaries (Musokotwane, 2022).

The provision of social safety nets is a fragile endeavor that is at the disposition of the government. The Egyptian and Zambian cases shed light on the importance of national champions of social assistance programs to sustain pro-poor policies, manage conflicting priorities within government, and ensure alignment between various actors while highlighting how election cycles can impact the scale-up of safety nets.

### ELECTORAL GAINS BY POLITICAL PLAYERS

In LICs and LMICs, poor and vulnerable populations significantly influence electoral outcomes. Their voting behavior is deeply affected by the perceived and actual impact of policy interventions that address poverty and provide avenues for social mobility, especially at the national level. Social assistance programs that directly improve the lives of these groups can become powerful tools for gaining electoral support.

This subsection examines the tangible electoral benefits of implementing social assistance programs, focusing on Brazil's Bolsa Familia Program. The evidence shows how the provision of cash transfers can shape voter behavior, contributing to presidential victories and maintaining political power. Additionally, the public sentiments towards emergency cash transfers during the COVID-19 pandemic underscores the role of social assistance in securing political loyalty during times of crisis.

Similarly, in the Philippines, the Pantawid Pamilya program demonstrates how consistent presidential support for social assistance, both during elections and in office, directly contributes to electoral gains and solidifies political standing.

#### Program Bolsa Familia and its role in electoral gains in Brazil

The history of the Program Bolsa Familia (PBF) in Brazil highlights the electoral gains for politicians from establishing, operating, and scaling social assistance programs.

The Worker's Party (PT) formally launched the PBF in 2003 as the flagship CCT program in Brazil, providing conditional cash transfers and free education to children from poor households. The program's popularity was crucial for keeping PT in power for 16 years. The admiration of PBF was felt nationwide, so much so that the main opposition party, the Brazilian Social Democracy Party (PSDB), and its leader, Fernando Henrique Cardoso,

sought to take credit for the success of PBF by lauding their initiatives, like the Bolsa Escola, as being the inspiration for the design of Bolsa Família.

The PBF is perceived to impact electoral preferences and significantly enhance the support extended to governments. In the 2014 presidential campaign, PT's campaign centered around challenging PSDB's plans with the PBF if elected (Fernandes et al., 2014). However, despite Presidents Temer and Bolsonaro's vocal critiques of the PBF, both presidents continued the program's operation as they perceived its correlation with the widespread support of the electorate.

Despite his historical criticisms of the program, President Bolsonaro embraced PBF in the run-up to the 2018 election. His manifesto even promised the rollout of a universal cash transfer (Campanha Eleitoral Bolsonaro, 2018).

Despite their critical rhetoric about PBF (mostly suggesting the program was plagued by clientelist practices), neither Temer nor Bolsonaro significantly altered its design in practice (Chaves, 2021).

With the onset of the COVID-19 pandemic, President Bolsonaro initially tried to avoid rolling out an emergency cash transfer, but Congress mobilized itself to provide emergency response and aid. Upon realizing this would come through with or without presidential support, President Bolsonaro bought into Congress's proposal and, at its very end, even proposed a higher benefit value, which was seen as a way of claiming ownership and the political dividends the program was expected to yield (Arruda et al., 2021; Blofield & Filguera, 2020).

A survey run by Arquimedes Consultoria suggested that Bolsonaro was credited with the provision of the pandemic-responsive social assistance, AE1, with 48% of social media posts crediting him and only 42% attributing it to the Congress (Poder360, 2020). However, when the program's top-up benefits were announced in 2021, the same tracker indicated that many social media posts and interactions surveyed credited this to a congressman from the opposition, Andre Janones (PODEMOS party), who had been advocating for higher benefits since AE2 halved AE1's benefit value. Janones then played an essential role in supporting President Lula's election campaign and victory in 2023 (Piauí/Folha de São Paulo, 2020; 2022).

The potential causality nexus between a government's support for cash transfers, its effect on popular support, and voters' preference is complex and difficult to estimate/capture. Although no studies specifically focused on AB's relevance for the 2022 Presidential elections, findings from previous elections establish a reasonable hypothesis. Studies by Zucco (2013; 2015), for instance, suggest PBF bears a nearly 10% effect in favor of the

incumbent, even when controlling for the existence of clientelist practices. The electoral effects of cash transfers in Brazil are reflected not only in presidential elections but also in mayoral and gubernatorial elections where municipalities and states have CTs of their own (see Box 1).

### Box 1. *Studies on Elections and Cash Transfers in Brazil*

Several studies exploring alternative data sources have indicated a non-negligible effect on voter behavior in Brazil. Zucco (2013), Hall (2006), and Hunter and Power (2007) showcase this effect through qualitative analysis of the 2006 election. These studies are supplemented by quantitative studies by Nicolau and Peixoto (2007) and Zucco (2008), geographical analysis by Soares and Terron (2008), ecological inference techniques by Canêdo-Pinheiro (2015), and public opinion survey data analyses by Licio, Castro, and Renno (2009). Notable studies by Zucco (2013 and 2015) further strengthen confidence in these findings as they consider multiple elections and triangulate results from different methodologies.

Zucco (2015) employs a generalized version of propensity score matching to construct treated and control groups *ex facto*, assessing both the individual probability of voting for the incumbent President and the aggregate vote share of incumbent Presidents at the municipal level across the 2002, 2006, 2010, and 2014 elections. The results are displayed in Figure 1 below. White dots represent the increased percentage points (p.p.) probability of an individual voting for the incumbent President, with each one p.p. increase in PBF coverage for the indicated election years. No electoral survey captured voter preference and PBF beneficiary status for the 2002 election, so there is no individual-level estimate for that year. The effect is consistently positive and statistically significant for subsequent years but diminishes over time.

For example, in 2006, a one p.p. increase in PBF's coverage was associated with a 0.18 p.p. increase in the likelihood of an individual voting for the incumbent President. By 2014, three different surveys had captured both PBF beneficiary status and electoral preferences, with the survey indicating the slightest effect, showing that each one p.p. increase in PBF's coverage correlated with a 0.8 p.p. increase in an individual's likelihood to vote for the incumbent President.

Black dots, in turn, indicate the effect of a one-point increase in PBF coverage on the vote share of incumbent Presidents at the municipal level, also expressed in percentage points. In 2002, a one-point increase in PBF coverage accounted for a 0.12 p.p. increase in the vote share of incumbent Presidents at the municipal level.

These consistently positive and statistically significant effects between 2002 and 2014 indicate that the program has a positive electoral effect. The fact that the incumbent government in the 2002 election was not from the Workers Party suggests that this effect is not limited to specific parties.

The electoral premium rewards incumbents who expand the program, regardless of their party. It is also telling that these effects were already present in 2002 when the existing programs had neither the scale nor the political salience of PBF following its rollout in 2003.

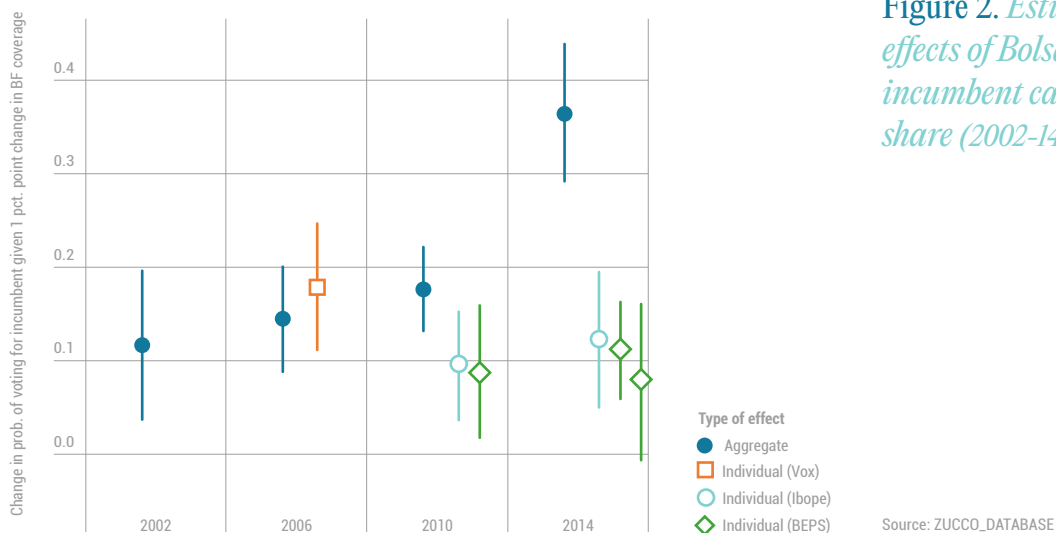


Figure 2. *Estimated effects of Bolsa Família on incumbent candidate vote share (2002-14)*

Another important takeaway from Zucco (2015) is that, until 2014, the vote share difference attributed to PBF was relatively small—ranging from 2 to 3 million votes—and thus not substantial enough to swing election results. By 2014, this net effect had increased significantly to approximately 8 million votes. In explaining this trend and the divergence between individual and aggregate-level effects in 2014, Zucco posits that the critical driver might have been an electoral influence extending beyond PBF beneficiaries.

He notes that municipalities with broader PBF coverage showed higher votes for the incumbent President than expected from the beneficiary sample alone. This suggests that non-PBF beneficiaries might have also supported the incumbents, possibly in solidarity with beneficiaries or as an endorsement of the program.

Zucco's (2015) results for the 2002-2010 elections are also aligned with those of a previous study (Zucco, 2013), which explores the potential spillover electoral effects to other politicians of the incumbent's party. More specifically, it tested whether the expansion of PBF (as well as the expansion of its budget) affected individual predisposition to vote on legislative candidates from the incumbent President's party and whether program expansion affected the vote

share of these candidates at the municipal level. However, none of the analyses showed statistically significant coefficients, indicating that the electoral effects have no party-wide spillover impact.

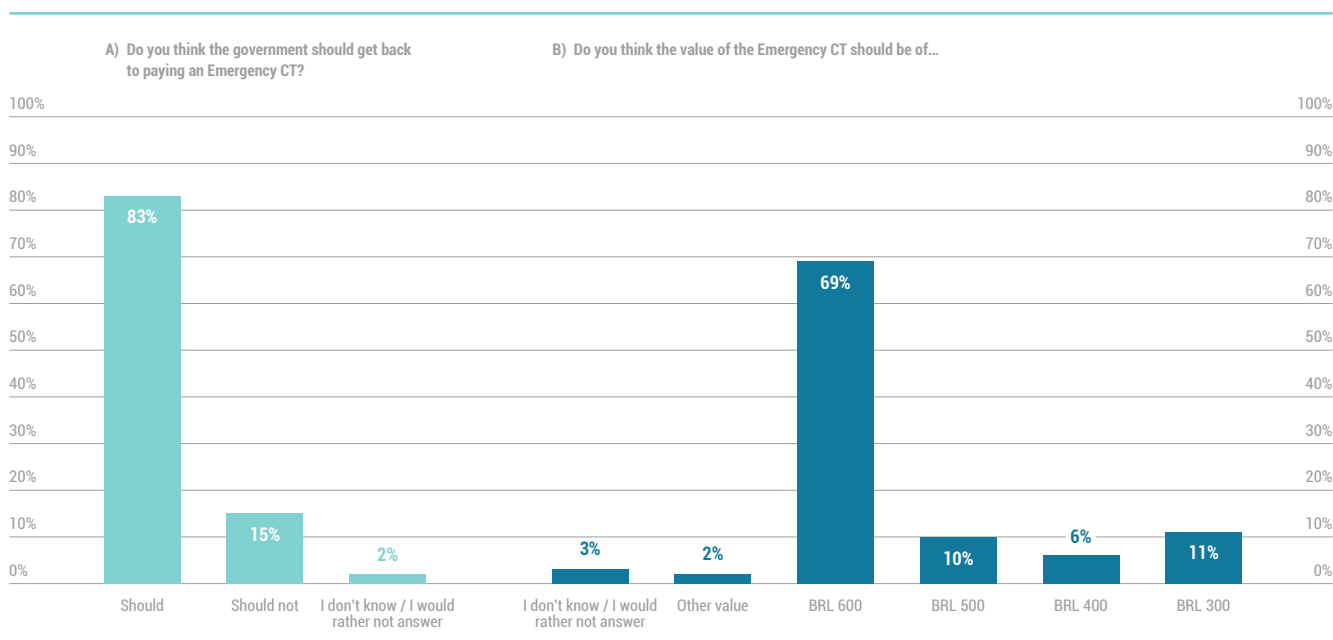
An additional finding into the electoral effects of PBF resulted from Zucco's (2019) survey experiment is that the program's conditionality accounted for only a marginal, albeit statistically significant, share of its broader electoral effects.

Despite the merit of existing studies, significant knowledge gaps still need to be addressed. One way to do this is to expand existing studies to include the 2018 and, particularly, the 2022 presidential elections, which saw unprecedented political utilization of the program during the campaign.

Anecdotal and ethnographic evidence suggests that the well-established trends observed from 2002 to 2014, such as the association of electoral effects with incumbent governments and the absence of spillover effects to legislative elections, may need reevaluation. In 2022, the eventual winner, President Luiz Inácio Lula da Silva, convincingly presented himself as more likely to sustain the program's generosity post-election, contrasting with incumbent Bolsonaro's perceived use of the program for electoral gain (Poder360 2022).

The February 2021 survey by the Senate's Survey Institute further illustrates the Brazilian electorate's widespread support for cash transfer programs (the Instituto de Pesquisas DataSenado). Data showed that 83% of survey respondents supported the maintenance of AE, and 69% specifically defended the generous benefit of R\$600 per month. Further, 60% of respondents supported the need for cash transfers to those in need at all times and not only during moments of crises (GoB, Senado Federal 2021a; 2021b).

Figure 2. Popular support for the launching of a new Emergency CT after the end of AE



Source: (GoB, Senado Federal 2021b)

### Pantawid Pamilyang Pilipino Program in the Philippines

The public perception of the electorate in the Philippines about the Pantawid Pamilyang Pilipino Program (or “4Ps”) program provides further evidence of the influence of social assistance programs on electoral gains.

The 4Ps program is the flagship program in the Philippines with two key objectives: providing social assistance through cash transfers to poor and vulnerable people and enhancing social development through the improvement of human capital to break intergenerational cycles of poverty.<sup>5</sup>

In the Philippines, past and present presidents are “first-line” supporters of the Pantawid Pamilya program. The administrations of Presidents Gloria Macapagal Arroyo (2007–2010), Aquino (2010–2016), Duterte (2016–2022),

5 | <https://www.dswd.gov.ph/programs/pantawid-pamilyang-pilipino-program/>

and Ferdinand Marcos Jr. (2022–present) have all acknowledged Pantawid Pamilya as their flagship social protection program. Their State of the Nation Address (SONA<sup>6</sup>) declared that Pantawid Pamilya is an effective anti-poverty program achieving results.

The alignment of Pantawid Pamilya's goal of ending the intergenerational transfer of poverty and the presidents' respective leadership and development visions of inclusive growth and prosperity for all provides the platform for the program's sustainability. The president's support brings together various government ministries to implement the program collaboratively and cogently.

While presidential buy-in has been vital to the 4Ps program's success in ensuring alignment across the various government functions, it has also played a key role in placating the electorate. A 2016 survey shows that four out of five respondents support the program and have expressed their intention to vote for the presidential candidate who supports its continuation.

Specifically, the SWS Pre-Election Survey, conducted from 5 to 7 February 2016, found that 80% of Filipino voters would probably vote for a candidate who advocates the "Continuation of the Pantawid Pamilya or 4Ps Program." Nine percent said they would probably not, and twelve percent said they would not be affected. This is similar to survey results from September 2015 and January 2016, when 80% said they would probably vote for a candidate who advocates the continuation of the 4Ps program.

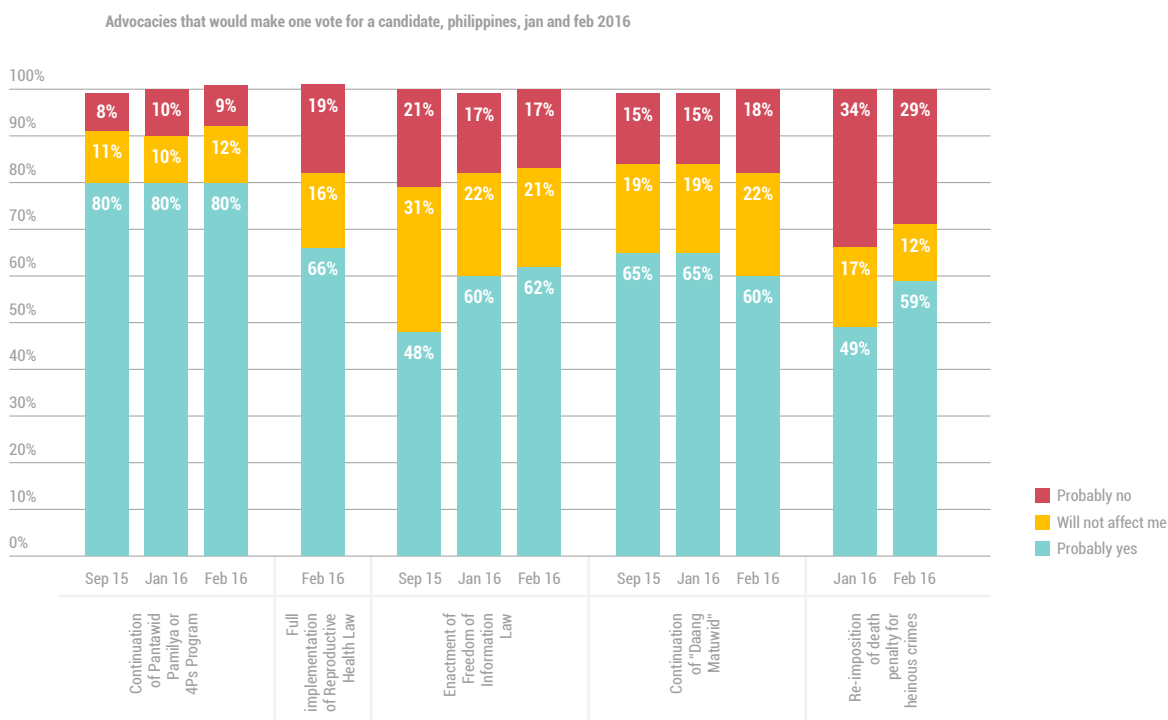
The impact of social assistance programs like the 4Ps on the electoral preferences of voters was also more pronounced than other political issues, such as the implementation of Reproductive Health Law, which ensures universal access to methods of contraception, fertility control, sexual education, and maternal care, and the enactment of the Freedom of Information Law, which promotes transparency by enabling public access to official documents and government records.<sup>7,8</sup>

Providing social assistance can play a crucial role in determining electoral outcomes. Evidence from Brazil and the Philippines highlights how voters are attuned to policy promises made by political candidates and hold them

6 | In the 2008 SONA, President Arroyo expressed her support for the program and mentioned its success in helping the poor. In the 2009 SONA, President Arroyo announced the expansion of the program's coverage from 300,000 to 777,505 households. Former President Aquino expressed his support to Pantawid Pamilya in all his SONAs from 2010 to 2016. While it was during President Duterte's administration that Pantawid Pamilya was institutionalized into a law, President Marcos Jr announced during the 72nd Anniversary of the Department of Social Welfare and Development that he would continue and expand the coverage of Pantawid Pamilya so that all poor households will be covered by the program.

7 | <https://www.officialgazette.gov.ph/2012/12/21/republic-act-no-10354/>

8 | <https://www.officialgazette.gov.ph/2016/07/23/executive-order-no-02-s-2016/>



accountable during their terms, as reflected by Brazil's 2022-23 presidential campaign. Therefore, efficient signaling and clear communication of promises to provide social safety nets are priorities on the campaign agenda, and electoral cycles can play a decisive role in scaling social assistance.

### ENHANCING PRO-POOR CREDENTIALS

The provision of social safety nets is fundamentally geared toward promoting pro-poor economic development, making political actors' establishment and ownership of social assistance programs a critical factor in shaping public perception. Political leaders who champion such programs are often seen as advocates for the marginalized, reinforcing their standing as pro-poor reformers. As explored in the previous section, this connection between political ownership and public perception plays a crucial role in the political landscape.

In contrast, being perceived as “anti-poor” through poorly designed policies or unclear communication can be politically damaging. Policymakers must ensure that social assistance programs are not only well-targeted, accessible, and adequate but also communicated to the public. Effective program design and transparent communication are essential for building trust with the electorate and maintaining political support.

The experiences of the Benazir Income Support Program in Pakistan and the National Family Security Grant Program in Senegal provide compelling evidence that politicians are often cautious about undermining

well-established social programs. Politicians who align themselves with these programs continue to enjoy widespread public goodwill, while opposition to the provision of social assistance can lead to alienating significant segments of the electorate.

### Benazir Income Support Program in Pakistan

The Benazir Income Support Program (BISP) is Pakistan's national UCT program. Launched in 2008 by President Asif Ali Zardari, it seeks to help poor and vulnerable groups smooth their consumption, particularly during slow economic growth.<sup>9</sup> As the flagship social assistance program, BISP provides the government with considerable political mileage.

Despite being out of power, the Pakistan People's Party ("PPP"), which launched the program, still receives praise for it. In their discussions, recipients refer to the late PPP leader Benazir Bhutto (after whom the program is named). Subsequent governments have wholly owned the program and expanded its size and scope to gain political sympathy and demonstrate their pro-poor credentials.

A core reason BISP enjoys support from all political parties is that no party wants to be perceived as anti-poor. BISP is the most significant poverty alleviation program in Pakistan, and opposing it can be seen as indifference or apathy towards helping people experiencing poverty.

In a society where two quintiles of the population fall below the poverty line and where religious principles necessitate giving alms, such an image can be politically disastrous. Therefore, even political parties that do not anticipate being in power vigorously support the program to enhance their pro-poor credentials.

### National Family Security Grant Program in Senegal

The reception of the National Family Security Grant Program (PNBSF) in Senegal is another case where presidential candidates gained from supporting the provision of social assistance. The PNBSF aims to reduce extreme poverty and promote human capital development among poor households by providing targeted CCTs.<sup>10</sup>

The PNBSF has been operational since 2013 and is well-received by the Senegalese population. They feel the state's active support in improving

<sup>9</sup> | <https://bisp.gov.pk/Detail/ZjE4YTk4MzAtM2MzMC00NzYyLThhNDktMzFkNDBhOGNINGQ2>

<sup>10</sup> | <https://socialprotection.org/discover/programmes/programme-national-de-bourses-de-sécurité-familiale-pnbsf-national-programme>

living conditions, as reflected in the overwhelming support of beneficiaries and non-beneficiaries for the program's continuation.

In the 2019 presidential elections, most candidates knew that the program enjoyed public support and expressed their intention to vote for the candidate who supported its continuation. Differences between the candidates related more to the method than the principle of providing cash transfers.

Enhancing pro-poor credentials to maintain political favor in countries where a significant proportion of the population faces the perils of poverty is a crucial driver of the operation and expansion of social assistance programs.

### NON-POLITICAL ACTORS

The successful operation of social safety nets depends on coordinated efforts from various stakeholders, including non-political and non-governmental actors. While the state's role is central to delivering social assistance, collaboration with non-political actors is essential to ensuring these programs' effective design, implementation, and sustainability. These actors, including civil society organizations, bureaucrats, program beneficiaries, socio-economic elites, economic stakeholders, and international donors, play critical roles in shaping the political economy of social assistance.

Building strong state institutions, with both "hard" technical capacity and "soft" relational capacity, is fundamental to effectively delivering social programs. "Hard" capacity refers to the technical skills, knowledge, and resources required for program execution. In contrast, "soft" capacity relates to the government's ability to foster trust and collaboration with citizens, civil society, and bureaucratic actors. This is particularly important in fragile political contexts, where non-political actors can compensate for weaknesses in political leadership (McDonnell, 2017). Non-political actors are, therefore, critical players in the provision of social safety nets.

Civil society organizations (CSOs) and bureaucrats are vital in implementing and evaluating social assistance programs, providing on-the-ground expertise, monitoring progress, and ensuring accountability. Program beneficiaries actively participate in community mobilization and cooperation. International donors offer financial and technical support, especially in resource-constrained environments. Further, politicians and policymakers safeguard the interests of socioeconomic elites by ensuring social stability and providing positive externalities to economic stakeholders through the spillover effects of social assistance delivery.

The following case studies explore the role of non-political actors in supporting social assistance programs and highlight their influence on the political economy of social protection.

### Civil society organizations and beneficiary groups

Three key types of state capacity—fiscal, legal, and collective—are particularly relevant to understanding the role of non-political actors in social assistance (Besley & Persson, 2011). While fiscal capacity is addressed in Section 4.4 of this chapter, this section explores the importance of legal and collective capacities, which involve non-political actors in building legitimacy, frameworks, and institutional strength to deliver social programs effectively.

Civil society organizations, bureaucrats, and legal systems have a fundamental role across the social assistance provision supply chain. CSOs play a role across the supply chain in supporting program design by engaging with policymakers, participating in public consultations, and aiding in the delivery of programs; bureaucrats are critical for delivering and implementing programs; and legal frameworks and constitutional protections provide safeguards for the smooth operation of social assistance programs (discussed further in Section 5).

CSOs help raise awareness at grassroots levels, serve as crucial thought partners, and advocate for policy design and implementation. They collaborate with the government and external donors on outreach programs, improve targeting and monitoring eligibility, and fill gaps left by political actors, especially in sectors where government capacity or capability is limited. They possess technical knowledge and expertise that beneficiaries might lack. Thus, they serve as a bridge between formal governmental actors and communities. Their role is vital for the efficient delivery of public services and safeguarding the interests of beneficiaries.

CSOs can serve as a unified voice for engaging with the government and advocating for better social protection, particularly in contexts where social dialogue might be suppressed. They can take various forms, such as international organizations, organized non-governmental organizations, trade unions, charities, and beneficiary groups.<sup>11</sup>

CSOs and beneficiary groups can play a pivotal role in shaping the provision of social assistance. Their influence goes beyond voting behavior or reacting to government policies. These groups actively engage in public

<sup>11</sup> | <https://www.ungpreporting.org/glossary/civil-society-organizations-csos/>; <https://www.un.org/en/civil-society/page/about-us>

consultations and lobby for policy changes, ensuring that beneficiaries' voices are heard. By advocating for their needs, they can help direct government action toward more effective and inclusive social programs.

In addition to advocacy, CSOs and beneficiary groups collaborate with government bureaucrats to support various aspects of program implementation. For instance, their participation in community validation processes helps improve targeting efficiency by providing on-the-ground insights that enhance the accuracy and fairness of social assistance programs. In this way, beneficiaries are not only recipients of aid but also active partners in ensuring the success and sustainability of social assistance initiatives.

In the Philippines, the Samahan ng Nagkaisang Pamilya ng Pantawid (SNPP), a passionate organization of program beneficiaries, has played a crucial role in advocating for the continued support of the Pantawid Pamilya program. SNPP actively lobbies for the program's sustainability, working closely with the Department of Social Welfare and Development (DSWD) to engage legislators in Congress by presenting evidence of the program's positive impacts on poverty reduction.

One significant example of SNPP's influence occurred when Listahanan 2, the National Household Targeting System for Poverty Reduction, identified approximately 1.3 million households as no longer poor.<sup>12</sup> This prompted the DSWD to consider delisting them from the Pantawid Pamilya program. In response, SNPP quickly mobilized, arguing that the data required further validation before any action could be taken. Their campaign delayed the delisting process, emphasizing the importance of accurate and transparent decision-making in social assistance programs.

In addition to defending beneficiaries, SNPP was instrumental in lobbying for the passage of Republic Act 11310, the Pantawid Pamilya Act of 2019, which institutionalized the program. Their advocacy highlights how beneficiary organizations can be key stakeholders in sustaining and shaping the future of social assistance programs, ensuring their continued relevance and effectiveness.

<sup>12</sup> | Listahanan 2 was approved in 2015 but due to the forthcoming national and local elections, the Community Assembly was asked to stop validating the eligibility of poor households. With the change of administration in 2016, a policy directive was issued to maintain the current level of beneficiaries at 4.4 million households. As such, the Listahanan 2 database was not used by Pantawid Pamilya. However, other agencies such as PhilHealth, Commission on Higher Education and Local Government Units used it for their social protection programs.

## Donors

Multilateral financial institutions (MFIs) are crucial in shaping policy and driving social development in LICs and LMICs. Through development aid, MFIs enable these countries to pursue growth objectives while simultaneously addressing the needs of poor and vulnerable populations through social assistance and productive inclusion programs. Beyond providing financial support, international donors offer critical technical assistance, helping to design, implement, and scale social assistance initiatives.

By backing these programs, donor agencies lend credibility to poverty alleviation efforts, bolstering the legitimacy of government actions domestically and internationally. Additionally, MFIs wield significant soft power, influencing recipient countries' social assistance agendas and encouraging policy choices that align with global development goals. The strategic involvement of MFIs in implementing the TKP in Egypt and SCTs in Zambia exemplifies how donor support can shape the trajectory of national social protection programs. These cases are explored in detail below.

### Role of MFIs in Egypt

Since its inception, the TKP in Egypt has received substantial backing from MFIs such as the International Monetary Fund (IMF) and the World Bank, as well as development agencies like the United Nations (Dunne, 2020). The program was seen as a cornerstone of Egypt's social and economic reform agenda, helping to streamline previously fragmented and inefficient social assistance efforts. By harmonizing these programs, the TKP transformed Egypt's safety nets into a more targeted and effective system, with clear socio-economic objectives to reduce poverty and promote social inclusion.

