The Political Economy of “Targeting” of Social Security Schemes

Dr Stephen Kidd

It is one of the great paradoxes of social security that neoliberals – the advocates of low taxes and low social spending – can appear as the champions of the “poor” and the underprivileged. Ever since the Washington Consensus, neoliberals have called for “social safety nets” to be “targeted at the poor.” Indeed, it was a core theme within the World Bank’s 1990 World Development Report on “Poverty”. Neoliberals argue that they are committed to helping the “poor” and make a seemingly logical argument that poverty targeting means that the “poor” can receive a higher value of transfer. Their arguments are summarized by Devereux (2009):

“The problem is that universal programmes are more expensive by orders of magnitude than are targeted interventions. Giving a dollar a day to everyone costs five times as much as giving a dollar a day to the poorest 20%. Alternatively, where policy-makers face fixed budget constraints, a universal programme will be less effective by orders of magnitude than a targeted intervention. A given resource envelope will have five times more impact on poverty if it is disbursed to the poorest 20% than if it is thinly spread over an entire population.”

So, how is it that those holding a more progressive, social democratic ideology – the natural champions of those living in poverty – argue for social security programmes to be inclusive and universally accessible to all, including the middle class and affluent? Why is it that they appear to oppose the neoliberal argument that the best way to help the “poor” is to target the “poor”?

The answer to why universal and inclusive benefits are more effective in tackling both poverty and inequality can be found in theories on the “political economy of targeting.”1 Conventional political economy analysis argues that, in contrast to the belief of neoliberals, universal and inclusive social security transfers not only generate higher budgets but also offer higher transfers to people living in poverty, when compared with poverty targeted schemes. In fact, a major flaw in the type of thinking expressed by Devereux above is that the assumption of a fixed budget is false. In reality, as noted by Pritchett (2005), in national budgetary processes – in which the state has the option of raising or lowering taxes or changing spending priorities – “the size of the pie is unlikely to be fixed.” Indeed, Pritchett describes those believing that national budgets are immovable as “naïve.”

The theory on the political economy of targeting argues that the level of coverage of social security schemes influences political decisions, in particular in a functioning democracy. Inclusive social security schemes – such as universal old age pensions and child benefits - generate higher budgets and transfers than poverty-targeted schemes because they are more popular. Necessarily, inclusive schemes – in particular those that are universal – offer benefits to people across the wealth spectrum and reach those living in poverty, those with middle incomes, and the affluent.

As Sen (1995) has reasoned, the beneficiaries of poverty targeting tend to be politically weak, with minimal influence over electoral results. In contrast,

inclusive schemes incorporate those on middle incomes and the wealthy, who are much more likely to vote and are, therefore, more powerful. As a result, inclusive social security schemes are likely to reward those politicians promoting them with popularity and electoral success. Furthermore, once inclusive schemes are established, middle income and wealthy beneficiaries – and their advocates – are likely to act in their self-interest and defend them, as well as push for higher value transfers. In contrast, poverty targeted social security schemes are unlikely to help politicians win elections. Indeed, those on middle incomes and the affluent are likely to oppose their taxes being used to finance programmes for “the poor,” since they themselves will be excluded. As Fiszbein and Schady (2009) of the World Bank note: “Transfer schemes narrowly targeted at the poor would tend to have limited support because a small share of the population benefit, whereas the costs are dispersed across all tax-payers.”

In effect, therefore, political economy theory argues that inclusive social security schemes build political alliances between those living in poverty, those on middle incomes and the affluent. The “poor” are not left alone but, instead, benefit from the political influence of more powerful sectors of society who, acting in self-interest, defend broad-based social security schemes. This contrasts with the conflict that poverty-targeted schemes effectively generate between the “poor” and the rest of the population, who oppose their taxes being used to provide “handouts” from which they themselves do not benefit. As a result, poverty targeted schemes end up with low value transfers, low quality implementation and low levels of investment, and are much less effective in tackling poverty and inequality than inclusive schemes. The political economy of targeting was well-understood by the World Bank as far back as the 1990 World Development Report, although this did not stop it recommending “social safety nets” rather than popular and inclusive social security (see Box 1).

