Public financial management and budgeting for improved social protection

Introductory Course on Social Protection and PFM

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What we will cover

1. Why PFM matters for social protection
2. Key features of PFM for social protection
3. Costing social transfers and cost-efficiency

Why PFM matters for social protection

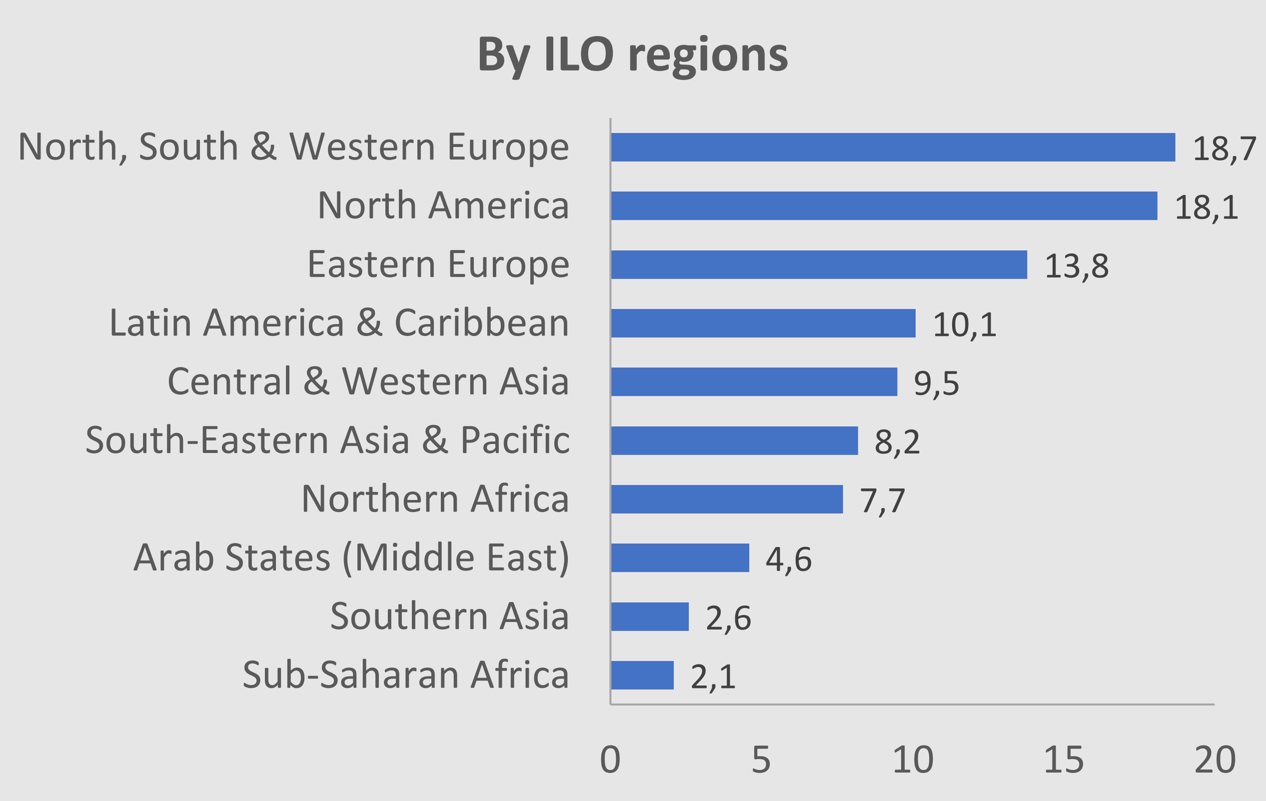
Much of social protection is financed through the Budget

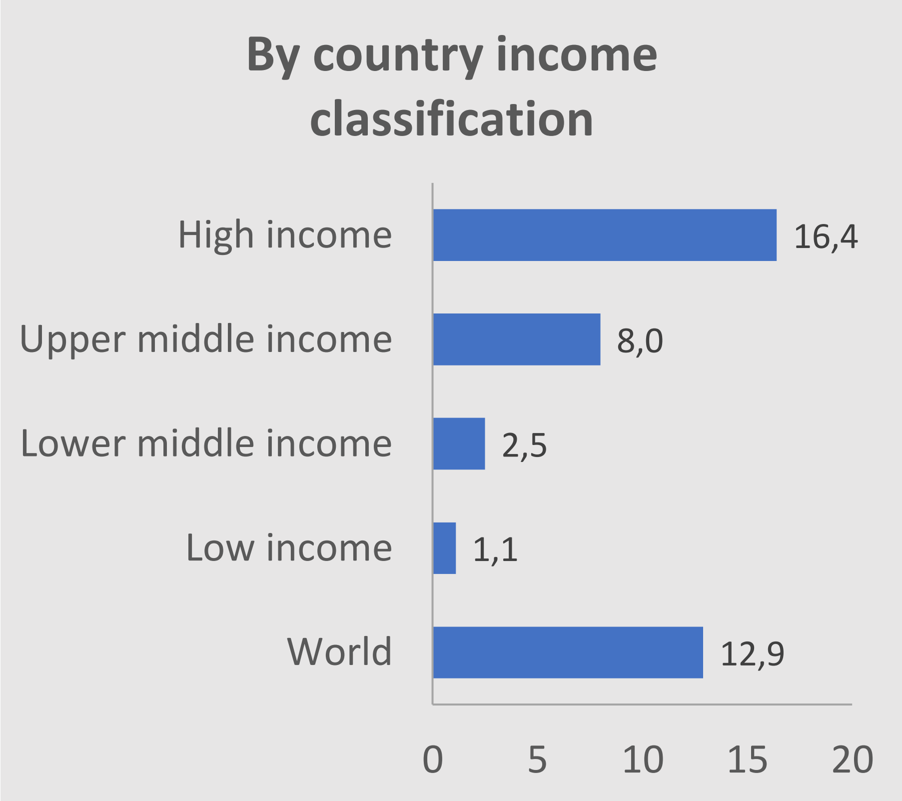
- Social transfers
- Social (work) services
- Government employees' social security schemes
- Subsidies to contributory schemes (such as national health insurance)
- Price subsidies

