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Overview

Numerous studies provide evidence on the contribution of universal social pensions to economic growth through their impacts on the informal productive sector. Yet, few studies account for the differences in the structural circumstances across areas that are more and less integrated into the economy. This policy brief summarises the evidence base on the potential pathways from social pensions to economic growth and calls for a more differentiated approach that takes account of the structural circumstances in which livelihoods exist. This shifts the focus from the targeted individual to the functioning of social pensions within the wider structural contexts that determine its effect on economic growth. This approach can make vital contributions to a better coordinated policy system that reaches beyond the recipients of SCTs.

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Social Cash Transfers as Economic Investments: Contextualising the Transmission Channels between Uganda's Senior Citizens Grant and Economic Growth

ENTHUSIASM FOR SOCIAL PROTECTION HAS MUSHROOMED OVER THE last two decades. Social protection is now widely recognised as an effective vehicle to help the poor and vulnerable by directing material resources to people living in poverty. Social Cash Transfer (SCTs) programmes in particular have gained widespread popularity in many countries in Sub-Saharan Africa (SSA) in recent years. In many countries they are now an important part of a government's social assistance pillar and can be seen as a direct investment into social justice.

The continued economic crises in many countries of SSA have put considerable strain on the fiscal envelope of their governments. Therefore, it is also important to consider the impact of SCTs on the economy and to build the economic case for investments in these programmes.

Many studies have been commissioned to provide evidence on the economic impacts of different SCT schemes in SSA. While it has been well established that SCTs have important economic multipliers (Davies & Davey, 2008; Devereux, 2002), most of the studies fail to comprehend the working of the interventions within the wider structural context in which people strive to make a living.

Using Uganda as a case study, this policy brief makes the case for a more differentiated approach towards studying the economic impacts of SCT programmes. It will therefore commence by shedding light on the potential pathways of universal social pensions towards economic growth. It will then review the existing evidence base on the economic outcomes of Uganda's Senior Citizen's Grant (SCG). Finally, it will focus on the different structural circumstances in which Uganda's social pension operates.



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Universal social pensions and economic growth

Universal social pension schemes are cash transfers for all senior citizens irrespective of past and current employment status and income (Willmore, 2006; World Bank, 1994). Several studies have established that these transfers can both fulfil the immediate objective of protecting old persons, as well as have secondary effects on local economic growth (Ardington, et al. 2007; Posel, et al. 2006; Devereux, 2002).

Evidence from countries with universal social pensions suggests five vital transmission channels from social pensions to economic growth:

1. *Impacts on livelihood activities*

Despite targeting the elderly and thus, the less labour-active population, many studies across the globe have suggested important improvements in informal livelihood activities of social pension recipients. Informal livelihood refers to labour which is 'not recognized, recorded, protected or regulated by the public authorities' (ILO 2002:1). This captures both informal farming as well as off-farming activities.

In Swaziland, it has been found that recipients of the Old Age Grant (OAG) have invested the grant into informal farming activities (RHVP, 2010). In Brazil it has been reported that recipients were able to shift from subsistence to small-scale surplus agriculture (Delgado & Cardoso, 2000 in Barrientos & Lloyd-Sherlock, 2002). Moreover, evidence from South Africa and Zambia shows that recipients of social pensions have been able to establish and expand informal microenterprises (CARE, 2009; Barrientos & Lloyd-Sherlock, 2002).

2. *Impacts on wage labour and labour supply*

In terms of wage labour, it has been found that social pensions have significant impacts on the wage labour of community members because older persons are better able to employ workers for labour-intensive tasks. A study carried out by OPM (2013) has confirmed this for Kenya. Moreover, the study found no evidence of social pension recipients taking part in wage labour themselves (ibid.).

Evidence concerning the impact of social pension provision on the labour supply of recipients and their household members is more mixed (Barrientos & Lloyd-Sherlock, 2002). In Brazil there is some evidence that social pensions encourage continued livelihood activity among older people (Delgado & Cardoso, 2000 in Barrientos & Lloyd-Sherlock, 2002). However, in South Africa it has been found that income effects reduce the labour supply of recipients (Tirivayi, et al. 2013). It has also been reported that the social pension has enabled other adult household members to migrate to other places to find employment. (Posel, et al. 2006).

3. *Impacts on asset accumulation*

Social pensions are largely seen to have a positive impact on the accumulation of assets among recipients. Evidence from Kenya suggests that social pension recipients were able to accumulate far more assets than those older persons who did not receive a social pension (Kakwani, et al. 2006). In Bolivia, recipients of the BONOSOL pension programme invested their pension incomes in livestock acquisitions (Tirivayi, et al. 2013:26). Moreover, in Swaziland recipients of social pensions made investments in farm inputs (RHVP, 2010).