Box 1: Examples of the political economy of targeting social protection in the 1990 World Development Report

The political economy of targeting social protection has been understood for many years. In the 1990 World Development Report, the World Bank highlighted the danger that poverty targeting could undermine political support for schemes, leading to inferior outcomes for people living in poverty:

“In practice, the success of public interventions involves more than cost-effectiveness. The demands made by different sections of the population, and their ability to exert pressure on the authorities, are often more influential than the government’s economic calculations. Fine targeting based on a single-minded concern for cost-effectiveness can reduce public interest in the vigorous implementation of government programs to help the poor. For example, in the late 1970s Sri Lanka replaced a universal food subsidy with a less costly, targeted food stamp program. In time, the benefits delivered by the new program declined. The middle classes no longer gained from the scheme, and although the new program was more cost-effective, it lost crucial political support. Similarly, a food subsidy directed to poor consumers in Colombia was so tightly targeted that it lacked an effective political constituency, and it was dropped at a change of administration. The analysis of public policy has to be alive to these considerations of political economy.”

Although the WDR recognized the negative implications of targeting social security schemes at those living in poverty, it nonetheless concluded its review by arguing for targeted “safety nets,” a core component of the Washington consensus.

This paper will examine the evidence on the political economy of “targeting.” It will begin by examining the history of social security in developed countries, focusing in particular on the evolution of Poor Relief in 19th Century Europe. It will then examine contemporary tax-financed old age pensions and Poor Relief schemes across developing countries before moving on to a number of particular case studies from the United Kingdom and Mongolia. A further case study from Uganda will examine how an analysis of the political economy of targeting was used to influence the design of a pilot social security scheme in order to generate greater political support for its expansion.
Box 2: Measuring political commitment

It is often claimed that governments in developing countries are “politically committed” to social security, even when the programmes they support are tiny. Therefore, in this paper, government commitment is measured by the level of investment in social security, as a percentage of GDP. It is a simple and logical measure: the more that a government invests, the higher its level of political commitment. However, it is important to focus on the level of government funding from its own revenues, and not include funding from donors. For example, it has been argued that, because Ethiopia’s Productive Safety Net Programme (PSNP) costs more than 1% of GDP, this is an indicator of “high-level commitment.” In reality, the programme is almost entirely financed by donors, which suggests that the level of commitment by the government of Ethiopia to the PSNP is, in fact, very low.

Poor Relief in 19th Century Europe

During the 18th and 19th centuries, a number of European countries established formal social transfer schemes to tackle the rising poverty engendered by industrialisation and rural-urban migration, in part driven by the fear that the French Revolution would spread. The schemes were a form of Poor Relief, directing their support at those living in the greatest poverty. As indicated by Figure 1, in the early 19th Century, Poor Relief budgets in some countries were relatively large, costing over 1% of GDP in Belgium and the Netherlands while reaching a very significant 2.5% of GDP in England.

Figure 1: Poor Relief budgets in the 19th Century: 1820/30 and 1880

However, as Figure 1 also shows, during the 19th century Poor Relief budgets shrunk, some by significant margins. In England, for example, by 1880 overall spending on Poor Relief had fallen to around a quarter of the expenditure in 1820. Lindert (2004) argues that a key reason for the fall in spending was the spread of democracy during the 19th century. Poor Relief developed under authoritarian regimes: it served the interests of those in power – providing landowners and factory owners with a more flexible labour force – but was largely financed from taxes on the middle class who, during the early years of Poor Relief, could not vote. However, as the middle class gained the

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2 There were other reasons explaining the generation of these programmes. In England, for example, poor relief enabled agricultural regions in the South to retain cheap labour, which was being pulled towards the industrial North.

vote, they began to resent their taxes being spent on schemes from which they were excluded. As a result, political support for Poor Relief – which was increasingly seen as a “handout” – fell, leading to a concomitant fall in budgets.

Furthermore, Poor Relief had initially been provided as unconditional transfers. Yet, as Townsend (2007) notes, during the nineteenth century the concept of the “undeserving poor” – those of working age living in poverty – began to grow, along with fears of a growing “dependency” culture. Therefore, to maintain political support for Poor Relief, it was made conditional on recipients entering the workhouse, a demeaning form of workfare. The middle class could, therefore, be assured that their taxes were not being given as handouts to the “undeserving poor;” rather, the “poor” were made to work in exchange for their benefits.