Scale of public social protection expenditure

2020 or latest available year, as % of GDP, excluding health

- Varies hugely by regions and is much lower (as % of GDP) in poorer countries





Source: ILO, World Social Protection Report, 2020-2022

Public expenditure is a key stage in the results chain from social protection policy to impacts

PFM system and budget cycle

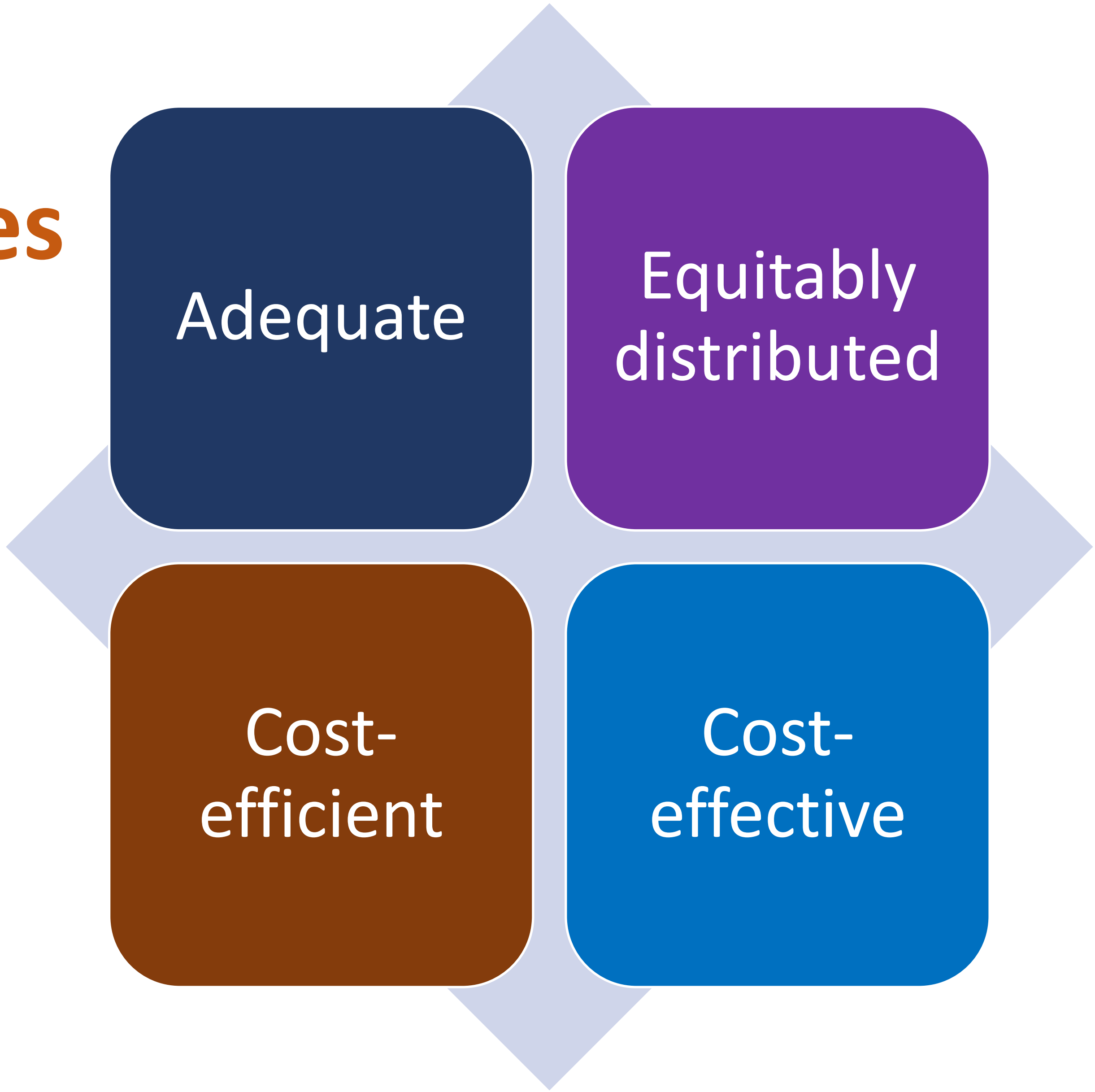
From social protection policies to budgets