In 2015, the Egyptian government received a three-year loan of US\$400 million from the World Bank to support the TKP. The World Bank leveraged its experience in supporting conditional transfer programs globally and played a central role in providing financial support and technical assistance to ensure the program's effectiveness and efficiency (Clemens & Kremer, 2016).

The loan had two objectives: First, it provided financial assistance to ensure sufficient program coverage. Second, it supported the program's operational systems, project management, and monitoring and evaluation. The World Bank emphasized accurately targeting impoverished individuals and establishing robust administrative foundations for the program.

In addition to the financial aid, the World Bank also offered crucial technical assistance, drawing upon best practices to guide the design and implementation of the TKP (World Bank, 2015). This technical assistance played

a vital role in ensuring the program's sustained success, as it allowed for the adoption of globally recognized standards and expertise. Minister Waly highlighted the significance of the loan in ensuring the government commitment and, hence, the program's sustainability and garnering global recognition for the TKP program, which would have been challenging to achieve without World Bank support. The World Bank's involvement lent credibility to the initiative and underscored its importance on a global scale.

The Bank's low-cost loan was a crucial lifeline for Egypt due to a foreign exchange shortage (rather than a budget deficit), with the Ministry of Finance allocating an additional EGP 500 million (equivalent to US\$67.4 million or 0.02% of GDP) to fund the first round of the TKP. This was made possible due to the government's decision to set aside 10-15% of the freed-up resources from scrapping fuel subsidies to support social investments, including the TKP program.

While MFIs are crucial in supporting governments, their involvement has significant political economy implications. Sarwar (2018) highlights that the World Bank's financial support for cash transfer programs can act as a "pressure mechanism," compelling governments to maintain and successfully implement these initiatives. The reliance on international funding, technical expertise, and diplomatic goodwill strongly incentivizes recipient governments to sustain programs once launched. Moreover, Clemens and Kramer (2016) note that in LICs and LMICs, the withdrawal of World Bank support often leads other donors to follow suit, further increasing the Bank's leverage in negotiations with client governments.

Various ministries also received support from the Programmatic Technical Assistance on Social Safety Nets, particularly in the early stages of preparing for SSN reforms. Funding from the MENA Transition Fund, including a US\$2.0 million component of a US\$6.5 million grant, was dedicated to designing the TKP, developing the targeting methodology, and launching the Universal National Registry (UNR). The Energy Sector Management Assistance Program (ESMAP) also approved a grant to provide technical assistance as required to implement the TKP (UNICEF, 2019). The World Bank also provided an operational grant of US\$25 million, which supported the development of a proxy means testing targeting tool, operational costs of consultants, training of local social units, procurement of IT infrastructure, and information and communication materials. The World Bank has since become the primary financial and technical partner for TKP (UNICEF, 2019).

UNICEF provided an initial seed funding of US\$20,000 to support the early phase of the Takaful and Karama Program (TKP) before the World Bank's involvement. This funding enabled learning visits that were crucial for understanding the principles of CCT programs and gaining practical insights into

their implementation, with exposure to successful models like Morocco's Tayseer program and other experiences from Arab countries (UNICEF, 2019).

However, the importance of national ownership must be considered. While benefiting from external funding, the Egyptian government has actively contributed to and wholly owned the program. The ongoing expansion has benefited from increased fiscal allocations from government budgets. This is augmented by consistent support from various government agencies, reflecting Egypt's strong commitment to providing social protection in collaboration with international partners.

### Role of MFIs in Zambia

In Zambia, donor financing remains crucial for sustaining social assistance programs. An unfavorable economic outlook, compounded by the COVID-19 pandemic, created political competition among programs and led to a significant mismatch between SCT budget allocations and actual releases between 2019 and 2020.<sup>13</sup> While actual releases averaged around 65% of planned allocations between 2014 and 2018, this rate plummeted to just 13% in 2019 and 35% in 2020. However, it rebounded in subsequent years, reaching 95% in 2022 and 100% in 2023.

The realignment of planned and actual allocations was driven mainly by renewed, broad-based donor support for the SCT. In 2020, Zambia faced a foreign debt of US\$13 billion and declining fiscal revenues due to the pandemic, resulting in a budgetary deficit of 11.7% of GDP. Despite these challenges, the government increased the SCT budget by 123% compared to the previous year (Ng'andu 2019, 2020).<sup>14</sup>

Another key event that facilitated the SCT's expansion was Zambia's receipt of a US\$1.3bn bailout package from the IMF in 2022. The government prioritized social sectors, including education, health, and social assistance, using the first tranche of IMF funds. This financial prudence, in contrast to the previous regime that allocated to youth and women along partisan lines to districts, also led to the decentralization of empowerment funds as part of an expanded Constituency Development Fund (CDF). The

<sup>13</sup> | At the same time, the political fallout of a corruption scandal regarding SCT program in 2018, froze development partner funding to the SCT program (e.g., see 'And Now Sweden Cuts funding to Zambia after Social Cash Transfer Scandal', Lusaka Times, September 19, 2018. <https://lusakatimes.com/2018/09/19/and-now-sweden-cuts-funding-to-zambia-after-social-cash-transfer-scandal/>)

<sup>14</sup> | The advent of COVID-19 in 2020 and government's failure to adequately fund the SCT despite budget allocations, compelled donors to get involved in funding the program. First, donors responded to government request for an emergency social cash transfer to alleviate the adverse effects of COVID-19 pandemic on the poor. Further, to ensure beneficiaries were promptly paid and on schedule, development partners re-engaged with the SCT program, as the World Bank, SIDA and UK Foreign Commonwealth and Development Office (FCDO) co-financed about half of the SCT caseload (World Bank, 2020).

CDF increased from K1.6mn per constituency in 2021 to K25.7mn in 2022 and K28.3mn in 2023 and is set at K32.4bn in the 2024 budget.

### Socio-economic elites and other economic stakeholders

Political settlements and the influence of socio-economic elites play critical roles in shaping policy decisions. Political actions are often crafted to maintain social stability while protecting elite interests. Pakistan's BISP provides a clear example of how cash transfers can appease not only the general population but also socio-economic elites.

In Pakistan, the broad political consensus supporting BISP can only be fully appreciated when considering the state's need to preserve social order. In a market-driven economy with an oversupply of labor and limited avenues for productive employment, the government faces mounting pressure to appease different population groups. Without intervention, this economic imbalance could lead to social unrest and threaten the fragile political equilibrium.

Programs like BISP offer a pragmatic solution. By providing cash transfers that are substantial enough to maintain social peace yet not so large as to disrupt the status quo, the government can distribute costs across society, including the surplus population. This strategy helps project a compassionate and responsible image of the state, demonstrating its commitment to the welfare of its citizens. As a result, cash transfer programs like BISP enjoy sustained political support across different regimes, as they offer stability that benefits not just people experiencing poverty but also the political and economic elites who rely on social order.

Social assistance programs also have significant secondary impacts on other economic stakeholders. In Pakistan, BISP has generated opportunities for various sectors, injecting resources and creating economic multipliers. Between 2018 and 2023, large sums were allocated to non-program expenditures, including PKR 542mn for human resources, PKR 382mn for advertising, PKR 11bn for updating and maintaining the National Social Registry (NSER), and PKR 2.7bn for asset acquisitions. Additionally, commercial banks received PKR 10.2bn in service charges for facilitating payments. This multi-sectoral impact highlights the broader economic relevance of social assistance programs, providing further incentives for scaling safety nets.

## *Enablers*

Strategic enablers, which create the necessary conditions for policy shifts and reforms, often catalyze political will and action. These enablers may

emerge in various forms, such as critical junctures created by crises, shifts in fiscal policies or budget constraints, or the availability of evidence to support decision-making. Each factor is crucial in reshaping the policy landscape and increasing the appetite for decisive policymaking.

However, generating and harnessing these enablers is challenging. Conflicting policy priorities during crises, the high costs of data collection and impact assessments, and the need for coordination among critical actors can all create barriers to effectively leveraging these opportunities. This chapter delves into the socio-economic enablers that influence change in the policymaking landscape, exploring how they can affect the formulation and implementation of social assistance programs.

## STRATEGIC USE OF EVIDENCE

In an era of evidence-informed policymaking, impact evaluations, and other program efficacy-related studies can enable policymakers to modify the design of social assistance programs, garner political and public support, and generate soft power and global reputation. Impact evaluations undertaken in Brazil, Egypt, and Zambia help illustrate the value of evidence in guiding policymakers.

### Analysis of impact evaluations of Program Bolsa Familia in Brazil

Social programs in Brazil, particularly the PBF, have been widely studied globally. Government actors, NGOs, international organizations, and economists have all conducted impact assessments and other studies to scrutinize program design and support their continuation.

Tereza Campello, the Brazilian Minister of Social Development from 2011 to 2016, highlighted in the preface to her book celebrating 10 years of PBF that the Bolsa Familia Program was probably the most studied and scrutinized public policy in Brazil's history (Campello & Neri, 2013). PBF's data policy of granting the public access to anonymized microdata enabled hundreds of impact evaluation studies produced by different authors.

The Federal University of Minas Geraes independently led the first official impact evaluation of the PBF between 2007 and 2012. The impact evaluation revealed desirable impacts on consumption, occupation rates, educational attendance, progression rates, and female intra-household bargaining power (Jannuzzi & Pinto, 2013; GoB, Min. Desenvolvimento Social 2012; 2007). PBF has also been the subject of several other independent assessments that either corroborate or expand the findings of the official impact evaluation undertaken by the government.

PBF has been subject to robust academic impact evaluations that signal desirable effects on several health indicators, including under-5 child mortality (Rasella et al., 2013). It has also been estimated to bear robust gendered results, such as its impact on female education (de Brauw et al., 2014) and the reduction of homicide rates and domestic violence against women and girls (Petrova et al., 2021).

The program's most significant insights have probably come from the Institute of Applied Economic Research (IPEA), a government-led research organization that undertakes macroeconomic, sectorial, and thematic research. When the PBF was first operationalized and faced political prejudice, the IPEA released studies indicating that it was the most progressive social transfer from 2001 to 2011 (IPEA, 2012).

Empirical studies have indicated that the PBF corresponded to over a third of the reduction in national poverty prevalence observed during its first 15 years of existence (de Souza et al., 2019) while also accounting for a reduction of over 15 percentual points of the country's Gini coefficient during this period (Hoffmann, 2014). Several other studies by IPEA have also indicated that PBF's targeting accuracy is better than that observed in comparable countries and programs (de Souza & Bruce, 2022; Paiva et al., 2020; Soares et al., 2010).

In addition to impact evaluations, the IPF frequently publishes other studies influencing public policy decisions. For instance, the IPEA traditionally presents proposals, stress tests, and scenario-based analyses whenever there is a window for altering the PBF's design and rules. While Congress proposed the introduction of the emergency cash transfer in response to the COVID-19 pandemic, IPEA analyzed costs and coverage for 72 different scenarios (Paiva et al., 2020). The IPEA has also published studies proposing means to improve the program's efficiency, sufficiency, funding, and alternate forms of social assistance.<sup>15</sup>

IPEA studies have also contributed to the legislation of PBF's permanence to tackle the volatility often experienced by PBF's target audience. They have illuminated fiscal opportunities to ensure adequate funding by analyzing the impact of regressive expenditures (such as tax waivers, production subsidies, or cyclical debt forgiveness to large companies and sectors) that can be redirected to fund social policies (Soares et al., 2010).

<sup>15</sup> | For instance, there are studies indicating financial strategies for rolling out a universal cash transfer funded through the unification of existing social transfers (S. Soares, Bartholo, and Osório 2019). Similarly, there are studies suggesting how a universal cash transfer can be provided through generating additional revenue from tax reforms (L. H. Paiva et al. 2021).

The popularity, scale, and evidence from the PBF also offer Brazil global “soft power” in the context of its expertise in delivering social assistance. It was estimated that over 120 delegations visited Brazil to learn about the Bolsa Família program in one year.<sup>16</sup>

The country also hosts platforms like socialprotecion.org and a Center for Excellence Against Hunger on sister social assistance programs for providing school meals.<sup>17</sup> These endeavors propel Brazil's image as an international ambassador, informed advocate, and global torchbearer for social protection while cementing the legitimacy of programs such as the PBF at a domestic level.

### Role of evidence in establishing the Takaful and Karama Program in Egypt

In the early 2000s, Egypt's social safety nets consisted of three main programs: Universal Fuel Subsidies, Baladi Bread (targeted ration cards), and the Social Solidarity Pension (Daman). These programs were seen as imbalanced, ineffective, and inefficient (World Bank, 2005). Fiscal pressures in the 2000s reignited discussions about reforming in-kind subsidies, particularly fuel-related subsidies, and transitioning to cash transfers.

Numerous studies conducted by academics, think tanks, and international organizations, highlighted the high costs and limited efficiency of fuel and food subsidies and the potential of CCTs to more effectively break the intergenerational cycle of poverty (see Abouleinein et al., 2009; Adams, 2000; Gutner, 2004; IDSC, 2004; Khorshid, 2010; Korayem, 2001; Lofgren & El-Said, 2001; WFP, 2005; World Bank, 2004, 2005, 2010a, and 2010b).

In 2004, the World Bank organized a “high-level retreat” in Luxor to showcase the success of other developing countries adopting CCTs and illustrate how Egypt could benefit from transitioning from in-kind subsidies to cash transfers. Following the conference, the Egyptian government announced an ambitious energy subsidy reform program, aiming for full cost recovery by 2014.

In 2006, the UNDP facilitated a meeting between senior Egyptian ministers and the leaders of Brazil's Bolsa Familia, Chile's Solidario, and Mexico's Oportunidades programs to provide insights into the advantages of cash transfers over traditional in-kind subsidies. Building on this momentum, MOSS hosted Egypt's first Social Protection Conference in 2008, where

<sup>16</sup> | <https://www.worldbank.org/en/news/opinion/2013/11/04/bolsa-familia-Brazil-quiet-revolution#:~:text=C2%ADefficient%20administration%20and%20good%20targeting,Brazil%20to%20learn%20about%20BF.>

<sup>17</sup> | <https://www.wfp.org/centre-of-excellence-against-hunger>

experts from Indonesia, Iran, and Tunisia shared their experiences of transitioning from in-kind to cash subsidies.

These engagements were pivotal in Minister Waly and the Egyptian government finally adopting and launching the Takaful and Karama Program to harmonize and deliver effective social assistance.

The TKP stands out as the sole Egyptian social program to undergo two distinct impact evaluations conducted by the International Food Policy Research Institute (IFPRI). The evaluations in 2018 and 2022 revealed many positive impacts resulting from the TKP while also identifying areas that required further enhancement. These studies augment the transparency and accountability of the TKP by objectively assessing its performance. This, in turn, helps build trust among stakeholders, including policymakers, agencies, donors, and the public.

Impact evaluation studies also contribute to knowledge sharing and learning, strengthening the program's visibility and showcasing its successes with other countries in the African and MENA regions.

### **Role of donor-led impact evaluations for setting up the SCT in Zambia**

In Zambia, donors were crucial for providing funds for pilot projects, conducting studies to determine the efficacy of programs in reducing extreme poverty, and fostering coalitions between key proponents and institutions to persuade the government to implement the SCT program nationally.

Donors used evidence to persuade the government to scale the SCT program after an initial pilot. Following the introduction of the SCT pilot project in the Kalomo district and subsequent pilots in Kazungula, Chipata, and Kalabo, several studies commissioned by development partners provided evidence of the program's efficacy in alleviating extreme poverty, increasing children's school attendance and improving food security.

Driven by data and impact evaluation studies, international donors, such as the UK's Department for International Development (DFID, now known as the Foreign and Commonwealth Office (FCDO)), and the United Nations Children's Fund (UNICEF) succeeded in persuading the government of Zambia to scale up of the social cash transfer program in 2009 (Pruce & Hickey, 2019). The decision to scale up the SCT program was also informed by evidence that demonstrated the efficacy of the SCT in reducing extreme poverty and improving the livelihood and human capital outcomes of recipient households (Harland, 2014; van Quarles et al., 2016).

The evidence-informed approach led to the establishment of the Sectoral Advisory Group on Social Protection in 2009. The group comprised representatives from the Zambian government, civil society actors, and international aid partners, such as UNICEF, DFID, Irish Aid, GIZ, and the World Bank. The advisory group collectively agreed on the first full-scale expansion of the SCT to more districts, and DFID committed to supporting the SCT program for 10 years (Pruce & Hickey, 2019).

Data, evidence, and impact evaluations influence the provision of social assistance programs across three dimensions: firstly, they help generate awareness for establishing and operating social safety nets; secondly, they help provide support for raising finance to sustain and scale programs; and finally, they help establish platforms for collaboration and coordination domestically and internationally. Therefore, the decision of relevant stakeholders to undertake impact assessments is not only an economic choice but is also determined by political factors and can play a crucial role in supporting the expansion of social assistance programs.

### CRISES AS OPPORTUNITY JUNCTURES

Socio-economic or political crises can provide opportunities to establish or expand social safety nets. The demand for social protection, justice, and dignity of life that drove people to the streets of Egypt, culminating in the First Arab Spring revolution in Egypt, illustrates the impact of a crisis as a critical opportunity juncture.

#### Background of political instability in Egypt

The 2011 revolution brought hope and challenges, with popular chants demanding “bread, freedom, and social justice” and calling for the fall of the Hosni Mubarak regime. Egyptians sought a new political and economic order that would address immediate needs (bread), establish a free and democratic government that ensured better governance and the rule of law (freedom), and drive structural economic transformations for shared prosperity and a better future (social justice). On February 11, 2011, the revolution achieved its first success when President Mubarak resigned.

However, the absence of legislative institutions and rapid changes in disconnected governments following two revolutions (January 25, 2011, and June 30, 2013) resulted in significant political instability, hindering the adoption of decisive solutions to major economic problems. This eroded confidence in the economy and gave rise to acute problems while leaving deep-rooted social, political, and economic challenges inherited from the pre-revolution era unaddressed.

### Inadequate response to the energy crisis exacerbating poverty

MFIs recommended reducing subsidies to tackle the growing budget deficits and economic instability, leading to a multifold energy price increase. Natural gas, diesel, butane, and electricity prices were repeatedly raised, disproportionately affecting low-income households in rural areas as they heavily relied on butane.<sup>18</sup> Despite these increases, negotiations with the IMF on a US\$750 million rescue loan in early 2013 collapsed (AP News, 2018).

To partially offset the negative implications of subsidy cuts, the government took measures to enhance the Daman pension program, the main cash transfer scheme. Monthly benefits increased in 2012 and 2013, and the coverage expanded in July 2012 from 1.5 million households to 1.7 million (around 9 percent of the population and one-third of people experiencing poverty) (Tsuchiya, 2020). However, the limitations of the Daman pension, including targeting and administrative constraints, made it impossible to expand the program to cover all targeted groups effectively. Additionally, significant cuts in fuel subsidies were challenging to implement due to the tense political environment.

### Evolution of MOSS and social programs

During this significant social and political change in Egypt, various organizational changes were made to address the calls for justice. These changes included renaming MOSS and shifting portfolios to reflect the government's and people's priorities.

In response to the demands for social justice, organizational changes were also made within MOSS. The ministry's name and portfolio underwent several revisions, reflecting the government's and people's shifting priorities and needs. Further, the Minister of Finance, Dr Ahmad Galal, established the Economic Justice Unit to evaluate the social impact of resource allocation in the fiscal budget. One of the unit's primary tasks was to develop an objective poverty-targeting tool, which would allow for more accurate identification of people experiencing poverty and the delivery of necessary social welfare benefits.<sup>19</sup>

Successive Egyptian governments were aware of the limitations of in-kind subsidies. They recognized the potential effectiveness of well-designed targeted cash transfers in reducing poverty and breaking the intergenerational

<sup>18</sup> | In July 2012, natural gas prices were increased for households that consume more than 30 cubic meters monthly. Diesel prices increased by 50% in February 2013, and butane prices increased by 60% in March 2013. Electricity prices also increased in November 2012 and February 2013.

<sup>19</sup> | The three other main tasks were: modernization of the informal sector, fiscal sustainability of Egypt's social insurance schemes, and the actuarial analysis of the proposed universal health insurance.

cycle of poverty. However, political and economic challenges and the fear of unrest hindered comprehensive subsidy reform. As a result, the government could only undertake fragmented reforms and incremental increases in the monthly payment of Daman, which served as a tool to partially mitigate the adverse effects of external shocks and subsidy reforms.

The country's political transition entered a new phase in 2014, marked by the approval of a new constitution in January, the election of a new president in May, and the formation of a parliament in late 2015 after a three-year absence.

However, despite the support of some Arab Gulf countries, Egypt continued to grapple with numerous economic difficulties. These included capital flight, dwindling reserves, foreign currency scarcity, mounting budget deficits, and public debt.

The existing subsidy system had become unsustainable in the face of the country's dire economic situation. In 2014, energy subsidies alone accounted for nearly 70% of commodity subsidies and 50% of the budget deficit. These universal subsidies resulted in the top 20% of the population benefiting from 36% of the total subsidies (World Bank, 2015). The system primarily benefited energy-intensive industries and car owners, generating significant profits but failing to achieve social justice. These challenges gave the new regime a window of opportunity and a strong impetus for social reform.

### Impact of TKP on public sentiments

The Egyptian population and international donors positively received the introduction of the TKP in 2015. The program's emphasis on addressing poverty and inequality through a transparent and practical approach resonated with the Egyptian population's aspirations, strengthening the new regime's domestic and international political legitimacy. By meeting the public's expectations for social justice and aligning with their deeply rooted values inherited from the Nasserite era, the TKP struck a chord with an Egyptian population clamoring for social reform.

The legacy of the First Arab Spring further reinforced the notion that the state should play an active role in providing essential services and support, creating a receptive environment for the targeted social assistance program. The TKP's alignment with the demands of the public and the calls from local experts and international organizations for improved allocation of public spending further contributed to its positive reception. The program was not without its critics as some observers saw the new program as a variation of the old social contract, i.e., the government provides

income transfers to people experiencing poverty to balance the concessions given on political rights.

Notwithstanding this, the introduction of the TKP provides an insight into the role of a window of opportunity for redefining the social contract with wide-reaching socio-economic and political benefits in the face of a widespread crisis.

### INTER-SECTORAL COLLABORATION

The provision and expansion of social safety nets require concerted and coordinated action from various stakeholders, particularly within the government. Section 2 highlighted some aspects of coordination between the Ministry of Social Solidarity and the Ministry of Finance in Egypt to illustrate the importance of alignment within the government.

The allocation of fiscal budgets to various ministries in the Philippines for delivering the 4Ps program and the collaboration between the national and regional governments further illustrate the multiplicative impact of collective action.

In the Philippines, enablers and supporters of cash transfers include regional chief executives and their respective legislative councils, who are responsible for delivering the 4Ps program. These local government units are at the forefront of addressing many implementation issues of Pantawid Pamilya, such as compliance monitoring, resolution of marital and parental problems, domestic violence and child abuse, juvenile delinquency, and drug abuse. They have the agency to hire additional health workers, day-care workers, and teachers and receive a budget from the national government to deliver social assistance.

The program also receives support from the National Advisory Council, which includes the Departments of Education, Health, Agriculture, Agrarian Reform, Science and Technology, Labor and Employment, Technical Education and Skills Development Authority, Trade and Industry, and two non-governmental organizations.

The council of ministries is entrusted with developing policies and coordinating Pantawid Pamilya and other services for people experiencing poverty nationally. Its members must also ensure adequate funding for livelihood training and employment facilitation programs. The national government provides additional funding to sub-national governments and contributes to the delivery of the social assistance agenda under the advice of the National Advisory Council.

The budgets of DSWD and other implementing agencies—the Department of Education, Department of Health, Department of Labor and Employment, Technical Education and Skills Development Authority, and Commission of Higher Education—were also significantly increased to support Pantawid Pamilya (see Table 1).

YEAR	DSWD	DEPED	DOH	DOLE	TESDA	CHED	Total
2010	14,269	161,190	24,649	2,104	2,890	1,668	206,770
2011	34,146	192,087	31,828	1,940	2,838	0,925	262,840
2012	48,626	201,497	42,155	2,300	2,745	1,420	298,743
2013	56,151	231,437	50,442	2,815	2,971	2,782	346,598
2014	83,114	280,724	80,720	4,553	5,049	6,940	461,100
2015	107,857	319,230	86,968	4,167	5,319	2,368	525,909
2016	110,480	410,380	122,630	9,121	6,730	5,630	664,971
2017	128,000	543,520	95,270	8,540	6,680	18,700	800,710
2018	141,390	552,520	106,080	7,198	7,560	49,480	864,228
2019	138,490	500,200	97,650	11,600	12,550	51,490	811,980
2020	161,960	520,280	100,580	12,050	12,970	46,780	854,620
2021	174,718	556,900	134,400	24,950	14,460	50,575	956,003
2022	202,400	591,000	183,000	33,000	13,800	31,600	1,054,800
2023	192,500	676,000	209,000	26,000	16,000	30,880	1,150,380

*Table 1. Yearly Approved Budget of Social Protection-related Agencies (In PHP Million)*

Coordination between ministries is critical for the effective delivery of social assistance programs. Inter-sectoral collaboration also helps ensure that the respective ministries' technical expertise is utilized across various aspects of the program and provides the framework for scaling safety nets.

### FISCAL REVENUES AND REFORMS

Providing social assistance programs requires sufficient fiscal space to allocate adequate funding. Governments typically have three primary sources of financing for non-contributory social programs: domestic tax revenues, reallocation of funds, and international donor support (as discussed in Section 2.4.3). Earmarked funds from specific taxes, such as indirect taxes, or the general tax revenue pool can support social programs funded through tax revenues. Part II of this book provides an in-depth analysis of earmarking funds for social protection.

However, in low- and lower-middle-income countries, budget constraints and fiscal deficits often result in competing priorities for resource allocation across various sectors. In this context, political will, fiscal prudence, and the effective design of social assistance programs are essential to re-locating funds and efficiently using available funds. This section examines vital political economy factors such as political commitment, market capacity, and public sentiment, which influence the allocation of resources toward social protection schemes.

Egypt illustrates how governments can create fiscal space by streamlining programs and phasing out inefficient universal subsidies. Conversely, social assistance programs can also act as a buffer during fiscal reforms to foster economic growth, as in the Philippines, where public spending improvements and tax simplification were used to protect vulnerable populations. These cases are explored in detail below.

### Egypt – creating fiscal space

In Egypt, MFIs and donors urged the new regime to implement economic reforms promptly.<sup>20</sup> Key measures included a five-year reform plan aimed at gradually phasing out energy subsidies, except for those consumed by people experiencing poverty.<sup>21,22</sup> While these reforms had been delayed for many years, the government took a bold step in July 2014 by increasing fuel prices by 40-80%.<sup>23</sup> This increase and the decline in international oil prices significantly reduced the cost of providing fuel subsidies.

The ration card system was also transitioned to a voucher-based approach to enhance consumer flexibility and reduce leakages, and the Baladi Bread subsidies were streamlined (see Chapter 3 of Alderman et al., 2018, for more details on these reforms). Furthermore, the government fully implemented the value-added tax (VAT) system, which had previously been partially applied.

These decisions, especially of energy subsidy cuts, were politically bold, given the potential for backlash. Still, President Sisi was determined to seize the opportunity created by the drop in most energy prices during 2013 and 2014 to break the political logjam (Klevnäs et al., 2015; CFR,

20 | Other key measures are containing public sector wage bill; replacing the sales tax with a fully-fledged VAT; and reducing non-priority public spending items, while increasing health and education investment (IMF, 2015).

21 | At the time, it was planned to increase fuel prices by about 20 percent every year to reach almost a full cost recovery by FY19.

22 | The most notable exclusion was the heavily subsidized liquefied petroleum gas (LPG).

23 | Octane 80 and 92 prices rose by 77 and 41 percent, respectively, diesel rose by 64 percent and natural gas prices rose by 175 percent See MEES (2014b). However, these prices were still very below international prices. Sisi also raised taxes on alcohol and cigarettes, applying a flat tax on local and imported cigarettes to between 25 and 40 cents per pack, as well as new property taxes, and plans to introduce a new scheme for value-added taxes.

2015). President Sisi's government navigated the necessary changes relatively smoothly despite introducing the most severe reforms since President Anwar al-Sadat's attempt to lift price controls in 1977.<sup>24</sup>

The new regime's early actions showcased a paradigm shift in its reform methodology. This was characterized by the implementation of robust and decisive measures, as well as a keen awareness of potential resistance and vested interest groups within Egyptian institutions. This approach starkly contrasted with the previous slow, piecemeal, and fragmented approach to reforms. The new regime's proactive and determined stance instilled hope for a better future and significantly enhanced its political credibility in the eyes of the public.

How the government skillfully orchestrated a public relations campaign was crucial in highlighting the prevailing economic crisis gripping the nation. As a result, it provided the necessary leverage for the authorities to make decisions that would typically face significant opposition under different circumstances. The campaign effectively portrayed the reform measures as a necessary "bitter pill" for revitalizing Egypt's battered economy (James, 2015; Clarke, 2014). The government emphasized that these measures would benefit everyone in the long run and that the savings would be allocated towards essential areas such as education, healthcare, and social welfare (IMF, 2015).