In effect, sustaining the budgets of Poor Relief programmes became incompatible with the strengthening of democracy across Europe, which demanded more inclusive programmes benefitting a broad section of society. So, while expenditure on Poor Relief fell, it was gradually replaced by growing investment in inclusive schemes offering access across all income classes, thereby benefitting the middle class as well as those living in poverty. The most common schemes were universal primary education and old age pensions. Over a period of decades, the social security systems in developed countries were radically transformed from Poor Relief to become inclusive lifecycle systems, offering a range of schemes addressing lifecycle contingencies such as old age, childhood, disability, widowhood and unemployment. Budgets expanded so that the average level of investment by developed countries is now 14% of GDP, with social security the highest sector of public spending in most countries. Figure 2 shows the current pattern of social security spending across a range of developed countries, indicating the proportion invested in different lifecycle schemes.

Figure 2: Levels of investment in different types of lifecycle schemes across a selection of developed countries

4 The workhouse in Victorian England required people to live in institutions in demeaning conditions and work for their benefits. Please read Charles Dicken’s Oliver Twist for a graphic description of the workhouse. The workhouse was a precursor to today’s Productive Safety Nets.

5 See Lindert (2004) and Townsend (2007) for a description of the change of Poor Relief from unconditional to conditional. In reality, though, although Poor Relief became closely associated with the workhouse, as Lindert (2004) points out, most beneficiaries continued to receive outdoor relief, as a result of the administrative challenges and expense of managing the workhouses. This is similar to those developing countries today that have “conditional” schemes but do not enforce the conditions.

6 Source: OECD Social Expenditure Database.
The evolution of Poor Relief in developed countries, therefore, appears to confirm the theory of the political economy of targeting. As democracy strengthened, political support for poverty-targeted programmes fell, while more inclusive schemes – which benefitted the main taxpayers and more powerful sectors of society – began to expand. But, does the same pattern hold in developing countries? The next section examines the case of tax-financed pensions in developing countries.

**Tax-financed Old Age Pensions in Developing Countries**

In recent decades, there has been a significant expansion in the number of tax-financed old age pensions – often known as social pensions – in developing countries. Many of these pensions are universal or inclusive, while others are targeted at older people living in poverty. Given the high number of schemes, it should, therefore, be possible to discern whether patterns of investment emerge confirming the theory of the political economy of targeting.

Figure 3 shows the level of spending on social pensions – as a proportion of GDP – across a range of developing countries, classifying them into countries with more inclusive schemes, with over two-thirds coverage, and countries with targeted schemes, with less than two-thirds coverage. It indicates a correlation between the coverage of tax-financed pensions and their budgets. Inclusive tax-financed old age pensions – most of which are part of more comprehensive old age pension systems offering almost universal coverage – have consistently higher budgets than those with low coverage, which narrowly target older people living in poverty. To take the example of the South Asia region, Nepal – which offers universal pension coverage – invests significantly more in its tax-financed pension than either Bangladesh or India, both of which have poverty-targeted schemes yet are wealthier countries (while Pakistan does not yet have a social pension).

**Figure 3: Cost of tax-financed pensions in developing countries, as a percentage of GDP**

![Graph showing cost of tax-financed pensions in developing countries]

Source: Kidd and Damerau (2015), Baum et al (2015), and Social Pension Database at: http://www.pension-watch.net/about-social-pensions/social-pensions-database/. Countries with low coverage of social pensions but high overall pension coverage – due to contributory pensions – have been omitted.
As predicted by political economy theory, there is also good evidence that inclusive schemes deliver higher pension transfer values for older people living in poverty. Figure 4 indicates transfer values for pensions with different levels of coverage. Across those countries with inclusive tax-financed pensions, the value of the transfer is, in general, higher than in countries with poverty-targeted pensions. The South Asia region provides, again, an interesting comparison. Despite being the poorest country in the region, Nepal provides an inclusive pension with a value equivalent to 16% of GDP per capita, while the poverty targeted social pensions in Bangladesh and India offer only 8% and 5% of GDP per capita, respectively. In fact, when current dollar values are compared, Nepal offers a pension of US$9.50 per month, while Bangladesh’s social pension is the equivalent of US$3.90 per month and India’s only US$3.30. Evidently, in terms of access to pensions, it is better to be old and living in poverty in Nepal than in either India or Bangladesh.

As expected, there are some exceptions to the general pattern of inclusive pensions delivering higher value transfers. Some countries with inclusive pensions – such as Vietnam, Brunei and China – offer low value transfers. However, these countries are not democracies and so the expected political economy influence would be unlikely to occur: their governments do not need to use social pensions to win elections. The value of Swaziland’s pension is relatively low, probably because it is meant to be targeted at older people living in poverty although, in practice, it reaches almost all older people.