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4. Impact on access to credit

Social pensions have largely been associated with better access to credit. In Southern Namibia it has been reported that the regularity and continuity of the social pension meant that pensioners were better able to access credit facilities in retail stores in their communities (Devereux,

targeted at people aged 65 and above. (In Karamoja the age of eligibility is 60 years and above due to the extreme poverty and reduced life expectancy in the region.) The SCG aims to protect and enhance the welfare and maintenance of the older persons. Its overall objective is to reduce chronic poverty, and improve the life chances of poor men and women

“Universal social pensions primarily aim to protect the elderly. But they also have vital secondary effects on local economies.”

2002:669). Similar results have been found in Lesotho (Pelham, 2007). In Zambia recipients of social pensions have formed informal community collateral systems which enabled them to get short term loans from local shops (CARE, 2009:4).

5. Impact on local markets

Many countries show that social pensions have a positive effect on the supply of local goods and services. In Southern Namibia, the social pension has stimulated local trade since recipients spend their monthly pension in local stores (Devereux, 2002). In Kenya it has been reported that the social pension benefit had increased supply of goods and services to local markets (OPM, 2013). In the case of Brazil, it has been reported that in remote rural communities, pension payment days attract traders and create markets (Barrientos & Lloyd-Sherlock, 2002).

Case study: Uganda’s Senior Citizen Grant (SCG)

Uganda’s Senior Citizen Grant (SCG) is a universal social pension

in Uganda. As such it contributes to the broader objectives of Uganda’s National Social Protection Policy which aim at reducing poverty and socio-economic inequalities for inclusive development and will help build a population that is secure and resilient to socio-economic risks and shocks.

Currently the scheme is implemented across 35 districts and has 138,000 beneficiaries, almost all of which are from the original 15 pilot districts. According to the SCG roll-out plan, the scheme will be implemented in five additional districts in each financial year. This means that 55 districts will be reached by the end of the Fiscal Year 2019/20. The transfer is currently worth GX 25,000 per month (USD 8) and is paid every 2 months through Post Bank using mobile vans.

A variety of different studies have been conducted providing important evidence on the different impacts of the scheme. A systematic review of this evidence sheds light on the six transmission channels to economic growth:

1. Impacts on livelihood activities

The OPM two-year impact evaluation of Uganda’s Social Assistance Grants

Universal social pensions primarily aim to protect old persons. But they also have vital secondary effects on local economies. The impact of the social pension on the economy is not direct. This means that the livelihood of a social pension recipient does not move directly from one based on subsistence farming and informal off-farm work into livelihoods based on individual wage and salary employment. Most of the available evidence indicates that the main transmission channel between social pensions and economic growth is the productive informal sector. The evidence shows that social pensions enhance the agricultural and informal off-farm livelihood activities of recipients, wage labour opportunities of non-recipients, asset accumulation, access to credit and local goods and services.



for Empowerment (SAGE) programme found that the SCG had a wide range of positive impacts on the livelihood activities of recipients. Specifically, the study found that many recipients used the grant to diversify their livelihood as well as to improve the activities they are already engaged in (OPM, 2016:62).

The grant allowed many older persons to be physically less engaged in very labour-intensive, dangerous and hard work, such as collecting firewood, grass for thatching, and farming of crops. Instead social pension recipients are now able to hire workers for these labour-intensive activities. Moreover, recipients are now also able to engage in less labour-intensive activities such as animal rearing (OPM, 2015 & 2016).

Moreover, it has been found that the money which is spent by recipients stimulates local markets (Bukuluki & Watson, 2012). It has been reported that local farmers and business owners benefit from the increased purchases of SCG recipients and those employed by recipients (Ibrahim & Namuddu, 2014).

2. Impact on wage labour and labour supply

The SCG has not been associated with any significant impact on local wages (OPM 2016:85). Moreover there has been no evidence reported that the SCG impacts the general labour supply of recipients or their household members (OPM, 2016; OPM, 2015).

However, several studies report that the SCG has significant spillover effects on non-recipients in SCG communities since recipients are more likely to employ labour for gardening or small-scale farming (OPM, 2016; Ibrahim & Namuddu, 2014; Bukuluki & Watson, 2012; Calder & Nakafeero, 2012). This has been confirmed by both recipients and non-recipients. As

such, the OPM 2016 study reports that 'community members felt that they were indirectly benefiting from SAGE' through employment by recipients (OPM, 2016:56). A study carried out by ESPP in 2013 noted that '22 percent of the beneficiaries reported spending some of their previous month's payment on hiring labour while 22 percent planned to spend their next payment on hiring labour' (ESPP, 2013:9).