Strategic messaging helped convince the majority of Egyptians that the reforms would ultimately lead to a fairer socio-economic system (El-Katiri & Fattouh, 2017; Al Bawaba, 2014; Mubashir Misr, 2014). The aspirations revealed by the two revolutions, combined with constitutional commitments to invest in education and healthcare, further elevated the importance of these reforms in the public's eyes.

### Philippines – coping with fiscal reforms and changes in tax policies

Fiscal reforms and changes in tax policies directly impact consumption, necessitating social protection to mitigate the negative externalities of these changes, as illustrated in the Philippines.

The financial priorities of the Aquino administration, articulated in the Filipino slogan "*Tungo sa Paggugol na Matuwid*" (Towards Correct Spending), reflect the administration's budget reform initiative under the social contract with the Filipino people. In their quest for "correct" spending, the government escalated efforts to ensure that public expenditure led to direct, immediate, and substantial benefits for various marginalized groups: students

<sup>24</sup> | <https://www.gisreportsonline.com/r/egypt-reforms/>

deprived of free and quality education, patients urgently needing proper healthcare facilities in the countryside, farmers without access to adequate irrigation and post-harvest facilities, and millions of other Filipinos who had been mired in sustained joblessness, poverty, and hopelessness.

Republic Act 10351 of 2012, or the Sin Tax Reform Law, was passed to finance the revised social contract and was considered a landmark legislation of the Aquino administration. Perceived as a health measure with revenue implications, the Sin Tax is a governance measure that helps finance the Universal Health Care (PhilHealth) program. Sin Tax revenues improved significantly from an average of P50 billion in 2012 to 105 billion in 2013, reaching P261 billion in 2021. The fungibility of these revenues also opened fiscal space to finance the expanded 4Ps program.

Pantawid Pamilya was also part of President Duterte's 10-point socioeconomic agenda as part of a new vision of "*Matatag, Maginhawa, at Pantatag na Buhay*" ("Filipinos enjoy a strongly rooted, comfortable, and secure life"). The agenda, which aimed to reduce poverty incidence from 21.6 percent in 2016 to 14 percent in 2022, was financed by RA 10963, or Tax Reform for Acceleration and Inclusion ("TRAIN"), passed in 2017.

The TRAIN Law was the first package of the Comprehensive Tax Reform Program ("CTRP") envisioned by the Duterte administration to correct several deficiencies in the tax system to make it simpler, fairer, and more efficient. It includes mitigating measures designed to redistribute 30 percent of its revenues to people experiencing poverty. TRAIN revenues in 2018 reached 77.3 billion pesos and increased further to 113 billion pesos in 2019. Revenues decreased to 35 billion pesos in 2020, following the onset of the COVID-19 pandemic, but rebounded to 133.9 billion pesos in 2021.

To mitigate the adverse effects (increase in prices of essential commodities) of the TRAIN law, financial assistance through UCTs was implemented, automatically including 4Ps beneficiaries along with other poor households in the Listahanan. For Pantawid Pamilya beneficiaries and Listahanan poor households, the UCT used the delivery and payment systems of the CCT to disburse an additional US\$6 per month or US\$72 annually from 2018 to 2020.

Fiscal reforms can yield significant benefits, as demonstrated by Egypt's experience. The phasing out of fuel subsidies and reduced inefficient spending created additional fiscal space, allowing the government to allocate resources to more targeted and impactful social assistance programs like the Takaful and Karama Program. Similarly, in the Philippines, social assistance programs have played a vital role in mitigating the financial strain caused by fiscal reforms, providing a safety net during periods of economic adjustment.

Governments face multiple trade-offs when financing these programs. The decision to fund social assistance through earmarked revenues—such as taxes like VAT—or general taxation requires careful consideration of long-term sustainability and fairness. Chapter XX explores these funding strategies and their implications.

### HARNESSING THE POTENTIAL OF CITIZEN DATA

Access to disaggregated citizen data and well-developed social registries can also help foster the expansion of social assistance programs. Up-to-date social registries provide governments with insights into structural deficiencies in social program design and help improve program targeting. This is critical to ensuring sufficient coverage of social programs and undertaking impact evaluations, which ultimately play a vital role in advocating for the scale-up of social safety nets, as set out in Section 3.1.

In Pakistan, one of the structural achievements of the BISP has been making citizens more “legible” to the state. Many development schemes are driven by the state’s need to collect data on various aspects of its citizens’ lives, enabling more effective governance.<sup>25</sup> By building comprehensive databases that track citizens’ housing, education, consumption, wealth, income, and movement, the state can leverage big data analytics to improve decision-making and policy implementation.

The establishment of the National Database and Registration Authority (NADRA) in 2000, BISP’s use of Computerized National Identity Cards (CNICs) from its inception, and the creation of the National Socio-Economic Registry (NSER) are closely linked developments that have collectively strengthened the state’s data infrastructure. The evolution of the NSER into a dynamic registry has further expanded the state’s capacity to continuously collect and update information on previously covered populations.

The shift to virtual accounts and quarterly biometric verification has integrated millions of BISP recipients into a highly monitored formal financial system.<sup>26</sup> BISP’s role in formalizing the relationship between millions of households and the state, effectively making them visible to the government for the first time, made this level of transparency and control possible.

<sup>25</sup> | Scott, J. (1998). *Seeing Like a State: How Certain Schemes to Improve the Human Condition Have Failed*. Yale University Press.

<sup>26</sup> | Pakistan’s formal financial sector faces rigorous oversight, not just from the government but also from international organizations, with the Financial Action Task Force (FATF) stipulating that the Pakistani government must regularly collect comprehensive information about clients within the banking system and other financial institutions. This data encompasses routine biometric verification, details about income sources, international transactions, and tax compliance status. BISP has played a pivotal role in incorporating women from impoverished households into Pakistan’s banking sector, given that cash transfers are funnelled through banks, either directly or via their POS agents.

## *Resistance: Alternatives to cash transfer programs*

Cash transfer programs can be contentious. They might be deemed to create an issue of dependency, viewed as handouts, or seem to dissuade beneficiaries from taking necessary steps to alleviate their circumstances. However, they are the most popular form of social assistance for various reasons, such as their multiplier effect on poverty alleviation, tangible nature, ease of distribution, and the ability to give beneficiaries agency over spending the money to meet their most pressing needs.

Cash transfer programs are not homogenous. Policymakers can impose barriers or restrictions on receiving benefits through conditionalities, strict eligibility/targeting criteria, or physical circumstances, such as being registered on national or social registries and creating an opportunity cost for collecting benefits.

Notwithstanding the above, social assistance programs can take other forms—cash is not the only option. Social assistance can be provided through in-kind transfers, subsidies, or near-cash benefits.<sup>27</sup> Examples of such programs include in-kind transfers, such as school feeding programs, or subsidies, such as fuel subsidies or food vouchers.

Policymakers face multiple tradeoffs when deciding on the type of social assistance program. These could include considerations of coverage and the level of benefits (i.e., do a small number of beneficiaries receive a high level of benefits or vice versa), the ease of identifying and accessing beneficiaries, the profile and requirements of beneficiaries, or expenditures (concerning both providing benefits and delivering programs).

Tradeoffs can also exist in the context of other socioeconomic considerations, such as demographics, income levels, and regional disparities. These tradeoffs are deliberated upon in the realm of the policy landscape, availability of resources, or the objectives of establishing a particular type of safety net. Therefore, the choice of social assistance type is complex.

The choice between investing in social assistance programs and fostering economic growth in a country is not a zero-sum game. The capacities and capabilities of various actors (as set out in Section 2), their relative bargaining powers, and the management of conflicting priorities over the use of economic resources are critical drivers of the type of social assistance provided.

<sup>27</sup> | <https://documents1.worldbank.org/curated/en/099800007112236655/pdf/P17658505ca3820930a254018e229a30bf8.pdf>

## INITIAL PILOTING AND THE CONTEST OF IDEAS

The introduction of cash transfer programs, particularly in contentious contexts, is typically preceded by other forms of social assistance or other accompanying programs to enhance socio-political support. They are often piloted to a small target group or region before being scaled to ensure that any nagging issues with the program's design can be addressed. This approach to designing safety nets is reflected in the design of the flagship programs analyzed in this chapter.

### The evolution of social safety nets in Egypt

#### Reluctance to introduce cash transfer programs and shortfalls in existing programs

To enhance transparency and effectiveness, the government of Egypt introduced an explicit line item for fuel subsidies in the 2006 budget and implemented organizational changes, including consolidating all social safety net programs under one ministry.<sup>28</sup> The Ministry of Insurance and Social Affairs (MoISA) was dismantled, and social insurance funds were transferred to the Ministry of Finance. In contrast, social assistance programs were transferred to the Ministry of Supply and Internal Trade (which was subsequently renamed the Ministry of Social Solidarity).<sup>29</sup> MOSS became responsible for food subsidies and cash transfer programs, streamlining the management of safety nets and aiming for improved human development indicators.

Despite the potential benefits, the government was reluctant to shift from in-kind subsidies to cash transfers for multiple reasons. First, there was a lack of political will, and the issue was never discussed in cabinet meetings or included in any agendas. Second, the government believed that economic growth alone would reduce poverty despite evidence of persistently high poverty levels and inequality.<sup>30</sup> Finally, there were concerns about administrative capabilities and capacities, which would have hindered the implementation of a cash transfer program.

The social pension program Daman had shortcomings in identifying the impoverished population objectively and lacked regular evaluation, updating of beneficiaries' eligibility, and an "exit strategy" (Sabry, 2005). Non-poor households were found to benefit from the program, highlighting issues of leakages in coverage. The program's low benefit amount and

28 | <https://www.elwatannews.com/news/details/1417045>

29 | According to the presidential decree No 421 of 2005. See <https://manshurat.org/node/36644>

30 | Note, the World Bank (2011) found a decrease in poverty levels between February 2005 and February 2008, largely due to rapid economic growth.

limited coverage were also criticized (World Bank, 2002).<sup>31</sup> The failure to convert the paper ration card into a smart card in 2006 further discouraged the government from relying on the capacity of Egyptian institutions to implement a cash transfer system.<sup>32</sup>

The government had concerns about the potential dependency effect, cost containment, financial sustainability of a new cash transfer scheme, and the readiness of the infrastructure requirements in the education and health sectors for implementing a conditional cash transfer program. Political and social risks were also associated with reforming fuel and food subsidies, which were increasingly considered shared entitlements among Egyptians. These concerns, combined with the subsidy system's ability to sustain itself despite its economic cost and inefficiencies, likely contributed to President Mubarak's reluctance to implement significant changes that could jeopardize social and political stability in Egypt.

### Pilot CCT program – Ain El Sira

Against this backdrop, the Social Research Centre (SRC) of the American University in Cairo partnered with MOSS to launch a targeted cash transfer pilot program in Ain El Sira, an urban area in Cairo, in 2008.<sup>33</sup> The pilot aimed to improve the accuracy of identifying families experiencing poverty through better targeting mechanisms, empower beneficiary families (especially women), and integrate various programs to achieve measurable developmental objectives. It was developed based on recommendations from a conference attended by experts from Brazil, Mexico, and Ecuador, and it underwent monitoring and evaluation following its launch in March 2009.

During that period, Minister Moselhy oversaw MOSS and was a parliament member closely connected to his constituencies. Being in touch with the public sentiments and recognizing the pressing need to address the escalating poverty and public dissatisfaction, he was keen on better allocating public resources and tackling the prevailing challenges. The existing food subsidy programs (Ration Cards and Baladi Bread) faced significant issues, including long queues, complaints about coverage and food quality, system leakages and waste, and a lack of well-designed policies targeting people experiencing poverty. Considering these challenges, Minister Moselhy actively supported the pilot project as a strategic approach

<sup>31</sup> | In 2000, Egypt's poverty line was estimated to be between 953-1097 LE per year (79-91 LE per month), and the monthly benefit provided by the government was well below this poverty line, as reported by the World Bank (2002).

<sup>32</sup> | The government attempted to address this issue by conducting a pilot project of electronic chip-based ration cards, called Smart Cards, in the Suez Governorate in April 2006. However, this pilot project did not receive much traction and did not reappear in Egypt until 2014.

<sup>33</sup> | The SRC team benefited from a qualitative and quantitative research project that lasted for more than 2 years to inform the design of the CCT pilot scheme. The qualitative portion of the research was funded by DFID through Pathways, the further quantitative study was funded by other donors.

to address these issues and secure sufficient funds from policymakers (World Bank, 2010).

### National expansion of Ain El Sira CCT and launch of TKP

The situation worsened following the 2008 global financial crisis, as the prices of food and fuel commodities skyrocketed. This led to thriving black markets and the smuggling of subsidized items, further increasing the subsidy bill. However, Minister Moselhy, influenced by the success of the Ain El Sira CCT program and engagement with Egyptian academics and donor communities, was convinced that cash transfers could effectively combat poverty and potentially replace in-kind subsidies.

In August 2010, MOSS collaborated with the SRC to expand the pilot program to 65 villages in Sohag and Assiut, located in Upper Egypt. The self-registration process quickly identified eligible beneficiaries within three weeks, initiating baseline data collection.

As elaborated in the preceding sections, the TKP was designed and developed based on the Ain El Sira pilot cash transfer program, implemented after the Egyptian Revolution in 2011.

### Piloting Social Cash Transfers in Zambia

In Zambia, the flagship SCT program started as a small pilot in the Kalomo district in early 2003, initially targeting 159 labor-constrained, poor households. At the time, the province's population was experiencing high levels of hunger due to prolonged droughts and a high HIV/AIDS prevalence. The program was expanded to the Kazungula district in 2005 and to Monze in 2007, reaching about 1,000 households.

The SCT was a significant disruption to the status quo. The first elected multiparty government that came to power in 1991 dismissed welfare programs as wasteful and aimed at promoting dependence on the state. The initial proposal to provide social assistance was not to introduce a new cash transfer program but to improve and expand the existing Public Welfare Assistance Scheme ("PWAS"). The PWAS, which had been in existence since Zambia was a British colony, had suffered from prolonged underfunding and poor targeting and had become ineffective in addressing the issue of extreme poverty and destitution.

The rationale for introducing social cash transfers was three-fold. First, a realization that PWAS, as a model of social assistance, covered a tiny fraction of the impoverished and vulnerable population, only targeting population groups recognized as the "indigent". Second, PWAS was not

cash-based but provided the beneficiaries with in-kind assistance, such as blankets and food. Third, it was argued that social cash transfers would be a better substitution for agricultural subsidies, which were ineffectively targeted at people experiencing poverty.

The early SCT program faced negative sentiments as it was considered to promote dependency syndrome (Pruce & Hickey, 2017). While some political leaders were apprehensive about the efficacy of social cash transfer in alleviating extreme poverty or felt it was an inappropriate strategy to tackle extreme poverty and destitution, the government approved it to be implemented as a pilot project.<sup>34</sup> This was also motivated by the desire to find a program to improve the ruling party's popular support, considering that Levy Mwanawasa ascended to the presidency on a narrow electoral mandate of under 30% of the national vote.

The indifferent support accorded to the SCT by the MMD during its nascency was transformed into firmer, tangible political commitment under the Sata presidency in 2011, who played a more active role in championing the program. The PF government translated their election manifesto promises of being the champions of the poor and ensuring the poor and vulnerable received “money in their pockets”. In seeking to deliver on their social protection agenda, the SCT program was scaled up to over 50 districts in the country, aiding nearly 150,000 households by 2014. Subsequent governments continued to expand the flagship program, and by 2021, it covered all 116 districts and provided cash transfers to nearly a million households.

### COMPETITION WITH OTHER POLITICALLY SALIENT PROGRAMS

Fiscal and state capacity scarcity in LICs and LMICs creates significant barriers to the design and delivery of effective social programs. Interministerial competition and skepticism from key stakeholders often lead to inefficient resource allocation, undermining the ability to implement and scale social assistance programs. The need to appease specific population groups or political constituencies can complicate resource allocation, leading to fragmented program delivery.

This competition for limited resources among government ministries, combined with political pressures to satisfy the electorate, exacerbates inefficiencies and prevents social assistance programs from achieving their full potential. Political cycles, particularly around elections, can intensify these challenges as politicians prioritize short-term electoral gains over long-term policy efficiency.

<sup>34</sup> | Hickey, S. et al. 2007.

This section, focusing on Zambia, explores how resource competition affects social assistance delivery. In Zambia, the rivalry between the Ministry of Agriculture and the Ministry of Community Development and Social Services (MCDSS) for influence over the Ministry of Finance and the presidency led to fragmented execution of both the SCT program and the Farmer Input Support Program (FISP).

Similarly, the introduction of “Auxílio Brasil” by President Bolsonaro ahead of the 2022 Brazilian presidential election illustrates how political motivations, such as recovering popularity after the mishandling of the COVID-19 pandemic, can drive the design of social assistance programs. These cases are examined in further detail below.

### Reallocation of SCT funds in Zambia

During Lungu's first year in office, the SCT program was expanded to all 116 districts. However, the exigencies of seeking re-election in the 2016 general elections and the demand to bolster popular support reduced the commitment to the SCT. The focus on re-election led to the diversion of funds to empowerment schemes, primarily youth and women's empowerment schemes. The Farmer Input Support Program (“FISP”) also substantially increased.

Therefore, while budget allocations to the SCT continued to increase between 2015 and 2020 and were higher than those of other programs, the budget releases were irregular and small, and fiscal execution dropped to around 15 percent of budget commitments (Simutanyi, 2021). It reached a stage where some beneficiaries went up to 9 months without being paid (Interview with Key Informant, 2022).

An ongoing inter-ministerial rivalry for resources and influence over social protection provision between the MCDSS and the Ministry of Agriculture partly influenced the financing of the SCT. The Ministry of Agriculture administers FISP, while the MCDSS is responsible for various social protection programs, including the Food Security Pack (FSP) and the SCT.

The involvement of multiple government ministries in social protection and empowerment programs generates inter-ministerial rivalry and competition for resources. Discussions at high government levels to reduce the FISP budget and redirect it to social protection programs, especially SCT, have been met with disdain by officials in the Ministry of Agriculture, who view the MCDSS as trying to eliminate their program (Simutanyi, 2021).

Donors have amplified some of these dynamics. Over time, they have advocated for eliminating agricultural subsidies and redirecting FISP funds to social protection, especially SCT. The government has been skeptical of

donors regarding eliminating FISP and developed an intransigent attitude toward the subsidy debate.

### Replacement of PBF with Auxílio Brasil

The run-up to the 2022 political contest witnessed an intense set of Bolsa-related developments in Brazil. One year before the presidential elections, PBF was replaced by “Auxílio Brasil” or Brazil Aid (“AB”), with an almost 3-fold increase in its average benefit value and almost 10% coverage expansion (in terms of total, direct, and indirect, individual beneficiaries).<sup>35</sup>

Less than a month before the elections, over 15% of AB’s beneficiaries were given unstructured loans with no prospects of sustainability and no purpose beyond an immediate liquidity boost (Gabinete de Transição Governamental 2022). These loans were financed by public banks, which loaned BRL9.5 billion to AB’s beneficiaries under high interest rates and with collateral that can take up to 40% of their monthly benefit in the future (Gabinete de Transição Governamental 2022).

While AB featured the highest budget of a regular cash transfer up until the creation of n-PBF, for most of Bolsonaro’s mandate, related welfare enablers, like the minimum wage, quality of health and education policies, and even the budget of social care service, all featured some of their worst performances of the previous two decades (Gabinete de Transição Governamental 2022; GoB, IPEA 2022; World Bank 2022).

Although ex-post studies on linkages between the program and the electoral results have not yet been published, it is essential to understand whether these adverse and clientelist factors have increased or reduced the electoral effects associated with the program. One can hypothesize, for instance, that Bolsonaro’s electoral defeat is indicative of a marginal return on the electoral effects that politicians derive from measures increasing a cash transfer’s generosity. More interestingly, it is possible that this potential effect turns out to be mediated by voter’s broader perception about the financial and legal sustainability of these design modifications, frustrations over the mismanagement of the COVID-19 pandemic, and the extent to which these are afforded by deteriorating other social services and rolled out as a part of clientelist politics.

<sup>35</sup> | Traditionally, Brazilian electoral laws prohibit rolling out new (or significantly altered programs) on the eve of elections. In 2023, however, the application of these laws was less stringent, arguably to accommodate the exceptional challenges brought by the Covid-19 crisis and the fuel price hikes that followed.

## UNSETTLED CONTENTION

While cash transfers are increasingly recognized as a powerful tool for poverty alleviation, they remain a highly contentious form of social assistance. Political opposition often arises, shaping decisions on funding, eligibility criteria, and program design. This resistance can manifest in various ways, including legislative barriers that restrict funding or misalignment between national and regional governments, which disrupts program delivery and impacts beneficiaries.

Critics frequently raise concerns about fostering dependency, the potential for fund misuse, and inefficiencies in targeting and coverage that lead to benefit leakages. As illustrated in previous sections, a common argument is that cash transfer programs can be used as instruments of political pandering, particularly in the lead-up to elections, which raises doubts about their long-term sustainability and effectiveness.

This section examines the political economy challenges that have fueled contention around cash transfers, drawing on evidence from the Philippines, maintaining program integrity, and ensuring that cash transfers remain a viable and effective form of social protection.

### Criticisms of the 4Ps program

Critics of the Philippines' Pantawid Pamilyang Pilipino Program argue that the cash transfer initiative has led to unintended negative consequences and question its effectiveness. They claim the program is merely palliative, offering short-term relief without producing lasting impacts on poverty reduction. Additionally, they contend it is unsustainable, as it fails to generate income or bring about transformative changes in the economy's structure. Detractors further criticize the 4Ps as a government handout, asserting that it fosters a culture of dependency, mendicancy, and laziness.

Critics argue that the 4Ps program has exacerbated labor shortages in agriculture. Beneficiaries are increasingly reluctant to engage in farm work and instead rely on monthly subsidies. They suggest that the substantial resources allocated to the program would be better spent on job creation and skills training to promote self-sufficiency. They also question the feasibility of establishing sustainable livelihood opportunities for Pantawid Pamilya recipients.

Opponents also object to giving cash directly to households, arguing that beneficiaries may misuse funds on entertainment, gambling, alcohol, and other vices rather than investing in their children's health and education. Concerns about corruption and inefficiencies further fuel criticism, with claims that benefits often fail to reach the intended recipients due

to inaccurate targeting and leakages. For example, critics highlight cases where groups exploit beneficiaries by encouraging them to mortgage their ATM cards or instances where families conceal the death of a beneficiary to continue receiving grants.

Moreover, critics allege that the 4Ps has been used for patronage politics, with accusations of vote-buying for the administration's candidates. These concerns and skepticism about the technical accuracy of the program's database and methodology lead critics to conclude that the program fails to reach the truly poor effectively.

### Challenges to the PNBSF in Senegal

The Senegalese PNBSF also has its detractors. Some activists, ideologues, and political opponents criticize the program, pointing to its unintended adverse consequences and doubting its long-term effectiveness. However, several economists support it, seeing it as palliative and not generating lasting structural changes in the economy.

Opponents of the program criticize the lack of efforts to promote self-sustenance and challenge the feasibility of measures to establish sustainable livelihood opportunities for PNSBF beneficiaries. The lack of transparency over the program's design, including political favoritism, inefficient targeting methodologies, and shortcomings in the Single National Register (RNU) accuracy, further supports these criticisms.

Proponents of the PNBSF emphasize the evidence of cash transfer programs alleviating poverty and eliminating generational poverty from comparable programs in other countries. They attest that the social assistance provided is an investment rather than an expense. They argue that the transfer level to program beneficiaries is insufficient to foster misspending, highlighting that the CFA100,000 provided to households through the PNBSF is lower than the expense allowance afforded to civil servants.

### Scrutiny of Zambia's SCT program

Zambia's political settlement has been described as stable because the prominent contending elites for power agree to adhere to constitutional arrangements, accept electoral defeat, and refrain from resorting to violence. The main political parties lack serious programmatic or ideological differences. A stable political settlement between contending political actors and support from a broad coalition of interest groups (including members of parliament, councilors, traditional leaders, and civil society organizations) on the efficacy of the SCT have been influential in ensuring the program's resilience.

Unlike other countries, Zambia's SCT program has been relatively insulated from intense and polarized political contestation on ideological lines as the main parties lack programmatic differences. The stable political settlement is also informed by a belief that all contending political elites stand to gain from the SCT program. Siachiwena (2017) argues that some political elites within the PF promoted SCT as a social democratic program to realize the party's manifesto of being a pro-poor party.

The necessity of the SCT in its current form is not a subject of intense contestation. Vital political players and interest groups broadly agree that social assistance to vulnerable groups is necessary, and they find the program beneficial for enhancing their political standing.<sup>36</sup> However, the SCT is still subject to criticism and challenges among political parties and the wider public. Criticisms center around the program's design, targeting, and the narratives surrounding social assistance.

The main contention between political elites, especially members of parliament, concerns the targeting of beneficiaries and the amount disbursed. Opposition parliamentarians are vocal about disbursements of SCT funds favoring ruling party constituencies. At the same time, some civil society observers see the SCT as a campaign tool in the hands of the ruling party.

While officials at the MCDSS in Lusaka defended the selection criteria as beyond reproach, there were perceptions that the SCT disbursements were highly politicized. In many cases, the Minister of Community Development personally disbursed cash to beneficiaries. At some of these events, beneficiaries were told the money came from the President, which "showed that he cared about them" (Interviews with key informants, November 2023).

Resistance from political opposition and civil society regarding the intricacies of social assistance provision remains a significant barrier to expanding safety nets. Competing priorities, such as alternative forms of social protection, resource scarcity, and ongoing contention among critical stakeholders, further complicate efforts to implement decisive policies.

As discussed in previous sections, overcoming these challenges requires the involvement of influential actors and strategic enablers. Their ability to navigate opposition and build consensus is crucial to the successful expansion and sustainability of social assistance programs.

<sup>36</sup> | Hinfelaar, M., D. Resnick and S. Sishuwa, *Cities and Dominance: Urban Strategies for political settlement maintenance and change – Zambian Case*. ESID Working Paper No.136, University of Manchester.

## *Soft factors*

Soft factors, such as codifying deservingness for poor and vulnerable populations and the influence of media narratives on the nature and effectiveness of social assistance programs, play a critical role in establishing, maintaining, and expanding social programs. These factors provide an underlying framework that shapes public perception and political decisions, influencing many political economy drivers discussed in previous sections. They are essential for fostering social cohesion, promoting socio-economic inclusivity, and engaging the wider population.

Sociocultural norms powerfully influence mainstream policymaking in many LICs and LMICs. These norms generate public participation and buy-in for social protection initiatives, ensuring social assistance programs resonate with local values. Securing public support, especially from those not directly benefiting from these programs, is crucial for their sustainability and future scalability.

Media coverage can significantly shape public perception of social assistance programs. Favorable reporting and clear policy communication help keep the public informed, mitigate skepticism, and counter the resistance discussed in previous sections. In the run-up to elections, media narratives can sway voter preferences and influence broader public discourse around social protection, making it a critical factor in shaping political outcomes. Policymakers are thus incentivized to engage transparently and strategically with media outlets to leverage their influence and build public support for social programs.

This chapter explores the importance of codifying deservingness through case studies from the Philippines, Senegal, and Zambia. It also examines the impact of media and institutional narratives on social programs in Pakistan and Brazil.

### **CODIFICATION OF DESERVINGNESS**

Socio-cultural norms can play a crucial role in fostering support for social assistance. Factors such as the importance of social harmony, religious ideals or principles, and definitions of deservingness can influence public sentiment about the need for safety nets. Each of these is considered through the lens of social programs in the Philippines, Senegal, and Zambia below.

#### **Importance of social harmony in the Philippines**

In the Philippines, the term “kapwa” (shared inner self) lies at the core of Filipino values and psychology. A person who treats another as kapwa has

a shared sense of identity and consciousness with that other person. Both at the individual and community level, strong emphasis is placed on social acceptance and maintaining social harmony. Social behavior is influenced by social approval and caring about what others will think, say, or do. This sense of *kapwa* significantly accounts for the widespread support that 4Ps has enjoyed since its inception.

Kapwa is better appreciated in the ongoing discussion about the deserving and undeserving poor. The prevailing perception about the deserving poor is that these are in need and unable to work because they are old, disabled, or too sick. The deserving poor are those who cannot be blamed for their poverty—their poverty is not due to their individual behavior or character flaws but rather from structural or macro forces that are outside of their control. On the other hand, the undeserving poor are those who do not want to work, and it is often assumed that all non-disabled unemployed people fit into this category.

RA 8425, the Social Reform and Poverty Alleviation Act, upholds this widely held belief. The act defines the poor as “individuals and families whose income falls below the poverty threshold as defined by the government and those that cannot afford to provide their basic needs of food, health, education, housing and other amenities of life in a sustained manner.”

### The importance of Zakat and Islamic ideals in Senegal

In Senegal, there is a widely shared cultural belief that the state should support the poorest people and that this support should not be withdrawn for as long as the person needs it. Cultural and religious norms suggest that including conditions as a *quid pro quo* for assistance is “embarrassing” and potentially stigmatizing and that conditions are an affront to dignity. As a result, official discourse on conditions has often been polished or reformulated in less offensive terms. “Condition” is replaced by “service” in exchange for an investment in the public interest.

The widely shared philosophy is that solidarity with the target population is an obligation for everyone and not just an act of charity. Senegal is a Muslim-majority country, and the principle of Zakat dictates that the Senegalese are obliged to give as much as they can and to help their family and friends in times of need. This attitude to community and shared prosperity motivates individuals to support those in need. The dynamism of mobile transfer systems is explained more by transfer flows for social reasons (helping relatives and friends) than by economic transactions.