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8Nepal’s pension system offers universal coverage and its social pension is pension-tested. So, everyone over the age of eligibility without access to another form of state pension is able to access the social pension.
The influence of the political economy of targeting can also be seen in the fact that inclusive old age pensions in developing countries usually have significantly higher budgets than well-known Poor Relief programmes, even though they are directed towards only one lifecycle category of the population (i.e. old age). The most well-known and largest Poor Relief schemes – such as Brazil’s Bolsa Familia, Mexico’s Oportunidades, Ecuador’s Bono de Desarrollo Humano, Pakistan’s Benazir Income Support Programme (BISP) and the Philippines’ Pantawid programme – all have budgets below 0.4% of GDP. Yet, as explained earlier, many inclusive pensions attract government investments of more than 1% of GDP, indicating much stronger political support and popularity. In Brazil, for example, while the Bolsa Familia programme has a budget of 0.39% of GDP, the Rural Pension – which provides almost universal access – has a budget of 1.5%, while the overall cost of financing the broader pension system is 12% of GDP (although this comes from both general government revenues and social insurance contributions from workers). The most expensive Poor Relief scheme – Georgia’s Targeted Social Assistance (TSA) programme – costs around 0.9% of GDP, yet it pales in comparison to the country’s investment of 4.3% of GDP in its universal pension. And, as Box 4 explains, Poor Relief schemes are often also examples of low quality design and implementation.

Box 3: Poverty targeting and the exclusion of the poor

High value pensions are not the only means by which older people living in poverty benefit from inclusive pensions. With inclusive schemes – and, in particular, when coverage is universal – the exclusion of older people living in poverty is low or, in some cases, zero. In contrast, when pensions are poverty targeted, many older people living in poverty – often a majority – are excluded due to the inability of developing countries to accurately identify those living in poverty. In Bangladesh, for example, over 60% of older people in the poorest quintile of the population are unable to access the Old Age Allowance. Even in countries with high administrative capacity – such as Chile – around half of intended beneficiaries were excluded from its means-tested tax-financed pension when it was narrowly targeted at those living in poverty (Arenas de Mesa and Mesa-Largo 2006; Valdes Prieto 2002). In fact, in the United Kingdom, each year around £5.5 billion annually in means tested benefits for older people are unclaimed.

Box 4: Poor Relief schemes and poor quality design and implementation

Poor Relief schemes often exhibit low quality design and implementation. As happens with poverty-targeted pensions – see Box 3 – they usually exclude the majority of their intended beneficiaries, a very poor “targeting” result. Increasingly Poor Relief schemes are using the proxy means test (PMT) targeting methodology, which has very high design errors and produces low accuracy and relatively arbitrary results. In fact, Pakistan decided to use the PMT in the Benazir Income Support Programme (BISP) even though the World Bank (2009) had predicted that the proxy means test would have exclusion errors of 88% and would, therefore, be of particularly low quality. It is possible for elites to impose the PMT on the poorest and weakest sections of society since they are not in a position to effectively oppose it, despite it generating significant social conflict within communities: for example, a number of studies have documented social unrest in Indonesia and Latin America, as a result of the use of the proxy means test. Furthermore, it is common for Poor Relief schemes to stigmatise people by making lists of beneficiaries public, either by reading out names in public meetings or putting up lists on public buildings: this breaches the right of people to privacy of information.

Notes:
12 Kidd and Huda (2013).
14 The World Bank did, in fact, miscalculate the design errors in the PMT in Pakistan, which were, in reality, around 60% (Kidd and Wylde 2011a).
In fact, despite not being targeted at “the poor”, inclusive pensions often have much larger impacts on national poverty rates and inequality than Poor Relief schemes. So, while Brazil’s Minimum Wage pensions have been responsible for a 12% reduction in inequality, Bolsa Familia’s contribution was only 0.6%. This is unsurprising given that the value of the Minimum Pension is almost ten times higher than Bolsa Familia’s basic transfer, again reflecting much higher political commitment. Similarly, in Georgia, the pension is 3.5 times more effective than the Targeted Social Assistance Poor Relief programme in reducing child poverty.

