

THINK DEVELOPMENT – THINK WIDER

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FINANCING THE ZAMBIA SOCIAL CASH TRANSFER SCALE – UP – A TAX
– BENEFIT MICRO – SIMULATION ANALYSIS BASED ON MICROZAMOD

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Motivation

- 2006 – 2015 Zambia's GDP growth averaged 6.4%
- Despite this favourable growth, poverty has only marginally declined while inequality has increased.
- 2015 LCMS shows that 54.4% of the population was living below the national poverty line with 76.6% in rural areas and 23.4% in urban areas.
- Survey also shows that:
 - Extreme poverty was 40.8%;
 - With 60.8% in rural areas and 12.8% in urban areas; and
 - Level of income inequality estimated by the Gini Coefficient was very high at 0.69 (0.60 for rural areas and 0.61 for urban areas).
- The poor remain vulnerable, facing challenges including food insecurity and inadequate access to basic services such as education, safe drinking water and healthcare.
- Therefore social protection interventions remain key
- SCTs have been known to reduce **poverty, hunger, income inequality and** promote **inclusive growth**

Why Social Cash Transfers in Zambia

- The SCT Programme has been implemented in Zambia since 2003
- SCT is one of the components of Zambia's social protection interventions
- bimonthly grants- HHs without PWD ZMW90 and ZMW180 for HHs with PWDs
- It aims at reducing extreme poverty and the inter-generational transfer of poverty
- The programme targets vulnerable but not viable households who include;
 - i. persons with severe disability
 - ii. elderly (65+)
 - iii. Chronically ill on Palliative Care
 - iv. Female Headed Households with 3 + children (19 – 64 yrs) and
 - v. Child Headed Households.

From literature

- previous Impact Evaluation

SCT Reduces Poverty...

*There is a reduction in the **Poverty Gap** among recipient HHs compared to non-recipient HHs (10 pp)*

SCT Reduces Extreme Poverty...

*Extreme poverty among SCT recipient households reduced by **5.4 PP***

21% Increase in Livestock owned by beneficiary Households

18% increase in land operated



283 Kwacha increase in the value of a harvest



8% increase in maize produced



Other benefits seen include:

- improved food security, e.g. **19pp increase in the number of HHs eating more than one meal a day.**
- Improvements also seen in living conditions, e.g. **26pp increase in the number of HHs purchasing lighting accessories.**
- There is also a marked increase in the **number of children attending primary school.**



Micro-simulation Model

- Test the realism of alternative SCT reform options in the simulations using Micro-ZAMOD
- Tax –benefit micro-simulation static model for Zambia Based on the EUROMOD
- Developed by ZIPAR with support from SASPRI and UN-WIDER as part of the SOUTHMOD initiative
- Data is from the 2015 LCMS