3. Impact on asset accumulation

Many studies have found that the SCG plays an important role in improving the asset accumulation of recipients (OPM, 2016; OPM, 2015). It has been found that the SCG recipients have commonly invested in livestock both as an income generating activity and as a potential coping strategy during shocks (OPM, 2016; OPM, 2015; Ibrahim & Namuddu, 2014:57).

It has also been reported that the regularity of the pension meant that recipients were less likely to be forced to sell livelihood assets in order to cope (OPM, 2015; Calder & Nakafeero, 2012). A study by Calder & Nakafeero (2012) found that many recipients also invested in livestock like goats or chickens with other recipients. Moreover, it has been reported that recipients used the grant for veterinary drugs, seeds, agro-chemicals, as well as to rent land. (OPM 2016 & 2015).

4. Impact on access to credit

Access to credit is of particular importance in cases of livelihood shocks since negative coping strategies (e.g. selling of assets) can be prevented. Evidence on the impacts of the SCG on recipient's access to credit has been mixed. Some studies have reported positive impact of the SCG on recipient's access to credits (OPM, 2015; Ibrahim & Namuddu, 2014). The OPM end line study has however not confirmed

While the primary objective of Uganda's Senior Citizen Grant (SCG) is to protect and to enhance the welfare of older persons, several studies have also provided vital evidence on the grants effects on Uganda's economy. Although the grant targets old persons who are less able to engage in productive activities directly, the grant has important economic impacts on the informal productive sector, namely in terms of: engagement in less-labour intensive livelihood activities and livelihood diversification; hiring of agricultural labourers; investments in livestock and agricultural inputs; enhancements in credit worthiness of recipients and their ability to save, as well as improvements in local markets.

any significant impacts on access to monetary credit or purchasing of goods on credit for recipients when compared to the control group (OPM, 2016:80).

It has however been found that the reliability of the grant enhances the creditworthiness of recipients. Several studies indicate that recipients are now able to make local purchases on credit between payments (OPM, 2016; OPM, 2015; ESPP, 2013; Bukuluki & Watson, 2012). Moreover, it has been found that recipients are now even becoming a perceived source of support (OPM, 2015).

In terms of savings it has been found that SCG recipients are able to save some part of the transfer. Moreover, several studies have

Differences in the structural context

The abovementioned economic impacts of Uganda's social pension may however hide significant differences in impacts between people living in areas that are more isolated and those living in areas that are better integrated into the economy. People living in remote areas have less access to infrastructure, markets and services than people living in integrated areas. Looking at the five transmission channels from the SCG transfer to economic growth, it is therefore crucial to understand the differences in the wider structural context in which the SCG transfer operates and in which people strive to survive.

“The impact of social pensions on the economy is not direct. Instead the main transmission channel is the productive informal sector.”

reported that recipients are able to join local saving groups and associations (OPM 2016; Ibrahim & Namuddu, 2014; Bukuluki & Watson 2012).

5. Impact on local markets

The OPM study found that the increased purchasing power among recipients meant that the SCG played a crucial role in enhancing 'the vibrancy of local markets' (OPM, 2016:61). Likewise, it has been reported that particular pension payment days attract traders and create new market opportunities at pay points (Bukuluki & Watson, 2012). In terms of the SCG's impact on local prices, there is no reported quantitative evidence that suggests that the SCG contributes to any kind of inflation (OPM, 2016:88).

1. Differences in livelihoods

In more integrated areas, people can engage in a range of different livelihood activities (Dimanin, 2012) ranging from unskilled or skilled employment in the formal sector of the economy to employment in the informal sector (World Bank, 1993).

In contrast, in more remote areas the vast majority of livelihoods are based on household farming (Fan & Zhang, 2008). Poorer rural households depend almost entirely on agriculture as their only source of livelihood (Canagarajah, et al., 2001: 410). The very few richer rural households have a more diversified income base including farming and off-farming activities (ibid: 410). Rural diversification can thus be seen as one of the core pathways out of poverty.



2. Differences in wage labour and labour supply

The opportunity to participate in wage labour is far greater in areas with better access to public infrastructure (e.g. Kampala and the Central region) (World Bank, 2012). This is supported by evidence from a study conducted by Bagamba, et al. (2007), which found that specifically, road access has a statistically significant positive effect on labour demand in southwest Uganda.

In contrast, in more remote areas the labour market has been plagued by information and mobility imperfections, due partly to a weak road and transport infrastructure (World Bank, 1993: 22). Opportunities for off-farm wage labour are rare in more remote areas. Instead rural wage labourers participate largely in seasonal agricultural activity (OPM, 2015: 48).

3. Differences in asset accumulation

In cash-based urban economies, the primary asset is cash itself as it provides the means for greater food security and greater access to productive tools and services (Dimanin, 2012:11).

In contrast, assets in remote rural areas mainly refer to land and livestock (e.g. goats, pigs and chickens) (Sseguya, et al. 2009; Ellis & Bahiigwa, 2003). Farm implements and inputs are also considered vital assets, particularly at the beginning of the farming season (IFAD, 2012). Individuals with low asset levels are often excluded from 'the household and community support mechanisms that exist' due to their inability to reciprocate back into such systems (Lawson, et al. 2006:1229).

4. Differences in savings and access to credit

While Uganda's credit landscape has seen increased access to financial

services across the country in recent years, people living in more integrated areas have still better access to credit and financial services than people living in more remote areas (Kasirye, 2007; FinScope, 2013).

Moreover, Kasirye (2007) also finds that the majority of credits in rural areas are used as working capital for non-farm enterprises and purchase of assets such as land (ibid.). The proportion of loans advanced to agricultural inputs remains very low (ibid).

Households in more remote areas obtain credit mostly from informal sources—mainly from friends or family. These informal loan sources are however only able to provide very small amounts which are often "too small to make meaningful investments" and usually serve only to meet consumption expenses (Kasirye, 2007:12). Hence, the limited access to credit hinders households in remote areas in boosting their incomes – both by improving and expanding their production, and by establishing small enterprises. (IFAD, 2012:1).

5. Differences in local markets

Markets are much more accessible for people living in more integrated areas than for people living in more remote areas due to better infrastructure (Dimanin, 2012). People living in remote areas have often only limited access to markets given the poor roads, communication and transport networks (Canagarajah, et al. 2001). This puts a strain on the livelihood diversification efforts of many people living in remote areas as noted by several studies (Bird & Shinyekwa, 2003; Canagarajah, et al. 2001; World Bank, 1994; World Bank, 1993). Therefore, it has been argued that "remoteness makes people poor" (IFAD, 2012:1). This emphasises the role of general infrastructure for poverty reduction in rural Uganda (IFAD, 2012; Bird &

There are vital differences between more integrated and more remote areas with regard to the main transmission channels from social pensions to economic growth. In more integrated areas people engage in a variety of different livelihood activities and there are different opportunities for engagement in wage labour. In contrast, in more remote areas the vast majority relies on agriculture as their only source of income. As such, wage labour relates mostly to labour-intensive and seasonal agricultural labour. In terms of credit people living in more integrated areas have better access to credit and financial services whereas access to credit is commonly very limited in remote areas. These wider structural differences can have vital implications for the economic impacts of the SCG transfer in areas with different structural circumstances.markets.



Shinyekwa, 2003; Canagarajah, et al., 2001; Reardon, 1997).

In terms of prices, the seasonal variation in agricultural supply has large implications on the price stability of agricultural products. Consequently, areas that rely strongly on agricultural economic activity, suffer disproportionately relative to areas that have a more diversified income base (World Bank, 1993:54).

activities of recipients; their ability to hire labour; their ability to save and invest parts of the transfer; and their creditworthiness.

These impacts however hide significant differences between people living in better integrated or more remote areas. In Uganda it has been shown that there are large differences in the livelihood conditions in these areas.

“There are vital differences between more integrated and more remote areas with regard to the main transmission channels from social pensions to economic growth.”

Conclusion

This policy brief calls for a more differentiated approach for studying the economic impacts of SCTs. Many studies have provided evidence on the positive economic outcomes of SCTs across the African continent. The assumption underpinning many of these impact assessments is that the simple injection of cash into poor communities will result in economic multiplier effects which contribute to economic growth through different transmission channels. This however ignores the range of structural constraints in which SCTs operate that have a bearing on their economic impacts. As such structural circumstances can either increase or decrease the economic multiplier effect of SCTs (FAO, 2014). Many studies confirm the positive economic outcomes of Uganda’s flagship SCT programme, the Senior Citizen Grant, even though it is targeted at older and hence less productive persons. It has been emphasised that the main transmission channel between Uganda’s social pension and economic growth is the productive informal sector. As such they impact local markets; the livelihood

More remote areas commonly obtain less infrastructures and services. This suggests important implications for the expected economic impacts of social pension in these regions.

These differences have however not yet been given much attention within the academic debate around SCTs. Studying those differences moves the focus away from an approach that regards the recipients and their community members within a vacuum. Instead, it places greater emphasis on the structural circumstances in which recipients strive to make a living and which shape and constrain the way recipients and community members can contribute to economic growth. A more differentiated approach is highly necessary, since it can comprehend the functioning of SCTs within the wider contexts of their implementation. As such it can make important contributions to better coordinated policy interventions in order to reach beyond the individual targeted by SCTs.

An online version of this policy brief, complete with references, is available at: <http://www.merit.unu.edu/sctei/>



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INSIDE:

Policy Brief

SCTs as Economic Investments

Analysing the transmission channels between social pensions and economic growth in areas with different structural circumstances.

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