As would be expected, the popularity of universal pensions means that politicians often use them to win elections. In Lesotho, the introduction of a universal pension in 2004 helped the government win the next two elections; in Peru, in the 2011 Presidential election, the promise of a universal pension was one of the three main factors contributing to the successful candidate’s victory; and, in 2005, in Mauritius, a decision by the government to means test the country’s universal pension contributed to its electoral defeat. In fact, in his first speech following the election, the winning Presidential candidate declared that he would: “end the humiliation previously imposed on pensioners by abolishing the targeted approach and reinstating [the] universal pension to all pensioners.” When New Zealand held a referendum in 1997 to decide whether to means test its pension, 80% of the population voted, and 92.8% were in favour of retaining the pension as a universal scheme.

The use of conditions and sanctions to reduce opposition to Poor Relief

As evidenced by 19th Century Poor Relief in England, a common means of building political support for unpopular Poor Relief schemes is to make them conditional on certain behaviours and introduce sanctions. In this way, the main taxpayers can be convinced that Poor Relief schemes are not “handouts” since the “poor” are made to work for the benefit. Traditionally, conditions have been in the form of workfare, with beneficiaries made to labour for their benefits. As noted earlier, in the 19th Century the condition in England was entry to the workhouse while, nowadays, in developing countries, people are often required to labour on infrastructure schemes (such as Ethiopia’s Productive Safety Net Programme Rwanda’s Vision 2020 Umurenge Programme, and Bangladesh’s Employment Generation Programme). However, in the past ten years there has been an increase in so-called conditional cash transfer (CCT) programmes in

16 Zoletto (2011)
17 ISSA (2013). See also Kidd and Huda (2013) for further information.
21 See Fiszbein and Schady (2009).
which families are obliged to send their children to school or attend health clinics: if they do not comply with a minimum level of attendance, they face the sanction of having their benefits withdrawn. These conditions are imposed despite the growing evidence that they have limited or no impact on school attendance or improved child nutrition. In the UK, the right-wing Conservative government is increasingly introducing sanctions into means-tested schemes, despite emerging evidence of the damage they cause to the wellbeing of recipients.  

However, while it is argued that conditions increase political support and safeguard funding, there is no robust evidence to demonstrate that this actually happens. As noted earlier, the budgets of almost all conditional Poor Relief programmes in developing countries are relatively low and this level of spending may have been achieved anyway, without conditions. Indeed, the unconditional child benefits in Mongolia and South Africa – which are discussed later – have much higher budgets although, as will be explained, this is because they are inclusive schemes reaching the majority of children and, therefore, have strong political support.  

Indeed, by being branded as “child benefits” they are not regarded as handouts. If the policy objective of a social security scheme is to help poor families and children, an inclusive – and, preferably, universal – child benefit would be superior to a conditional Poor Relief programme. The exclusion from the programme of children living in poverty would be much lower and, as a result of higher value transfers, the impacts would be higher (as is the case when comparing South Africa’s Child Support Grant with Brazil’s Bolsa Familia programme). Workfare programmes are particularly problematic, given the high opportunity costs of participation in them and the growing evidence, from schemes such as Ethiopia’s Productive Safety Net Programme, of harm being caused to children. The benefits of investing in inclusive child benefits are discussed in the next section.

Mongolia’s universal child money scheme

Although child benefits are much less common than pensions in developing countries, the history of the universal child benefit in Mongolia illustrates the influence of democracy – and the desire to gain electoral rewards – on the design of a social transfer scheme. Indeed, it also demonstrates how electoral politics can make it difficult for international agencies to impose a neoliberal agenda on governments, even when in a powerful position.

Mongolia’s Child Money programme was first proposed by the country’s Motherland Democratic Coalition political party in its platform for the 2004 election, and was credited with contributing to the party’s electoral success. Following the election, a coalition government was formed and, by 2006, as a result of the significant fiscal space afforded by natural resource revenues, the government made the Child Money Scheme universal while more than tripling the value of the transfer, thereby significantly enhancing the wellbeing of children living in poverty. The universalization of the Child Money programme was supported by UNICEF but opposed by other development partners such as the World Bank, International Monetary Fund and Asian Development Bank (ADB), which preferred it to be targeted at the “poor” so that the budget could be reduced. In fact, the ADB reacted against the universalization of the Child Money Scheme by sanctioning Mongolia, withdrawing funding from a social security project.