Social capital is just as significant as financial capital. This perception of social capital is reflected in popular philosophy by several famous cultural

proverbs: “Nit nitay garabam” (“human is human’s medicine”); “am nit alal la” (“human relationship is wealth”); “neddo ko bandum” (“human exists only through his community”). At both individual and community levels, great importance is attached to the social acceptance of individuals based on gifts and counter-gifts, as recognition and concern for society’s perceptions strongly influence behavior.

This cultural context explains the broad support for the National Family Security Grant Program (PNBSF) since its inception as a public tool of solidarity with the poorest (the “miskiin or neew doolé”). For most of the population, who are strongly influenced by Muslim and Christian religious ideologies and endogenous cultural traditions, the poor are not responsible for their poverty. Their poverty is not due to their behavior but to factors beyond their control. It is either a fatality, the occurrence of a catastrophe, or a shock that can happen to anyone due to factors such as disabilities, illness, accidents, natural disasters, or old age. The common expression, “There is no personal merit in not having suffered a catastrophe”, embodies this.

Senegal’s vision in social protection is based on candidate Macky Sall’s 2012 presidential election campaign program, “Yoonu Yokkute” (the path to progress or growth). This program aimed to combat social injustice and inequality by introducing a Family Security Grant (PNBSF) for disadvantaged families, ensuring a better distribution of national wealth. Subsequently, this vision was reaffirmed and developed in Axis 2 of the PSE (Plan Sénégal Emergent).

Progressive changes have been made to the design of the PNBSF and its implementation mechanisms in response to constraints encountered in the field and the personal instructions of the Head of State:

- » **From “conditionalities” to “incentives”:** Originally, the program was based on conditions recipients had to meet to receive social assistance. However, this system has evolved into an incentive-based model, where recipients are “encouraged” but not “obliged” to perform specific actions to receive financial support. “Condition” is replaced by “service”, i.e., the benefits are provided in exchange for community service. The State gives grants, but in return, beneficiaries render services (“jappalé” or support) in the local Wolof language “to the State by ensuring the vaccination, schooling and civil registration of your children”.
- » **Modification of eligibility criteria:** Initially intended exclusively for households with children, the grants were extended to households without children and even to specific people in situations of extreme poverty and vulnerability, such as the elderly and widows. Beneficiaries without children were also invited to awareness sessions to encourage them to provide

services to other households with children, irrespective of whether they were grants holders.

- » **Inclusion of people with disabilities who hold the Equal Opportunity Card (CEC):** Following lobbying by disabled people's federations, a new category of beneficiaries whose status as individuals did not correspond to the program's target group was added.
- » **Development of the information system:** The Single National Register (RNU) is no longer limited to the most destitute and now includes people living in poverty and vulnerability.
- » **Abandonment of the principle of exit after five years:** The proposed exit strategy designed for the program has seen various iterations and has been repeatedly postponed in the run-up to elections. An announcement was made just after the President's victory in 2019 by the new Minister for Social and Territorial Equity under the auspices of Senegal's Social Protection and National Solidarity Delegation, DGPSN, to help beneficiaries exit the program. However, the President halted the initiative and promoted the extension of coverage instead. While this approach had limited support from the administration, the proposal to increase coverage gained momentum under established cultural norms.

According to the LARTES survey results, social workers, local players, and beneficiaries see two dimensions dominating the assessment of the level of vulnerability of households benefiting from the PNBSF and explaining the rejection of the idea of "exiting" the grant. The economic dimension focuses on destitute people with no source of income, and the social dimension focuses on single-parent households (following the death of one of the spouses) that have difficulty providing for their children.

It is particularly challenging to stop providing benefits to these beneficiaries, given their dependence on state aid for survival. A beneficiary interviewed for this report stated, "It is like the government and private sector employees who receive family benefits from the Social Security Fund, even though they have more income than we do, and nobody says we have to stop after 5 years, and nobody criticizes the amount they receive, why do it for us? If the government stopped paying family benefits, I am sure you would have all those unions on the street".

### Defining the poor and vulnerable in Zambia

The poor performance of the Zambian economy has noticeably influenced social structures and attitudes. High fertility rates that averaged 4.2 births per 1,000 live births per woman in 2020 and a population boom of over 100% in two decades saw the Zambian population rise from 8.6 million in 2000 to 19.6 million in 2020, resulting in high youth unemployment and

growing poverty rates. Further, the breakdown of the extended family system, which acted as a glue providing social welfare to family members who fell in distress, has meant that social welfare for the vulnerable has become an important policy issue.

There is no developed discourse on moral deservingness to receive public support in Zambia. Culturally, the weak and disadvantaged are entitled to assistance from the community. Under the extended family system, the elderly, weak, and disabled were looked after by the community, while others were expected to work for themselves and their families. Begging was construed as a form of antisocial behavior and a sign of laziness.

As illustrated earlier in the evolution of Zambia's SCT, there was generally a negative attitude toward handing out cash to poor and incapacitated non-disabled citizens. Objections mainly came from well-off members of the middle class, who considered poverty a consequence of laziness. Pruce (2023) finds that in Zambia, citizens considered old age, disability, and illness to be the highest priorities for state assistance.

The debate on poverty is itself inconclusive, contributing to disagreements about who qualifies as “deserving” poor. In Zambian culture, poverty is the inability to work and earn an income.

The government uses the term ‘indigent’ to describe the deserving poor, which means vulnerable, incapacitated, or labor-constrained. However, this definition excludes a significant proportion of people experiencing poverty. Thus, traditional poverty measures are used to select beneficiaries, including those who cannot work, the elderly who care for orphaned children, and those who cannot afford a decent meal. Under this revised definition, the deserving poor are identified through a community-based targeting approach.

By defining eligibility criteria for the SCT program, the Zambian government has effectively provided a statutory definition of the “deserving poor.” However, this concept remains contested, as many argue that the government's initial criteria excluded many people who also deserved assistance. In response, the government expanded the categories of beneficiaries to include child-headed households, female-headed households with more than three children, children under the age of five, and households with secondary school-aged girls. This expansion helped broaden the appeal of the SCT program, gaining support from more constituencies.

### **MEDIA AND INSTITUTIONAL NARRATIVES**

Media narratives are critical in shaping public interest and support for social protection programs. By influencing the public discourse on these

programs' relevance, design, and delivery, the media plays a pivotal role in building public buy-in for safety nets. Effective communication strategies, leveraging media as a platform to engage with the broader population, can help generate political will and public support, which are essential for expanding social assistance programs.

Given the non-contributory nature and significant public investment required to operate flagship social protection programs, they often come under intense media scrutiny. Positive media coverage can build momentum and foster public approval, while critical narratives can provoke resistance and skepticism and expose shortcomings in social programs. On the other hand, the absence of public criticism in mainstream media can provide policymakers with the space needed to legislate and implement programs without disruption.

This section explores how media coverage of social programs in Pakistan and Brazil has shaped public opinion and influenced the political economy of social assistance. It highlights the power of narratives in sustaining and expanding social protection efforts.

### Media coverage of the Benazir Income Support Program in Pakistan

Between January 2008 and December 2022, the daily newspapers Dawn and Jang published 747 news stories and op-eds related to the BISP—516 in Dawn and 231 in Jang. Given their prominence, an average of just 50 articles per year may seem underwhelming.

There are likely two critical reasons for this limited coverage. First, once BISP became firmly established as a core element of Pakistan's social protection system in its early years, it ceased to generate the kind of controversy that typically attracts media attention. With no significant institutional or design changes to spark debate and the program largely unchallenged by mainstream political, economic, or intellectual groups, it did not provide the friction that drives news cycles. Second, BISP's achievements, while steady, have been incremental rather than spectacular. Had the program experienced dramatic success or failure, it would have likely commanded much more media coverage.

Notwithstanding the limited coverage, the analysis of the discourse in these stories provides a critical insight into the role of the media in shaping public perception. A total of 307 news stories provided contextual information on the program about political and economic situations (e.g., elections, economic downturn) or announcements by politicians and officials. The program's weaknesses were the main topic in 161 articles, with complaints of skimming being the most common. Errors of inclusion and exclusion were discussed in 34 items, while Pakistan's fiscal deficit was the

primary concern in only four items in Dawn. Program strengths were highlighted in 112 items, with women's empowerment being the top category. Thirty-seven items discussed BISP in terms of technical support from the World Bank or IMF programs.

Thirteen justifications associated with BISP were identified. These can be grouped into four broad categories:

- » The first group emphasizes the importance of external validation for Pakistan, including compliance with the Sustainable Development Goals (SDGs), improvement in its human development index (HDI) ranking, and international recognition.
- » The second group supports BISP in terms of the government's constitutional obligation to provide necessities to all citizens and the need to boost economic growth through human capital development and stimulating consumer demand.
- » The third group highlights the intrinsic value of BISP, such as its role as a social safety net in reducing poverty and inequality, helping poor households cope with unemployment and inflation, and mitigating the effects of natural disasters. This group's recurring theme is women's empowerment through possessing a computerized national identity card (CNIC), being part of the banking network, or improving their bargaining position in the household.
- » The fourth group focuses on program features, including its large scale, technology use, transparency, accountability, and appropriate targeting. These justifications can be categorized as external validation, contributive value, intrinsic value, and procedural appropriateness.<sup>37</sup>

Table 2 summarizes the frequency of BISP justifications in the newspapers Dawn and Jang between 2008 and 2022. The most common justification (438 times) was BISP's intrinsic value in helping the poor and vulnerable. Poverty alleviation, social protection, and women's empowerment were the prominent justifications within this group.

Procedural appropriateness was also frequently cited (166 times). BISP was praised for its large-scale targeting of the poor and vulnerable and for using technology to improve efficiency and reduce leakages. The program's contribution to economic growth was the third most common justification (56 times), followed by external validation (21 times).

<sup>37</sup> | It is noteworthy that the mainstream media has rarely deployed a rights perspective to justify the program. Despite citizens' entitlement and the government's obligation to end extreme forms of hunger, poverty, and disease being enshrined in Pakistan's constitution and commitment to the UN's SDGs, this perspective was infrequently mentioned.

Table 2. *Program narratives*

	Justification	Dawn	Jang	Total
External validation (21)	Is aligned with SDGs, especially the eradication of extreme poverty and hunger; improvement in HDIs	3	3	6
	Has earned international recognition for transparency, appropriate targeting, and women's empowerment	8	7	15
Contributive value (56)	Meets our constitutional obligations to provide food, shelter, and other essentials.	4	3	7
	Contributes to economic growth; stimulates demand; investment in human capital development	33	16	49
Intrinsic value (438)	Social safety net/social protection	76	41	117
	Reduces poverty and income inequality	116	36	152
	Counters effect of inflation and unemployment on the poor	19	7	26
	Women empowerment; financial and social inclusion of women	75	40	115
	Mitigates effects of disasters	17	11	28
Procedural appropriateness (166)	Large scale of the program; reaches millions of HHs	55	30	85
	Appropriate targeting; reaches the poorest and the most vulnerable, especially women and children	23	1	24
	Use of technology, poverty scorecard, and NSER.	26	13	39
	Transparency and accountability (use of technology; is being managed by an independent Board and is free from corruption or political interference)	14	4	18
	<b>Total</b>	<b>469</b>	<b>212</b>	<b>681</b>

Note: Not all news stories or op-eds provide program justification. The ones that do often justify BISP on multiple counts. This table contains data on only those items that justify BISP. An item has been counted in multiple categories if it provides multiple rationalizations.

The justification and discussion of BISP in the finance ministers' annual budget speeches and the Pakistan Economic Survey were also thoroughly examined. Out of the 114 program justifications identified, 69 belong to the category of "intrinsic value", 22 belong to the category of "procedural appropriateness", 12 belong to the category of "contributive value", and 11 belong to the category of "external validation". As such, the trends mirror those observed in the analysis of BISP coverage in the Dawn and Jang newspapers.

### Impact of media coverage of the Bolsa Familia Program on political sentiments

In Brazil, the nature of media reporting on various aspects of the program is an important mediator of PBF's electoral effects. Although there are a limited number of analyses of media reports, findings by Lindert and co-authors (2009) based on 6,531 articles by Brazil's six leading newspapers between 2001 and 2006 indicate specific patterns.

Looking both at the cash transfers that preceded PBF between 2001 and 2003 and in the first three years of PBF's operation (2004-2006), the authors find that, before PBF, Brazil's media expressed support for CCTs on nearly 60% of its mentions to the topic. This support nearly halved following the beginning of the Worker's Party's first Presidential mandate and the

launch of PBF. During this period, media coverage of CCTs almost doubled in volume, with the critical pieces focusing primarily on supposed shortcomings of fraud and control mechanisms and the lack of the program's "exit doors" (Lindert et al., 2009). The authors also cite that the critical tone adopted by the media was marked by a biased focus on inclusion errors rather than exclusion errors. Moreover, the study indicates a media trend of adopting more critical tones in the periods leading to presidential and mayoral elections.

Media coverage of PBF was also assessed by Leite, da Fonseca, and Holanda (2019) between 2003 and 2017. Drawing on a much smaller sample of 223 media pieces by two of Brazil's most widely disseminated printed media, *Folha de São Paulo* and *O Estado de São Paulo*, the authors suggest the critical bias has prevailed throughout the PT governments, driven by allegations regarding the program's use for propaganda and its insufficiency to offer beneficiaries a sustainable "exit door".

Soft factors serve as a vital foil to boost the credibility of the other influencers of the political economy and play a key role in augmenting efforts to scale social programs. They are central to procuring public support, enhancing relevance and credibility, and serving as a medium to engage with the citizenry.

## *Conclusions*

The evidence from the six countries highlights the importance of favorable political economy conditions for expanding social assistance programs. Political economy factors are intertwined and can collectively help create a virtuous ecosystem for providing social assistance. They play a central role, alongside aspects of financing and delivery systems, in enabling the expansion of social safety nets.

The cases studied in this chapter highlight the importance and interconnectedness of each of the political economy factors under consideration:

- 1) **Key players:** National champions who take ownership of social assistance programs are central to ensuring their sustained success and financing, as illustrated by the role of Egypt's Ghady Waly and MOSS. The Philippines and Brazil cases showcase the electoral linkages of operating cash transfer programs and reflect political motivations for expanding social safety nets.

Non-political actors, such as CSOs and international donors, are key thought and financing partners. They engage with governments to ensure

that programs are effectively designed and delivered and provide technical assistance to ensure the success of safety nets.

- 2) **Enablers:** The availability of evidence and official impact evaluations provide policymakers with a foundation to expand safety nets. They help decision-makers overcome resistance and are a source of developing global best practices that influence the design of other social assistance programs and provide “soft” power in the region, as illustrated by the PBF.

Crises, such as the Arab Spring or the COVID-19 pandemic, also serve as unique opportunity junctures, increasing the appetite for social assistance. Lastly, the evolution of the 4Ps in the Philippines highlights the role of inter-sectoral collaboration and fiscal reforms in helping various actors take on greater ownership and create fiscal space. These are, therefore, crucial aspects in expanding safety nets.

- 3) **Resistance:** Cash transfer programs are contentious and often face political resistance. They also face competition from established programs, such as the FISP in Zambia, and political critiques, as seen in Pakistan and the Philippines. Pilot programs, such as the Ain El Sira pilot in Egypt and the Kalomo SCT pilot in Zambia, can help establish their efficacy.

Developing social safety nets in close collaboration with various ministries and through evidence-informed interventions is key to overcoming resistance and ensuring alignment between competing actors.

- 4) **Soft factors:** Codification of deservingness and the prevalence of well-established sociocultural norms play a central role in formalizing social assistance provision. Religious principles, such as the impact of the Islamic principle of Zakat in Senegal, and social values, like “kapwa” in the Philippines, play a critical role in defining the poor and designing contextualized programs. Media and institutional narratives serve as independent accountability measures and help disseminate information to beneficiaries.

Political economy analyses are country-specific and hinge on a country's unique circumstances and actors. However, the lessons from the six cases elucidate vital aspects relevant to expanding social assistance programs in other low--and lower-middle-income countries. Governments in these countries often face similar challenges related to resource allocation, political opposition, and public perception. The lessons from this chapter are particularly applicable in environments with constrained fiscal space and a need to balance social assistance with broader economic goals.

The analysis from the six case studies also highlights the importance of ownership, alignment, coordination, and collaboration. National champions of programs can help drive program success and lead collaboration between ministries and non-governmental actors, while the evidence of

electoral linkages in providing social assistance can serve as a key driving force for expanding social programs in other countries. Sociocultural norms and other soft factors are also critical components of establishing a favorable environment for the provision of social safety nets. The interaction between strategic enablers and other socioeconomic factors can create the necessary foundation for expanding social programs globally and help governments achieve their social protection objectives.

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# 10. DELIVERY SYSTEMS READINESS AND THE SCALE-UP OF SOCIAL SAFETY NETS

Emma Wadie Hobson, Hrishikesh TMM Iyengar, Giorgia Valleriani and Mohamed Almenfi

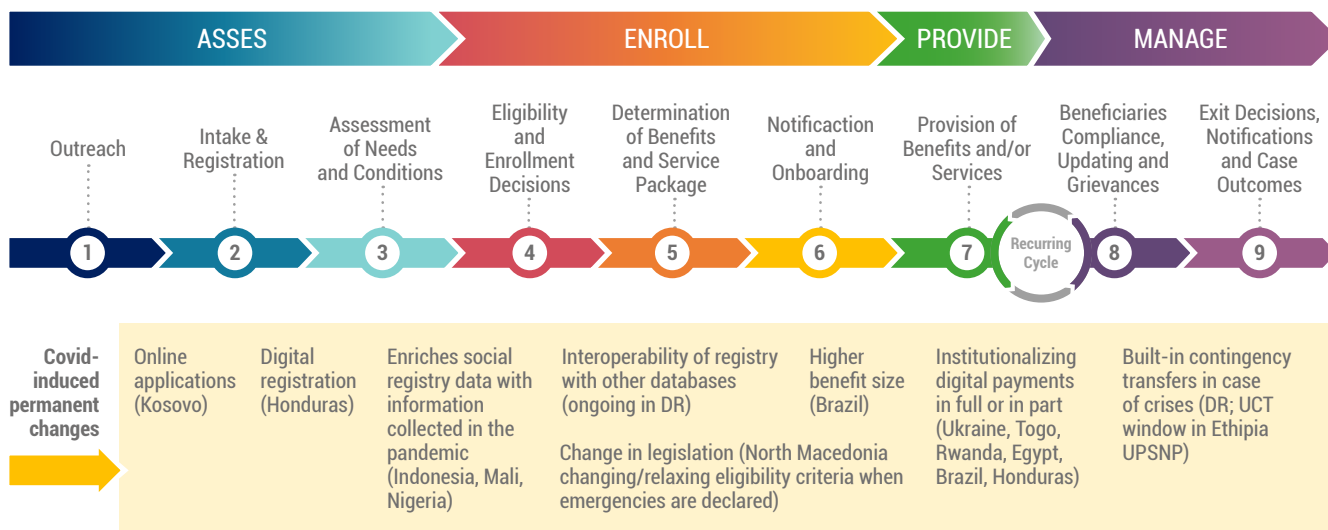
## *Introduction: the relationship between financing and delivery system readiness*

Delivery systems constitute the operating environment for implementing social protection benefits and services. The delivery system consists of key implementation phases along the delivery chain and such phases are common to most social protection programs (Lindert et al., 2020). They include the following four phases (see figure 1): (i) Access phase involving outreach, intake and registration, and assessment of needs and conditions; (ii) Enrol phase involving eligibility and enrolment, determination of benefits and services, and notification and onboarding; (iii) Provide phase involving the provision of benefit and/or services; and (iv) Manage phase involving beneficiary compliance, updating and grievance, and beneficiary exits. In addition to the four phases, people and institutions interact all along the delivery chain facilitated by factors such as communications, information systems, and technology, among others.

Social assistance delivery systems have seen a major evolution in the past two decades. Powered by technological innovation and effective policy making, many countries have recently made significant improvements in their delivery systems ecosystem. For example, a prime ministerial decree in Türkiye became the genesis for far-reaching administrative reforms that contributed to the streamlining of the social assistance process, utilizing technology and the coordination of 24 different agencies to decrease the application time from 15–20 days to minutes. Or in Ghana, a cash-for-work program saved 13 million person-hours of administrative work by registering, enrolling, and verifying beneficiaries through automated processes, reducing the time it takes to pay workers from four months to one week

after work is completed.<sup>38</sup> In India, hundreds of millions in the welfare system received cash transfers to their bank accounts saving \$34bn or 1.1% of GDP, between 2013 and March 2021.<sup>39</sup>

Figure 1. COVID-19 induced delivery innovations absorbed into routine systems



Source: Cash Transfers in Pandemic Times: Evidence, Practices, and Implications from the Largest Scale Up in History (Gentilini, 2022).

Yet, major delivery system weaknesses remain, which become particularly obvious during emergencies, and may hinder the effectiveness of the response. During the recent massive scale-up of safety nets in response to multiple crises, pre-existing delivery systems often faced major constraints in responding, necessitating major innovations in many countries. Pre-existing social protection delivery systems helped with the response but were not always a necessary nor sufficient condition for scale-up. Many countries, particularly in Africa, for example, lacked pre-existing registries from where the government could target potentially eligible people. In other countries, delivery systems were unable to reach people in the middle of the income distribution and not previously registered for social assistance, which were nonetheless affected by the emergency. A range of practical innovations and brave experiments were therefore introduced in many countries during the Covid-19 emergency that have since been absorbed into routine delivery systems. These included beneficiary identification mechanisms like open registration, online platforms, social registries, tax databases, and others [see Figure 1 and for more details refer to Gentilini (2022)].<sup>40</sup>

38 | Lindert, Kathy, Tina George Karippacheril, Ines Rodriguez Caillava, and Kenichi Nishikawa Chavez, eds. 2020. Sourcebook on the Foundations of Social Protection Delivery Systems. Washington, DC: World Bank.

39 | The Economist: How India is using digital technology to project power. <https://www.economist.com/asia/2023/06/04/how-india-is-using-digital-technology-to-project-power>

40 | Gentilini, Ugo. 2022. Cash Transfers in Pandemic Times: Evidence, Practices, and Implications from the Largest Scale Up in History. Washington, DC: World Bank.

There is a strong interaction between the availability of financing and the readiness of delivery systems, on the one hand, and the successful execution of a safety net scale-up, on the other. Typically, without an increased financial allocation in the national budget, a national safety net cannot be scaled up to additional beneficiaries. However, sometimes, despite increased financial resources being committed in the budget, and even released to implementing ministries, scale-up targets may still end up not being achieved or may be under-achieved due to operational delays and delivery system weaknesses. Some governments have even announced a new social assistance measure, only to find that practically implementing it is too difficult or unfeasible. It is therefore clear that the availability of financing is not the only pre-requisite to the scale-up of social safety nets, but also delivery systems must be able to perform and expand operationally to reach additional beneficiaries, often rapidly, with the necessary assistance.

What is less clear is which one comes first. Is the political decision to finance a scale-up of the safety net contingent on delivery system readiness? Or is the political decision made based on other considerations and then investments are made to get delivery systems to be ready for the scaling up? The reason why this chicken-and-egg question is important is that, often, in policy discussions around the need for increased social assistance financing, policy makers argue that financing is not the binding constraint but rather the financial absorption capacity of the implementing ministry. Or, in other words, the Ministry of Finance is often not confident that if they increased the budgetary allocation for social assistance, that implementing ministries will operationally be able to put in place or expand delivery systems rapidly to scale up a safety net. But is this sometimes used as a convenient excuse not to increase social assistance financing? It is therefore important to analyze cases of successful social assistance scale-ups to understand how they were able to do it from a delivery system perspective – and whether these systems were ready ex-ante or were they rapidly put in place to deliver once financing was increased.

**This chapter, therefore, analyzes six country case studies to shed light on such issues.** The main research objective was to document lessons learnt from the recent scale-ups of social safety nets across low- and middle-income countries, with regards to how the scale-up was possible from a delivery system perspective. For safety nets to have been able to scale up to a wider number of beneficiaries, not hitherto reached by existing programs, delivery systems needed to rapidly expand and reach out to thousands of people in a short time. Critical systems that were adopted or introduced included Management Information Systems (MIS) and beneficiary registration systems necessary to identify and register beneficiaries; digital payment systems through Banks or mobile money payment service providers (PSPs); Identity Documents (IDs); and grievance redress mechanisms

(GRMs). The specific research questions that the study aims to answer included but were not limited to:

- a) to what extent did the existing delivery systems in each country either help or hinder the recent scale-up in social safety nets?
- b) what changes or innovations did the scale-up necessitate?
- c) which aspects of the delivery system landscape were the most critical for the scale-up? and
- d) what were the enabling factors allowing for delivery system innovations to be introduced?

Following the introduction, Section 2 briefly outlines the methodology undertaken in this research. Section 3 outlines the evolution of delivery systems in the six case study countries during the recent safety net scale-ups. Section 4 discusses the main results to answer the question of whether delivery systems were a main catalyst for the scale-up of social safety nets. Finally, Section 5 presents the major conclusions and recommendations.

### *Methodology: learning lessons from six cases of successful safety net scale-ups*

**The research used a qualitative comparative case study methodology.** The six case study countries were selected by the wider research team to represent all low- and middle-income regions that the World Bank supports and also those countries that have experienced significant scale-up in their safety nets over the last decade or two.

**The research process included a literature review, key informant interviews (KIIs), data analysis, case study reports and final synthesis.** A literature review of key documents available on the scale-up of flagship social assistance (more specifically, cash transfer) programs and the evolution of their delivery systems in each of the six country case studies. Primary data collection was also undertaken using KIIs<sup>41</sup> with critical stakeholders, including World Bank social protection task teams working on each of the countries and implementing ministry program coordinators/ managers as well as key staff. Qualitative data analysis was undertaken across the six countries to identify salient trends, main findings and recommendations.

<sup>41</sup> | See Annex 1 for the KII questionnaire tool that was used in the interviews.

Finally, this chapter was written by synthesizing the key patterns across the six countries in answer to the research questions outlined.

**Key limitations of the study include participant recall, inability to establish causal links, limited field research and the absence of a counterfactual.** Given that KIs depended on participant's recall of systems that were in place over time, this may have led to inaccuracies due to participants' memory being affected by recent events or experiences, or intentionally or unintentionally leaving certain details out. In addition, the comparative case study methodology used does not allow to establish a definitive causal link between important delivery aspects emerging from the case studies and the success or challenges encountered during the scale-up, given that other issues could have also been at play. Lastly, the research does not consider case studies of countries that have failed to scale up their safety nets, which could identify some of the most binding constraints. We recommend that this is pursued through future research efforts.

### *Evolution of delivery systems during recent scale-ups*

#### **THE PHILIPPINES: INITIAL SCALE-UPS ENABLED BY THE SOCIAL REGISTRY; COVID-19 SCALE-UP DEPENDED ON PULL REGISTRATION; GRADUAL IMPROVEMENTS IN OTHER SYSTEMS**

**The Pantawid Pamilya Pilipino Program (Pantawid Pamilya or just 4Ps) expanded 7 times between 2007 and 2014.** 4Ps is a conditional cash transfer (CCT) program which provides cash assistance to beneficiary households subject to their compliance with program conditionalities to improve health, nutrition, education, and other socio-economic aspects (DSWD, 2019). The pilot began in September 2007, with an initial coverage of 4,589 households (0.02 percent of the population). In January 2008, the CCT was officially launched, and beneficiary households increased to 337,416 households (1.48 percent of the population). In 2009, the program was scaled up to 777,505 households (3.35 percent of the population). In 2010, the 4Ps reached another milestone when it targeted 1 million poor households (4.38 percent of the population) from 729 cities and municipalities. In 2011, with the transition to the new administration in June, the DSWD rolled out the biggest expansion of 1.3 million households, thereby reaching a total of 2.3 million beneficiaries (9.74 percent of the population). In 2012, the program reached 3.1 million households (12.74 percent of the population). In 2014, the program scaled up once again, making program coverage grow to 4.45 million households. Since 2014, the 4Ps has not scaled up and coverage has hovered around 4.4 million households or 17 percent of the population.

During COVID-19, a new temporary large unconditional cash transfer, called Social Amelioration Program (SAP), was introduced, with a fourfold scale-up compared to the 4Ps. This practically represented a vertical and horizontal scale-up of 4Ps. On 24 March 2020, the Bayanihan Law was passed to implement a PHP205 billion (\$4 billion) SAP assistance aiming to provide benefits between PHP5,000 (US\$100) and PHP8,000 (US\$160) per month for two months to 18 million beneficiary households (over 75 percent of the total population). The first round (SAP1) reached 17.6 million beneficiary households and the second round (SAP2), after updating the eligibility criteria and data deduplication, reached 14 million households (DSWD, 2021). 4P beneficiaries automatically became priority recipients and this meant that they received top-ups, or a vertical scale-up, in addition to their regular payments, in 2 tranches through this new program (DSWD, 2020a).