Impact of the Current SCT Model on Poverty

On overall population; using Micro-ZAMOD and 2015 LCMS

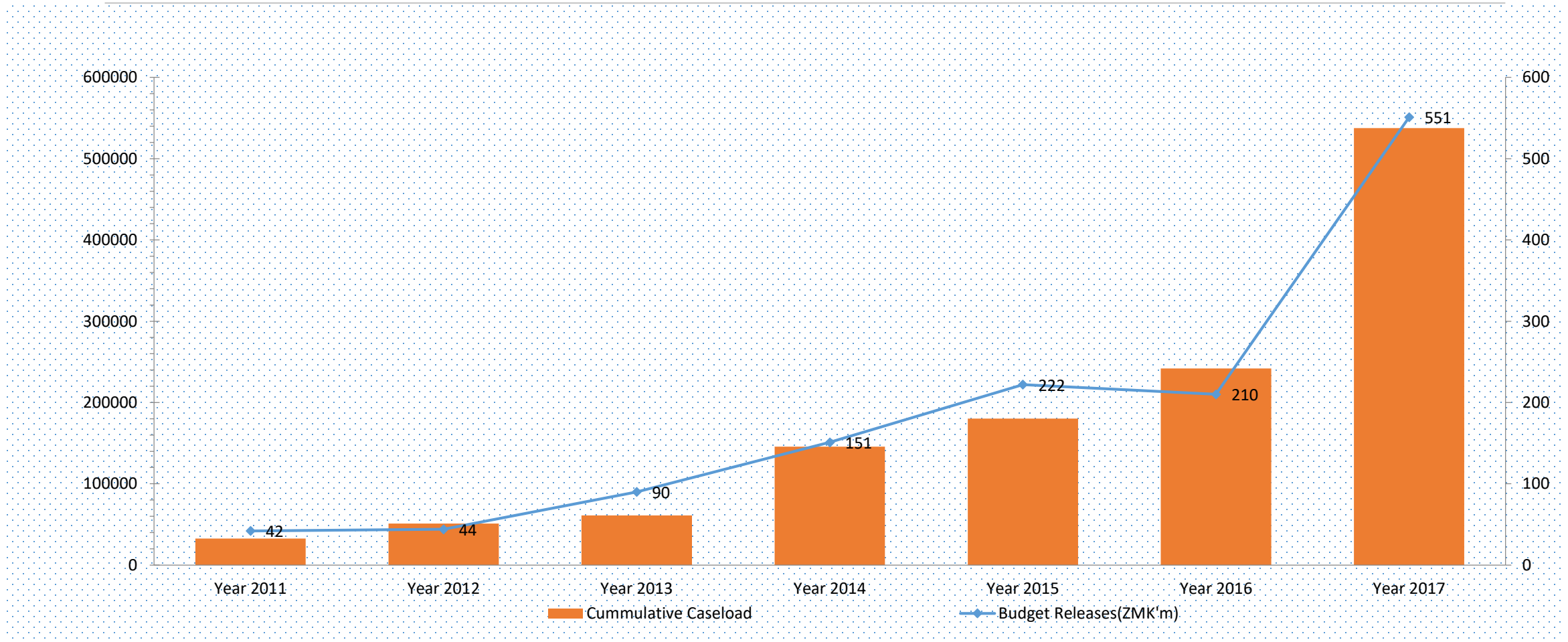
Impact of the current SCT (once fully scaled up) on extreme poverty is minimal (1.56 percentage points)

Effect is concentrated in households with older persons and female headed

Simulated cost of the SCT is ZMK977m Zambian Kwacha (more than the 2018 budget estimated at ZMK721m)

	No - SCT	SCT	Difference
Share of poor population, in %:			
Poverty headcount (all)	41.83	40.28	-1.56
Poor households out of ...			
... male headed households	41.29	40.32	-0.98
... female headed households	44.06	40.11	-3.95
... households with children	43.14	41.69	-1.45
... households with older persons	50.41	44.96	-5.44
Poverty gap	18.18	16.57	-1.60
Gini (household income)	0.55	0.54	-0.01

Cumulative Caseload Vs Budgetary Releases



Government Commitment

- Strong commitment to scale up SCT – beneficiaries in excess of 530,000 in 2017
- Yet the government allocation to social assistance remains low (in the region of 0.7% of GDP) compared to the regional average.
- 7NDP commits to reduce (poverty and) extreme poverty by 20% by 2021 (from 40.8% in 2015 to 32.6% in 2021, approximately 8 percentage points). 7NDP commits to increase:
 - coverage of social assistance from 40% to 70% of the poor;
 - average value of per-capita social assistance benefits as a percentage of the poverty line from 6.5% to 20%;
 - Increase proportion of gross domestic product (GDP) allocated to basic social protection programmes from 0.7% to 1.7%.
- It would be desirable that a flagship programme such as the SCT would contribute approximately half of this expected poverty reduction target (approximately 4 percentage points)

Alternative SCT Reform Options

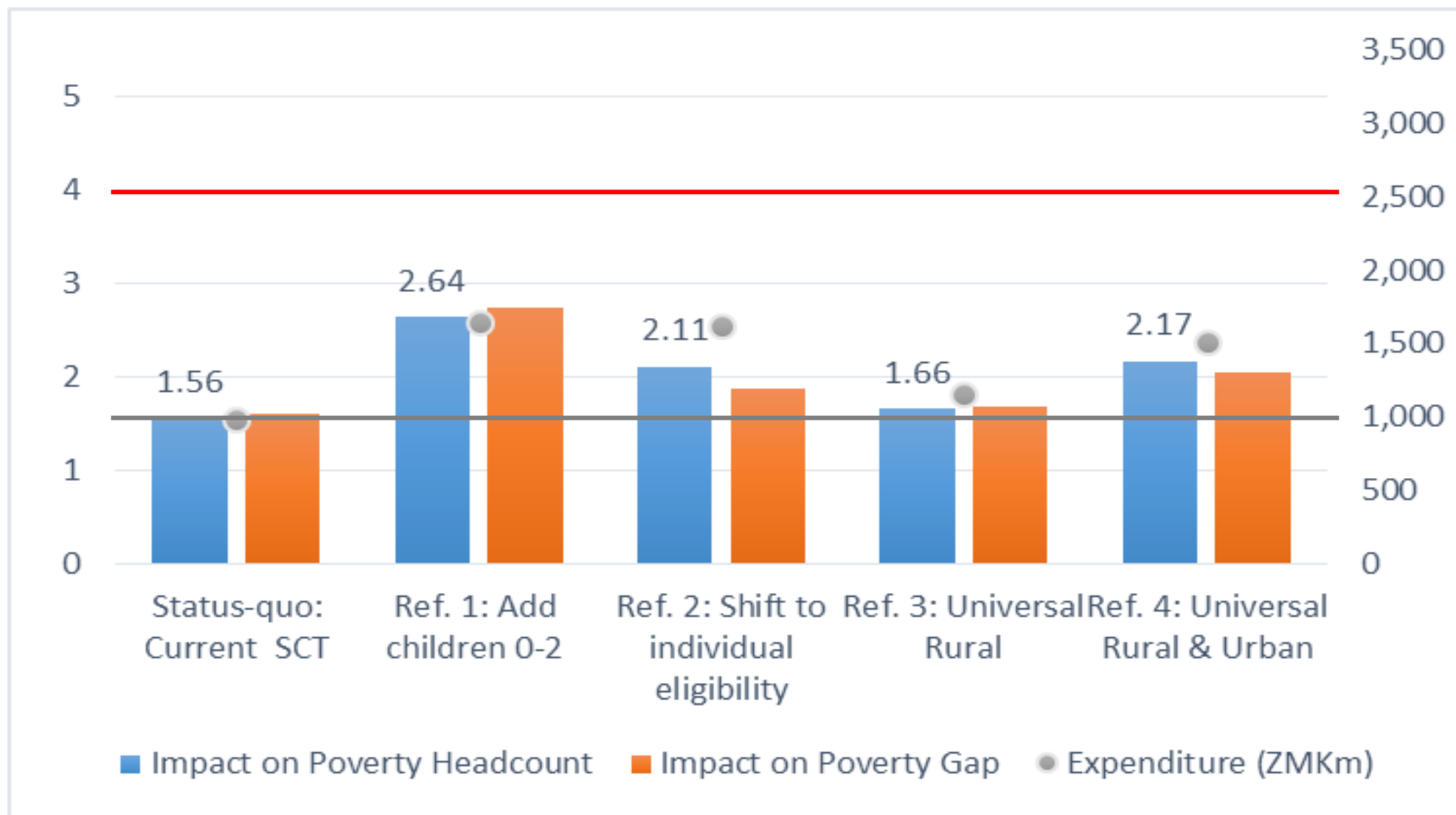
Change the targeting approach -> Extend Coverage

- Scenario 1. Include children aged 0-2 yrs (so to cover 1000 most critical days for child development)
- Scenario 2. Revise eligibility from household to individual level (old age grant, disability grant)
- Scenario 3. Remove means test and residency test. Universal coverage in rural areas
- Scenario 4. Remove means test and residency test. Universal coverage in rural and urban areas

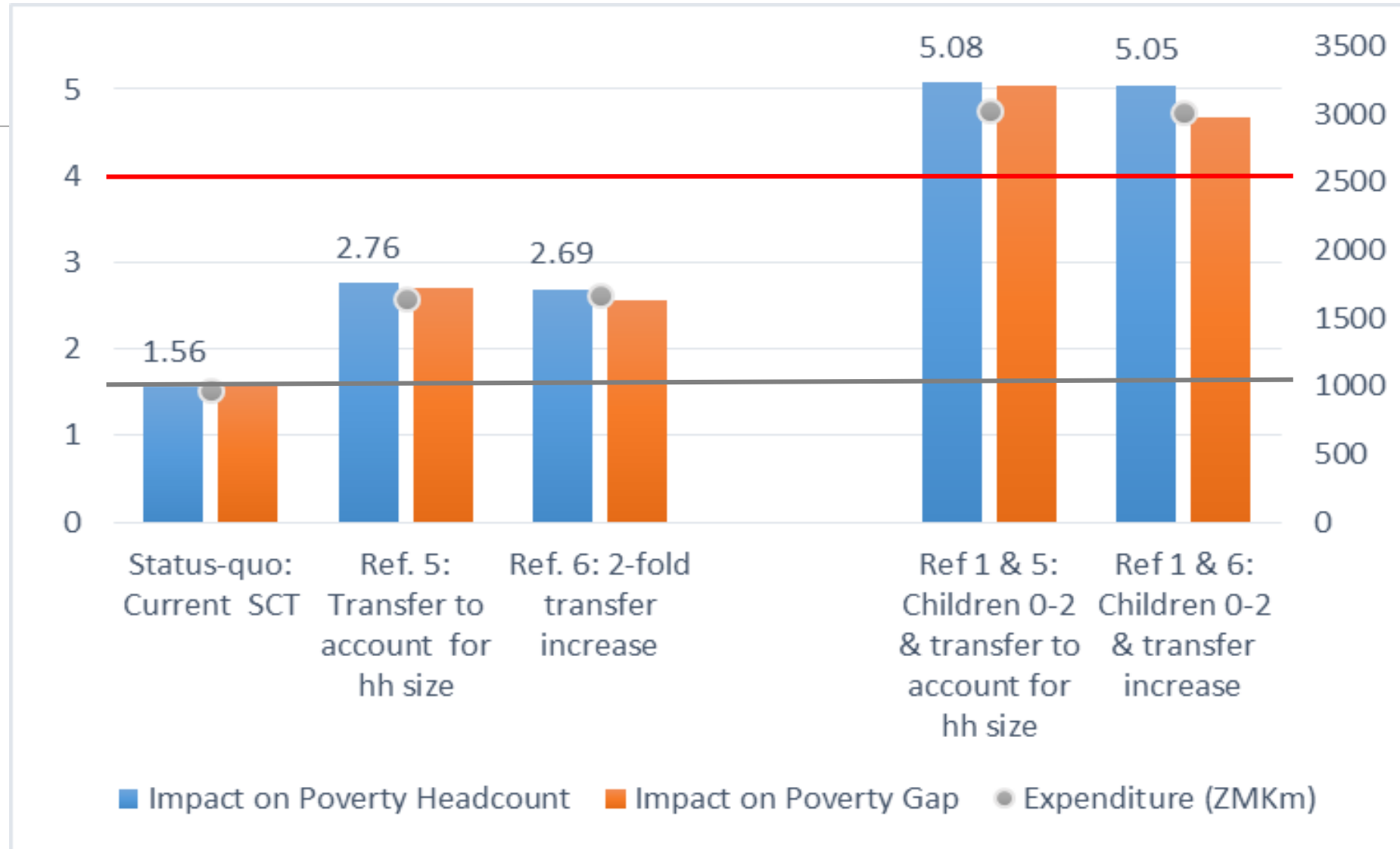
Change the transfer levels -> Improve Adequacy

- Scenario 5. Account for household size in determination of transfer levels (1-2 members 90 ZMK; 3-5 members 150 ZMK; 6+ members 225 ZMK)
- Scenario 6. Increase transfer levels (double the amount, 180 ZMK)

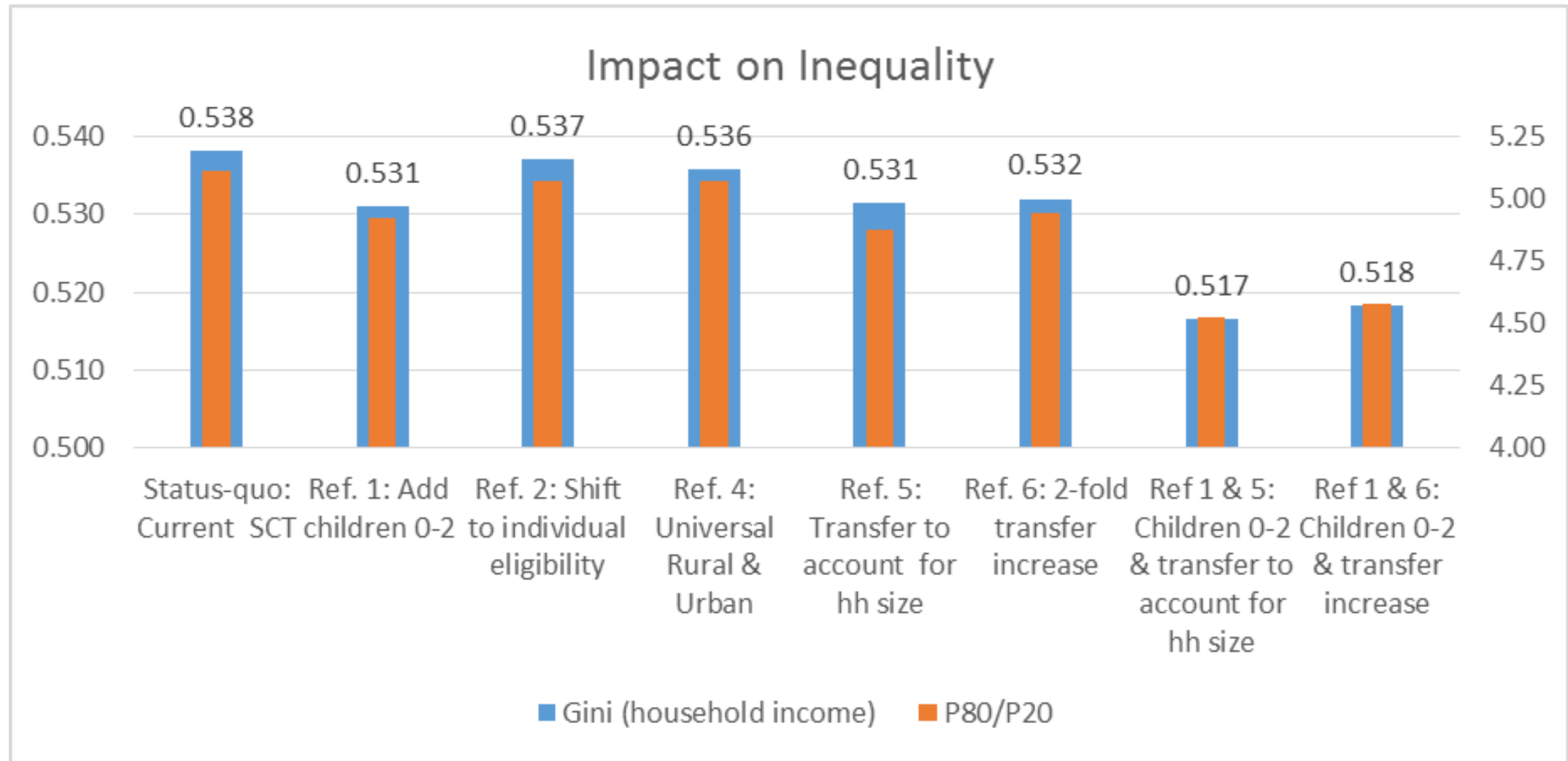
Impact on Extreme Poverty – Alternative targeting approaches



Impact on Extreme Poverty – Alternative transfer levels



Impact on Inequality

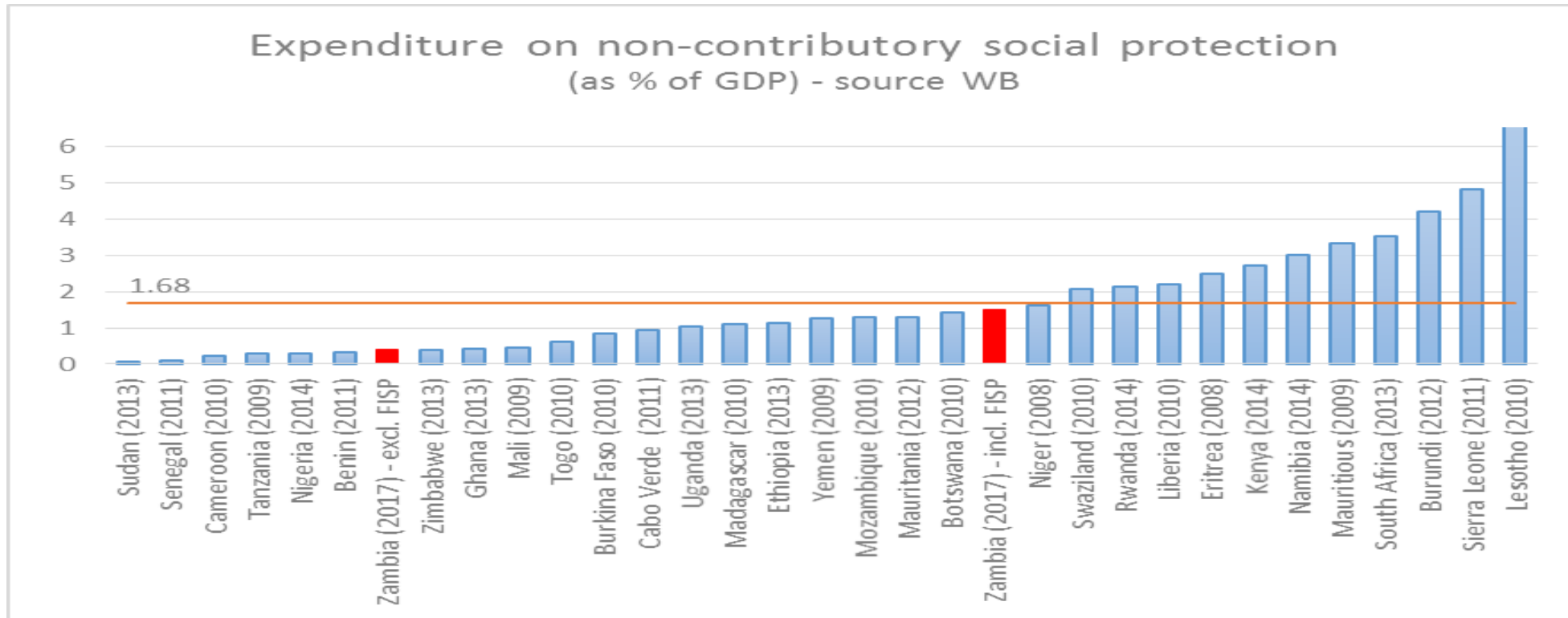


Findings

- The SCT makes a significant contribution to extreme poverty reduction. In absence of the programme nation-wide extreme poverty would be 1.6 percentage points higher
- A more significant contribution to reducing extreme poverty (in line with 7NDP targets, e.g. 10% reduction vis a vis an overall target of 20%) would require further reforms of the SCT, with a combination of
 - further extension of coverage
 - increase in transfer levels
- Increasing transfer size is critical to attain meaningful reduction of extreme poverty
- Increasing transfer size more for larger households has higher impact on poverty and on poverty gap (compared to increasing the current flat transfer schedule)
- The overall impact on inequality of the SCT would remain very limited

Would this be affordable?

- MicroZAMOD simulations indicate that this would require an increase in public expenditure on the SCT from approximately 1billion to approximately 3billion ZMK (excluding admin costs)
- Current expenditure on Social Assistance programmes (excl. agriculture subsidies) is lower than regional average
- 3billion ZMK would correspond to approximately 1.15% of GDP (in 2017), roughly equivalent to Government expenditure on FISP






Exploring Financing Options

- Estimated financing gap of ZMK **2 billion**
- Simulate a package of tax reforms
 - Increase in general VAT rate from 16% to 18%
 - Introduction of a “sin” VAT rate of 30% on alcohol, tobacco
 - Increase on excise duties on alcohol, tobacco
 - Revision of income tax higher marginal rate from 37.5% to 40%

Yearly, mill. national currency			
	<i>Base scenario</i>	<i>Alternative scenario</i>	<i>Difference base vs alternative</i>
<i>Government revenue through taxes, SSC and indirect taxes</i>	13,168.05	15,125.76	1,957.71
<i>... direct taxes</i>	6,548.98	7,798.09	1,249.12
<i>... indirect taxes</i>	2,171.23	2,879.83	708.59
<i>... social security contributions (employee and employer)</i>	4,447.84	4,447.84	0.0
<i>Government expenditure on social transfers</i>	1,303.33	3,346.99	2,043.66
<i>... child benefits</i>	122.28	122.28	0.0
<i>... social assistance</i>	977.44	3,021.10	2,043.66
<i>... orphan/widow benefits</i>	0.0	0.0	0.0
<i>... disabled benefits</i>	203.60	203.60	0.0
<i>... unemployment benefits</i>	0.0	0.0	0.0
<i>... pension benefits</i>	0.0	0.0	0.0

- The proposed package of tax reforms produces sufficient revenue to finance the SCT reforms

Overall Impact on Poverty and Inequality

	Status Quo	SCT reform	SCT reform + Tax reform
<i>Extreme Poverty Headcount</i>	40.3	 36.8	36.9
<i>Extreme Poverty Gap</i>	16.6	13.1	13.3
<i>Gini (household income)</i>	0.54	0.52	0.51
<i>P80/P20</i>	5.11	 4.52	 4.42

The proposed tax reform increases only very marginally extreme poverty (supposition: primarily via increase of general VAT rate)

.... but contributes to an additional reduction of inequality

Thank You for Your Attention