Nonetheless, as Fritz (2014) describes, the IMF – and presumably, the World Bank – realised that they could not change the government’s position on making the Child Money programme accessible to all, and decided to wait for an economic crisis to offer an opportunity to argue for a return to targeting. The global recession of 2008/09 provided the opening for the IMF and, as commodity prices fell, the government agreed, in 2010, as a condition of obtaining financial assistance from the IMF, to abolish the Child Money programme. Notwithstanding, the Mongolian government

24 Recently, South Africa decided to call its Child Support Grant “conditional” although in practice no conditions are enforced.
25 See, for example, Tafere and Woldehanna (2012)
27 The following information on Mongolia is taken from Fritz (2014).
28 ADB (2010).
did not abandon its commitment to universal payments and, in 2010, it introduced a basic income grant – the Human Development Fund – offering each citizen a cash grant of US$90 per year in 2010, which was increased to US$190 in 2011. Indeed, it would appear that the Mongolian government refused to bow to the IMF and, while nominally fulfilling the IMF’s condition, merely replaced one universal social security scheme with another.

It is likely that pressure on the Mongolian government from the international financial institutions (IFIs) continued and, in January 2012, the government agreed to once more target its benefits. However, in a further sign of opposition to the IFIs, the Government introduced annual payments of US$900 for retirees and people with disabilities and monthly payments of US$50 for students.

Nonetheless, the influence of normal democratic politics reasserted itself and, following the July 2012 election, a new coalition government changed direction once more, refusing to implement the targeted social transfers. Instead, it abolished the Human Development Fund and reintroduced the universal Child Money Programme. The transfers now reach around 994,000 children. The annual cost of the scheme is around 1.5% of GDP, which, as noted earlier, is around four times the size of most well-known Poor Relief – or conditional cash transfer – schemes. Furthermore, in line with the political economy of targeting theory, the value of Mongolia’s Child Money transfers is relatively high, at US$10.50 per month, which is the equivalent of 4.1% of GDP per capita. In comparison, the child benefit component of the much-feted Bolsa Familia programme offers a transfer of only 1.5% of GDP per capita.

Mongolia is not the only developing country to invest in inclusive child benefits. For example, South Africa’s Child Support Grant commenced in 1998 – building on the success of the country’s pension and disability benefit – and currently reaches around 70% of children. Its budget is around 0.9% of GDP and the value of its transfer is 3.8% of GDP, which again compares favourably to the Bolsa Familia programme. And its broad coverage means that it reaches the vast majority of the African National Congress’s voting block, which is one reason for it being supported so generously. It is also an effective scheme, ensuring that almost all of the poorest children benefit, while, in comparison, the tightly targeted Bolsa Familia programme excludes around half of its intended beneficiaries.30

Opposition to the means testing of the UK’s Universal Child Benefit

As the Mongolia example illustrated, once inclusive schemes are established, they are difficult to remove within democracies, due to their widespread popularity. However, it is not impossible. When, in 2010, the UK’s right-wing coalition government decided to means test the country’s universal Child Benefit, there was widespread opposition from all sectors of society, including from both the right and left wings of the political spectrum. The right wing press, which is usually a vehement critic of “welfare,” defended the universal nature of the child benefit, thereby protecting the interests of its readership in the middle and affluent classes. They were joined by many on the left who argued that if the rich and middle-class were removed from the scheme, they would lose their attachment to the national social security system and, as a result, be less willing to oppose cuts to means-tested schemes. This would, therefore, threaten the wellbeing of many poor and vulnerable families.31 The widespread opposition to the means testing of the Child Benefit was an example of the alliance between low and middle-income families in action.

Despite the resistance to the means testing of the Child Benefit, the government moved ahead with it and the fears of those on the left were realized. In recent years, and in the name of austerity, the government has implemented widespread cuts to means tested social security schemes, with the most vulnerable – in particular people with disabilities – the hardest hit. These cuts have received strong support from the middle class, because they themselves are no longer direct beneficiaries. Indeed, the government has been able to further weaken the Child Benefit – gradually reducing the real value of the benefit over time – without opposition from the upper middle class and their advocates in the right wing press.

Fritz (2014).
See Kidd (2013a).
Yet, almost immediately after the decision to means test the Child Benefit, the coalition government showed its awareness of the political economy of targeting by announcing the introduction of a universal state old age pension – replacing the current complex mix of contributory and means-tested schemes – while ensuring that pension benefits would continue to rise in value (as well as a range of other benefits disproportionately favouring the more affluent members of society).\textsuperscript{32} Given that older people are the strongest supporters of the ruling Conservative Party, offering a universal pension was a logical move to bolster its electoral support. On the positive side, the universal pension will mean that older people living in poverty will be guaranteed access to a pension.