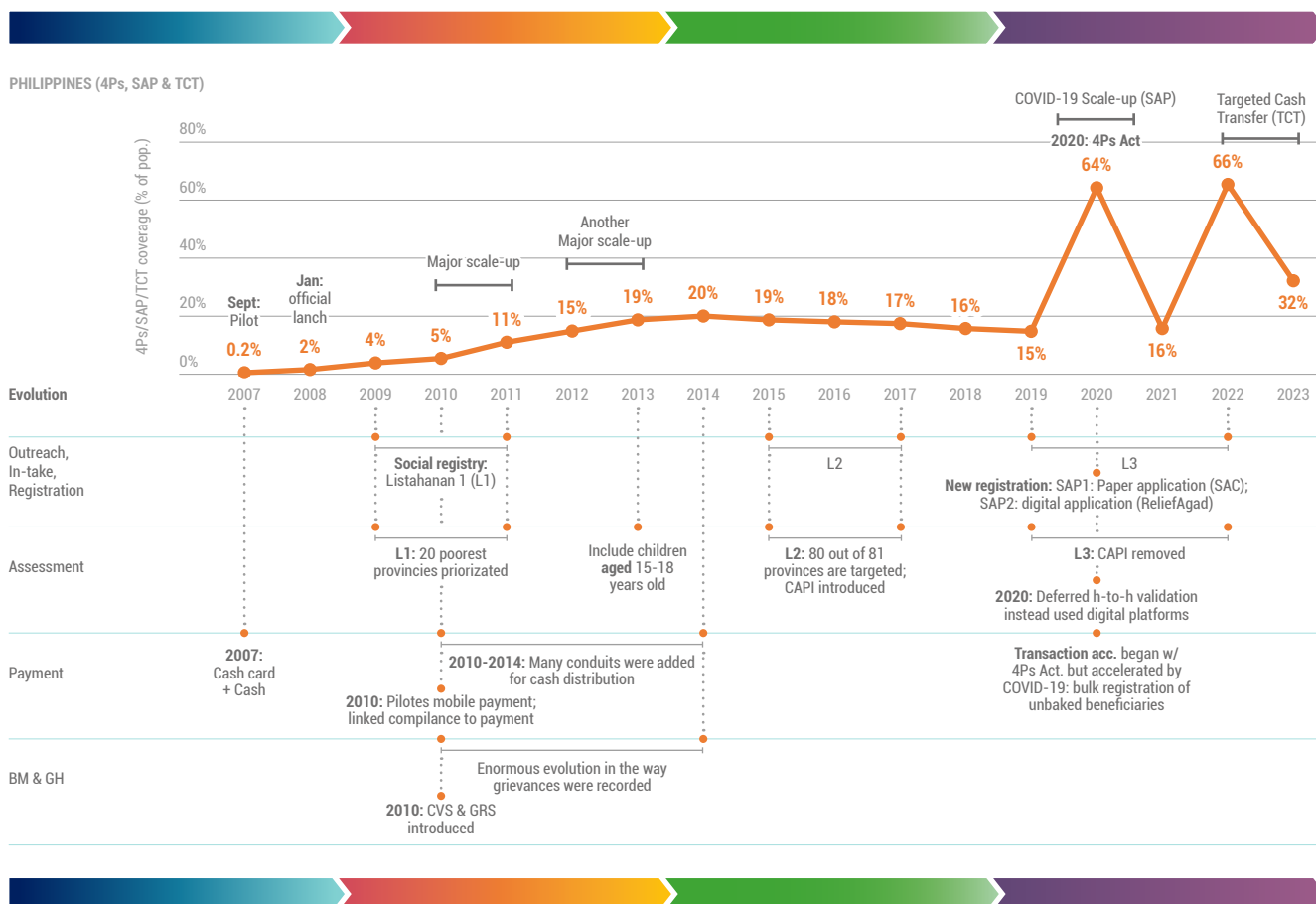
In response to global inflation in 2022 and 2023, the Philippines government announced a Targeted Cash Transfer (TCT), which provided unconditional cash transfers to low-income households to help tackle the rising prices of food, fuel and other commodities. The beneficiaries were primarily identified using Listahanan, and included the beneficiaries of the 4Ps, the Social Pension Program, and other databases that were approved for usage by the Inter-Agency Committee.<sup>42</sup> The program reached 18.5 million low-income households (66% of the total population) in 2022 (DSWD, 2022) and was planned to reach about 9.3 million low income households (32% of the total population) in 2023 (DSWD, 2023).

**As Figure 3 shows, the main 4Ps scale-ups before 2019 were enabled by the social registry, once it was put in place by 2011.** The 4Ps uses an administrator-driven approach for in-take and registration of beneficiaries through the social registry. Listahanan (also known as National Household Targeting System for Poverty Reduction [NHTS-PR]) is the Philippines' social registry that gathers information on the socio-economic characteristics of households across the country. The registration into Listahanan is supposed to be performed using *en masse* data collection efforts once every four years, but in reality, this is taking much longer. To be eligible for 4Ps, households must meet the following criteria: (i) be classified as poor or near-poor in the Listahanan; (ii) have members aged 0-18 years, or members who are pregnant at the time of registration; (iii) willing to comply with the conditions set in the oath of commitment and mutually agreed household intervention plan (DSWD, 2019). Listahanan is built on a

<sup>42</sup> | Around Some 4 million low-income households who were previously beneficiaries under the 4Ps, 6 million non-4Ps low-income households who were previously beneficiaries under the 2018 to 2020 UCT program stipulated under RA 10963 or the TRAIN Law (including beneficiaries of the Social Pension Program), and about 2.4 million low-income households in the database of the Listahanan or other data sources as applicable.

three-stage process to identify poor Filipinos, geographic targeting prioritizing poor areas, assessment of household poverty using a proxy means test (PMT), and a community validation process.

Figure 3. Philippines 4Ps, SAP and TCT scale-ups and evolution of delivery systems



Notes: 4Ps = Pantawid Pamilya Pilipino Program, SAP = Social Amelioration Program, TCT = Targeted Cash Transfer. Coverage figure for 2023 depicts planned coverage while rest of the coverage figures are actuals (i.e., 2007-22). Coverage as % of population were computed by authors based on population and household size data. For years with missing household size data (for years: 2009, 2011, 2012, 2014, 2016, 2018, 2019, 2021, 2022), we imputed it by taking the average of 2 data points (one from preceding year and another from year after the missing data) with an exception (for 2021, 2022 and 2023) for which we just used 2020 data.

Source: Authors' compilation based on administrative data from literature review and KIIs. Data on program coverage (# of households) was obtained from WB country team (2007-21) and from government website for (2022, 2023). Data on population was obtained from World Bank's World Development Indicator (2007-22) and Macrotrends (2023). Data on household size was obtained from obtained from the dataset of United Nations 2022 Department of Economic and Social Affairs population division (for years: 2007, 2008, 2010, 2013, 2015, 2017) and Philippine Statistical Authority (for 2020).

However, the social registry became increasingly outdated over time. Whilst Listahanan has undergone 3 updates, the 4Ps continued to use the outdated Listahanan 1 data. The Listahanan 1 (L1) data collection started in 2009-10 and the results were released in 2011. It enumerated 10.9 million households (46% of the population), of which 5.2 million households (22% of the population) were identified as poor. Similarly, Listahanan 2 (L2) data collection started in 2015 and was completed in 2017, and it covered over 15.1 million households (57% of the total population), of which 5.2 million (19% of the population) were identified as poor households nationwide (Velarde, 2018). Finally, the Listahanan 3 (L3) data collection started in 2019

and was released at the end of 2022, and it covered 15.5 million households (54% of the population), of which it identified 5.6 million households (19% of the population) as poor (DSWD, 2022b). Although, Listahanan has undergone 3 updates, enrolment in the 4Ps from 2009 until at least 2022, still relied on L1 and did not use L2 or L3.<sup>21</sup> This implies that the program had been targeting beneficiaries using an increasingly obsolete social registry.

**The Covid-19 emergency SAP scale-up, therefore, relied on a major pull registration effort.** The Department of Social Welfare and Development (DSWD) faced severe challenges in selecting the 18 million target SAP 1 beneficiaries (75 percent of the population), beyond those already on 4Ps. At the time of SAP 1, the lack of a readily available, accurate, and up-to-date list or registry of poor and vulnerable persons led to beneficiaries being identified through a new pull registration or application process (DSWD, 2020a). The DSWD introduced a paper application form (called Social Amelioration Card or just SAC) and a manual registration process, similar to other disaster relief efforts. The Local Government Units (LGUs) were to prioritize poor and vulnerable applicants based on their experience and knowledge. This seems to have been an unnecessarily cumbersome process through which to register applications from such a huge number of people.

**The huge target population and the manual pull registration for SAP1, involving physical interactions amidst the pandemic, led to major targeting and implementation challenges.** The initial plan, as stated in DSWD (2020c), was that SAC information will be sent from LGUs to the DSWD central office, who would then validate the eligibility of each household and also check for any duplication of assistance. Following this, they would determine beneficiaries by region, and send back the list of beneficiaries, and then grants were to be distributed by LGUs to beneficiaries. However, due to the time-sensitivity of the benefit transfer to the vulnerable population, DSWD allowed LGUs to pay beneficiaries first while collecting the SAC form and then conduct the validation later DSWD (2020d). Despite expediting the enrolment with little deduplication or eligibility verification, there were still significant delays and confusion among non-4Ps beneficiaries receiving SAP, as well as among LGUs. Also, because of confusion between “families” and “households” during implementation, this led to multiple members from the same household receiving the benefit, which in turn resulted in a greater number of households in need and waitlisted than initially anticipated. SAP 2, therefore, had to add 5.3 million waitlisted households nationwide who did not receive the first tranche.

**A new digital pull registration process was adopted for SAP 2 but this also had challenges due to the absence of interoperability and cross-checking against other databases.** Given the problems experienced in SAP 1, a new pull digital registration process was put in place to register and verify

beneficiary information during SAP 2. USAID, along with a group of volunteer software developers, developed an online application portal (called ReliefAgad) to improve the beneficiary registration process. Potential beneficiaries could self-register via their mobile phones, tablets, or computers, while the staff of LGUs could use the platform to encode the paper-based SAC form. The platform had the potential to improve the accuracy and speed of data entry by replacing Microsoft Excel-based data entry/encoding SAC information, thus reducing the workload of DSWD regional and LGU staff and the possibility of introducing errors. However, due to a shortage of time to expedite the payment process, ReliefAgad was launched in May 2020 despite many shortcomings. The portal only digitized the paper-based SAC business process without addressing the business process itself and, as a result, the challenges with the paper form still persisted. Firstly, to begin the registration, applicants required an official hardcopy of the SAC form with a barcode, and those with photocopied forms or damaged (or missing) barcodes were unable to use the platform. Next, a substantial rate of inconsistencies (e.g., illegible input, and typos) persisted even after digitizing the SAC information using the platform. Third and more importantly, not being built on an information system resulted in a missed opportunity to automatically verify applicants using functional IDs or cross-reference other parallel COVID-19 programs (e.g., farmer subsidies). Due to these challenges, the application was unable to fulfill its intended purpose and resulted in self-reported data of about 2 million potential households entered without any verification or deduplication (Cho et al., 2021).

**The 4Ps payment systems were improved gradually over time rather than being associated with scale-up phases.** Over the years, the program actively reduced manual transactions and moved progressively towards digital payments for greater efficiency. Until recently, 4Ps only used two payment methods: (i) Over-the-counter (OTC) cash and (ii) Cash card. Following the 4Ps Act in 2021, a third, method of payment was introduced called the transaction account, which enables households to pay and receive both cash and e-money, save money in the account, and perform agent banking (DSWD, 2021b). In the initial phases, the program used the OTC payment method for more than half the beneficiaries, which required voluminous paper-based documents and a long processing time for liquidation. Between 2013 and 2019, the share of 4Ps households paid by cash card increased from 40 to 89 percent (Zimmerman & Bohling, 2013; Acosta et al., 2019). By December 2022, 98 percent of beneficiaries were paid via the latest payment method of transaction account (currently in the form of a Basic Deposit account).

**However, the single PSP model seems to be constraining the reach of digital payments.** The Land Bank of the Philippines (LBP) has been the sole PSP for 4Ps since its inception. With beneficiaries often residing in

far-flung areas, it is difficult for the LBP to provide a service to all because of limited-service coverage areas. As a result, beneficiaries were incurring high transportation costs to receive cash grants via ATMs or from OTC. To tackle this challenge, the government required LBP to subcontract additional PSPs, or conduits, in areas where it does not have access points near beneficiaries. Lessons learnt have, however, shown that conduits are unable to diversify their offerings for 4Ps payments. The payout agreements between the LBP and Conduits are restricted to making OTC payout. Also, in accordance with government bidding rules, competitive bidding is done annually, and the cost is used as a selection criterion, making it difficult for financial conduits to invest in infrastructure requirements for electronic modalities with a medium-long-term vision. For example, G-Cash, a mobile payment platform, does not utilize its core operation of e-money products and infrastructures for disbursing the 4Ps transfer. Instead, similar to other conduits, it mobilizes physical cash at disbursing locations (Acosta, et al., 2019).

**Again, the payment mechanisms used during the COVID-19 SAP scale-up faced a lot of challenges.** For 4Ps households, both SAP 1 and 2 payments (i.e., vertical expansion) were delivered through their regular 4Ps payment channel (i.e., LBP cash cards for the majority of beneficiaries). For the non-4Ps households, during SAP 1, payments were delivered in cash by LGU officials. Recognizing the payment delays and challenges brought by COVID-19 restrictions to the delivery of physical cash during SAP 1, six Financial Service Providers (FSPs) were quickly onboarded to distribute SAP 2 digitally. A decision was made to bulk register beneficiaries through “restricted” transaction accounts (whether e-money accounts or deposit accounts) to make SAP 2 payments. This enabled about 11 million SAP 2 beneficiaries to receive digital payments. Challenges were still experienced, however, due to the lack of uniform communication with beneficiaries at their onboarding into the program, and therefore people were unsure about the legitimacy of the SMS notifications received from FSPs notifying them about SAP 2 payments. Next, deduplication issues led to the unsuccessful delivery of a large proportion of digital payments as FSPs found many duplicate phone numbers (e.g., people mentioned their local barangay captain’s number). Lastly, the lack of proper government-issued ID posed cash-out challenges for some beneficiaries (Cho et al., 2021).

**Looking towards the future, a dynamic social registry, rolling out the use of the national ID and introducing multiple PSPs through multi-year contracts seem crucial for successful future scale-ups.** Firstly, the Philippines is in urgent need of an up-to-date social registry, which is dynamic and accessible to citizens, by containing information on people who are near poor, so as to reach them quickly in case of any crisis. Second, social protection programs should leverage the recently introduced national ID system for

the identification of beneficiaries. This would avoid the need for beneficiaries to provide and validate their basic information, and as a result can speed up the verification process, especially during crises. Lastly, the Philippines could continue to improve digital payments through multiple FSPs (banks and e-money issuers) that beneficiaries can choose from, based on their convenience of access. Having data on beneficiaries existing accounts with these FSPs, and utilizing multiple providers, would facilitate faster payment delivery during a future scale-up or emergency.

### PAKISTAN: INITIAL SCALE-UPS ENABLED BY THE REGISTRY; EMERGENCY SCALE-UP DEPENDENT ON INNOVATIVE PULL REGISTRATION; OTHER SYSTEMS GRADUALLY IMPROVED OVER TIME

**The Benazir Income Support Program (BISP) has scaled up significantly since 2009.** The BISP Unconditional Cash Transfer (UCT) is Pakistan's flagship social safety net program and was launched in July 2008, now known as Kafaalat,<sup>43</sup> to provide basic income support to vulnerable and deserving women, and their families from the poorest households across the country. The eligibility criteria for BISP Kafaalat are female beneficiaries, usually married women having valid Computerized National Identity Cards (CNICs), within households identified as poor. The program scaled up gradually from 1.76 million beneficiary households in 2009 to almost 9 million households in March 2023 (or 20% of the population). By providing access to (CNIC) and making BISP payments to the female head of beneficiary households, the BISP made explicit the goal of empowering women. In addition to the UCT, over time, BISP has also launched two CCT programs aiming to increase access to education (currently known as Benazir Taleemi Wazaif) and health (Nashonuma).

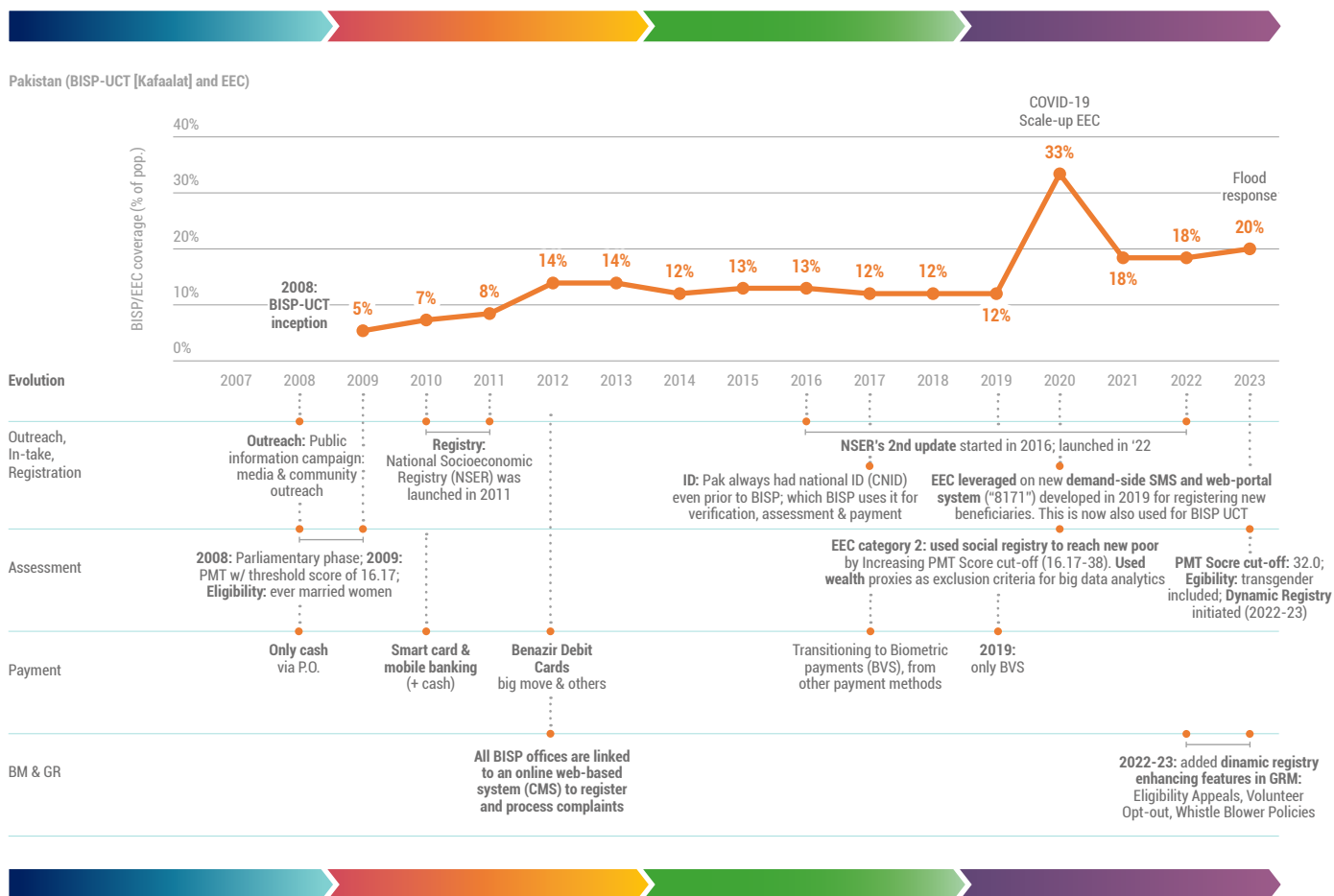
**There was also a major emergency scale-up in response to COVID-19, where the program practically scaled up three-fold during the crisis.** BISP implemented Ehsaas Emergency Cash (EEC) assistance, which provided emergency cash (in two phases<sup>44</sup>) to 15.1 million families (or 33% of the population). This included a vertical expansion to the “known vulnerable,” providing a top-up transfer to the approximately 5 million households who were existing Kafaalat beneficiaries, while the rest were “new poor” (i.e., horizontal expansion) which the government newly targeted during the emergency. EEC beneficiaries received PKR 12,000 per family (US\$74) one-time assistance between April-September 2020.

<sup>43</sup> | Under the new multisectoral poverty alleviation initiative called Ehsaas launched in March 2019, the previous UCT has been terminated/re-branded and the new one has been introduced.

<sup>44</sup> | The EEC under its first phase reached to 14.8 million deserving families affected by COVID-19 lockdowns. In 2021, under the second phase it reached 12 million deserving families (see: <https://www.pass.gov.pk/Detail/f90ce1f7-083a-4d85-b3e8-60f75ba0d788>).

**BISP also expanded horizontally in 2022 in response to the devastating floods as well as the inflation crisis.** The Asian Development Bank provided US\$1.5 billion financing to support government's efforts to deal with the adverse impacts of the devastating floods, supply chain disruptions, and inflation on the poor and vulnerable. The program aimed to expand the number of families receiving cash transfers through BISP from 7.9 million to 9 million.

Figure 4. *Pakistan BISP and EEC scale-ups and evolution of delivery systems*



Notes: Coverage as % of population were computed by authors based on population and household size data. For years with missing household size data (2010, 2013, 2015, 2017, 2021, 2022), we imputed it by taking the average of 2 data points (one from preceding year and another from year after the missing data). Family size is obtained by dividing 1.2 to average household size.

Source: Authors' compilation based on administrative data from literature reviews and KIIs. Data on program coverage (# of families) was obtained from WB country team. Data on population was obtained from World Bank's World Development Indicator [2008-2022] and Macrotrends [for 2023]. Data on household size was obtained from CEIC data [for years: 2009, 2011, 2012, 2014, 2016, 2019]; Pakistan Social & Living Standards Measurement Survey [for 2018-19]; Pakistan Demographic Survey [for 2020] and Pakistan Bureau of Statistics document [for 2023]

As Figure 4 shows, targeting in the early stages of the program depended on local parliamentarians, followed by PMT targeting, then the social registry from 2011 onwards. In the initial period, in July 2008, due to the absence of data for identifying the poor and vulnerable people in the country, BISP targeting was carried out through the members of the parliament, who

provided lists of potential beneficiaries in their constituencies.<sup>45</sup> However, Starting in April 2009, this beneficiary selection through parliamentarians was replaced by a more objective targeting system, the Poverty Scorecard, which used a PMT for the selection of the poorest families. Since 2011, BISP has based beneficiary intake and registration on data from the National Socioeconomic Registry (NSER), which has evolved over time, using an administrator-driven approach as well as some on-demand elements. NSER is a data repository containing information on the socio-economic status of all households. The first round of data collection was conducted in 2010 using nationwide door-to-door survey of 27 million households (94.5% of the population). To gauge the socio-economic and asset information of the respondents, the Poverty Scorecard approach was used with assistance from the World Bank. The second round of data collection started in 2016 to update the registry and was launched in January 2022. Implementation of the door-to-door survey through contracted firms faced many challenges, so BISP adopted two additional strategies; Desk Based Registration (called BISP Registration Centres) and Teachers Based Census Model,<sup>46</sup> to complete the registry data collection work. NSER 2021 now consists of information on 35 million households (~85% of the population). Given that the Social Registry (NSER) has been recently updated (in 2022) through a large-scale door-to-door survey, Pakistan has started to encourage more periodic data collection and recertification so that the social registry can be updated without having to carryout door-to-door surveys in the future (see more details in section 4.2.4).

**Outreach has been important via public information campaigns.** BISP invested in mass communication and awareness campaigns about the program. The first phase involved a national media campaign run by BISP itself, outlining the salient features of the program on radio, television and in the print media, and informing the recipient audience that a census was going to be held. The other form of the campaign was at the local level, run by partner organizations in a particular area, with the objective of informing area residents of the impending census. They used a range of communication tools, such as local electronic and print media, and direct community outreach. This outreach was important for several reasons: (i) it was important to clarify the difference between the PMT-based targeting method, and that it is scientific and non-partisan in nature, and the parliamentary one used in phase 1; (ii) building the trust of the beneficiaries in

<sup>45</sup> | Application Forms were distributed among the Parliamentarians in equal number (8000 forms to each member of the National Assembly and Senate and 1000 forms to each member of the Provincial Assemblies), irrespective of party affiliation. The forms received were verified through National Database & Registration Authority (NADRA) database.

<sup>46</sup> | Teachers acted as enumerators, supervised by senior teachers and supported by trained IT teachers. Provincial Education Departments and Local Administration supervised the door-to-door survey. BISP NSER wing, supported by the Technology wing and other BISP Headquarter and Field teams planned, trained, monitored, and supervised field activities of the teacher-based data collection model.

the program; and (iii) clarify the difference between the new program and traditional Zakat (Hosain et al., 2013).

**For the COVID-19 scale-up, NSER data was outdated and the scale-up depended on pull registration.** Since the second NSER data collection had not yet been completed in 2020, the data in the registry dated back to 2011 and was, therefore, outdated. To reach the additional “new poor” beneficiaries, the EEC program used a demand-side in-take and registration method, leveraging the SMS and web-portal system developed in 2019 in addition to the desk-based self-registration system (Khan, 2021). The EEC planned target six categories of beneficiaries:

- » Category I: the known vulnerable, or 5 million existing Kafaalat beneficiaries. The program expanded vertically to existing Kafaalat recipients (women), which received a top-up (of PKR1000 or US\$6.1 per month) via the EEC, in addition to their regular payment (of PKR2000 or US\$9.8 per month at that time). So, these women were eligible for a pooled four-month payment of PKR12,000 (US\$74).
- » Category II: 4 million ‘new poor,’ identified through the SMS pull registration platform. Public announcements through media and community channels alerted those affected by COVID-19 – men, women and transgender – who then sought support by texting their CNIC number to the registration platform. To facilitate those without a phone, multiple text messages could be sent from one cell phone by anyone intending to assist those in need. Beneficiaries’ poverty status was validated against NSER data and they were provided support if their PMT scores fell within the increased scoring band of 16.18 to 38 points.
- » Category III: 3.5 million, ‘new poor,’ who opted in as ‘deserving’ by raising their need at the district level. A guideline outlining the profile of potential recipients was circulated to districts. This category was crucial since the NSER data was outdated and there was a risk of missing some deserving people by relying on the database to verify those registering through the SMS platform. To address this, districts were allowed to assemble lists of deserving individuals. Wealth proxies were used as exclusion criteria in all categories.<sup>47</sup>
- » Category IV:<sup>48</sup> 1.26 million beneficiaries who applied through the web-based portal hosted on the Prime Minister’s website. The processes that were deployed for Category III were fully applied to this category, with two exceptions: (i) individuals with self-declared income above PKR30,000 were excluded; (ii)

<sup>47</sup> | Provincial quotas (in terms of number of beneficiaries) in Category II and III, were calculated according to their population share in the 2017 census. While these filters were acceptable for emergency response, for regular targeting, they need to be carefully considered to ensure that deserving individuals are not excluded.

<sup>48</sup> | The program also raised additional funds for the response. The PM announced that for every PKR 1 (US\$ 0.006), the government will contribute PKR 4 (US\$ 0.025).

provincial shares were not maintained to allow the maximum number of eligible beneficiaries to benefit as per the Prime Minister's instructions.

- » Category V: 2.6 million beneficiaries from the spillover eligible lists of Category II and III. The methodology of Category III was also applied here; and for the same reason as for Category IV, provincial population shares were not maintained (Nishtar, 2020).

The SMS-based method has been adopted into the long-term Kafaalat to notify people regarding their enrollment and register payment details. Potential beneficiaries with CNIC can check their eligibility for BISP Kafaalat payment (or EEC in the past) by using SMS. In case no record of the person exists in the portal, then the adult member of the household is requested to visit the nearest Benazir registration desk, established at BISP Tehsil Office, for a household survey.

BISP payment systems have gradually evolved over time by experimenting with different payment mechanisms, finally settling on digital payments based on biometric identification. Until 2019, Pakistan had five payment mechanisms: (i) Pakistan Post Money Orders; (ii) Smart Card; (iii) Mobile Banking; (iv) Debit Card and (v) biometric verification system. At the beginning of the program, Kafaalat relied on the Pakistan post office to distribute cash to its recipients. This system faced high levels of complaints regarding leakages,<sup>49</sup> so the government began transitioning to other modes of payment. In 2010, in an attempt to tackle the leakages, the Benazir Smart Card (BSC), an ATM-type card which allows the beneficiaries to collect their transferred installment from different BISP-authorized franchises began to be implemented in a few districts.<sup>50</sup> In the same year, payment via mobile banking was also piloted in a few districts, where beneficiaries were provided with a mobile set and a SIM card, and an interactive voice response service was used to notify beneficiaries of their payment. The payment was to be collected personally<sup>51</sup> by the beneficiary from a franchise using the Personal Identification Number (PIN) that is also sent via text message.<sup>52</sup> Starting in 2012, BISP started a major changeover in its payment system to payments through Benazir Debit Cards (BDCs). These were ATM/Debit cards for beneficiaries to access payments at ATMs and human agents of partner banks. This payment method, although was found to be the best-suited mechanism

<sup>49</sup> | For examples, some beneficiaries were compelled to travel to the Post Office in cases where the PostOffice/Postman refused to deliver payments at the doorstep of the beneficiary due to various reasons. There were also reports of Postman demanding a portion of the cash from recipients before they would deliver the funds (see: Khan & Qutub, 2010; Cheema et al., 2014, 2015).

<sup>50</sup> | The beneficiary was required to collect the payment personally from the franchise on identification through her CNIC. A receipt was also signed by the beneficiary.

<sup>51</sup> | on identification through her CNIC

<sup>52</sup> | A receipt is also signed by the beneficiary. N.B. This payment mechanism was phased out later as it was started as a pilot. There many issues with this methods such as phones got stolen, damaged, or people don't know how to use them. More than these, other issues such as low inbox storage capacity of the phone made it hard to manage.

to pay beneficiaries, also had its own service delivery shortcomings.<sup>53</sup> To tackle these issues, starting in 2017, BISP started transitioning its payment withdrawal system to the biometric verification system,<sup>54</sup> which would enable beneficiaries to collect benefits at payment points by verifying their identity using their biometrics (in this case fingerprints) against the CNIC database. In addition, the SIM Card is tagged to the beneficiary's account to inform about the available balance in her Account (Clark et al., 2022). Starting in 2020, all payments for Kafaalat and Ehsaas Emergency cash programs are made only after biometric verification<sup>55</sup>. Some additional improvements are in the process of being introduced to promote financial inclusion. For example, the 'One Woman, One Bank Account' was made a part of the Ehsaas program for every eligible woman to have an account with a full suite of financial products, yet this remains a work in progress. Similarly, in 2021, the government launched the Ehsaas savings wallet (Ehsaas BRI, 2022).

Pakistan provides valuable lessons on using innovative pull registration systems for rapid scale-up in addition to the social registry, and of improving payment systems in response to challenges. Whilst NSER data was outdated during the COVID-19 scale-up, it still partly supported the verification of poor beneficiaries. NSER was particularly important during the 2022 floods response,<sup>56</sup> which was mounted in less than a few weeks given that the NSER update had just been completed. Additionally, the government quickly found alternative ways to harness technology to identify new beneficiaries or "the new poor" through a pull registration system by SMS, web portal and district desks. Finally, the government was quite responsive to the complaints regarding payment leakages and other difficulties with the payment system and experimented with a wide variety of mechanisms before rolling out the biometric system.

### SENEGAL: PROGRAM TARGETING HELPED ESTABLISH THE REGISTRY; REGISTRY ENABLED SUBSEQUENT SCALE-UPS; INNOVATIVE BULK DIGITAL PAYMENT

**The Programme National de Bourses de Sécurité Familiale (PNBSF) mainly scaled up between 2013-2017.** PNBSF is Senegal's main CCT and a cornerstone of the country's social protection system, which is implemented by

<sup>53</sup> | Beneficiaries were mostly illiterate and didn't know to use the card. This resulted in middlemen charging commission to help in money withdrawal (see: Cheema et al., 2016b). In addition, frequent complaints were recorded regarding card damage/loss, and PIN code forgotten.

<sup>54</sup> | It uses three components: NIC + Biometric + SIM card.

<sup>55</sup> | As highlight, during COVID-19, Biometric failure became the biggest challenge by the third week of operations; it had to be raised at the Cabinet level and at NCC meetings, before NADRA offices were allowed to open to authenticate fingerprints. Around 7% of the beneficiaries had issue with it. Payments to such individuals ('with flat fingers'), an exceptions policy had to be re-devised and implemented. Partner banks had to develop an alternative mechanism centered on verification of identity cards in bank branches and a protocol had to be developed at an operational level.

<sup>56</sup> | Using BISP's National Socio-Economic Registry bottom 40% population was identified and through BISP's biometric payment system, Rs. 70 billion (~ US\$ 280 million) was disbursed to 2.76 million affected families (Akbar, 2023).

the General Delegation for Social Protection and National Solidarity (DG-PSN). The program provides social assistance to the poorest households nationwide with a focus on children and the elderly. It relies on three key conditionalities: (i) school registration and attendance of household children; (ii) vaccination records of children 0-5 years; and (iii) civil registration. When the PNBSF was launched in 2013, it targeted approximately 50,000 poor and vulnerable households with children aged 6-12, paying a transfer of FCFA 25,000 each quarter (about US\$50), conditional upon children's registration and attendance in primary school. Starting in 2023, the benefit amount was increased to FCFA 35,000 per quarter. The program scaled up to almost 200,000 households in 2015, and reached 292,068 households by 2016 and 355,000 by 2023 (more than 25% of the population).<sup>57</sup>

Since then, as Figure 5 shows, the Covid-19 exceptional cash transfer in 2022 was the main scale-up of the program in response to the joint effects of Covid-19 and inflation crises. Through World Bank financing of US\$110 million requested in 2021, Government delivered one instalment of FCFA 80,000 (about US\$135) to almost all 500,000 households in the social registry, called the Registre National Unique (RNU). This exceptional operation would be the largest use of cash-based adaptive social protection systems to date in Senegal. Earlier in 2020, emergency food assistance was also provided to more than one million households including the 500,000 households in the RNU and about 450,000 additional households selected from the communities.<sup>58</sup>

**The survey-based targeting process for the PNBSF helped establish the social registry.** During the PNBSF pilot phase in 2013, the program directly collected survey data on 75,000 households living in extreme poverty with school-age children from 6 to 12 years old throughout the country to target the PNBSF transfers. In 2014, the DGPSN planned the expansion of the PNBSF by adding 75,000 households in extreme poverty per year. At the outset, the RNU was, therefore, a beneficiary registry, based on the processes and tools put in place for the selection of beneficiaries of the -PNBSF.<sup>59</sup> In 2015, the government adopted a new strategy to separate the RNU from the PNBSF while expanding the database beyond the program. RNU coverage has grown over time and beneficiaries of the PNBSF and other programs are selected from it. Currently, the RNU covers around 542,000 households<sup>60</sup> in Senegal's 14 regions (above 30% of the population). The Government of Senegal is currently working on the expansion

<sup>57</sup> | World Bank (2022). Rapport d'Evaluation d'Impact du programme National de Bourses de Sécurité Familiale.

<sup>58</sup> | World Bank (2022). Adaptive Safety Net Project - PAD4836, Project Appraisal Document.

<sup>59</sup> | Branders, N. and Gueye, S. A. (2022). Profils des Menages les Plus Pauvres du Senegal Repertories dans le Registre National Unique (RNU).

<sup>60</sup> | World Bank (2021). A Proposed Additional Credit and Grant to the Social Safety Net.

Figure 5. Senegal PNBSF and Exceptional Cash Transfer scale-up and evolution of delivery systems



Notes: Coverage as % of population were computed by authors based on population and household size data. For years with missing household size data (i.e., 2018), we imputed it by taking the average of 2 data points (one from preceding year and another from year after the missing data) with an exception for years 2021, 2022 where we used data from 2020.

Source: Authors' compilation based on administrative data from literature reviews and KIIs. Data on program coverage (# of households) was obtained from WB country team. Data on population was obtained from World Bank's World Development Indicator. Data on household size was obtained from the dataset of United Nations Department of Economic and Social Affairs population division (for years: 2013, 2014, 2015, 2016, 2017); report by UN DESA (for 2019); CEOWORLD Magazine (for 2020).

phase of the RNU, which should reach one million households, or nearly 55% of the country's population. This is intended to cover not only all poor households in Senegal, but also vulnerable households above the poverty line, which are at risk of falling into poverty during shocks. In August 2021, the RNU was institutionalized by presidential decree and established as the mandatory tool for targeting all social programs.<sup>61</sup>

**The assessment of eligibility for PNBSF combines geographical targeting, community-based targeting and a proxy-means test to identify the poorest households.** In terms of geographical targeting, the number of households to be identified and registered in the RNU for each local authority is calculated based on the size and composition of each locality and its level of poverty and vulnerability. The pre-identification of the poorest

61 | World Bank (2022). Adaptive Safety Net Project - PAD4836, Project Appraisal Document.

households is then conducted through a community-based targeting approach through local targeting committees, and designed to be made up of recognized, representatives, trained on the parameters of the RNU by the Social Operators (local NGO workers contracted by the government to implement the program at the local level). To select the poorest households in the RNU, the DGPSN uses a PMT based on survey data collected by the national statistical agency. Survey data collection is done by gathering the heads of households in one place in each local community with the help of the local committees.<sup>62</sup> Finally, to select PNBSF beneficiaries, the number of households corresponding to the beneficiary quota is identified among those with the lowest score in each neighborhood/village.<sup>63</sup>

**Beneficiaries of the Covid-19 exceptional transfer were targeted through the RNU and were bulk registered for mobile payment.** Almost all 500,000 households in the RNU at that time were provided with the exceptional transfer. Two factors facilitated the success of this emergency response. The first was that data in the RNU was relatively up to date given the data update undertaken in 2019, which included phone numbers for most beneficiaries. This greatly facilitated the bulk payment of beneficiaries digitally. The second was the extensive network of NGO field workers (the Social Operators) that supported the government in outreach to beneficiaries, helping them to enroll to receive their payment digitally.<sup>64</sup>

**Outreach efforts were critical to the successful targeting of the PNBSF and the RNU and to promoting beneficiaries' behavior change towards investments in human capital.** Outreach focuses on (i) communication on the RNU to the public and (ii) communication on the PNBSF targeting process to stakeholders and pre-identified households. The promotion of the RNU aims to improve its visibility among the different actors and promote its use, through the distinctive visual brand; this can take the form of dissemination through communication channels of the DGPSN and its website, or the production of brochures and press kits (with emphasis on easily understandable information) for wide distribution. On the other hand, the promotion of the PNBSF targeting aims to provide a general overview of the steps entailed in the process and is done through posters, flyers, brochures and audio-visual materials and the identification of channels and spaces for outreach and mass communication.<sup>65</sup> The promotion of the program was also initially conducted through radio. Outreach measures for behaviour change communication are also undertaken by social workers to

<sup>62</sup> | Le Ministère du Développement Communautaire, de la solidarité nationale, de l'Équité Sociale et Territoriale (2022). *Projet d'Appui à la Protection Sociale Adaptive. Manuel d'Execution.*

<sup>63</sup> | World Bank (2022). *Rapport d'Evaluation d'Impact du programme National de Bourses de Sécurité Familiale.*

<sup>64</sup> | World Bank (2021). *A Proposed Additional Credit and Grant to the Social Safety Net.*

<sup>65</sup> | Le Ministère du Développement Communautaire, de la solidarité nationale, de l'Équité Sociale et Territoriale (2022). *Projet d'Appui à la Protection Sociale Adaptive. Manuel d'Execution.*

encourage households to invest in their health, education and productive income generating activities.

**PNBSF payment mechanisms have not evolved much.** La Poste (the Senegal Post Office) continues to be the only payment provider for PNBSF transfers.<sup>66</sup> Under the contract with La Poste, DGPSN transmits the funds and the list of beneficiaries to La Poste and beneficiaries go to the selected branch to receive the payment in cash, with their ID and the beneficiary identification card ("Yakaar") provided by the program.<sup>67</sup> In 2016, the government introduced mobile money payments to increase the accessibility and security of payments, enabling 30,000 households to receive payments via mobile money.<sup>68</sup> Orange Money carried out these mobile payments in five departments of the regions of Thies, Kolda and Saint-Louis between 2017 and 2018.<sup>69</sup> At the point of payment, recipients used their SIM card and PIN to receive their payment. However, government decided to discontinue the Orange Money contract in 2018 and since then only La Poste continued delivering payments. Even though the program has been ongoing since 2013, it faces challenges related to repeated payment delays due to complex financial arrangements between the Ministry of Finance and La Poste. For example, payments in 2019 were made with a delay, and no payments at all were made in 2022.

**On the other hand, non-PNBSF transfers have been digitized in Senegal.** Cash grants that are part of the productive inclusion programs and shock response programs are delivered by mobile money, as in the case of the exceptional Covid-19 cash transfer. According to the household harmonized survey conducted in 2018 in Senegal, almost 99 percent of households owned at least one mobile phone, making digital payment the easiest and safest way to deliver cash transfers, as witnessed by the flood response program.<sup>70</sup>

**The experience of Senegal has valuable lessons on adaptive social protection and readiness for emergencies.** The country shows how, to start with, programs can expand through survey-based targeting exercises, but that over time, leveraging this to establish an updated registry is central to establishing the backbone of an integrated social protection system. Whilst the early expansions of the program prior to 2015 were done through survey-based data collection exercises, these helped establish the RNU to be

<sup>66</sup> | World Bank (2014). Project Appraisal Document.

<sup>67</sup> | Le Ministère du Développement Communautaire, de la solidarité nationale, de l'Équité Sociale et Territoriale (2022). Projet d'Appui à la Protection Sociale Adaptive. Manuel d'Execution.

<sup>68</sup> | <https://www.brookings.edu/wp-content/uploads/2017/10/senegal-erh-policy-brief.pdf>

<sup>69</sup> | Le Ministère du Développement Communautaire, de la solidarité nationale, de l'Équité Sociale et Territoriale (2022). Projet d'Appui à la Protection Sociale Adaptive. Manuel d'Execution.

<sup>70</sup> | World Bank (2022). Adaptive Safety Net Project - PAD4836, Project Appraisal Document.

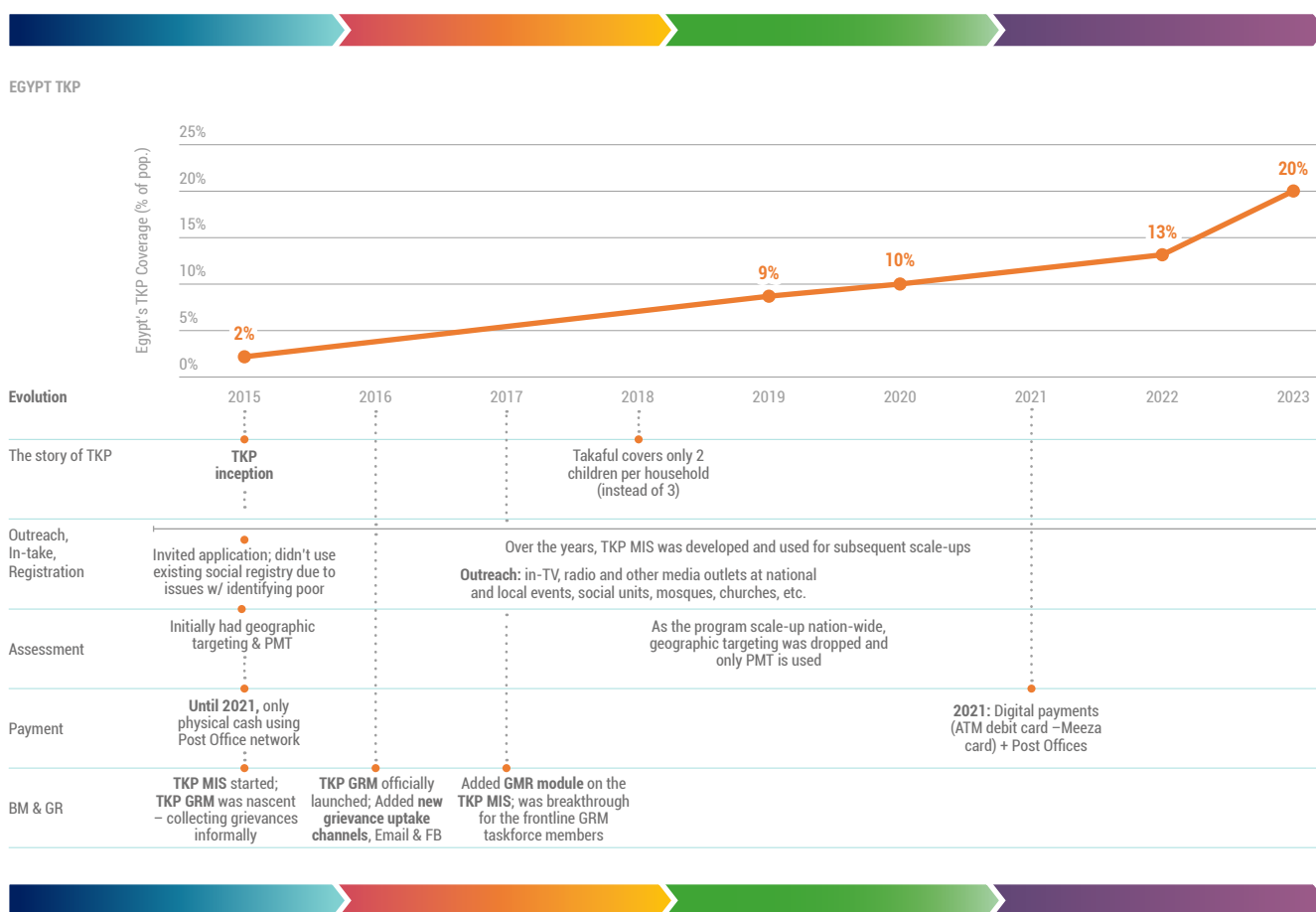
ready for future scale-ups. The RNU was central to the Covid-19 scale-up and to the targeting of other social protection programs and emergency responses in Senegal. Having an up-to-date registry in place, with phone numbers of beneficiaries available was pivotal to the success of making rapid mobile payments for the Covid-19 cash transfers as well as the flood response. Senegal's plans for a more regular update of the registry, and the objective to cover 1 million people, will enable the country to leverage this for future program scale-ups and emergency responses.

### EGYPT: PROGRAM TARGETING HELPED ESTABLISH THE REGISTRY; DYNAMICALLY UPDATED REGISTRY ENABLED SUBSEQUENT SCALE-UPS; OTHER SYSTEMS GRADUALLY IMPROVED

**The Takaful and Karama Program (TKP) has scaled up significantly since it was launched, particularly in response to the negative economic impacts of the COVID-19 pandemic and the global inflation crisis.** The TKP was introduced in 2015 as a flagship social safety net and an alternative to energy subsidies. Takaful is a CCT program providing households with children under 18 years of age with income support, increasing based on achieving conditionalities in education and healthcare. Karama is an unconditional cash transfer program that targets the elderly poor (over 65 years of age), orphans, widows and those living with permanent and severe disabilities. The program expanded from approximately 500,000 beneficiaries during the first wave in 2015/2016 to approx. 2.5 million in December 2019. TKP coverage further increased in the following years due to the continuing transition of beneficiaries from the old social pension Daman to TKP. Furthermore, 411,000 additional households were added to TKP in response to the COVID-19 crisis. In April 2022, an additional 450,000 households were included in the program to help mitigate the impacts of the local currency depreciation and the inflation brought about by Russia's invasion of Ukraine.

By December 2022 program coverage reached 4.1 million households and by September 2023, it had reached over 5.2 million households or 22 million individuals. The majority of beneficiaries are women and most of the cash goes to Upper Egypt, where poverty rates are higher. In March 2023, government also announced a 25 percent increase to the transfer value to improve adequacy due to the high inflation.

**The targeting process for the TKP helped establish a new (de facto) social registry for the country.** When the TKP program was launched, people had to apply to be on the program. This is because even though the country had a national registry, it was felt to have been built in a way that could not most accurately identify the poor. The Ministry of Planning and Administrative Reform (MoPAR) launched the Unified National Registry (UNR) in 2012 as a national database for the different social safety net (SSN) programs in

Figure 6. *Egypt TKP scale-up and the evolution of delivery systems*

Notes: Coverage as % of population were computed by authors based on population and household size data. As household size data for 2015 was missing, so we used 2014 data instead.

Source: Authors' compilation based on administrative data from KIIs and literature review. Data on program coverage (# of households) was obtained from WB country team (2015,2019, 2020, and 2022), and Egypt's State Information Service (2023). Data on population was obtained from World Bank's World Development Indicator (2015-2022) and Macrotrends (2023). Data on household size was obtained from the dataset of United Nations Department of Economic and Social Affairs population division (used 2014 data and imputed it for 2015) and Statista (2018-2023).

Egypt (including the food subsidy smart card and social security databases) linked to national I.D. cards. However, given that these programs are not necessarily poverty-targeted, MoSS did not have an official or comprehensive digital database of Egypt's poor. A significant achievement of the TKP was the establishment of the TKP Management Information System (MIS), a robust database, now encompassing over 36 million individuals (or 33 percent of the population), comprised of every Egyptian that applied to the TKP, and therefore people who perceived themselves as poor.

**Massive outreach was undertaken inviting people to apply.** MoSS undertook a massive communication and outreach campaign utilizing numerous channels including TV, radio and other media outlets at national and local levels, social units, mosques, churches, etc. Any household could apply to Takaful if they have: 1) a household head 35 years or older, 2) a monthly household income of less than EGP 400 per month from the public or private sector, 3) do not benefit from social insurance, 4) have children, and

5) reside in Egypt.<sup>71</sup> Any household could apply to Karama if they meet the same welfare criteria as well as have a household member that is elderly, disabled, widowed, or orphaned. Interested applicants register in person at their nearest social unit to verify the necessary documents. A detailed questionnaire is then filled by social workers for each applicant, at their home, capturing key information for all household members, including education status, receipt of social benefits, ownership of assets, housing conditions, chronic health conditions or disabilities. This is so that a PMT can be applied to determine eligibility for TKP.

When TKP was launched, eligibility was based on geographic targeting and the PMT but now that the program has national coverage, the PMT is the main mechanism to determine eligibility. In terms of geographical targeting, the program was first launched in the poorest districts within the poorest governorates in Egypt. Once the program had scaled up to all of Egypt's governorates, the geographic targeting was dropped. TKP marked an important departure from the previous policy, as assistance is poverty targeted, and the use of conditionality within Takaful aims at addressing part of the human capital deficit faced by the poor. TKP beneficiaries are therefore selected as eligible based on their relative welfare from the TKP MIS database of all those who applied. This is determined through their PMT score against predetermined thresholds of household demographics, assets, etc. that are most associated with poverty in national household surveys. PMT thresholds have been revised several times in line with the availability of a updated national household survey data, but not in response to an emergency or the need to scale up, specifically.

**For the subsequent scale-ups, the government mainly leveraged the TKP MIS to respond to the crises.** The TKP social registry / MIS has been expanding over the years and includes all applicants to TKP (those who are enrolled and those who did not pass the eligibility threshold). As such, all these applicants have taken the PMT questionnaire and received a poverty score. Having a registry larger than the program caseload allowed MOSS to swiftly respond to consecutive crises by adding more households already in the registry. In addition, MoSS relies on a large network of community workers who are heavily engaged in outreach activities to inform others on how to apply. The fact that people can apply at any time, and the process of rolling PMT assessments have helped the registry to be more dynamic, compared with census or survey-based exercises only every few years.

<sup>71</sup> | Al-Masry Al-Yom. (2022). Egypt Independent. Retrieved from <https://www.almasryalyoum.com/news/details/2566957>

**Payment systems have evolved and digitized over time to achieve greater efficiencies and financial inclusion.** From the start of the program until 2021, beneficiaries received their payments in physical cash through the Post Office network. There are approximately 400,000 post offices across the country, including in many of the remote and poor villages of Upper Egypt. Beneficiaries were used to the post office and trust its services, which made this partnership integral to the success of the cash transfer program. Beneficiaries were issued payment cards with a personalized PIN to allow them to cash their entitlements at the post office monthly. Since 2021, the government introduced digital payments in the form of an ATM debit card in addition to Post Offices. This was done in partnership with E-finance, the government's digital and information technology arm operating the financial network of the Egyptian government. It was more motivated by financial inclusion rather than any scale-up considerations. E-finance was selected to manage card issuance to beneficiaries of various social protection programs including TKP and social insurance programs. In 2021, E-finance started the phased rollout of the "Meeza" card among TKP beneficiaries (an ATM and digital payment card that can only be used within Egypt). Today, all TKP beneficiaries possess Meeza cards and can withdraw their cash transfer payments from ATMs and make electronic and digital payments. Cash out from ATMs using the Meeza cards has increased over time, particularly after Covid, when post offices were staggering appointments. In early 2023, 56% of beneficiaries used their Meeza cards at ATMs, 40% at post offices, 4% for other government payments and 0.05% with vendors.<sup>72</sup> The government is also piloting mobile payment solutions to further enhance accessibility to benefits and promote greater choice, but poor network connectivity in rural areas continues to be a constraint.

**The experience of Egypt particularly shows the benefits of a dynamic versus a static registry and the important role of technology.** The TKP MIS played a fundamental role in the establishment and scale-up of the program, particularly through the automation of the PMT and the use of tablets for data collection. The dynamism of the TKP MIS, enabling new people to apply at any time and be assessed for eligibility, greatly helped the scale-up processes given the system's readiness to take in additional people at any time. Today, the TKP MIS is again being leveraged to target other cash-plus government interventions to support the poor, including the government's productive inclusion program, housing program and others.

<sup>72</sup> | Data provided by MoSS. The minute percentage using vendors is due to beneficiaries low-capacity levels to make online payments. Only those who may have educated children reportedly take advantage of this functionality.

### **BRAZIL: A DYNAMICALLY UPDATED DECENTRALIZED REGISTRY HAS ENABLED MOST SCALE-UPS; PULL REGISTRATION EXPERIENCE FACED CHALLENGES; DIGITAL PAYMENT INNOVATION FOR COVID-19 SCALEUP**

**The Bolsa Família Program (PBF) was established by the Brazilian Federal Government in 2003 and expanded steadily over the past two decades.** Through PBF, the federal government made conditional monthly cash transfers to households living in poverty and extreme poverty, which, in turn, fulfil commitments in the areas of health and education. Starting with a coverage of 3 million households in 2003, by 2019, the program was providing benefits to 13 million households, at an average level of BRL 178 (US\$48.7) per month.

**In response to the Covid-19 pandemic, in April 2020 Brazil launched the Auxílio Emergencial (AE) program, doubling the coverage of social assistance.** AE provided instalments with a baseline value of BRL 600 (US\$114.72), targeting beneficiary households of PBF as well as unregistered workers or those with no active formal employment. During its first implementation cycle (AE1), it encompassed up to 63 million direct beneficiaries (about 22 million households), or 30 percent of the population. The government authorized the extension of AE for two months and a further extension was granted in September 2020 (AE2). At this time, the government introduced a monthly review of eligibility status, lowering the transfer value by 50 percent and the number of direct beneficiaries fell to about 59 million individuals (18.93 million households). After a three-month gap (between January and March 2021), with Covid-19 infection rates persisting and social and economic conditions deteriorating, AE returned in April 2021 (AE3). AE3 entailed a further reduction in the transfer value and more restrictive eligibility criteria, with coverage being limited to 39.4 million direct beneficiaries (20 million households). Whilst AE had been originally conceived as a temporary cash transfer meant to last a few months, it eventually lasted for a total of 16 months.<sup>73</sup>

**PBF was replaced by Auxílio Brasil (AB) in 2021, which was also the main vehicle for responding to the inflation crisis.** In 2021, the government launched AB to replace PBF, intending to unify existing social assistance programs, including the AE. Like PBF, AB was targeted at impoverished households across the country. Initially, as part of AB, a few good modifications were implemented, such as simplifying the structure of the variable benefits into two simple categories (early childhood and other) and extending the educational conditionality to youth until the age of 21 years.<sup>74</sup>

<sup>73</sup> | World Bank (2021). Enrollment and eligibility process of Auxílio Emergencial. Technical Note.

<sup>74</sup> | For more details see Box 2 in Falcão Silva et al. (2023)

However, the introduction of two additional benefits (BEx<sup>75</sup> and BComp<sup>76</sup>) to AB program, altered its design and affected the quality of CadU.<sup>77</sup> The initial design of the AB program was only in force for 1 month (November 2021). A new change occurred in December 2021, which introduced BEx to AB beneficiary families, increasing income to R\$400 per family. Furthermore, a complementary monthly increase of R\$200 was introduced from August 1 to December 31, 2022 through BEx. In summary, AB families received a total of R\$600 (AB + BEx + BComp). Given this reality and the demands of society, there was social and political pressure to revise and adjust the initial design of the program to guarantee the continuity of benefits. As of August 2022, AB reached about 19 million households, or 24 percent of the population, with an average monthly benefit of BRL 607.85 (US\$116).<sup>78,79</sup>

**The program was rebranded back to PBF (or n-PBF or new Bolsa Família) in 2023, and announced plans for further expansion, effectively seeking to maintain the high coverage and adequacy achieved during the emergency response.** In March 2023, the government re-launched the PBF with a coverage to reach almost 25 percent of the population (which is similar to the highest coverage achieved during the AE or COVID-19 period). With the re-election of President Lula da Silva, the government re-launched the program, expanding to 55 million people (approximately 21 million households).<sup>80</sup> An essential improvement in benefit transfer is made compared to the AB program. New PBF partially returns to a family transfer, which varies by household size and composition. However, to maintain the campaign promises, the benefit would at least provide a minimum benefit of BRL 600 (US\$115). Health and education conditionalities have also been reinstated after being suspended in recent years. One of the stated reasons for the significant increase in the transfer value in recent years is the government's desire to see people sustainably lifted out of poverty.

<sup>75</sup> | *Benefício Extraordinário*

<sup>76</sup> | *Benefício Complementar*

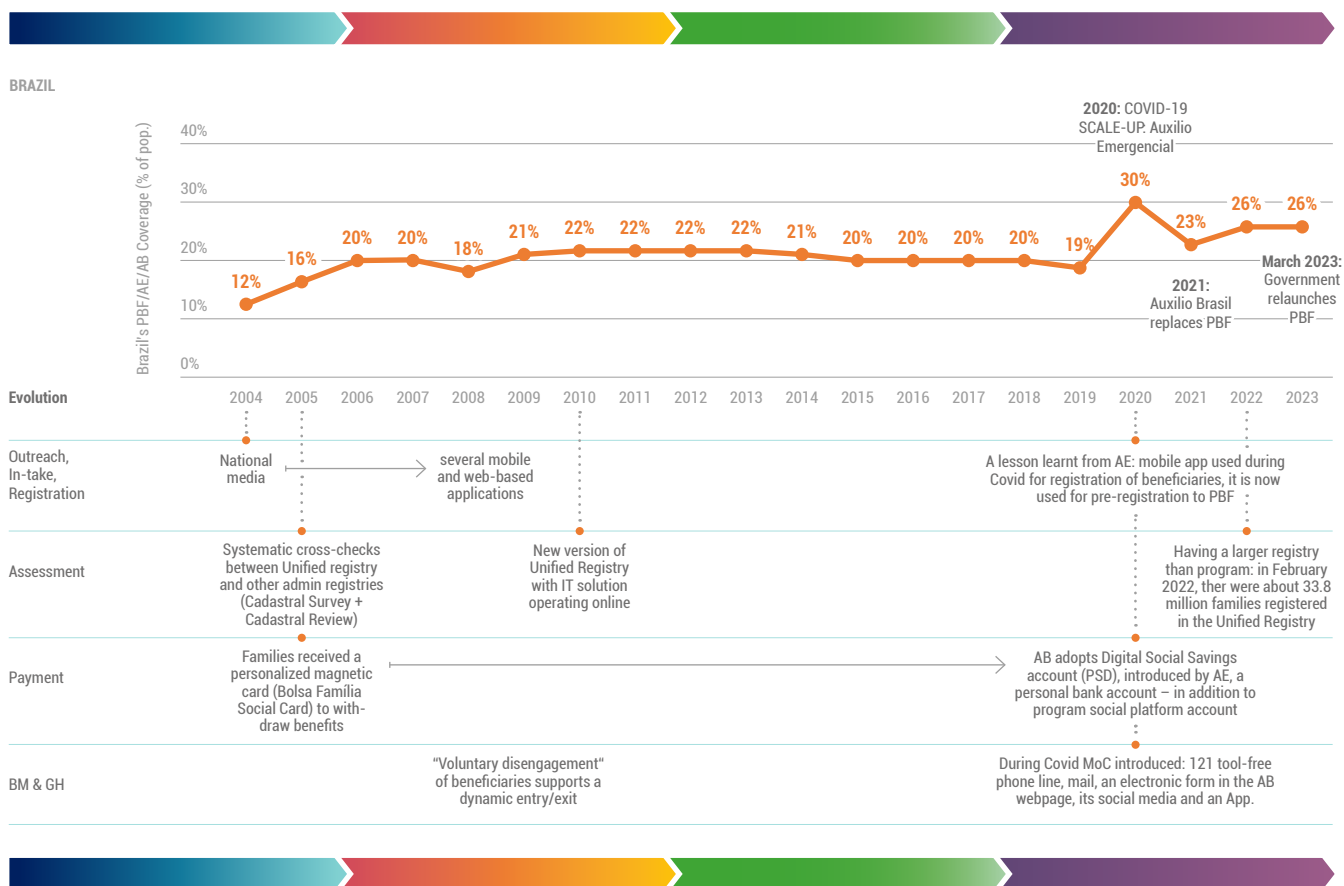
<sup>77</sup> | AB+ design incentivized family members to register separately, increasing the number of one-person families in the social registry.

<sup>78</sup> | Falcão Silva (2022, September 20–21). From Bolsa Família to Auxílio Brasil: the Brazilian CCT experience [Conference session]. In IMF–AFR High Level Policy Dialogue on Inequality: Developments and Policy Challenges in the Post-COVID environment.

<sup>79</sup> | Falcão Silva, T., Campante Vale, R., Dominici Cricci, B., Lara Ibarra, G., Posadas, J. (2023). *New Bolsa Família: Challenges and opportunities for 2023*. World Bank.

<sup>80</sup> | Benefit formula description of Bolsa Família: 1. R\$ 142 per capita to be paid to each member of the family. 2. Beneficiary families with children up to 6 years old will receive an additional R\$ 150 for each child. 3. Beneficiary families with children from 7 years and adolescents up to 18 years old will receive an additional R\$ 50 per child or adolescent; 4. Beneficiary families with pregnant women will receive an additional R\$ 50 per pregnant woman. Guaranteed, by law, that no family of the Bolsa Família Program will receive less than R\$ 600. The family benefit is calculated first: (family members x R\$ 142). If the family benefit does not reach R\$ 600, they receive a variable benefit (top up) to ensure that no family receives less than R\$ 600. After that, they apply the child, adolescent, and pregnant benefits: (number of children x R\$ 150) + (number of children and adolescents x R\$ 50) + (number of pregnant x R\$ 50).

Figure 7. Brazil PBF (including AB) and AE scale-up and evolution of delivery systems



Notes: Coverage as % of population were computed by authors based on population and household size data.

Source: Authors' compilation based on administrative data from KIIs and literature review. Data on program coverage (# of households) was obtained from WB country team. Data on population was obtained from World Bank's World Development Indicator (for years: 2004-2022) and Macrotrends (for 2023). Data on household size was obtained from ECLAC's CEPALSTAT.

The program has always been decentralized and relies on municipal government offices which are responsible for registering and periodically updating household information. At the beginning of the program, national media was the main instrument of communication of the program. Currently, dissemination of information is widely conveyed through television, media, and several mobile and web-based applications, in addition to face-to-face tailored activities.<sup>81</sup> The federal government provides guidance and funds but does not come into direct contact with people, thus the state acts as an intermediary between the federal level and municipalities.

**Registration in a dynamic social registry has enabled PBF and AB targeting and scale-ups.** During the first PBF phase, PBF managers, nominated by their respective municipal governments, identified low-income families and registered them into the Unified Registry for Social Programs of the

81 | World Bank (2022), Concept Environmental and Social Review Summary Concept Stage (ESRS Concept Stage), Brazil: Income Support for the Poor Affected by Recent Economic Crises (P179365).

Federal Government (“Cadastro Único” or “CadÚnico” or “Single Registry”). Managers were responsible for updating their information in the Registry at least every two years. Once AB replaced PBF, the Reference Centers of Social Assistance (CRAS) were then in charge of identifying low-income families, interviewing them, completing the registration form, and uploading the data to the Unified Registry. Self-declaration is used in the baseline data collection procedure and interviews are done through home visits.<sup>82</sup> Each municipality has permanent service points but there are also mobile service points, including registration ‘task forces’ for more remote or difficult-to-access areas. In addition to the Unified Registry, the Unified Social Assistance System (SUAS) is an inter-state arrangement for the provision of social assistance benefits and care services, based on shared governance bodies including all levels of government (i.e., national, state and municipal level), a shared funding mechanism, resulting in a vast and streamlined network of professional social assistance/care workers across all the 5,570 municipalities of Brazil. During PBF, SUAS was responsible for two key operations: a) accompanying families who failed to fulfil the program’s conditionalities; and, most crucially, b) including PBF’s potential beneficiaries in the Cadastro Único and updating their information.

**PBF has been targeting households that fall under the poverty line through a five-stage process, leveraging the Unified Registry.** As a first stage, the Ministry of Social Development (MDS) surveys forecast the likely number of families eligible to be program beneficiaries (i.e., families with per capita income under or up to the poverty line). In addition to the forecast of the number of families at the national level, estimates are also generated for the beneficiary target population at the municipal level. This information is used to set municipal quotas for beneficiary selection. The second stage consists of municipalities registering all low-income families who fit the Unified Registry’s ‘broader profile’ (i.e., per capita income of up to half the minimum salary or a total family income of up to three times the minimum salary). At the third stage, families are selected from the registry as beneficiaries of the PBF, based on a quota.<sup>83</sup> The fourth stage consists of a Cadastral Survey to cross-check the data against other databases to identify discrepancies before making payments.<sup>84</sup> The fifth is the Cadastral Review, aimed at updating beneficiary registration data that have not been updated for more than 24 months. This process enables identifying families whose

<sup>82</sup> | It is important to note that just a minority of interviews were conducted through home visits.

<sup>83</sup> | Selection is carried out using a computerized system managed by the CAIXA. In individual municipalities, the families are selected from those who possess valid and up-to-date registration in the Unified Registry and who have properly-declared incomes. The number of beneficiaries must be in line with the municipal quota.

<sup>84</sup> | cross-checked with other databases and administrative registries such as National Registry of Social Information (CNIS), with current interfaces with the national ID database, the civil registry, pensions and formal employment.

profile does not permit them to remain eligible for the program.<sup>85</sup> In 2009-10, the realization that many beneficiaries experienced volatile income led to a decision that participant households would receive transfers for two years, even if their monthly per capita income was above the eligibility threshold in the intervening two years. Households would be excluded from the program only if their income remained consistently above the eligibility criteria after two years, which could be interpreted as a signal of a stable income.<sup>86</sup>

**During the Covid-19 scale-up, AE also relied on the Cadastro Único but introduced digital pull registration to reach more people, which led to a number of challenges.** As the AE was entirely managed by the Federal Government, target beneficiaries were selected from three inflow streams. The first two were based on the Cadastro Único and were subdivided into beneficiaries and non-beneficiaries of PBF. The third was underpinned by digital registration through a mobile phone app developed by the Federal Savings Bank (CAIXA – Caixa Econômica Federal). Just over 38 million people were selected remotely, giving rise to a new social register, called ExtraCad. Registration through the app, however, received criticism for the potential exclusion of the 21 percent of the population with no internet access. Whilst selecting beneficiaries from the registry had undoubtedly already included many of the most vulnerable, commentators argued that the municipal social welfare network should have also been leveraged during registration. Finally, given these challenges and criticisms, the possibility of in-person registration was opened, through an assisted registry handled by the Brazilian Post Office, which reached 11,312 eligible people. Applications submitted over the internet through the app were therefore limited to the first three months of the AE implementation between April 7 and July 2, 2020. Some commentators argued that running the scheme through the SUAS care network would have ensured better access to the most vulnerable people. Using a database of applicants, through the mobile app and the Cadastro Único, that was closed to registrations at the municipal level was one of the controversial aspects of the program. The AE beneficiaries who applied via the app never got integrated into the Cadastro Único, so when the PBF resumed, SUAS units experienced a dramatic surge crisis driven by people wanting to register or update their information to gain access to AB and later PBF.<sup>87</sup>

**During 2021, AB program introduced per-family transfer in the new design, which resulted in an unintended consequence of increasing the number of one-person family in the registry.** This marked the tipping point in the program design's 18 years history. It created inequities in the support given

<sup>85</sup> | WWP (2017). Targeting and Identification of BFP Families. Available at: <https://wwp.org.br/wp-content/uploads/19.-BFP-Coverage-Targeting-and-Eligibility-Identification-of-Families.pdf>

<sup>86</sup> | Compton, M. E. and Hart, P. (2019), Great Policy Successes.

<sup>87</sup> | Please note, this is from Pedro Arruda's draft. Consult the author before sharing.

to families and favored smaller households, resulting in an increase in average per capita transfer for small households and a decrease for larger households, who were more likely to be poorer.

**The n-PBF continues to offer beneficiaries protection, with slight modification, as they are in the process of exiting the program.** The 'Protection Rule' guarantees program participation of up to 24 months to families whose income reaches half of the minimum wage per capita, even if above the program's eligibility line. A new modification in this graduation process (existing process) is the reduction in the transfer amount, which now equals only 50 percent of the benefit. Furthermore, families that voluntarily left the program (before their graduation) and need to return (for some reason, e.g., lost their jobs) will benefit from the 'Guaranteed Return Mechanism' which prioritizes such families' rejoining the program in case there is a waiting list at that time. Bringing the 'old return rule' to law is a strategy to make it better known.<sup>88</sup>

**Payment systems did not see much change up to 2020.** In order to withdraw their PBF benefits, families received a personalized magnetic card (Bolsa Família Social Card), issued in the name of the individual legal responsible for the family unit. The delivery of the Bolsa Família Social Card started with the MDS sending an instruction to the Caixa based on the MDS-validated beneficiary list. Together with the card, families would receive information and guidance about the program and the procedures required to activate the card. Payments are centralized and overseen by the MDS and subsequently implemented by the Caixa. The card enabled beneficiaries to access PBF funds in ATMs of Caixa, in lottery points and in commercial and other establishments displaying CAIXA HERE signs. With its extensive banking network, Caixa has payment outlets in 99% of Brazil's 5,570 municipalities and is historically responsible for managing the Federal Government's Single Registry.<sup>89</sup> In addition to the Social Card, there are two other ways to withdraw funds: via a simplified bank account (Conta Fácil or Poupança Fácil), and off-line payment by bank order. While the former method is used in 26% of cases, the latter is used in only 0.7% of cases.

**The biggest innovation in the payment system came during the AE Covid-19 scale-up, with the bulk enrollment of beneficiaries in a new digital payment account.** Like the PBF and other traditional Brazilian social programs, the AE payment operation was centralized by Caixa Econômica Federal. Digital Social Savings (PSD), a digital bank account via the application (Caixa Tem), got popularised during the pandemic. This was made possible

<sup>88</sup> | Falcão Silva, T., Campante Vale, R., Dominici Cricci, B., Lara Ibarra, G., Posadas, J. (2023). *New Bolsa Família: Challenges and opportunities for 2023*.

<sup>89</sup> | World Bank (2021). *The payment system used Auxílio Emergencial*, Technical Note.

by two key factors. First, the legislation allowed CAIXA to open bank accounts without citizens' (or beneficiaries') requests. Next, the Central Bank launched PIX,<sup>90</sup> the new debit and credit instant, online, and free-of-charge system, allowing the spread of digital bank operations. An additional plus point of PSD was the possibility of making payments via virtual debit card, thus avoiding the challenge of distributing physical cards as a matter of urgency in a pandemic context. This innovative digital account has been integrated into the longer-term program through AB and now PBF.

**Brazil's experience again emphasizes the benefits of a dynamic social registry and offers valuable lessons regarding the future use of pull registration and bulk payments during emergencies.** The dynamically updated registry that became larger than the program caseload played an important role in every scale-up. In addition, having the single registry move from an offline to an online system largely helped scaling up, improving targeting, becoming consistent and fast in responding. Whilst the digital app for AE registration had many challenges, a pull registration was necessitated by the fact that the Single Registry only covered 40% of Brazilians at that time, so launching the app made it possible to quickly reach many additional households. On the other hand, lessons were learnt on the need to offer an alternative to the most vulnerable who may not have internet access, and also emphasized the need for a quality assurance process to ensure the data collected via the app is accurate, as the data quality collected during COVID-19 was poor. Similarly, the launching of a digital bank account and the bulk registration of AE beneficiaries for payments was a significant achievement, that ended up reaching over 100 million customers through various programs.

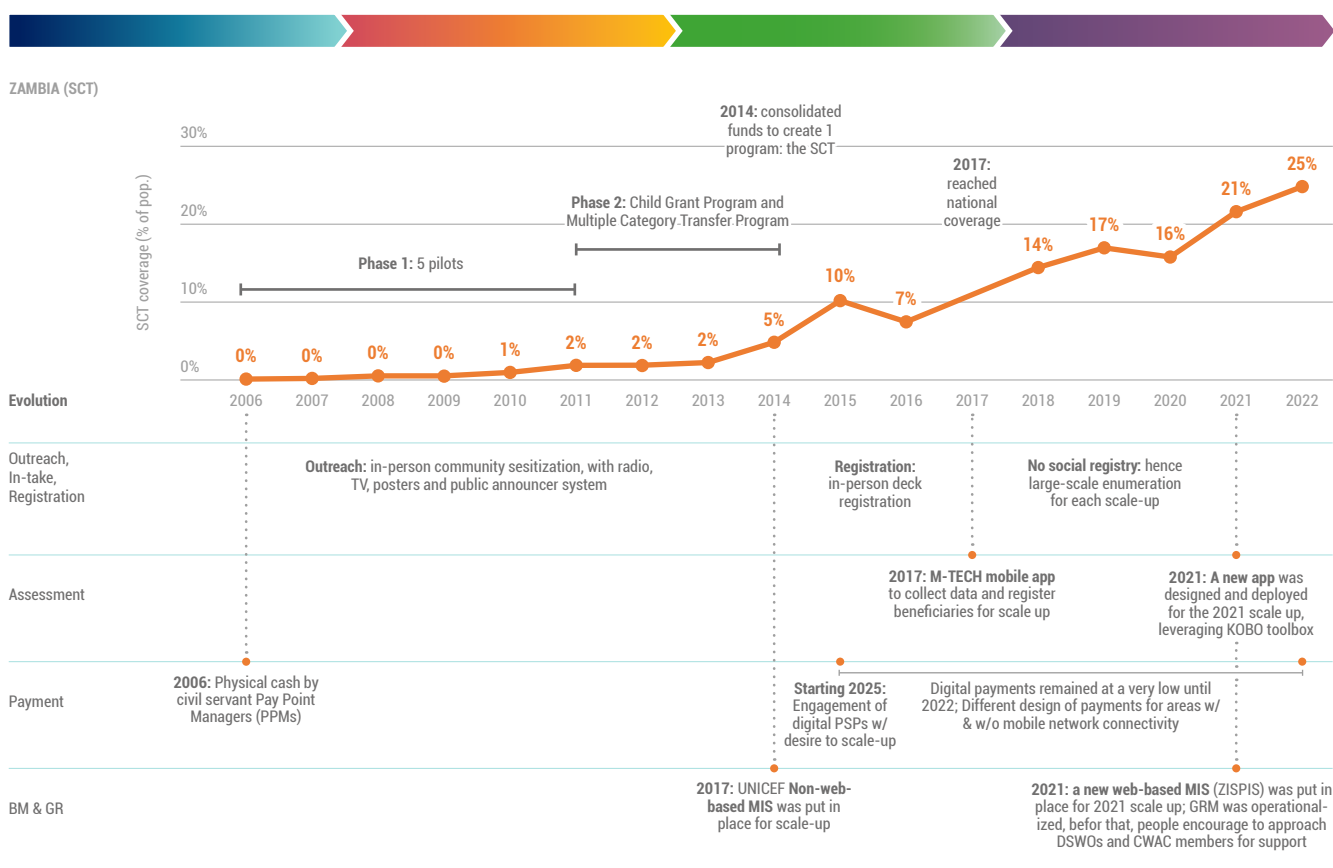
### ZAMBIA: WHEN THERE IS A WILL, THERE IS A WAY! LIMITED EX-ANTE READINESS BUT SYSTEMS PUT IN PLACE QUICKLY TO MANAGE SCALE-UPS

**The Social Cash Transfer (SCT) has scaled up significantly in recent years and recently reached almost 30 percent of the Zambian population.** The SCT is the Government of Zambia's flagship social protection program, providing bi-monthly cash transfers to poor and vulnerable households of ZMW 400 (US\$24 equivalent, or US\$12 monthly) for an average household and double this amount for households with a disabled person. The last increase to the cash transfer value was in 2021 to ensure adequacy in light of rising inflation. As Figure 8 below shows, the SCT scaled up in key phases. In the first phase (2003-10), five pilots, with some variations, were introduced with donor financing. These pilots aimed to cover the

<sup>90</sup> | Stands for Pagamento instantâneo brasileiro.

poorest 10 percent of the population in the districts served. In the second phase (2010-14), two variants - a Child Grant Program and Multiple Category Transfer Program – were launched, with joint government and donor financing. By 2013, these programs covered 61,000 households in 19 districts. In 2014, the grants were consolidated into a single program, the SCT, with the common eligibility criteria described above, and the program scaled up from 19 to 50 districts, reaching national coverage in 116 districts by 2017. By 2019, the number of beneficiary households had increased to 632,327 (or 18 percent of the population). In 2021, World Bank financing together with government and other donor financing enabled a further scale-up to 974,000 beneficiaries, or 25 percent of the population. In 2022, the government slightly scaled up again to just over 1 million households.

Figure 8. Zambia SCT scale-up and evolution of delivery systems



Notes: Coverage as % of population were computed by authors based on population and household size data. For years with missing household size data (2008, 2009, 2011, 2012, 2014, 2015, 2016, 2017, 2019, 2020), we imputed it by taking the average of 2 data points (one from preceding year and another from year after the missing data) with an exception (for 2007) for which we used 2006 data.

Source: Authors compilation based on administrative data from literature review and KIIs. Data on program coverage (# of households) was obtained from WB country team. Data on population was obtained from World Bank's World Development Indicator. Data on household size was obtained from the dataset of United Nations Department of Economic and Social Affairs population division (for years: 2007, 2010, 2013, 2018); Zambia's Demographic and Health Survey Summary Report (for 2018); UNICEF's Zambia Country Office Annual Report 2022 (for 2021, 2022)

**In the absence of a social registry, the SCT has relied on large-scale, house-to-house survey-based exercises for every scale-up.** There wasn't a social registry in Zambia and the Single Registry of Beneficiaries (SRB) had been non-functional for a number of years. There was an attempt to invest in the SRB in 2017-18 and a private sector firm developed software which was piloted in 17 districts, entering data on all social protection program beneficiaries in each district. The software became non-functional, however, upon the end of the firm's contract, due to capacity challenges within the government and lack of intensive training and handover by the firm. Once the decision to scale up was taken, each phase of SCT's scale-up has therefore necessitated a large-scale field-level data collection and registration exercise – even during the COVID-19 pandemic<sup>91</sup>. At the time of writing, Zambia has renewed its investments towards establishing a social registry.

**Registration has always been undertaken through an in-person desk at a pull event that occurs at the community level on specific days announced by the District Social Welfare Office (DSWO).** Beneficiaries are selected through categorical as well as poverty targeting to identify people that are poor and are not able to work for reasons of age, disability, illness, or high dependency ratios. First, beneficiaries must meet one of the following categorical criteria: (a) elderly, above 65 years old; (b) severely disabled; (c) chronically ill; (d) child-headed household; or (e) female-headed household with three or more children. Second, poverty is also assessed through a proxy means test based on a household survey<sup>92</sup>. When a new registration/enrollment drive is announced, interested potential beneficiaries are informed to prepare the required documents for registration. Namely, their National Registration Card (NRC, paper-based Identity Card issued by the government), and medical certificates for chronic illnesses and disability. The DSWO also facilitates medical assessments in local clinics or schools with medical professionals that can certify persons' disability or chronic illness using a medical assessment form, specifically designed by the MCDSS for this purpose. At the registration event all people who have decided to apply based on the information campaign, and who have the relevant documentation, go to register themselves at the front desk that is organized in each community<sup>93</sup>. While NRC penetration levels vary, MCDSS took a strategic decision to support beneficiaries in getting an ID card if they did not have one, with the help of the Ministry of Home Affairs.

<sup>91</sup> | World Bank. Second Additional Financing to the Girls Education and Women's Empowerment and Livelihoods Project Paper. Report No: PAD4319. May 2022.

<sup>92</sup> | World Bank. Scaling-up Shock Responsive Social Protection (SSRSP) Project Appraisal Document. Report No: PAD5062. June 2022.

<sup>93</sup> | Oxford Policy Management. Documentation and review of key business processes of the Zambia Social Cash Transfer Program. January 2020.

**People's eligibility against the categorical targeting criteria has always been assessed through the field-based pull event and against the poverty criteria using the PMT based on a household survey.** During the pull event described above, the DSWO verifies the documentation such as NRCs and medical certificates, and registers information about the applicants, including name and NRC number of the household head; whether they have been living in the same location for more than six months; names and NRC numbers of household members; and the various geographical identifiers. The overall list is certified by community representatives, and a community validation meeting is conducted. The validation's purpose is to add and remove those meeting/not meeting eligibility criteria as well as to approve this long list. After that, the village head signs off on the approved list. Once registration has been completed, the DSWO organizes and assigns enumerators to visit households at their respective homes to assess household living conditions. The house-to-house survey also aims to verify information about household eligibility against the categorical criteria (particularly for female and child-headed households). The information gathered is sent to the national level to apply the PMT thresholds and generate a second list of beneficiaries that meet both categorical as well as poverty criteria. The revised list is then communicated by the DSWO community leaders, who call for the second community validation exercise. At this stage, the community can only exclude households considered better off, but there must be a consensus among the community members before excluding a household.

**Outreach to potentially eligible people has been an important aspect, through in-person community sensitization, with radio, TV, posters and public announcers also having been added.** The in-person sensitization process is undertaken by DSWOs and also involves local volunteer structures called Community Welfare Assistance Committees (CWACs), made up of elected community representatives. Information campaigns are undertaken by the DSWO with the support of CWAC members to mobilize community members to attend. A community meeting is usually called to inform people about the program and its eligibility criteria. This is often complemented by other information campaigns on local TV, radio stations, the Zambia News and Information Service public announcer system, which relies on vans with loudspeakers and written posters.

**Payment systems were enhanced at a couple of key junctures associated with the need for better fiduciary control of a scaled-up program.** Physical cash was the dominant payment mechanism until 2022 when digital payments were piloted and subsequently rolled out. At the start of the program, 100 percent of payments were made in physical cash by civil servant Pay Point Managers (PPMs). PPMs are recruited by the DSWO and are primarily teachers in local schools, with recommendations from the Ministry

of General Education. The engagement of digital PSPs was associated with the desire to scale up the program in 2015-16 as the government and donors felt the program needed a payment system that was robust and minimized safety and fiduciary risks. Zanaco Bank was engaged by MCDSS to provide digital payments to SCT beneficiaries, but it was not able to scale up payments nationally, as the business case did not make sense for them in remote rural districts. Zampost (Post Office) was also engaged to provide digital payments. In 2015, a feasibility study on the digitization of payments was undertaken by the Ministry of Finance and the World Bank. This showed that, while there was no single provider that could reach every district, there were different types of providers in different districts, with only three districts that had no PSPs. Introducing large-scale digital payments within SCT was still seen as too high a risk for the government to take, and digital payments remained at a very low level of SCT beneficiaries until 2022 when digital payments were piloted. A major scale-up has been underway in 2023, with a potential to reach half the SCT caseload. Beneficiaries choose which PSP to receive their funds through, leveraging their local knowledge on which PSPs are close to their communities.

**The introduction of a web-based MIS system, integrated to PSPs, was perhaps the most significant investment made in SCT delivery systems in recent years.** A non-web-based MIS system was put in place in 2014 in readiness for the scale-up during that time, with the support of UNICEF. For the 2017 scale-up, WFP supported the SCT to undertake the enumeration through a mobile app (MTECH). By 2021, however, the limitations of the system and the need for modernization became clear, given that the most up-to-date data could only be found at the district level and there was no automatic way for district data to be reflected at the national level. Data losses were also experienced in certain districts and the mobile registration app became non-functional after the end of the contract with the firm who had designed it. The second version of the system was deployed in 2021 and was utilized for the targeting and enrollment stages of the scale-up in 2021. The current MIS is an end-to-end web-based system that automates all business processes of the SCT delivery chain and is integrated with nine PSPs, including three Mobile Network Operators (MNOs), one interoperable independent mobile cash voucher provider, one pre-paid Visa card issuer, as well as four banks. This improves accountability and traceability and allows for real-time payment tracking and reconciliation with PSPs. Moreover, thanks to the registration app that is integrated within the MIS, the time needed for enrollment drives in each community was reduced from two weeks to one day.

**One key innovation introduced was to vary the design of digital payments for areas with and without mobile network connectivity.** The strategic approach agreed upon was to delineate between so-called “Rural” and

“Urban” beneficiaries (defined as residing in areas with or without network connectivity and availability of PSPs). District staff are the ones that specify whether a community/village should be considered Rural or Urban in the MIS system. Rural payments, in remote areas with no network connectivity, will continue to be made through PPM civil servants, but with real-time payment tracking through an Android App with offline functionality. This strengthens the auditability, reporting, and beneficiary authentication elements of the system to better verify that the beneficiaries targeted for SCT benefits are successfully paid. Urban payments are made through digital PSPs, with beneficiaries choosing which PSP they would like to receive their funds through.<sup>94</sup>

Zambia is a good illustration of how, even with traditional delivery approaches, a safety net can still scale up and reach a large proportion of the population. Despite the absence of a social registry, the SCT was able to mount large-scale traditional field-based data collection exercises that bring on board significant numbers of additional beneficiaries within a few months. Also, while physical cash continued to be the dominant mode of payments, the implementing ministry is able to scale up payments to large numbers of additional beneficiaries through its decentralized network of district offices and community volunteers. Finally, the case of Zambia illustrates that even if systems are not strengthened before a scale-up occurs, there is often a desire to improve systems in the aftermath to manage the newly scaled-up program. This was the case in Zambia, with the improvements in MIS and digital payment systems being implemented to improve fiduciary control and reduce the risks of the scaled-up program.

### *Did delivery systems play a catalyst role in the safety net scale-ups?*

#### RELATIONSHIP BETWEEN A DECISION TO SCALE UP AND READINESS OF SYSTEMS

Firstly, it is important to reflect from the experience of the six case studies on the original question of whether the decisions to scale up were somehow contingent on delivery system readiness or if the decision to scale up was made based on other considerations and then investments were undertaken to get delivery systems ready for scaling up.

<sup>94</sup> | Hobson, Emma Wadie; Kilfoil, Craig; Martin, Andrea. 2022. Digitizing Cash Transfers to Remote Rural Populations: Challenges and Solutions from the Experience of Zambia. Social Protection & Jobs Policy & Technical Note; No. 27. World Bank, Washington, DC.

**The case studies seem to indicate that decisions to scale up were often made regardless of the readiness of delivery systems.** Ex-ante readiness does not seem to be the defining factor but rather the ability of implementing ministries to quickly activate or put in place (often new) systems that can meet beneficiary scale-up targets. For example, Zambia doubled beneficiary coverage in the last 5 years (now reaching almost 30 percent of the population) through traditional field-based survey data collection exercises. In the Philippines, despite the absence of an up-to-date social registry, the country reached four times the existing 4Ps program caseload with its COVID-19 response (the SAP). It did so by using traditional paper forms to register applicants and later a new digital pull registration app, albeit with numerous challenges being faced due to the shortcomings of these systems. Again, Pakistan reached three times the existing BISP caseload with its EEC COVID-19 response, despite the social registry not being up to date. This was done through a pull registration system through SMS, web portal and district desks to quickly identify additional beneficiaries.

**Nonetheless, registry and MIS system improvements were particularly associated with scale-up phases.** In some cases, major improvements were made to these systems to meet scale-up targets and manage the scale-up. In Senegal, the RNU was established to meet the high PNBSF 2015 scale-up target, from 50,000 to 200,000 beneficiaries, and to improve coordination among social protection programs, reduce fragmentation and address the issue of lack of resources for targeting within several programs. Egypt also established the TKP MIS at the launch of the program in 2015 to collect data on people who perceived themselves as poor and assess their eligibility for the program through the Proxy Means Test (PMT). Also, Zambia introduced an MIS to register and enroll SCT beneficiaries for the 2014 scale-up and a new web-based MIS, with a new digital registration app, during the 2021 scale-up. Even if investments did not precede the scale-ups, they were brought in to better manage the scaled-up program going forward. Without these investments in registry and MIS systems, the scale-up would still have happened, but it would have likely taken more time and may have been done in a less efficient or transparent manner.

**There is evidence that the presence of improved delivery systems created a virtuous cycle for future scale-up(s).** Improved delivery systems increased trust in the programs and helped make the case for their future financing and expansion. Egypt was a clear case of this, where the TKP's new objective poverty targeting methodology based on a PMT gave stakeholders trust, compared to previous more universal methods, which were perceived to have high inclusion errors. Also, independent assessments showing TKP's high targeting accuracy helped make the case for its further expansion (see Box 1 below). In the case of Zambia, stakeholders indicated that the investment in the new web-based MIS system integrated to

digital payment service providers was one of the key factors giving trust to the Ministry of Finance and bilateral donors, who increased their disbursements to SCT after 2021. Indeed, many official statements surrounding the scale-up of the SCT tend to mention the development of this system alongside scale-up targets.<sup>95</sup> Virtuous cycles also seem to occur when data on the poor is available, leading to the emergence of other initiatives and programs. For example, various productive inclusion and cash-plus initiatives were developed in Egypt, Brazil, the Philippines, and Senegal, targeting poor beneficiaries from the social registry. These additional programs, in turn, may bring in further technological innovations that strengthen countries delivery systems.

*Box. The role of the TKP MIS and the PMT in increasing trust in the program*

Prior to 2015, Egypt's response to poverty had traditionally relied on energy and food subsidies, which are not well targeted to the poor, and entail a huge fiscal burden on the country. The limited social welfare support provided to the elderly, disabled and others mainly relied on more subjective assessments of vulnerability by social welfare officers. Although a Unified National Registry had been launched in 2012, the data available was not able to accurately assess poverty levels.

Economic and political challenges in 2014/15 required government to re-think its approach to social assistance, in favor of poverty targeting, as financial resources were no longer sufficient for universal subsidies. With the support of the World Bank and leading Egyptian poverty researchers, the government designed a new TKP safety net program along with a new poverty-targeting methodology based on PMT. The PMT was applied to the TKP MIS, the database

of households who perceived themselves as poor and had applied to be considered for the program, which encompassed over 36 million individuals (33 percent of the population) in 2023.

KIIs indicated that this more "scientific" way of targeting and reaching the poor had given stakeholders trust in the program. Stakeholders understood that TKP would not be a replication of the previous social assistance measures in Egypt which were widely perceived to have high inclusion errors. Evidence from subsequent impact evaluations also showed that targeting accuracy was high in the TKP. Analysis from IFPRI's impact evaluation of the TKP in 2019/2020 revealed that 87 percent of TKP beneficiaries were among the poorest 40 percent. TKP has since become an integral part of the government's national budget and has expanded ten-fold, resulting in an annual budget of over US\$1 billion equivalent in 2021/22.

<sup>95</sup> | For example, see <https://www.mcdss.gov.zm/?p=5801>

## WHICH DELIVERY SYSTEM ASPECTS WERE THE MOST CRITICAL TO THE SCALE-UPS?

Six critical aspects emerged from the case studies as being critical to successful safety net scale-ups:

### The availability of data on potential beneficiaries to enable rapid targeting

**Most countries did not yet have a social registry at the time the safety nets were launched; therefore survey-based data collection was critical for initial targeting or first scale-ups.** All programs in the six case study countries rely on a PMT as a key stage in the selection of beneficiaries to be on the program, alongside other steps such as community validation, or cross-checking against other databases. Therefore, field-based survey data collection was critical in all the cases for assessing households' socio-economic conditions and being able to apply the PMT and select beneficiaries into the program. For instance, Zambia has managed to scale up several times, currently reaching almost 30 percent of the population, without a social registry and relying on field-based data collection exercises, followed by the application of the PMT and community validation.

**Several countries utilized data collected in the initial years to establish social registries and then expanded the registry over time and used it for further scale-ups.** Egypt and Senegal are very clear examples, where the TKP MIS and the RNU were initially established with beneficiaries of the TKP and the PNBSF programs, respectively. They then scaled up data collection over time and the registry became larger than the program caseload and was able to target additional beneficiaries in future scale-ups or for other programs.

**Having a registry that is larger than the program caseload was important to most scale-up phases after the initial years.** The presence of such a registry enabled every stage of scale-up beyond the initial years in Egypt, Senegal, Brazil, Pakistan and the non-covid scale-up in the Philippines (2009-2014). Zambia is therefore the exception where there is only an MIS with beneficiary data that is almost equal to the caseload. Egypt used the data in the TKP MIS at the launch of the program and in every scale-up, based on people who had identified themselves as poor but had not yet been previously selected (due to budgetary constraints). Senegal used the data in the RNU for every scale-up from 2015 onwards. Brazil used the data in the Cadastro Único for every scale-up since 2004 (for PBF, AE, AB and PBF again). Pakistan also used the NSER for every scale-up after 2011. Even during the Covid-19 EEC, when the NSER was outdated, it was still used for validating beneficiaries who had applied on the SMS platform or web portal, with an expanded PMT threshold. Finally, the Philippines also used Listhaanan for every scale up except the COVID-19 SAP response, albeit the data being increasingly outdated.

**In addition, countries that had such an up-to-date registry, larger than the program caseload, when the Covid-19 emergency hit, were able to rapidly use it to scale-up.** In Senegal, the government was able to reach all 580,000 people registered in the RNU with emergency transfers within 2 months. This can be attributed to the up-to-date data within the registry (updated most recently in 2019) including the phone numbers of beneficiaries, which were critical to their rapid bulk registration to receive mobile money. Also, Egypt was able to rapidly expand the TKP to additional households in response to COVID-19 and the food price inflation crisis, by targeting households who were assessed as poor in the TKP MIS but had not yet been included in the program caseload. Finally, the Brazil AE program during the COVID-19 pandemic relied on the Cadastro Único for targeting beneficiaries (PBF beneficiaries as well as unregistered workers or those with no active formal employment) in addition to implementing a new digital pull registration mobile app.

### Rapid pull registration mechanisms in emergencies

A lesson learnt from the major social assistance scale-up in response to the COVID-19 pandemic is how to put in place rapid pull registration systems to identify additional households affected by an emergency. Especially in countries with outdated data in the registry, fast technological innovations were key to scaling up the program to include new beneficiaries, albeit with reported challenges.

**Out of the six cases, Pakistan arguably had the most successful and innovative pull registration.** Given the outdated data in the NSER from 2011, as a data update was ongoing when the pandemic started, demand-based pull registration systems were put in place via SMS, web portal and application at district offices. These channels were successful at identifying over 11 million households, or the so-called “new poor,” on top of the 5 million BISP beneficiaries that were automatically included. The SMS platform was particularly innovative. Public announcements through media and community channels alerted those affected to seek support by texting their I.D. number to the registration platform. To facilitate those without a phone, multiple text messages could be sent from one cellphone by anyone intending to assist those in need. Beneficiaries' poverty status was validated against NSER data, and they were provided support if their PMT scores fell within an increased scoring band, to cater for people who may not have been poor but were expected to have been pushed into poverty by the emergency. In addition, a robust mechanism for cross-checking data to exclude the better-off was also developed and implemented (see point 3 below). These mechanisms have now been subsumed within the regular BISP and are being used for the pre-registration of Kafalaat.

**The challenges encountered with the Philippines and Brazil's pull registration mechanisms provide lessons learnt for future efforts.** Again, in the Philippines, the lack of confidence in the “Listhanan 2” data update led the government to put in place a pull registration system to identify people eligible for the SAP. This did succeed in reaching 13 million additional people on top of the 4 million 4Ps beneficiaries that were automatically included. Major challenges were, however, experienced due to the use of a paper-based form and later with a mobile app that had some shortcomings. This led to self-reported data being used to select beneficiaries that could not be verified or cross-checked against any database. The use of these systems was therefore discontinued after the pandemic. Brazil targeted AE beneficiaries from existing data in the Cadastro Único, but in an effort to reach out to more people, the government also introduced a digital registration app where people could apply to be included. 38 million people were selected for support through this method, which was a massive feat. There were major criticisms, however, that this method excluded vulnerable populations with no access to the Internet. Also, stakeholders criticized the Federal Government for not involving the well-established municipal social assistance network, which could have provided an alternative channel for reaching out to the most vulnerable locally. Currently, the app does remain in use for pre-registration by the PBF but the list of beneficiaries targeted for the AE (the so-called Extra Cad) was never integrated into the long-term program given these challenges and criticisms.

### **Validation of data on potential beneficiaries through interoperability and cross-checking against other databases**

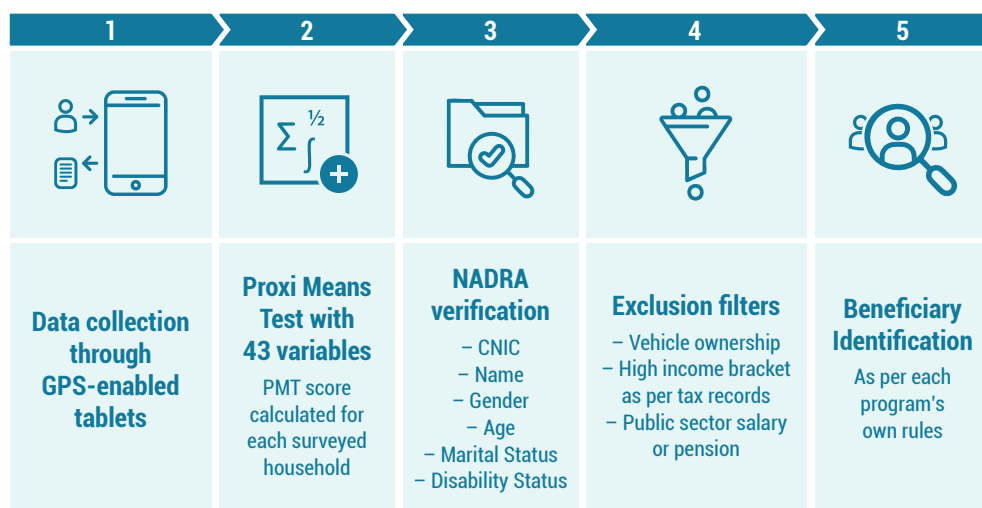
**Interoperability with other registries for validation of data on potential beneficiaries was important to the rapid targeting of beneficiaries, particularly in emergencies such as the Covid-19 pandemic.** In Egypt, TKP data on eligible beneficiaries was validated against the Universal National Registry (UNR) to exclude the better off, using the national digital ID, given that the UNR is interoperable with 114 databases. In Brazil, systematic cross-checks were implemented between the Cadastro Único and other administrative registries from the federal government through a robust technological system managed by the government-run entity Dataprev. Also, in Pakistan, potentially eligible beneficiary lists were shared with the National ID Authority (NADRA) to triangulate against other databases such as the Federal Bureau of Revenue to exclude the better off based on wealth proxies (see Box 2).

*Box. Pakistan’s mechanism for excluding the better off through interoperability and cross-checking against other databases*

For the EEC response, a mechanism was developed with NADRA to cross-check potential applicants’ data against other databases and ensure better-off individuals are not included. The exclusion criteria proxied financial wealth validated by the Household Income and Expenditure Data (Pakistan Bureau of Statistics 2017), showing that international travel, ownership of a car, and a 6-monthly average phone bill above PKR 1000 (US\$ 6.2) implied minimal risk of excluding beneficiaries in the poorest two quintiles. This was in line with best practice emergency targeting, to minimize the risk of exclusion. Verifications were performed on several databases. The individual’s spouse data were checked for validity. The Sanitization & Profiling data repository was used to filter fraudulent individuals, identified over time in the social protection

ecosystem. Taxpayers were identified from the Federal Bureau of Revenue’s database and Government employees were identified from their payrolls; both categories were excluded. Information tied to unique CNICs (national I.D) relating to travel, billing and ownership of cars was also used for exclusion.

CNICs were used to acquire data from NADRA, which was then triangulated with other databases (e.g., the Federal Bureau of Revenue’s database). See the figure below for a process flow of how this verification was conducted. A similar response was implemented during the deadly floods in Pakistan in 2022. However, for the flood response, the availability of up-to-date data coupled with flexibility in delivery systems allowed a relatively swift response to the shock.



Source: “Building Dynamic and Interoperable Delivery Systems as a Platform to Enhance HD Service Delivery,” session during World Bank’s HD week. (Cho et al., 2023).

**Dynamic rather than static Social Registries**

The case studies demonstrated what can be achieved with a dynamic social registry. Egypt arguably has best practices where beneficiaries can apply at any time to be considered for inclusion in the program and the PMT assessment is undertaken on a rolling basis. This enables new people to apply and their eligibility to be assessed continuously and means

the data is being continuously updated. Enrollment onto the program then happens in batches when the government has the financing to increase the caseload. TKP also implements recertification every 3 years in batches albeit with some backlog. This is where the PMT survey is reapplied to assess the up-to-date socio-economic situation of the household.

**Brazil also has a best practice approach with dynamic data collection and entry and exit into the program.** The program relies on a complex decentralized system for beneficiary data collection. The Federal Government introduced specific incentives for municipalities to improve the quality of data in the Cadastro Único. These incentives were eventually turned into a performance-based transfer to co-finance activities conducted by local administrations. The Index of Decentralized Management (IGD) is both a measure of the performance of local administrations and a weight that regulates the increase or decrease of these transfers. The IGD allows Federal Government co-financing to be earmarked for states and municipalities, and thus to partially reimburse the costs involved in running the PBF and the Cadastro Único. The higher the value of the IGD, the greater the amount of funds eligible for transfer.<sup>96</sup> There is an onus on beneficiaries to play an active role through “voluntary disengagement” when family per capita incomes exceed the poverty line over a sustained period. PBF managers and SUAS officials are responsible to update household information every two years or whenever families undergo significant sociodemographic changes.<sup>97</sup> Currently, the beneficiary list is updated monthly, so every month families are in and out of the program, making the registry dynamic.<sup>98</sup>

**Pakistan has also started to encourage more periodic data collection and recertification so that the social registry can be updated without having to carryout door-to-door surveys in the future.** This is through (i) allowing people to register if missed by the door-to-door survey (which was recently completed in 2022, consisting of over 35 million households); (ii) regularly updating the roster based on the NADRA database including completing missing/invalid CNIC;<sup>99</sup> (iii) giving the option to non-beneficiaries to provide data at designated centers to update their socio-economic status every two years;<sup>100</sup> (iv) performing a Shock Responsive update for all kinds of disasters;<sup>101</sup> and v) recertifying or reassessing existing beneficiaries every three years. All these steps help make the registry more dynamic. After

<sup>96</sup> | Compton, M. E. and Hart, P. (2019), Great Policy Successes.

<sup>97</sup> | Please note, this is from Pedro Arruda's draft. Consult the author before sharing.

<sup>98</sup> | [https://www.caixa.gov.br/programas-sociais/auxilio-brasil/perguntas-frequentes/Paginas/default.aspx?\\_x\\_tr\\_sl=pt&\\_x\\_tr\\_tl=it&\\_x\\_tr\\_hl=it&\\_x\\_tr\\_pto=sc](https://www.caixa.gov.br/programas-sociais/auxilio-brasil/perguntas-frequentes/Paginas/default.aspx?_x_tr_sl=pt&_x_tr_tl=it&_x_tr_hl=it&_x_tr_pto=sc)

<sup>99</sup> | And also updating other info such as Birth Registration, Death Registration, Martial Status Update, Gender Update, and Disability Update. Linking to NADRA database and re-calculating the PMT.

<sup>100</sup> | Once initiated this process will take one year to finish.

<sup>101</sup> | NDMA/PDMA will notify the eligible areas and through dynamic desks, NSER will perform resurvey and then recalculate PMT.

collecting updated data from these steps, the registry will be updated once in every four years without carrying out massive door-to-door data collection drives. This will be through features such as Eligibility Appeals, Volunteer Opt-out, Whistle Blower Policies (Akbar, 2023)<sup>102</sup>.

**But some countries are struggling to practically exit beneficiaries from the program to allow room for the program to scale up to other people.** Zambia, Senegal and the Philippines have policy provisions for recertification and replacement of beneficiaries (every 3-4 years) but had not practically implemented them as of 2023. Zambia SCT had scaled up to almost 30 percent of the population, and it was known that some households no longer met the targeting criteria since a majority of them came into the program in 2014 and 2017. Their situation may have changed, affecting their eligibility, particularly for women-headed and child-headed households. Also, in Senegal's relatively updated registry, 50,000 beneficiaries were identified as being no longer poor. However, they were not exited. Finally, as previously mentioned, the Philippines 4Ps caseload still relied on beneficiary data from 2011 and therefore beneficiaries were not being reassessed as to whether they continue to meet the targeting criteria. KIs indicate that in some countries this is for political reasons, where the government of the day does not wish to be seen as the administration/ party that has removed thousands of people off the program.

#### Box. *Towards a more dynamic social registry in Senegal*

A system of regular updates, or "re-validation", to the RNU has been put in place, with a complaints management system to manage inclusion and exclusion errors. Two types of updates have been put in place: i) continuous updating of changes in the identification of household members and their location (via the complaints and claims system or via information collected by social programs) and ii) full and complete updating of changes in the economic conditions that determine the eligibility of households as poor, which is done every 4 years. For the former method, the updating of the data is done in a continuous way, but the sending of the data to the programs occurs every 2 to 3 months.

On the other hand, for the full and complete updating, the RNU is updated every four years to maintain the accuracy of the data and ensure its relevance for targeting households for social programs.

The updating of the registry every 4 years is accomplished through two stages: (i) the organization of local assemblies across the country to update the list of potential beneficiaries based on community consultations; and (ii) the implementation of a national survey conducted by ANSD to collect essential socio-economic and demographic information used by social programs for targeting purposes<sup>103</sup>

<sup>102</sup> | Only on sample basis, door-to-door activity will be carried out to create deterrence.

<sup>103</sup> | Le Ministère du Développement Communautaire, de la solidarité nationale, de l'Équité Sociale et Territoriale (2022). *Projet d'Appui à la Protection Sociale Adaptive. Manuel d'Execution.*

The last time the RNU was updated was in 2019. In 2018, the RNU started the process of updating its information, starting in four regions, and aiming for a total update of the remaining 10 regions by 2019. Based on this update of the RNU, 50,000 households from PNBSF are no longer considered poor by the targeting committees of the RNU. However, they have not yet been exited.

### Wide outreach to potentially eligible people

**Massive outreach and registration mechanisms were critical to the launch and expansion of most programs.** This was either through (i) outreach directly by the program, or (ii) outreach by the social registry and then the program targets administratively from the registry. Examples of the former include Egypt, where at the launch of TKP, there was a massive outreach campaign through TV, radio and other media outlets at national and local levels, social units, mosques, churches, etc. Also, outreach measures have continued to be implemented regularly for people to apply at any time to be considered for inclusion. Another example is Pakistan, where the first BISP census involved a national media campaign outlining the features of the program on radio, television and in the print media, and informing the recipient audience that a census was going to be held. Also, in Zambia, for every SCT scale-up the dominant outreach modality to potentially eligible people has been in-person community sensitization, with radio, TV, posters and public announcers also having been added over time.

Examples of the latter approach of outreach through the social registry include Brazil, which disseminates information widely through television, media, and several mobile and web-based applications, in addition to face-to-face tailored activities for people to register into the Cadastro Unico. Also, in Senegal every year the registry has been expanded, there has been wide outreach through face-to-face implementing ministry line structures, website, and the production of brochures and press kits.

### A decentralized network of staff to support outreach and registration

**Decentralized systems for outreach and registration were pivotal enablers in all cases.** Delivering a national safety net countrywide inevitably involves an army of decentralized social workers, and often volunteers or NGO/CSO partners as well that can support beneficiaries. Having such a structure in place was also critical to mounting a rapid scale. In Zambia, an existing network of over 5,000 community social welfare assistance committees (CWACs) volunteers have been critical in the outreach and registration of beneficiaries in all scale-ups alongside district social welfare staff. In Egypt, a network of 2,600 social units at the village level was critical to the launch and scale-ups of the TKP. Social worker staffing levels were also

dramatically increased during recent scale-ups to undertake household survey PMT assessments and achieve scale-up targets.

Even when the government does not have such an existing line structure, it is possible to create it through partnerships with other institutions. In Senegal, the government contracted NGOs to support local implementation and NGO field workers (Social Operators) were critical in outreach and enrolment (as well as in supporting payments, grievance redress and monitoring). This was particularly important during the Covid-19 exceptional cash transfer to reach all 580,000 households in the social registry and update their phone numbers for digital payment enrolment, etc.

### OTHER DELIVERY SYSTEMS THAT WERE IMPROVED GRADUALLY

**Generally, payment system improvements were not directly associated with scale-up phases and happened gradually.** The rationale for improvements to payment systems was more related to the desire for greater transparency, fiduciary control, financial inclusion, and efficiency. For example, Egypt's introduction of the digital ATM (Meeza) card in 2021, instead of the previous reliance on the post office, was mainly motivated by a desire for financial inclusion of the beneficiaries. It was part of the government's E-finance investment strategy for all Government to Person payments. Zambia also introduced digital payments through six banks and mobile network operators in 2022, instead of previous reliance only on physical cash through civil servants, in order to increase safety and fiduciary control. The Philippines also transitioned to digital transaction accounts for beneficiaries in 2021, instead of the previous options of cash and cash card, to increase the financial inclusion of beneficiaries and enable them to use transfers to transact digitally. Pakistan experimented over the years with different payment mechanisms, to reduce leakages and increase fiduciary control, before settling on a biometric verification system from 2017.

The exception was perhaps the Covid-19 scale-up in several countries which led to digital payment innovations to rapidly reach beneficiaries, even in countries with no history of digital payments. The rapid bulk registration of unbanked beneficiaries into digital transaction accounts was done in several countries including the Philippines, Brazil, and Senegal. These experiences are critical to learn lessons from, given the major potential that pull registration and bulk enrollment for digital payments has for emergency response or any other rapid scale-up.

*Box. Bulk registration of AE beneficiaries for digital payment in Brazil*

The AE Covid-19 response in Brazil reached over 68 million people or 32 percent of the population in its largest phase (AE1). This not only necessitated fast pull registration to allow for applications from people that had not previously been registered in the social registry, but also fast enrollment of beneficiaries to receive their payments in a safe and convenient way during a pandemic.

Except for beneficiaries from the PBF, whose payment routine was changed gradually and sparingly to avoid confusion, the other AE beneficiaries had a new digital bank account opened for them. Like the PBF and other traditional Brazilian social assistance programs, the AE payment operation

was centralized by the Caixa Econômica Federal (the state-owned Federal Savings Bank). The new Digital Social Savings (PSD), bank account could be accessed virtually via the app (Caixa Tem).

These bank accounts were created automatically and mandatorily upon beneficiary enrolment on the AE. This bulk opening of accounts resulted in the banking of approximately 9 million beneficiaries of the PBF who, until then, had received their benefits via the Social Card. Whilst the PSD was launched to enable the payment of the AE, it quickly served other emergency programs. As a result, between April and December 2020, PSD reached more than one hundred million customers, 34 million of whom had never banked before.<sup>104</sup>

**GRM systems also generally evolved gradually over time.** GRMs in all programs had limited channels when the programs were launched, and overtime adopted multiple channels. Zambia today has a face-to-face community focal person, complaint boxes, and a telephone hotline as channels for beneficiaries to provide feedback on the program and get help. Egypt has a face-to-face option, complaint boxes, email, Facebook, and an internet portal. Brazil has a hotline, email, letters, municipal committees and a public audit network. The Philippines has a face-to-face channel through government officials or independent NGO monitoring teams, complaint boxes, faxes, emails, text messages, calls to a national hotline, Facebook, and Twitter. Pakistan utilizes a face-to-face channel through BISP offices, telephone hotline, post and email. Finally, Senegal has a face-to-face option and a hotline. Digitization has increased overtime, with all programs currently recording GRM complaints in a GRM module in the MIS.

**Only Brazil seems to have made GRM innovations specifically associated with a major scale-up phase.** During the COVID-19 pandemic, Brazil increased their remote grievance channels through 121 toll-free phone line, mail, an electronic form, social media (e.g., Facebook, Instagram, Twitter,

<sup>104</sup> | WWP (2017). BFP Payment System: The Social Card of the Program. Available at: <https://wwp.org.br/wp-content/uploads/23.-BFP-Payment-System-The-Social-Card-of-the-Program.pdf>

Telegram and LinkedIn) and an App. Through the website, citizens could follow the processing of their complaints.

### Box. *Zambia's multi-channel GBV responsive GRM*

Prior to 2021, SCT's main grievance channel was to simply encourage beneficiaries to approach DSWOs and CWAC members for support if they had any problems. After a long design and piloting phase over a number of years, a big push to operationalize and roll out the GRM was undertaken in 2021, with the World Bank's technical assistance.

The GRM is currently functional across all 116 districts of Zambia and includes multiple channels through which beneficiaries can raise complaints, namely: (i) complaints boxes, (ii) a trusted female community-based Focal Person, (iii) A national hotline, called Lifeline-Childline, specifically experienced at handling child abuse and Gender Based Violence (GBV) issues and providing case management support.

The GRM has also been digitized, with complaints regularly recorded and monitored through a GRM module that forms part of the MIS. Complaints are responded to through letters, phone calls and/or in-person communication.

The rollout across the 116 districts built on lessons learnt from several GRM pilots undertaken, which tested the use of complaint boxes, paper forms, and a mobile application. It was found that the majority of grievances were from non-beneficiaries in relation to their exclusion

as well as payment delay grievances from beneficiaries. The majority of grievances were received through complaint boxes and forms while only a handful were received through the mobile application. A face-to-face community-based focal person was developed as a channel to provide opportunities for beneficiaries to share their grievances with someone trusted and not directly related to the administration of the program (like the DSWOs). The addition of the GBV-focused hotline was in response to the high levels of GBV in the rural Zambian context and the desire to offer professional support to any affected beneficiary or community member. The GRM also includes a GBV referral pathway that is survivor centered and respects the principles of confidentiality to enable communities to access safe referral services locally.

Challenges were encountered in ensuring complaints are entered into the MIS given the high volume of feedback coming in from beneficiaries through the multiple channels. However, this was alleviated once a decision was taken not to register exclusion complaints into the MIS. Instead, those complainants were provided with a standard response or letter explaining the targeting criteria of the program and that they may be considered in the next scale-up of the program, subject to budget constraints.<sup>105</sup>

<sup>105</sup> | World Bank. Scaling-up Shock Responsive Social Protection (SSRSP) Project Appraisal Document. Report No: PAD5062. June 2022.

## ENABLING FACTORS IN THE EXTERNAL ECO-SYSTEM

**Advances in technology are underlying all these innovations and improvements in delivery systems that enabled the scale-ups.** For example, advances in mobile technology and app development made it possible to develop successful registration apps across most countries analyzed. Advances in digitized data collection have been critical to the development of social registries, compared to the previous reliance on paper-based forms. Apps with both online as well as offline functionality are particularly important in low-income contexts. Developments in the wider mobile money and digital banking ecosystem were also critical for the transition to digital payments. The increase in mobile network connectivity was a key enabler for the transition to mobile money and digital payments for beneficiaries.

**Government investments in building IT capacities within their ministries was also very important, with support from development partners.** For example, qualified IT staff as well as imbedded consultants, supported through development partners, within the Ministry of Social Solidarity in Egypt were able to design the TKP MIS, which has been critical to the TKPs capacity to scale up. In Zambia, the SCT MIS was also developed by consultants supported by the World Bank and UNICEF, including those imbedded in the ministry. Finding a way to institutionalize these high caliber IT capacities, particularly for software coding, within government agencies remains a major challenge and constraint for the sustainability of delivery system investments. Unfortunately, at least in low-income countries, government salaries tend to be unattractive to IT personnel with software coding skills and too often systems fall into disuse because government staff are not able to maintain the source code and undertake necessary fixes. In the absence of further investment in the institutionalization of high-quality IT capacities within government agencies, this may threaten the sustainability of the delivery systems put in place.

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# HOW SCALE-UP HAPPENS