From budgets to social outcomes

Key features of PFM for social protection

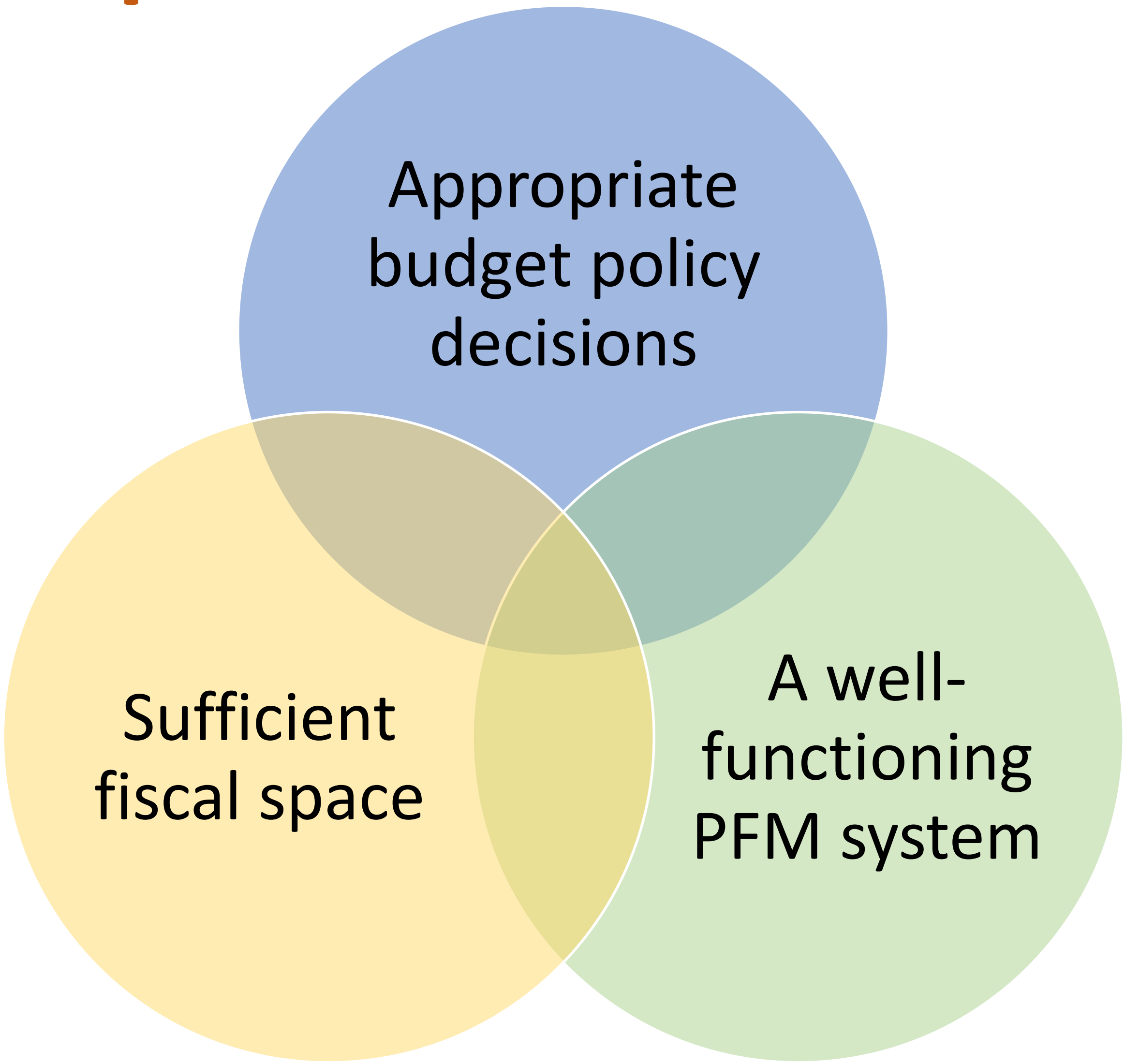
High-level public expenditure outcomes

Public expenditure on social protection needs to be



In this module we will discuss adequacy and cost-efficiency;
Our next module (8th November) will focus on equity and cost-effectiveness

That in turn requires…

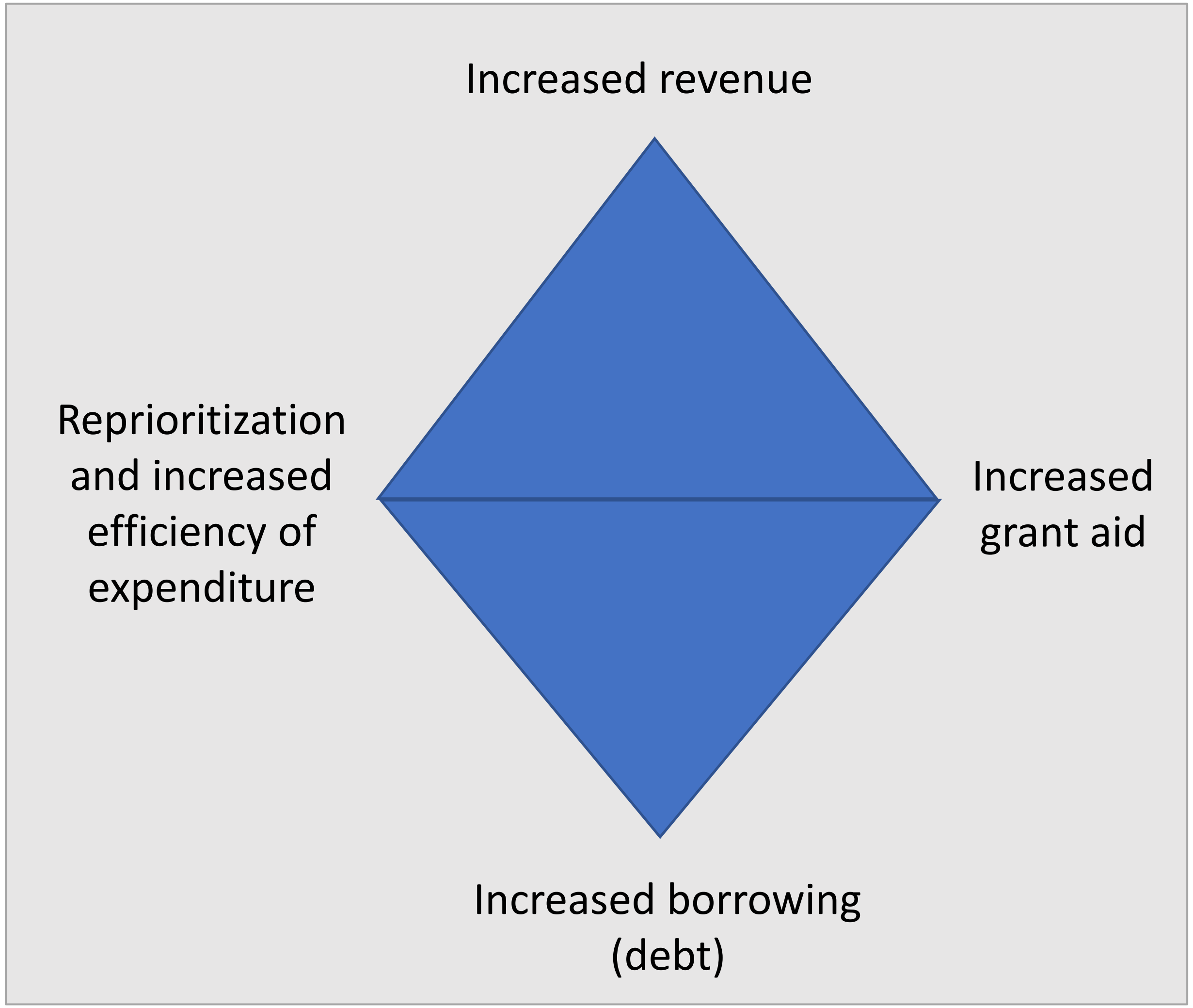


Level of social protection spending: fiscal space and policy choices

Adequacy depends on affordability, which is a question both of:

- fiscal space
- Policy choices (politics)

The 4 corners of the 'fiscal diamond'

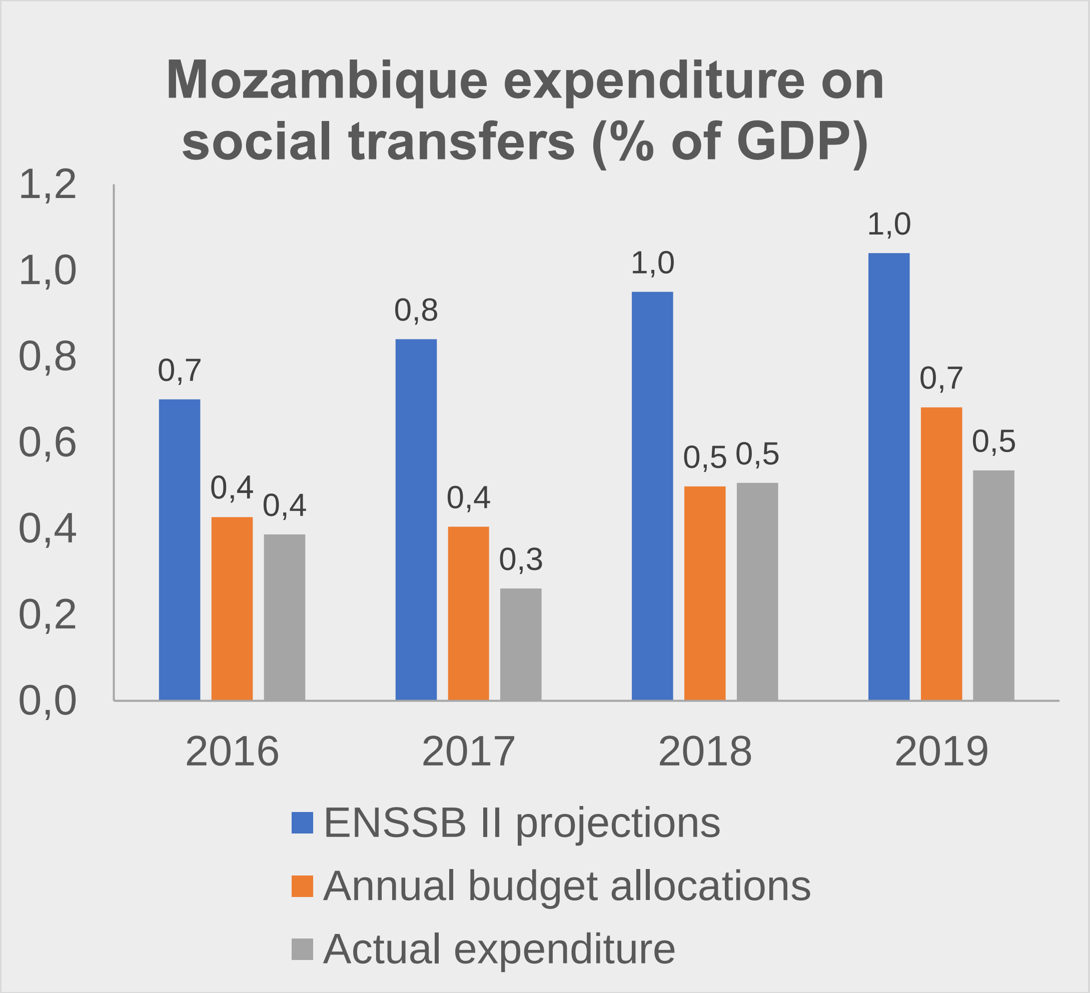


The PFM system operates through the budget cycle

- All stages of the budget cycle ‘matter’ for the adequacy and quality of social protection expenditure

From policy to budget formulation

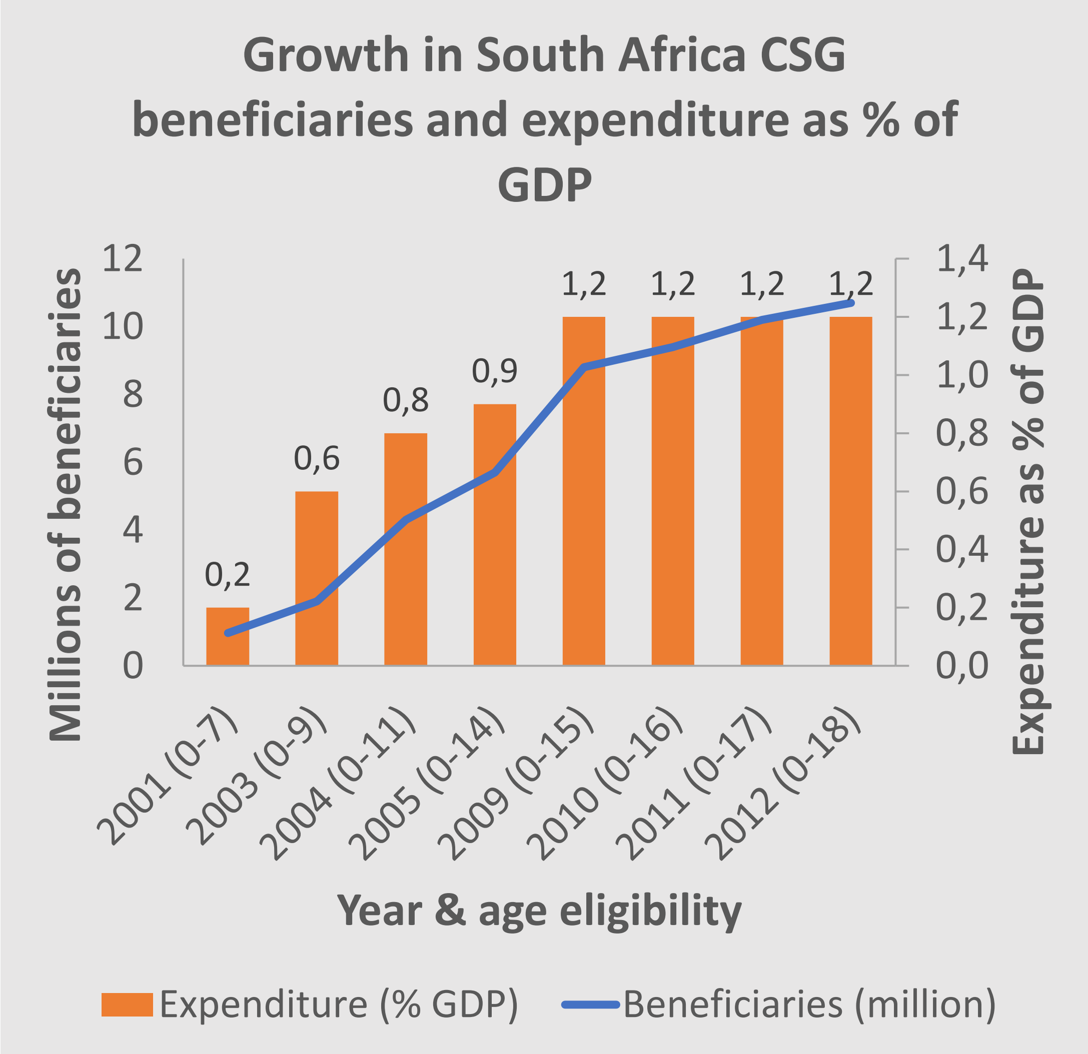
- Critical to reflect National Social Protection Policies and Strategies in government budgets
- But often there is a **disconnect**
- Example of **Mozambique**’s 2nd National Basic Social Security Strategy (ENSSB II) for 2016-2024



Source: ENSSB II mid-term evaluation (OPM, 2021)

Medium-Term Expenditure Framework (MTEF)

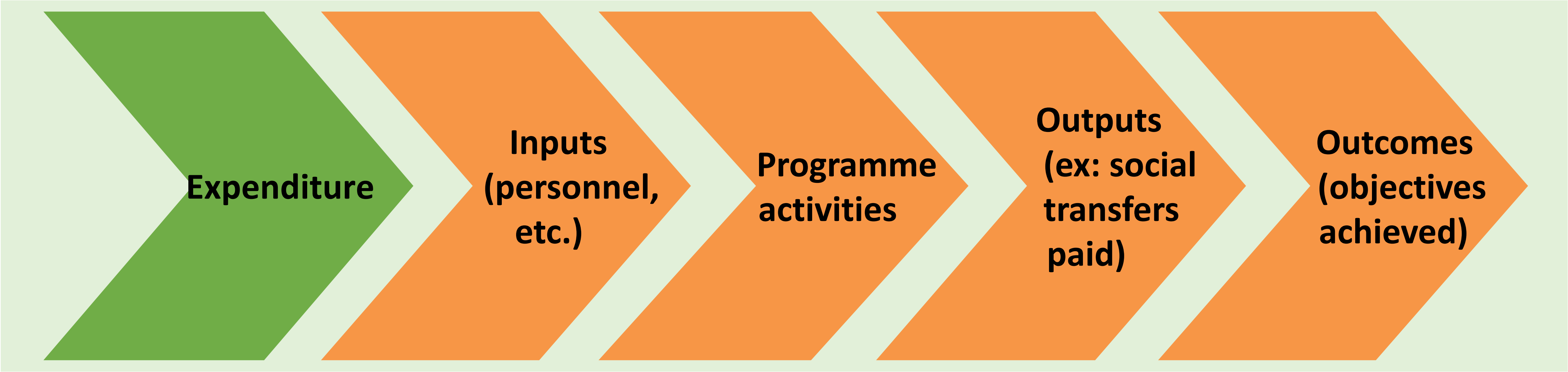
- Potential role of the MTEF as a strategic ‘bridge’ from policy/plans to annual budget
- **Example of South Africa’s Child Support Grant (CSG)**: MTEF was used to plan rise in expenditure for a gradual expansion of age eligibility and coverage over the decade to 2012



Source: Seekings, J. (2016). Redefining the ‘affordability’ of social assistance programmes: The Child Support Grant in South Africa, 1998-2014. CSSR working paper no. 379, Centre for Social Science Research, University of Cape Town.

Programme-based budgeting

- Programme-based budgeting (PBB) can also help strengthen the policy-plan-budget continuum by linking resources to results
- The introduction of PBB goes beyond the traditional practice of allocating resources to government units without any link to the results to be achieved
- Full PBB gives budget managers more authority to manage resources flexibly to achieve results – and holds them responsible for results



The 4 types of budget classification

- **Economic classification**: Classifies spending by economic categories such as personnel, goods and services, transfers and capital spending
- **Administrative classification**: Classifies spending by administrative units (ministries, departments, etc.)
- **Functional classification**: Based on the UN Classification of the Functions of Government (COFOG) – social protection, health, agriculture, etc.
- **Programme classification**: Classifies spending by programmes and sub-programmes

How social protection spending is classified in budgets (as per IMF guidelines)

Economic classification	Functional classification
• **'Transfers' is one of the main headings,** including transfers from government to other public entities, firms and households/individuals • **'Social benefits'** are included as transfers to households/individuals (a large part of social protection) • **Excludes**: (i) social welfare services; and (ii) pension contributions to government employee pension schemes (part of personnel remuneration)	• Social protection is one of the 'functions' of government • Very broad: includes social welfare services and emergency assistance following disasters • But may exclude some expenditure with a social protection character classified under other functions such as health, education and agriculture (no double-counting)

From budget to execution

Challenge of ensuring effective execution of expenditure

Delays in release of funds

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Delays in transfer payments to beneficiaries

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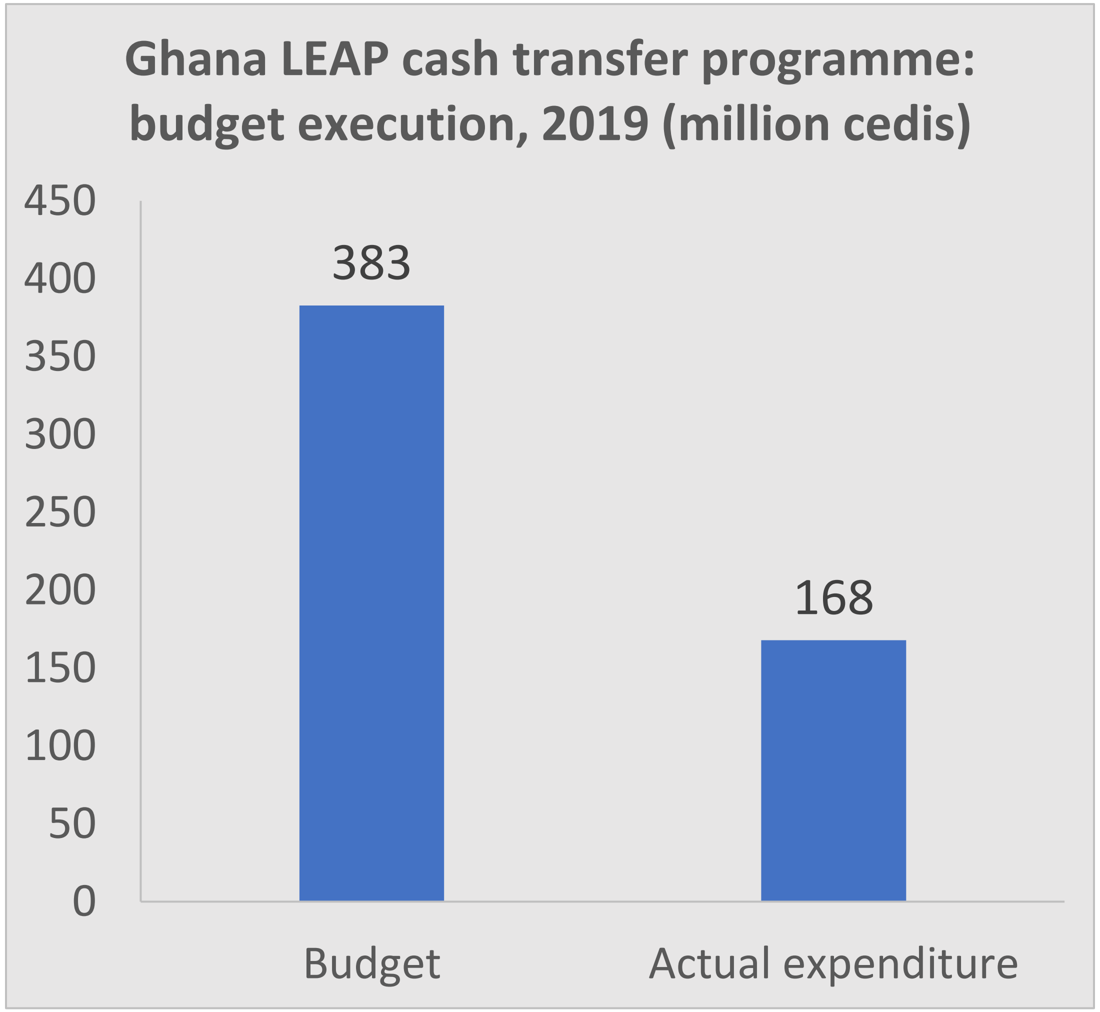
Reduced social impact



Source: UNICEF Ghana Social Protection Budget Brief 2019

Costing and cost-efficiency

Costing social transfers

Total cost:

$$C = T + A$$

C = total programme cost

T = cost of transfers

A = administrative costs

Cost of transfers:

$$T = tB$$

t = transfer amount

B = number of beneficiaries

- **Transfer amount (t)** should be determined by considerations of adequacy (for achievement of programme objectives) as well as affordability
- **Number of beneficiaries (B)** is determined by eligibility criteria and population size/composition (e.g., by age groups, disability, poverty status, geographic areas), as well as exclusion/inclusion errors
- **Future costs can be simulated** under different sets of assumptions about each of the above

Costing social transfers (cont.)

Administrative costs (salaries, goods & services, capital expenditure) can be sub-divided into:

- *Fixed set-up costs*: studies, planning, systems, equipment, infrastructure
- *Roll-out costs*: publicity, initial targeting & enrolment
- *Long-term operational costs*: ongoing targeting & enrolment, payments, accompanying measures, case management, monitoring
- *Evaluation costs* (lumpy)

Cost-efficiency

- **The relationship between cost and outputs** – here the 'outputs' are the social transfers received by beneficiaries
- **Cost-efficiency of social transfers** is often measured by the 'cost-transfer ratio' (CTR), which is the ratio of admin costs to the value of social transfers delivered (T):

$$\textbf{Cost-transfer ratio} = \frac{\textbf{Administrative cost (A)}}{\textbf{Value of transfers delivered (T)}}$$

The CTR in a mature social transfer programme, implemented at scale, should probably not exceed about 10%, although the CTR will vary according to context and programme features

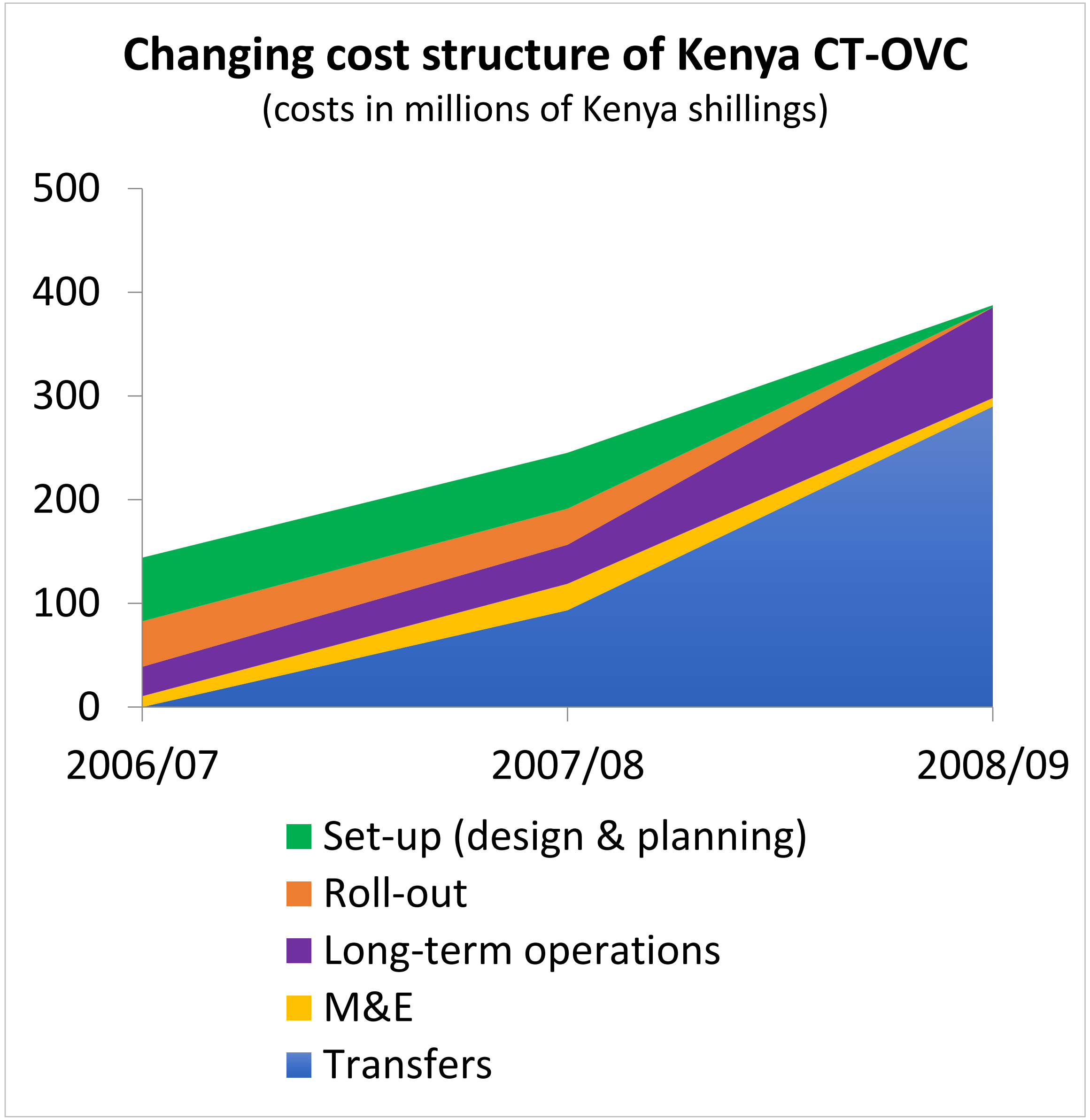
Some factors that affect the CTR

- **Degree of maturity of a programme**: In a new programme, set-up and roll-out costs are high, while number of beneficiaries (and thus value of transfers) is low
- **Scale of programme**: Unit admin costs fall as programmes expand (economies of scale)
- **Programme characteristics**: Admin costs will be higher in programmes with complex targeting procedures or add-on features such as conditionality
- **Operating conditions** may raise admin costs, e.g., in rural areas, or when transfer payments have to be made manually by travelling payment teams rather than through banks, post offices, agents or mobile money accounts
- **Transfer amount**: The higher the transfer amount, the higher the value of transfers (CTR denominator) and thus the lower the CTR

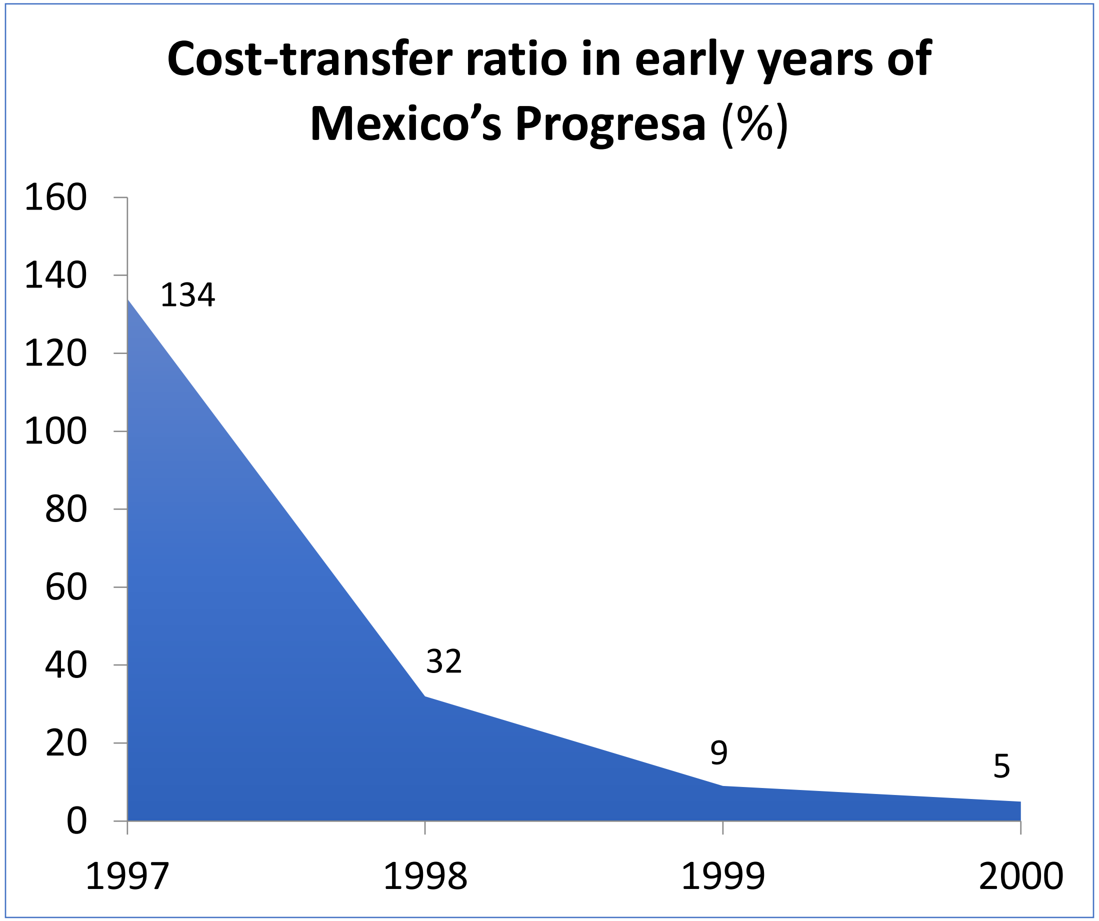
Example of Kenya CT-OVC

In the early years of a social transfer programme:

- Set-up and roll-out costs start off big and then decline while LT operational costs rise
- The ratio of admin costs to transfer costs (CTR) declines – from 167% in Year 2 of Kenya CT to 34% in Year 3



Example of Mexico's Progresa



A rapid reduction of the CTR from 134% in Year 1 to only 5% in Year 4, due to:

- Reduction of set-up and roll-out costs (from 71% to 15% of admin costs)
- Rapid expansion of programme to 2.6 million household by Year 4 (economies of scale)

Key take-aways

- Budgets (and thus PFM) matter a lot for social protection, as much of social protection is financed from public resources (taxation + aid)
- Public expenditure on social protection needs to be adequate, equitable, efficient and effective
- Adequacy of spending depends both on fiscal space and policy choices
- How the PFM system functions at each stage of the budget cycle matters also, including for efficiency
- A key challenge is to reflect social protection policy/strategy in budget allocations: MTEF and programme-based budgeting can help
- At the execution stage, delays in release of funds can severely affect programmes
- Costing needs to reflect both transfers and administrative costs
- Cost-efficiency is a key indicator of performance, but varies according to the context, nature, maturity and scale of programmes