**Lessons for development agencies: Uganda’s Senior Citizens’ Grant**

One of the strategies used by development agencies to encourage developing countries to adopt social security schemes has been to finance pilot cash transfer schemes, with the hope that they would be scaled up by government. However, as Ellis (2010) has pointed out, governments are often not interested in scaling up these pilots since they are usually “targeted” at those living in poverty and, as explained earlier, tend to be unpopular with the majority of the population who are excluded. Governments, therefore, do not view these schemes as bringing them electoral rewards and, as a result, are unwilling to invest in them.

Uganda’s Senior Citizens’ Grant is an example of development agencies successfully attempting a different approach by pilotsing a universal scheme, in this case a social pension. During the late 2000s, DFID attempted to persuade the Government of Uganda to allow it to pilot a cash transfer programme. DFID’s initial design – undertaken in 2008 – was a poverty-targeted programme, which was opposed and, ultimately, rejected by Uganda’s Ministry of Finance.\textsuperscript{33} At the time, this decision reflected a strong resistance by government to any form of cash transfer in Uganda, except among a few people in the Ministry of Gender, Labour and Social Development (MGLSD). As Grebe and Mubiru (2014) observed, “many members of the political and economic elites in Uganda, in addition to having a relatively homogeneous perspective on poverty … tend to have negative views about social assistance programmes for the poorest. These included concerns about adverse incentives on the poor (such as disincentivising work), the misuse of ‘handouts’, ‘dependency’ among the poor, and over the affordability of such programmes.”

In 2009, DFID decided to redesign the scheme. The new design team worked in partnership with the MGLSD and took Uganda’s political economy into account in their design. So, while the MGLSD and DFID still wanted a poverty targeted scheme, the design team persuaded them to test two options – a universal social pension and a targeted scheme for vulnerable families – on the grounds that a targeted option was unlikely to engender political backing for scale-up while a universal lifecycle scheme could become very popular (which would achieve DFID’s long-term aim of government financed scale-up). Both the MGLSD and DFID agreed to the proposal, and, as a result, two programmes were designed within what became known as the broader SAGE cash transfer scheme: the universal Senior Citizens’ Grant and a Vulnerable Families Grant (VFG), targeted at the most vulnerable 15% of households in each community. An additional component of policy influencing and advocacy – with resources and staff located in the MGLSD – was incorporated into the programme, to engage across government and build the case for national scale up. The project as a whole became known as the Expanding Social Protection (ESP) programme, and Irish Aid joined DFID as a joint funder.

The design team also used its understanding of the political economy when deciding on the locations for the pilot scheme. There had been pressure from government to implement the cash transfer in every district of Uganda, as a means of reducing opposition from Members of Parliament. In contrast, the design team argued that it would be better to only implement the scheme in a small number of districts since the higher number of

\textsuperscript{32} See Kidd (2013a) for a more in-depth discussion.

\textsuperscript{33} Grebe and Mubiru (2014).
beneficiaries per district would enable it to be more effective and, importantly, would engender a degree of jealousy from those Members of Parliament whose districts missed out.

The challenge still remained of gaining agreement for the programme from the Government of Uganda. However, DFID and Irish Aid had a stroke of good fortune. The former Minister of the MGLSD – Syda Bbumba – had recently been appointed Minister of Finance and, despite continuing opposition from among her officials, she instructed them to approve the scheme. The programme commenced in 2010.

Since 2010, The SAGE cash transfer has been implemented across 17 Districts and both quantitative and qualitative evaluations have indicated that it has had significant positive impacts. Not only have beneficiary households benefited, but so have entire communities, with the scheme stimulating local economies. The MGLSD has been very active in promoting the scheme both across government and the population as a whole. For example, it is regularly featured on national television and the national newspapers.

In only a few years, there has been a remarkable transformation in the Government of Uganda’s attitude towards social security. No longer is there widespread opposition to any form of cash transfer. Instead, the Senior Citizens’ Grant has become very popular, with strong support both within and outside government for it to be scaled up nationally. As Grebe and Mubiru (2014) note:

“The SAGE pilot was widely seen by informants (including Members of Parliament) as an extremely popular programme that had greatly enhanced the visibility of the government in the remote and rural communities where many beneficiaries live. Many informants attributed the growing political support for the pilot – especially in Parliament – to politicians noticing its popularity and potential as a vote- winner. Some MPs argued that it would be ‘political suicide’ to oppose the programme in interviews. In fact, the NRM, the Forum for Democratic Change (the official opposition), and the Uganda People’s Congress all included commitments to social pensions in their election manifestos for the 2011 election, with the FDC even including the specific commitment of doubling the size of the monthly payment.”

As a result, in 2013 the President of Uganda asked the MGLSD and Ministry of Finance for a national rollout plan for the Senior Citizens’ Grant, to ensure that every Ugandan over-65 years of age has access to a pension. It has also begun to commit its own funding to the programme – in 2015 it announced that the scheme would be rolled out to a further 40 Districts – and has committed to expanding the scheme to all Districts by 2020.

However, as predicted during the design, the government is only interested in the expansion of the universal Senior Citizens’ Grant. Indeed, in early 2015, it decided to close down the targeted Vulnerable Families’ Grant (VFG), despite evaluations indicating that the VFG had also had major impacts on poverty and benefitted many families. The reasons are clearly linked to the political economy. As an entitlement, the Senior Citizens’ Grant is very popular and can be accessed by everyone, not only those living in poverty (and, of course, everyone hopes to reach 65 years of age, while most people are closely related to a potential beneficiary). In contrast, the VFG is not a guaranteed right and would exclude the majority of the population: its value as an electoral winner is, therefore, very limited.

Uganda’s Senior Citizens’ Grant has lessons for those development agencies promoting social security. If they wish to pilot cash transfers schemes with the aim of eventually building a strong and inclusive social security system, it makes sense to begin with a popular inclusive, lifecycle scheme, which captures the imagination of the general population. Such a scheme has a much greater chance of being scaled-up than a poverty-targeted programme and will, in the long-term, generate much greater investment from government (and, of course, much larger impacts). Furthermore, the success of one inclusive lifecycle scheme is likely to lead to governments implementing other lifecycle schemes. To a large extent, this is what has happened in countries such as Nepal, South Africa, Mongolia and Georgia where investment in popular

34 Grebe and Mubiru (2014).
35 See, for example, Bukuluki and Watson (2012) and Ibrahim and Namaddu (2015).
and inclusive social pensions – and, in some cases, disability benefits – has enabled governments to build the political case for child benefits. This replicates the process that happened across most developed countries, which, as discussed earlier, expanded their social security schemes significantly over many decades.

**Conclusion**

Empirical evidence appears to show that the political economy of targeting theory holds true in a wide range of contexts. When compared to poverty-targeted schemes, inclusive social security transfers receive more public funding, offer higher value transfers to recipients and have much higher quality implementation, with fewer people living in poverty excluded. They are also much more effective in their impacts on poverty and inequality. In democratic contexts, politicians can gain political rewards from inclusive schemes, which is unlikely to happen if social security schemes are targeted only at those living in poverty, who are the least likely to vote. So, despite being more expensive than poverty-targeted programmes, inclusive schemes are much more fiscally sustainable: governments are much less likely to cut inclusive schemes while poverty targeted programmes always face threats that spending will be reduced.

Ultimately, the design of social security schemes comes down to ideology. Neoliberals prefer to target the “poor” since, as the World Bank (2014) has pointed out, a key motivation for poverty targeting has been a desire to reduce public spending: “The historical........evidence suggests that the forces pushing for better targeting are more regularly motivated by cutting entitlement bills and ensuring financial sustainability than by helping the poor.” But, as Sen (1995) has noted: “benefits meant exclusively for the poor often end up being poor benefits.” More progressive policymakers committed to social justice and tackling poverty and inequality should focus on developing inclusive lifecycle social security systems that cost more but result in much greater redistribution and impacts.

So, the paradox noted at the beginning of this paper is not, in fact, a paradox. Neoliberals prefer to “target the poor” because they can spend and tax less and fulfil their mission of a small state that delivers disproportionate benefits to elites. Progressive policymakers are committed to more universal and inclusive social policy because this is more effective in creating more equal societies, although it comes at the price of higher spending and taxes. It is not surprising that the most equal nations in the world – the Nordic countries – have the highest taxes and the most universal social benefits. And it does not seem to have harmed their economies.
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About The Author
Dr Stephen Kidd
Stephen Kidd is a Senior Social Policy Specialist at Development Pathways. When at school, he hated being excluded from games and wonders why some people continue to promote social security schemes that perpetuate the type of exclusion he suffered when young: it’s really not fun.

For more information please feel free to get in touch, our contact details are below: