

Cash transfers and poverty reduction in Uganda

By

Sarah Ssewanyana

Economic Policy Research Centre

A paper presented at the Bi-regional conference on Social Protection and Poverty Reduction, 7-9 June 2007, Cape Town, South Africa

Background to the study

- Uganda is a low income country
 - Population 27 million people and growing at 3.2% per annum
 - By 2005/06 nearly 3 in every 10 Ugandans were living below the absolute poverty line
 - Due to high population growth rate, the number of people living in poverty has not changed much relative to levels reported in 1992/93. Nearly 9.8 million in 1992, 9.8 million in 2002/03 and 8.4 million in 2005/06 were poor
- Strong growth in mean consumption per adult equivalent since 1992/93 (3.69% :1992-2006)
- Govt. remains committed to its poverty reduction agenda through its Poverty Eradication Action Plan (PEAP) framework

Fig 1: Trends toward PEAP & MDG income poverty targets

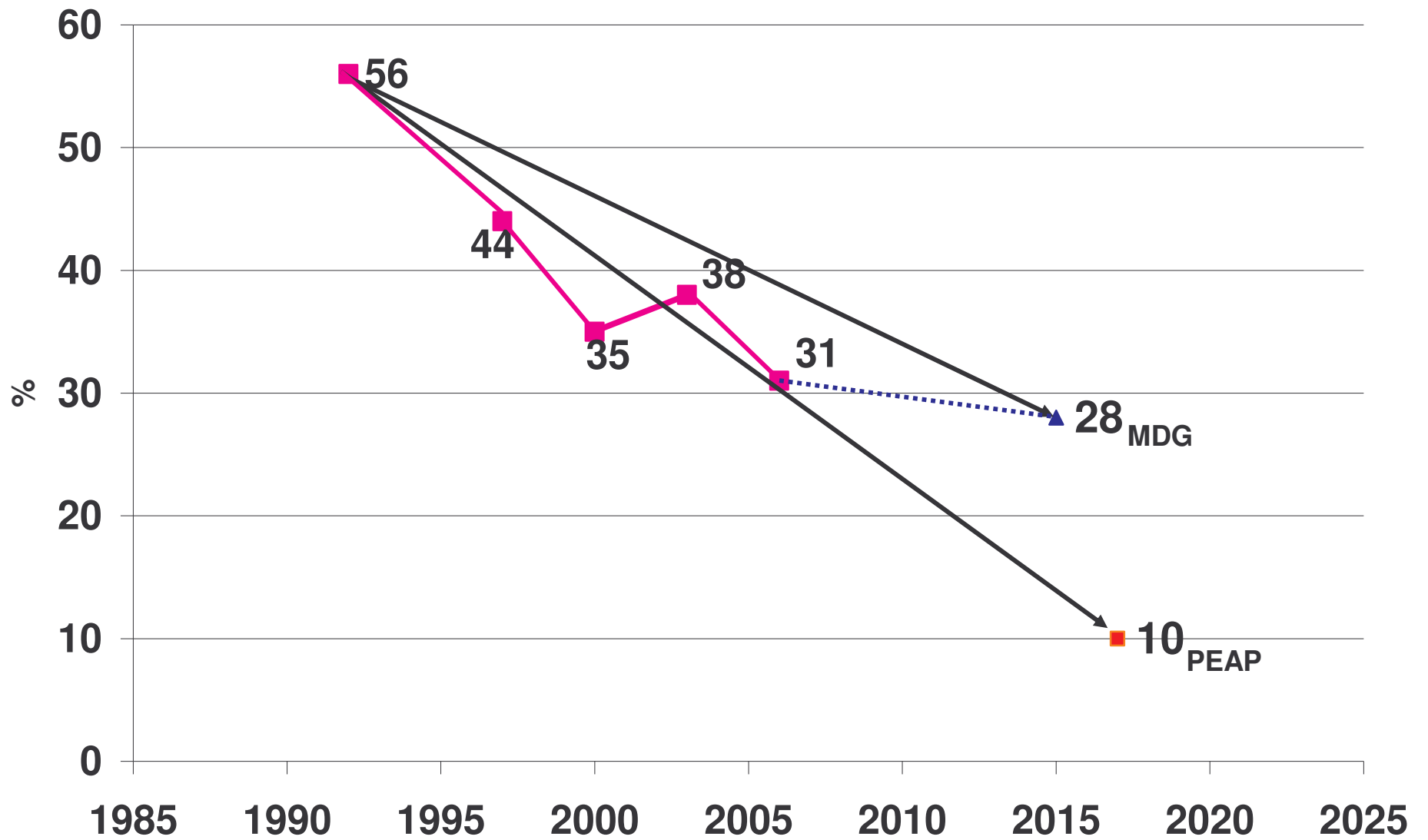


Fig. 2: Trends in national Gini coefficient, 1992-2006

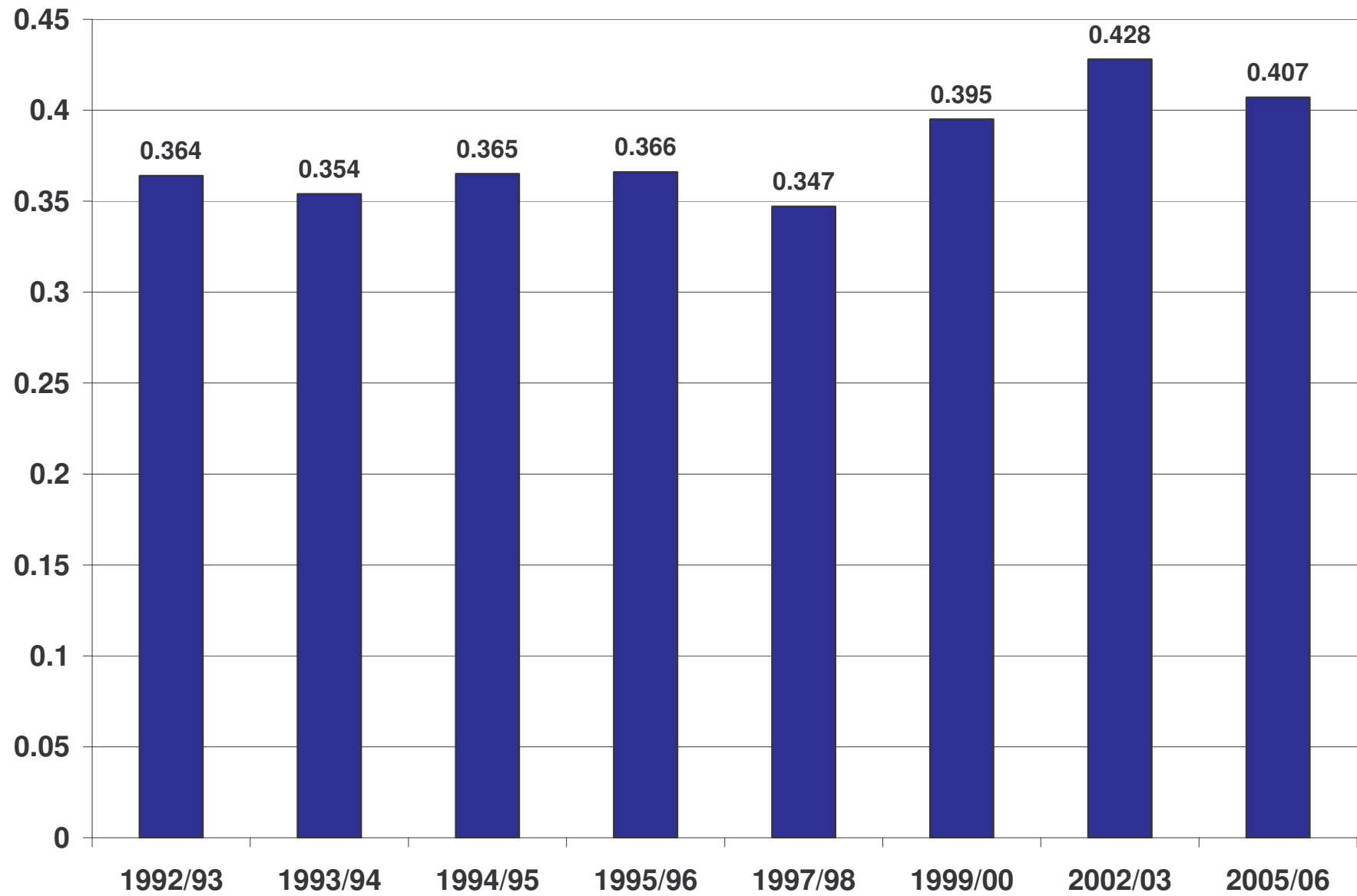


Fig. 4: Trends towards MDG universal primary education targets

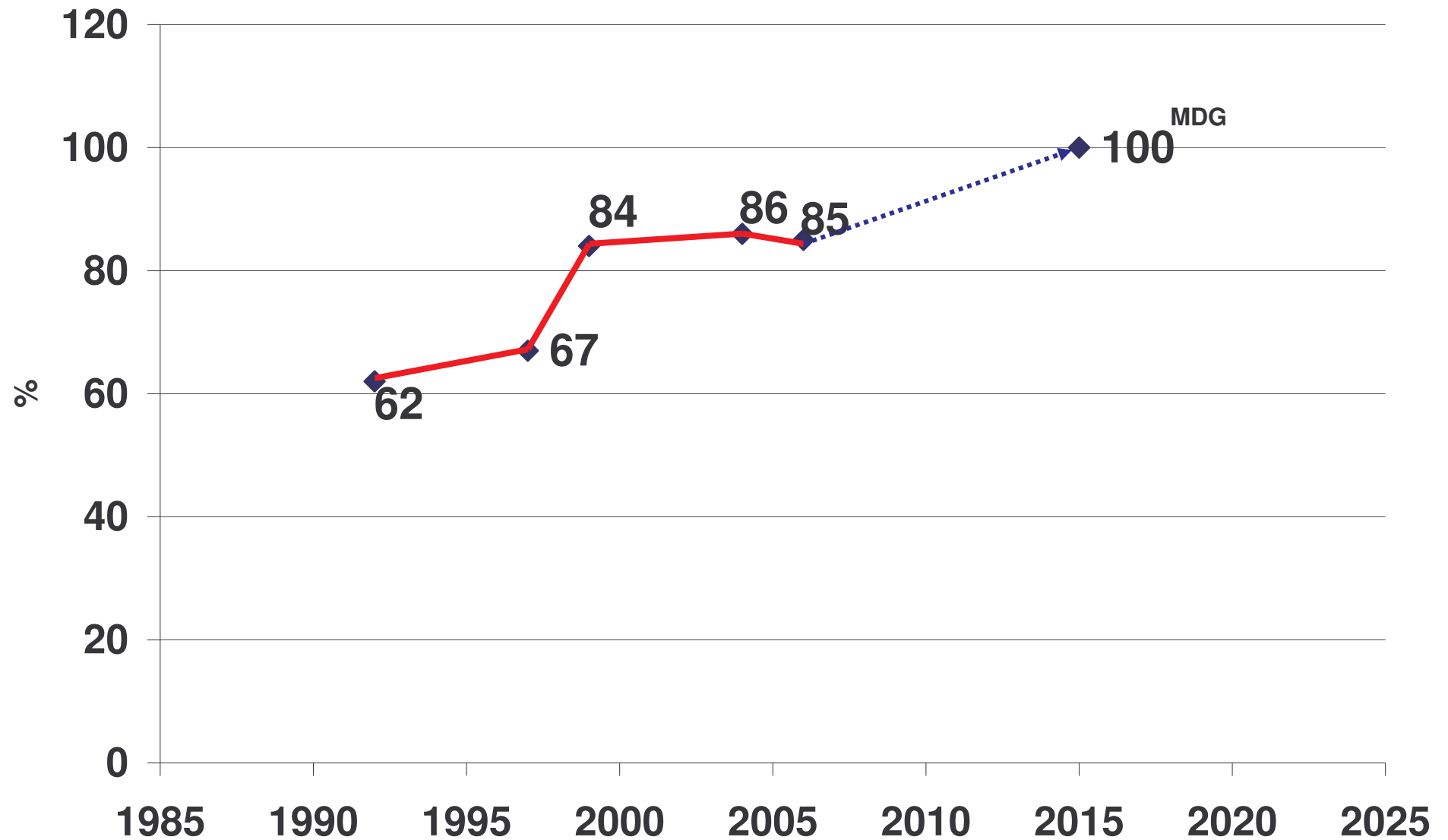


Fig. 5: Trends towards PEAP and MDG Infant mortality targets

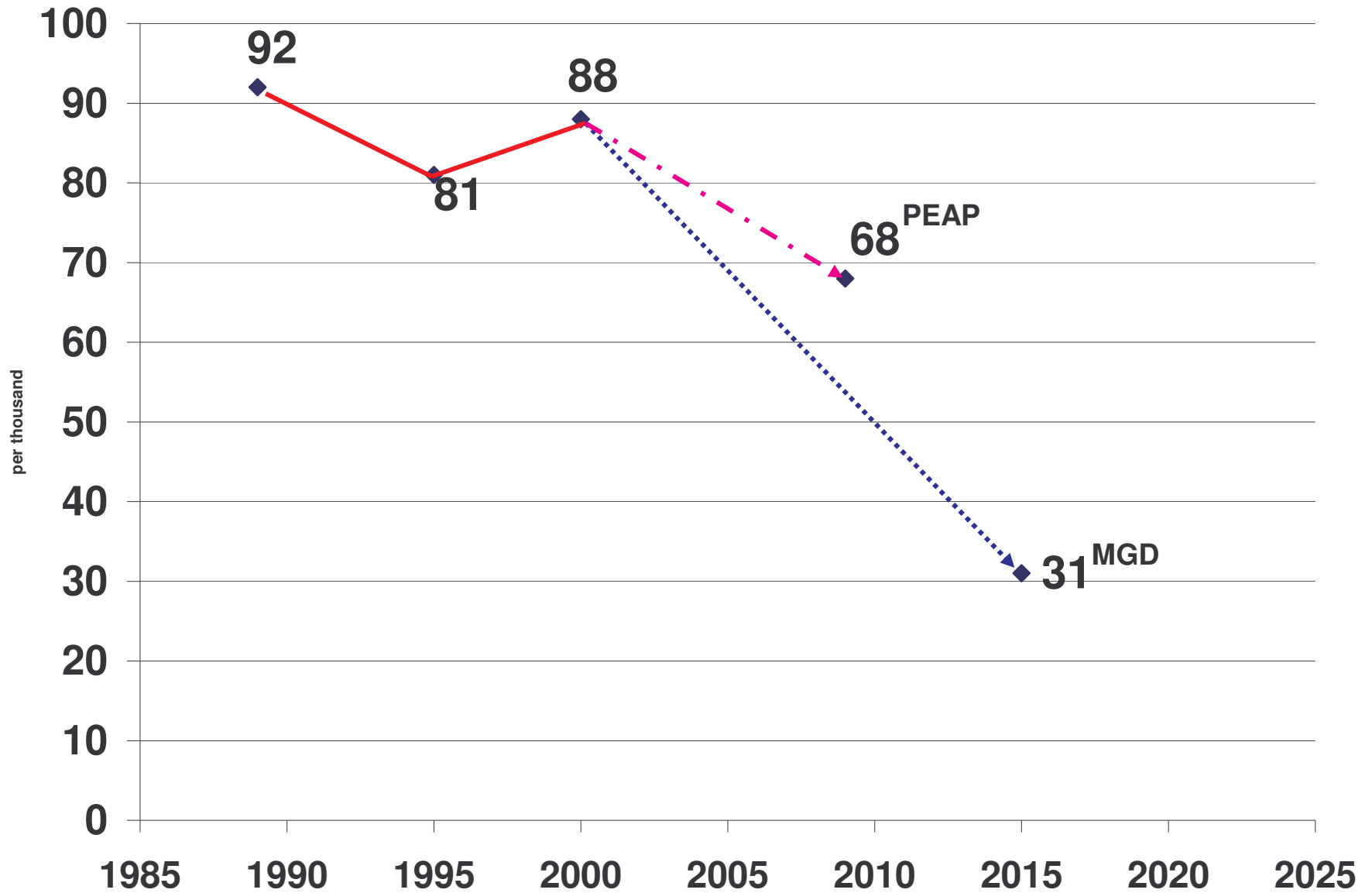
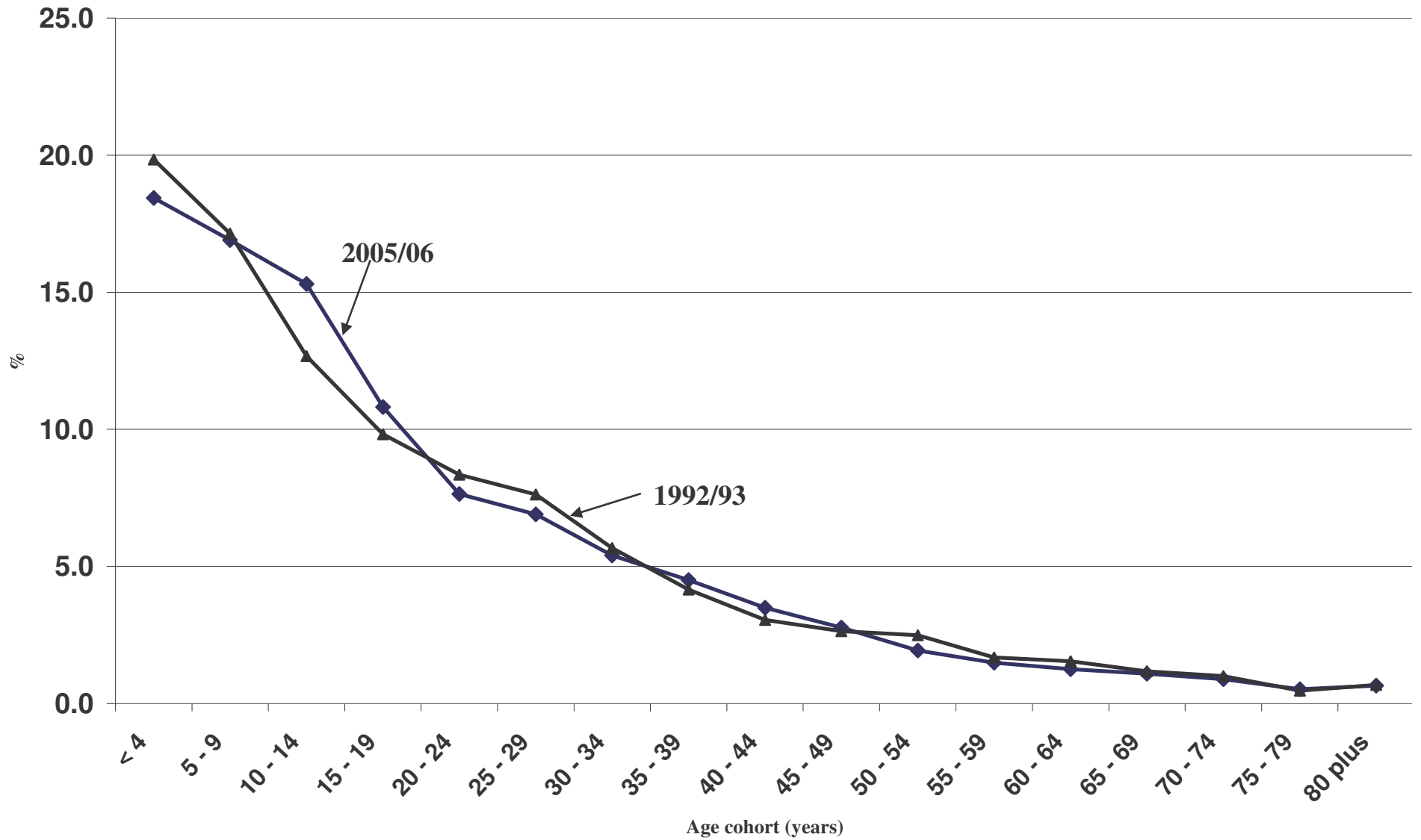


Fig. 6: Uganda Population Structure by age cohort (%)



Background (cond.)

- Disaggregated analysis reveals
 - Uneven progress in poverty reduction across regions and rural/urban areas
 - Poverty more concentrated among specific groups
 - Those living in extreme poverty seem not to benefit from main stream development programs/interventions
 - Spatial inequalities, disparities across socio-economic groups
- Responsiveness of poverty to growth and inequality: Growth elasticity of poverty headcount, poverty gap and severity of poverty - 1.79, -2.38 and -2.78, respectively; Corresponding figures for inequality elasticity 1.25, 2.07 & 2.61 respectively

Background (contd)

- To accelerate progress towards achievement of MGD & PEAP targets, policy actions are required to address the inequalities in human development indicators; access and utilization of public social services
- This paper, therefore, seeks to answer the following questions:
 - Would introduction of direct cash transfers improve the well-being of the groups of Ugandans who have not benefited from main stream development initiatives? If so,
 - Should such transfers be targeted or universal?
 - Should they be conditional or non-conditional?
 - How about fiscal affordability?

Population and household shares by type, %

	Population	Household
<i>Household type 1</i>		
Multigenerational	93.3	81.7
Only children & elderly	2.3	2.8
Only elderly	0.7	3.0
Only adults	3.6	12.3
Only children	0.1	0.3
<i>Household type 2</i>		
Child head	0.3	0.8
Prime age adult head	84.0	83.2
Elderly head	15.6	16.0
<i>Household type 3</i>		
Unmarried female	1.0	1.9
Married female	8.4	8.7
Divorced female	3.7	5.2
Widow	9.9	11.2
Male head	77.0	73.1
<i>Household type 4</i>		
Extremely poor	15.2	12.7
Moderately poor	15.9	13.8
Non-poor	68.9	73.5
Est. population ('000)	27,158.9	5,229.3

Results: Poverty profile

Fig. 7: Income poverty patterns by individual type (%), 2005/06

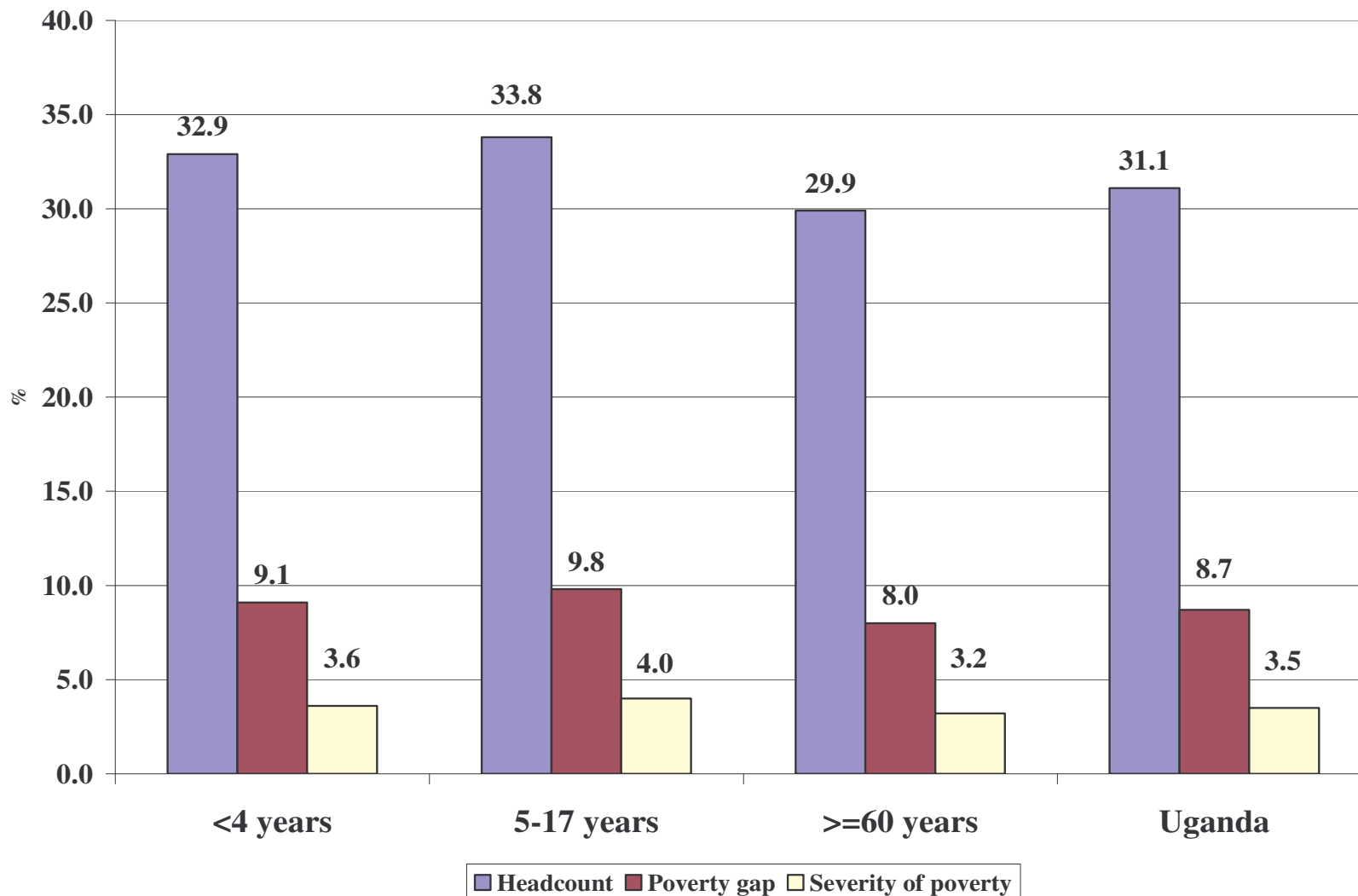


Fig. 8: Income poverty patterns by household types, 2005/06

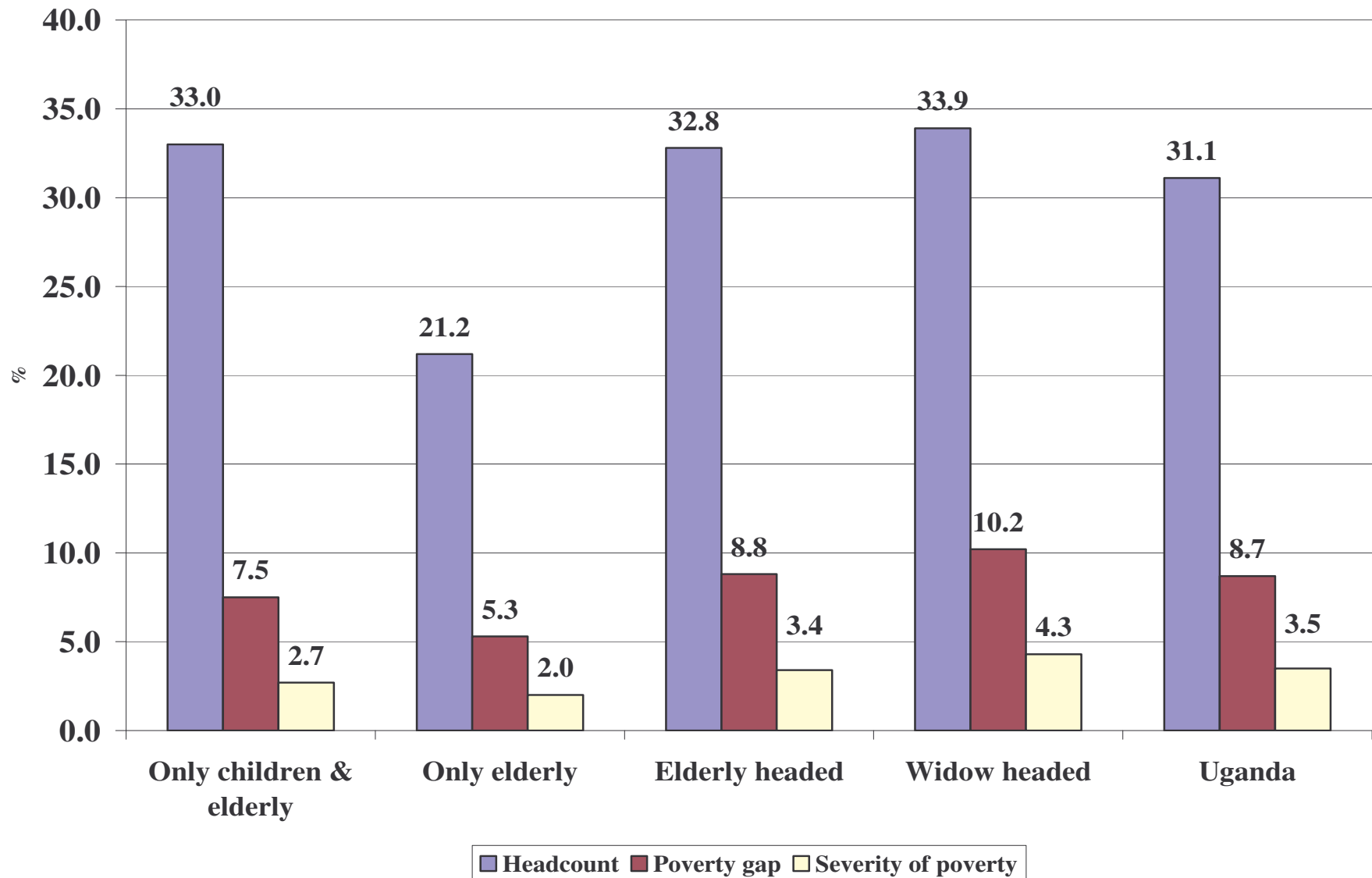
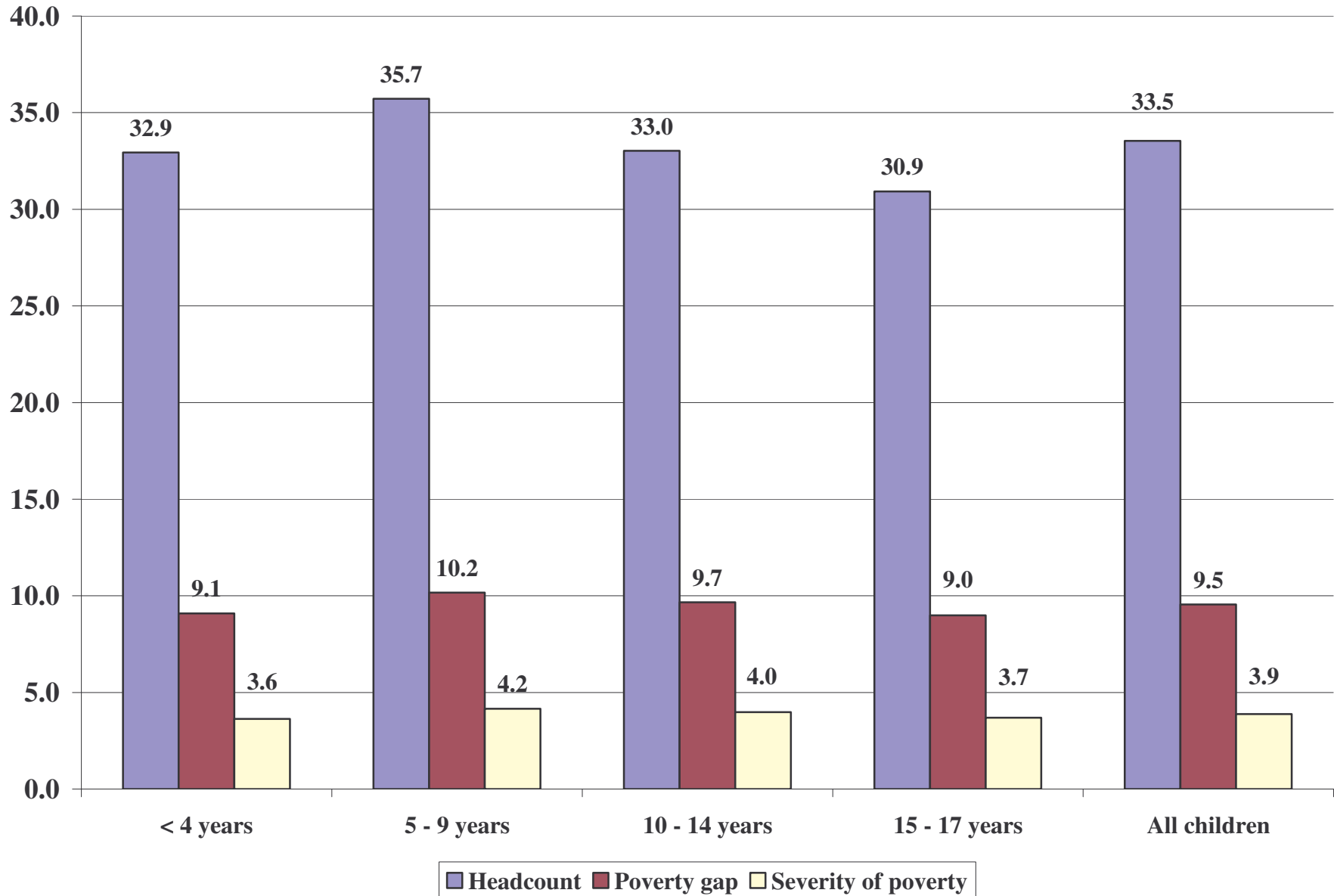
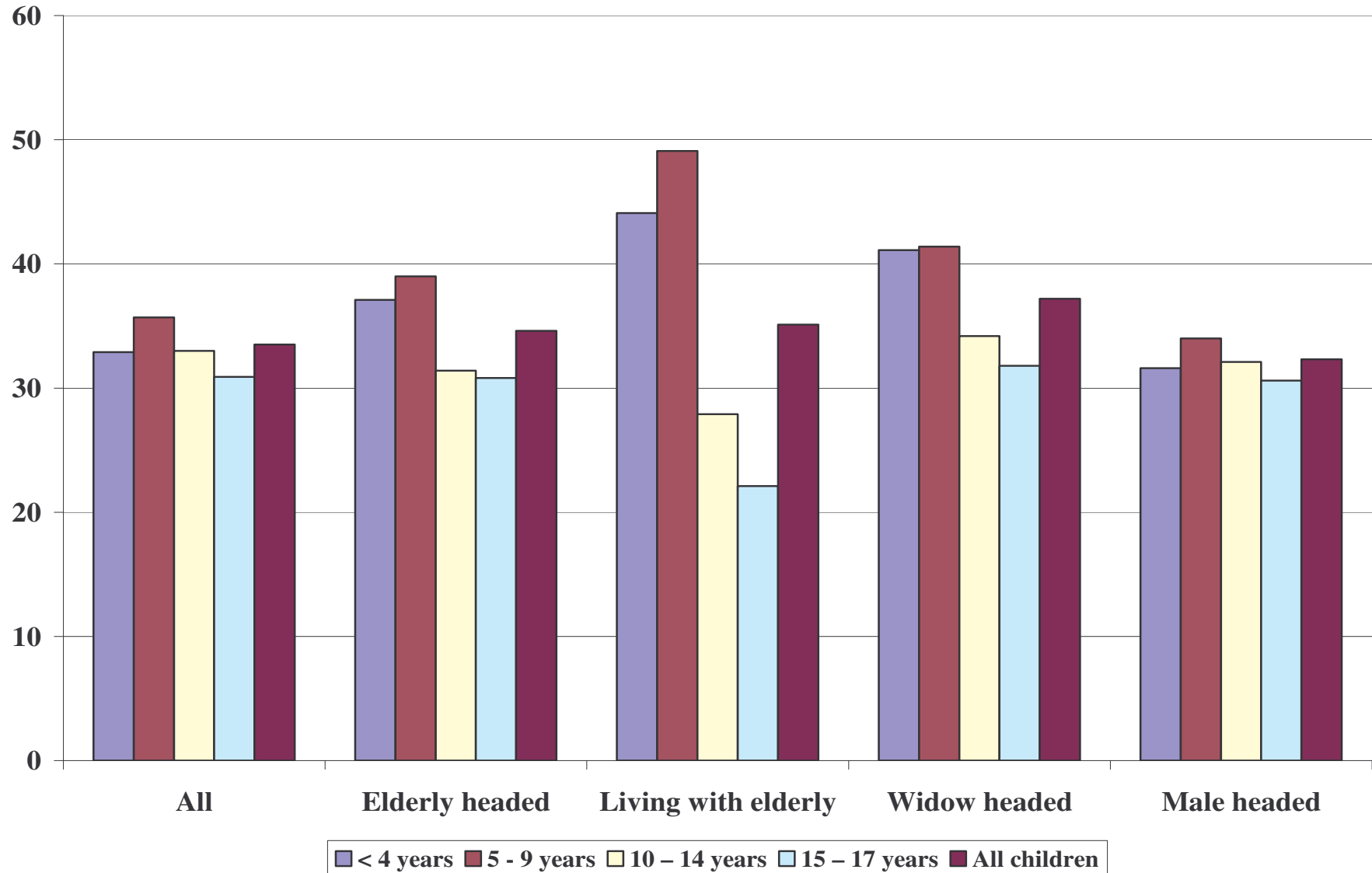


Fig. 9: Income poverty among children by age cohort (%)



Poverty profile for children by living arrangements, %



Poverty profile (contd.)

- Poverty among children (especially 5-17 years) is significantly higher than the national average
- No significant differences are observed between the elderly population and the national average for the entire population
- Poverty headcount among children is significantly higher than that of elderly BUT severity of poverty is similar for both groups
 - Children are in a more worse poverty situation than the elderly
 - Poverty among children depict a life cycle dimension, with 5-9 years in a more worse poverty situation compared to the other child age cohorts
 - Poverty among children varies by living arrangements

Results: Schooling status for children & health profile

Fig. 10: Schooling status of children 6-17 years, 2005/06

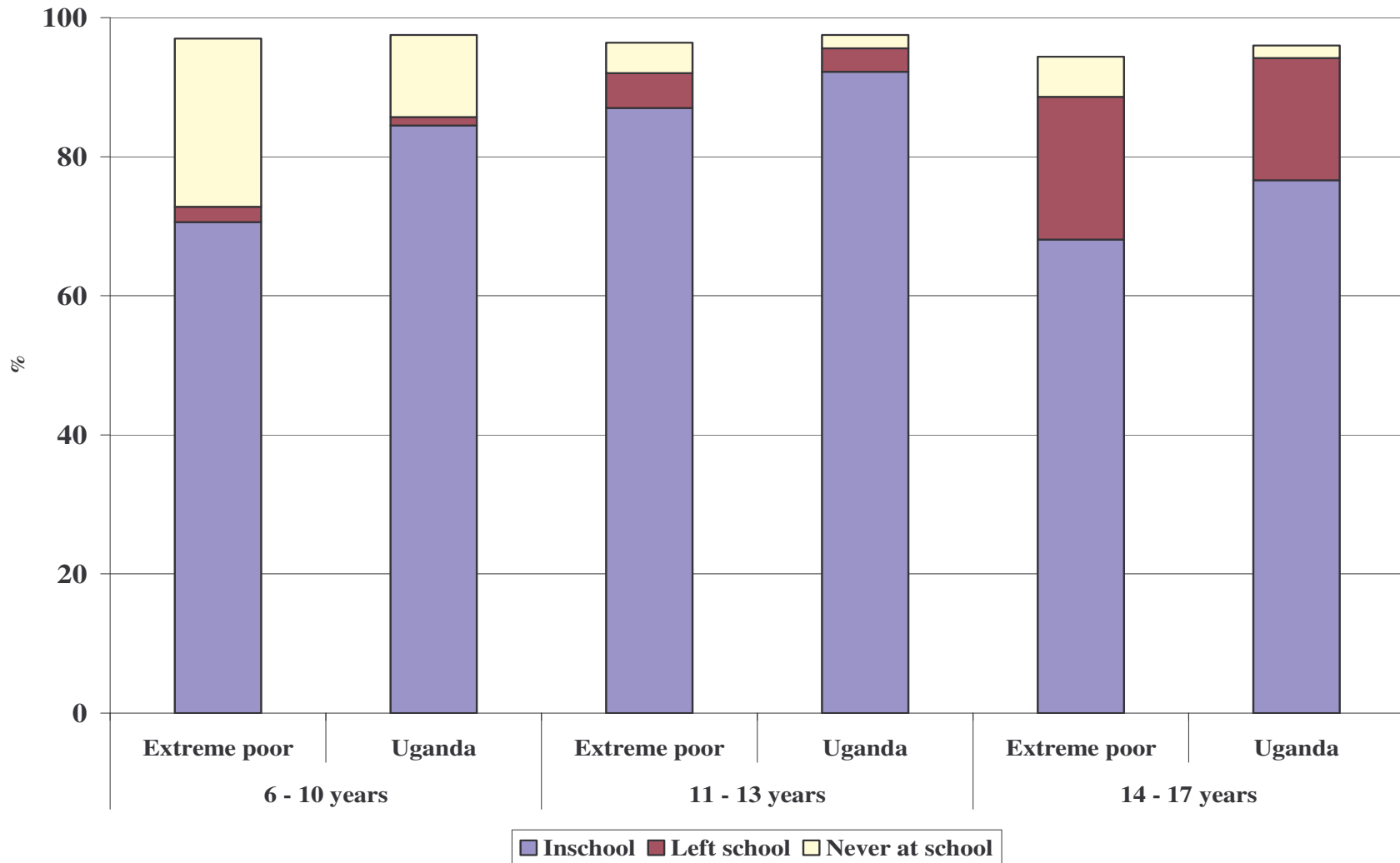
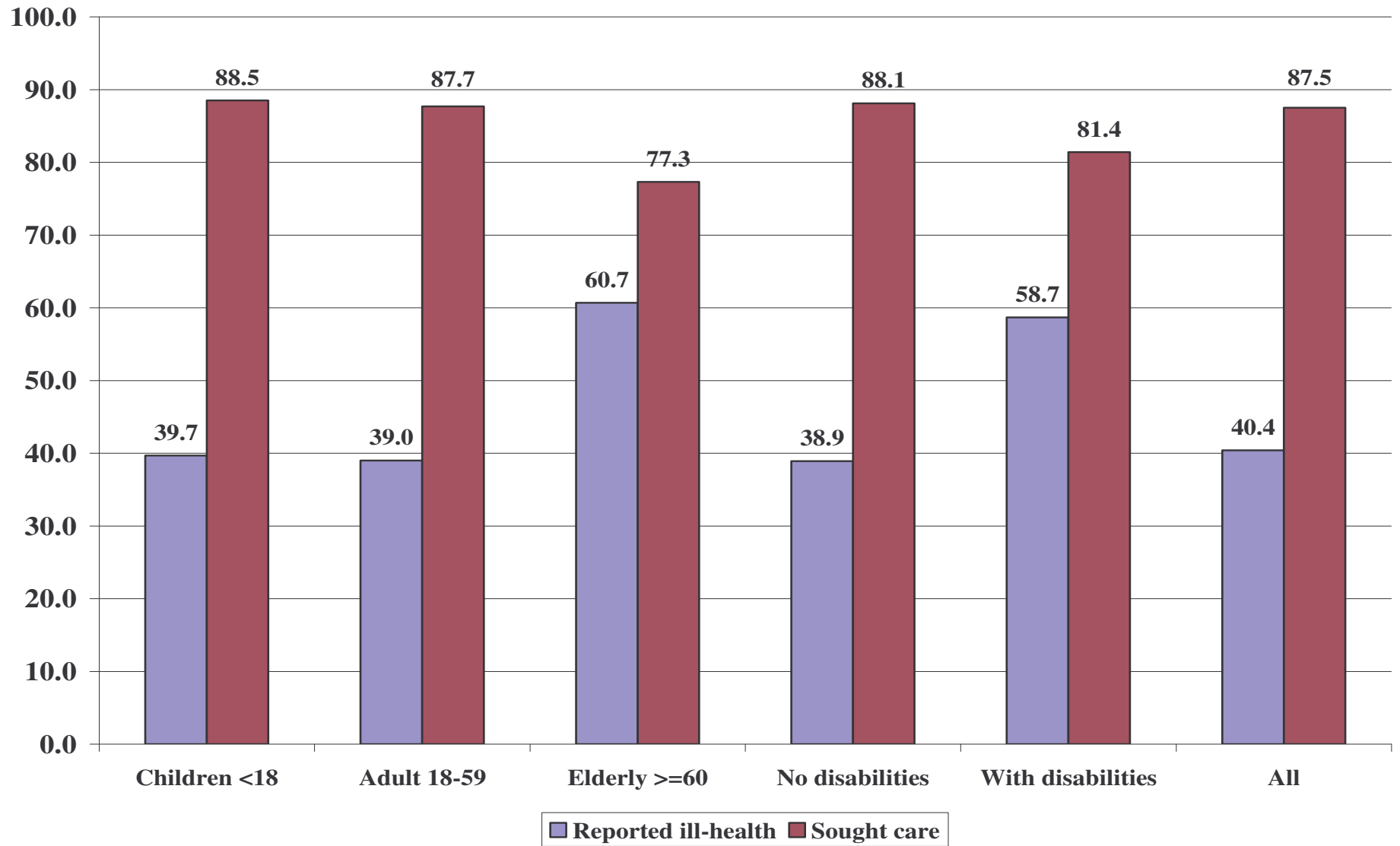


Fig. 13: Incidence of ill-health and seeking treatment when ill (%), 2005/06



- Reasons why extremely poor households do not send their school going age children to school
 - Cost [for entire population, private financing of education increased from Shs. 51.9bill. In 2002/03 to Shs. 53.8bill in 2005/06]
 - Work
 - Lack of interest/no value for education (esp. in Karamoja sub-region – pastoralists)
- Reasons for not seeking care when ill
 - Cost especially among the elderly, persons living with disabilities & those living in extreme poverty
 - Distance to health facilities
 - Other supply constraints e.g lack of drugs, attitudes etc

Results: Resources needed to eliminate poverty

Fig. 15: Cost of eliminating income poverty gap % of GDP by individual type

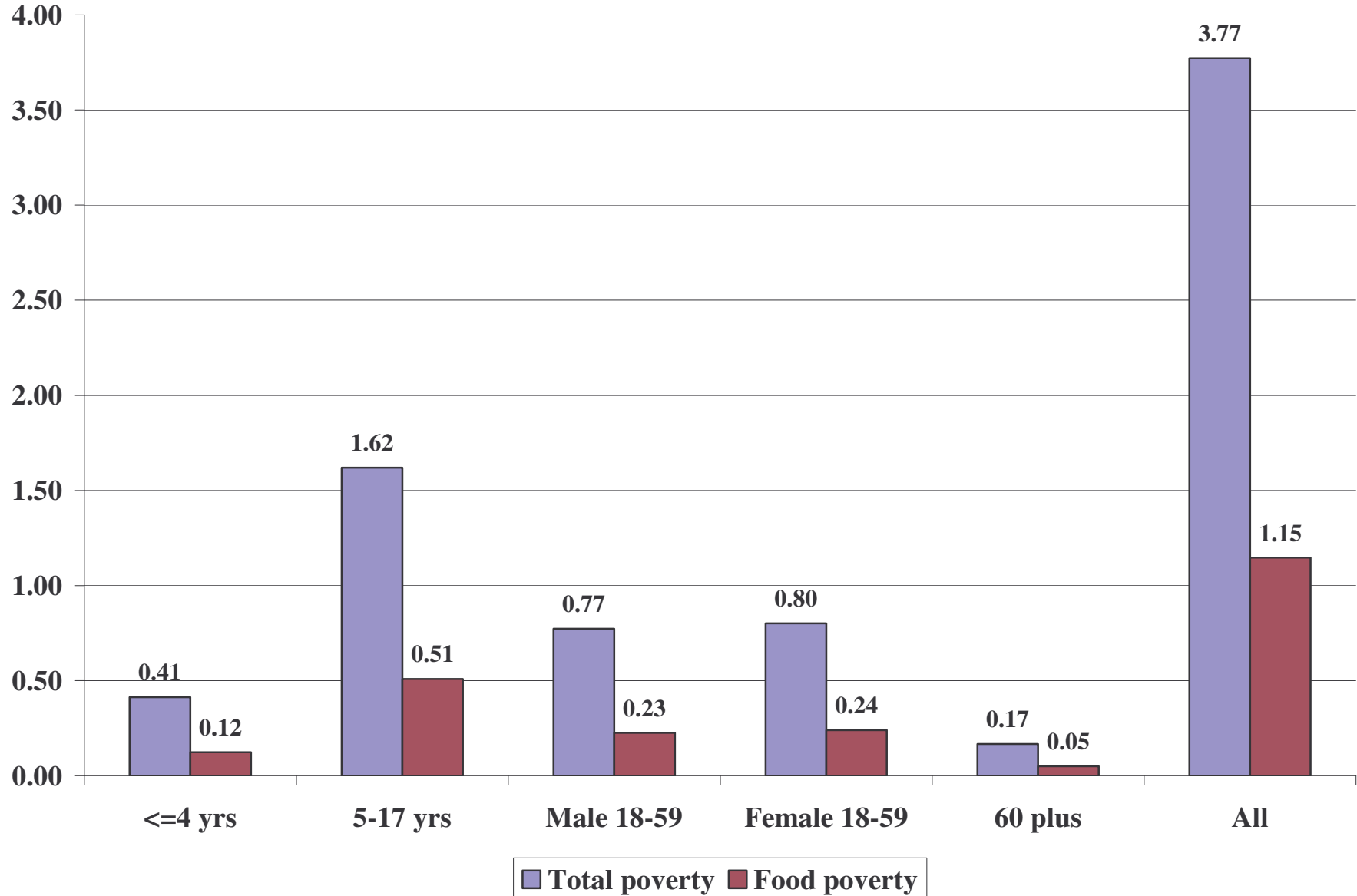
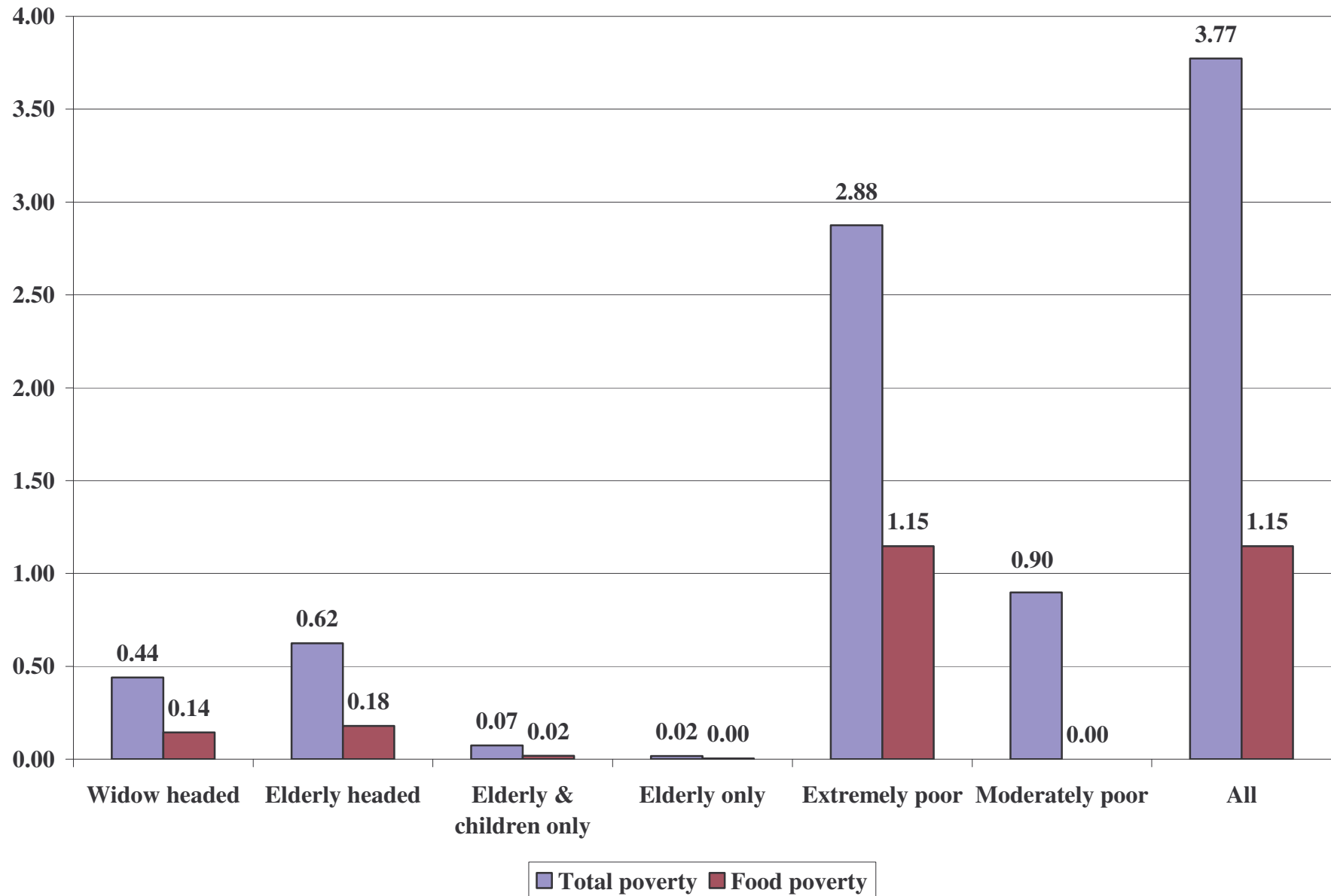


Fig. 16: Cost of eliminating absolute poverty gap as % of GDP by household type



Results: Cash transfers *ex ante* simulations

Fig. 17: Poverty reduction: of 0.5% of GDP to children under different living arrangements, %

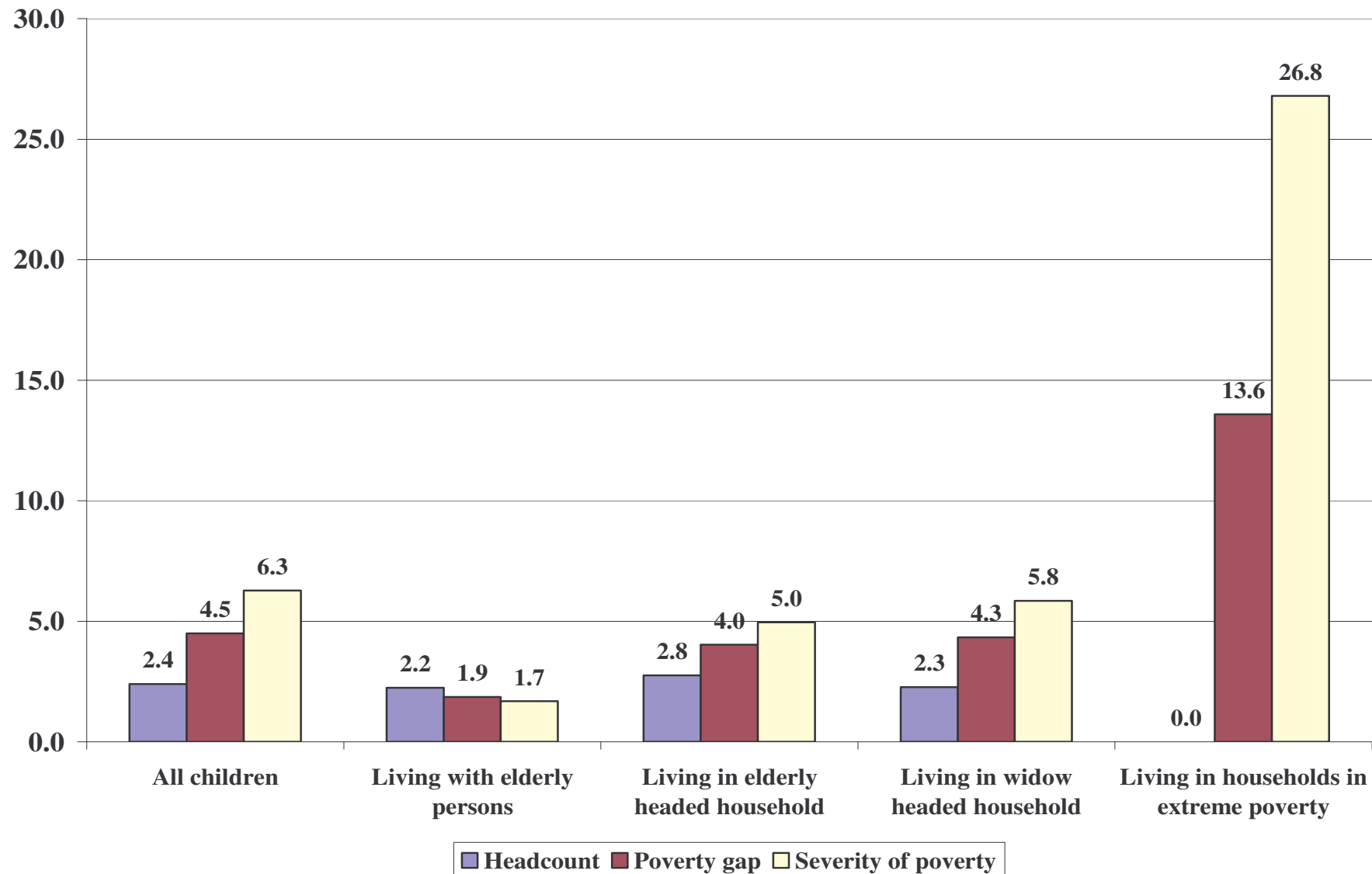


Fig. 18: Poverty reduction: of 0.5% of GDP to the elderly under different living arrangements, %

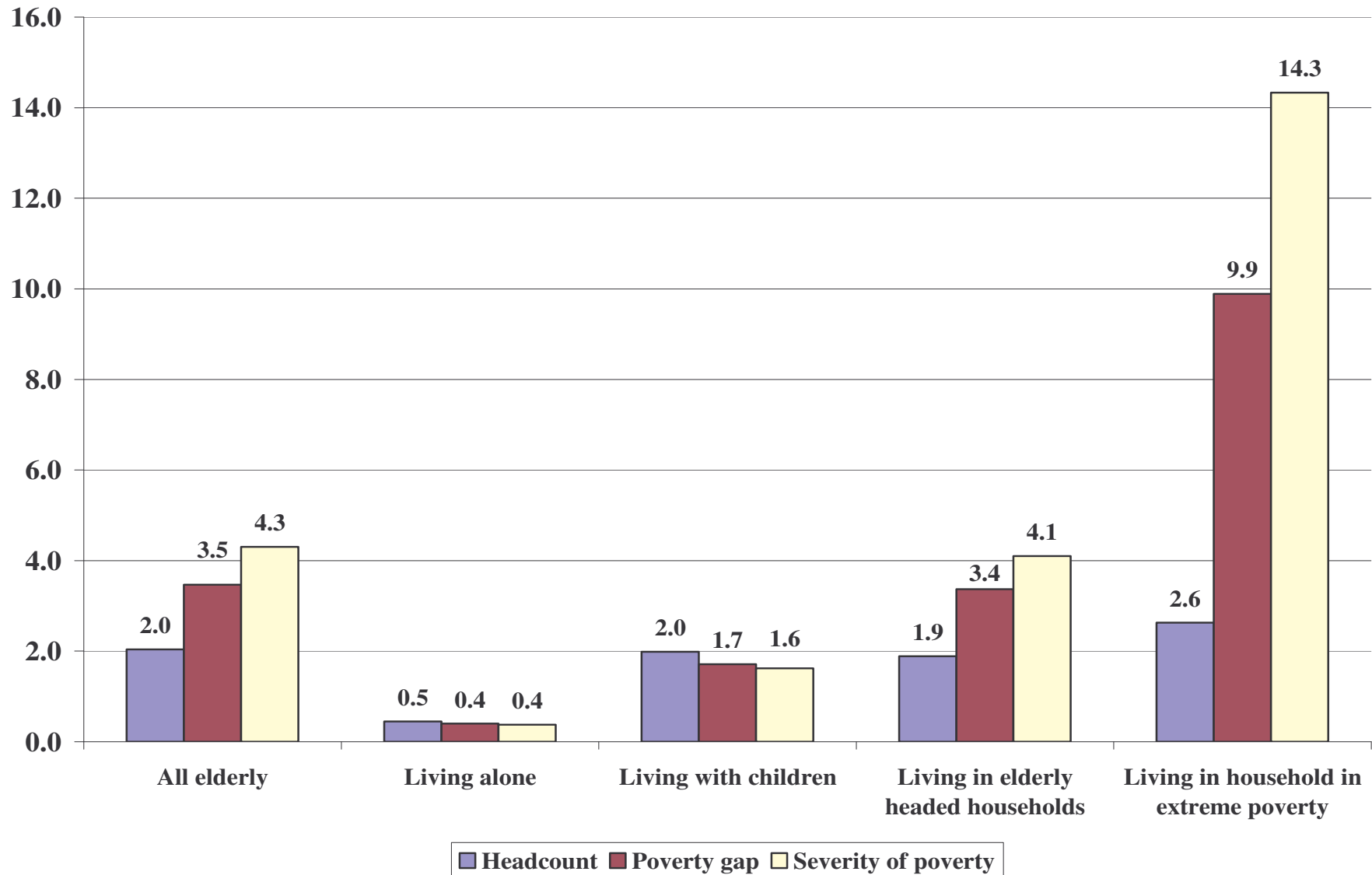
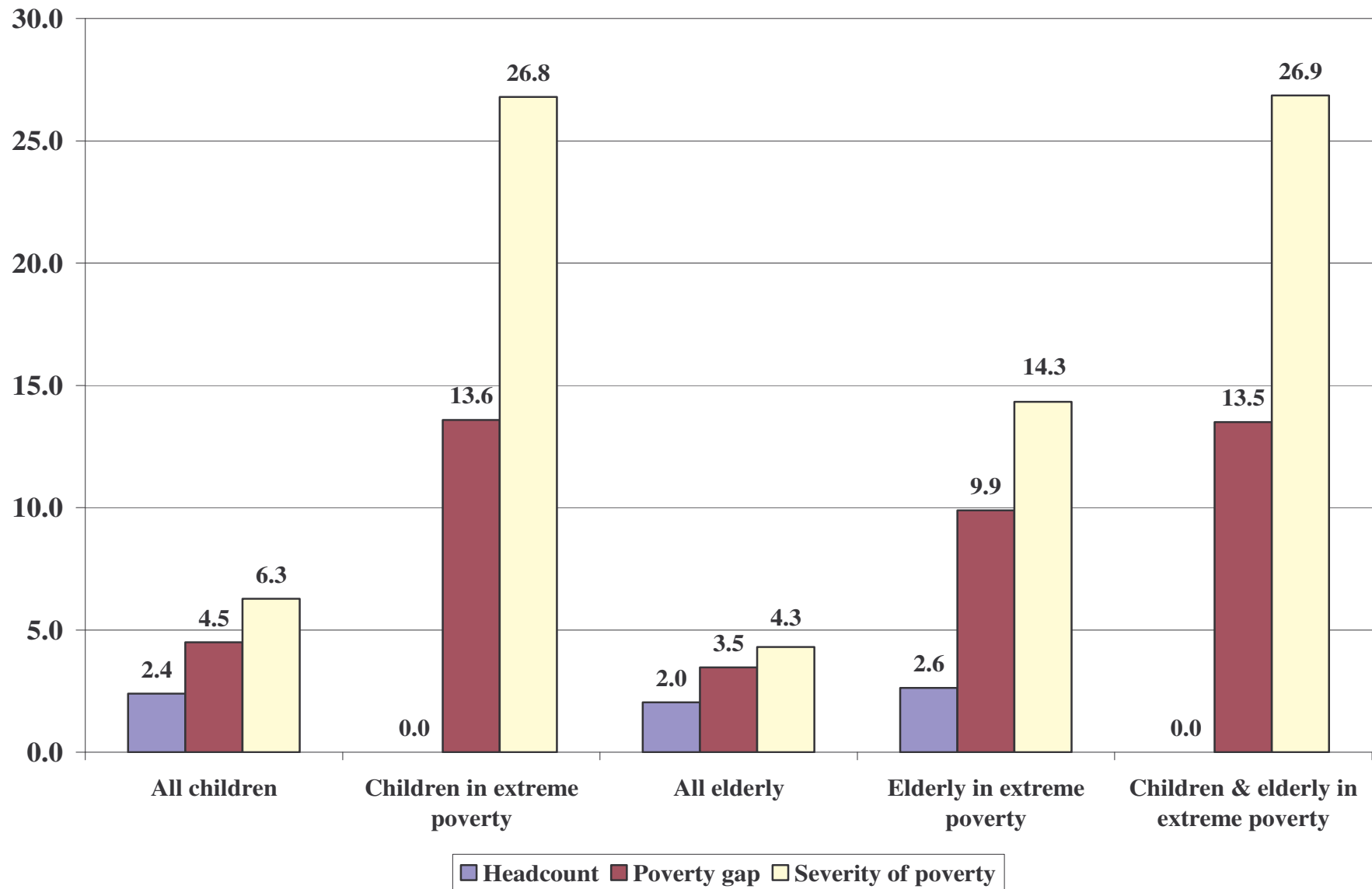


Fig. 19: Poverty reduction: of 0.5% of GDP to children & the elderly in extreme poverty, %



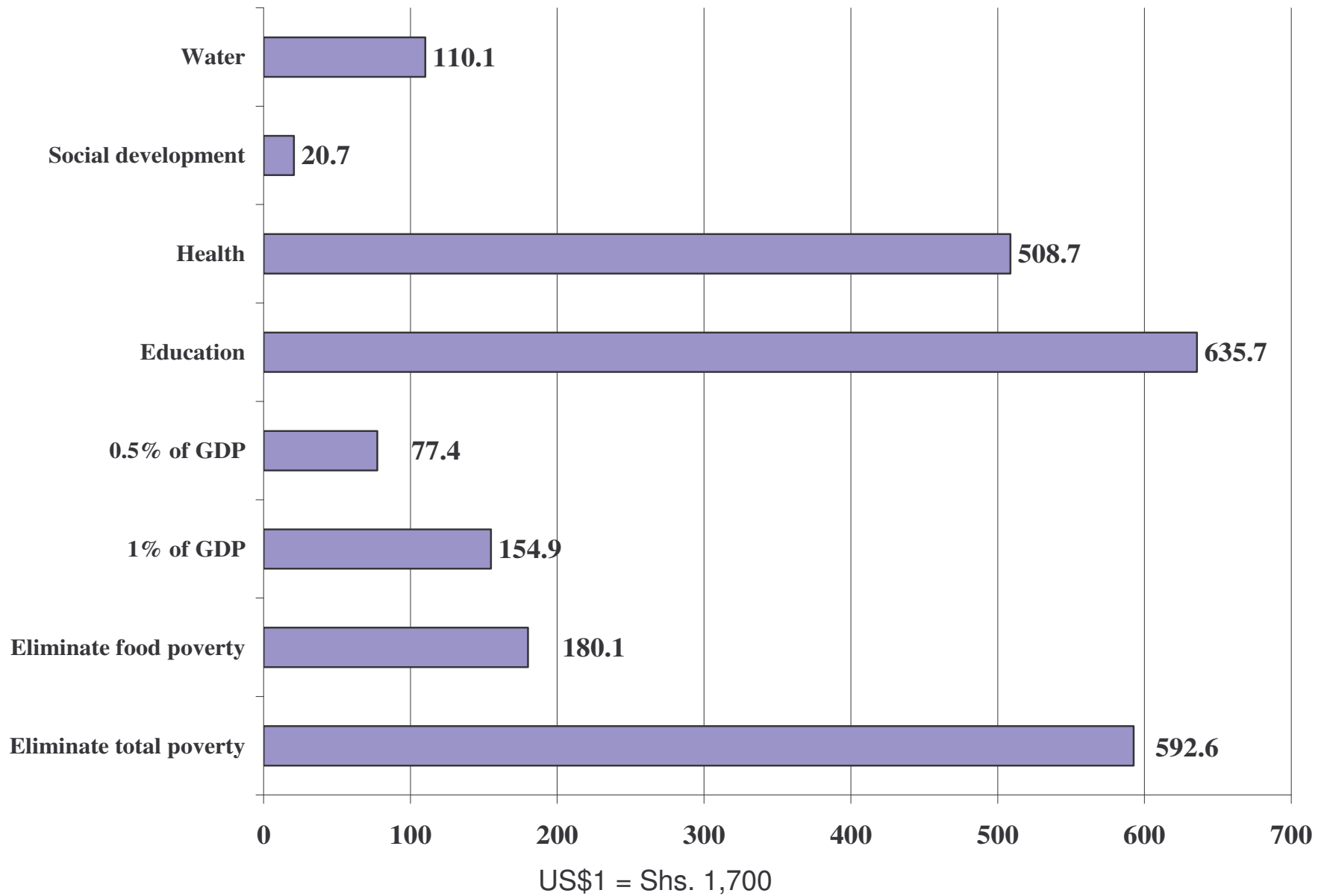
Cash transfers (contd.)

- There is a high correlation between income poverty and presence of children in a household
- Universal transfers to all children/ all elderly persons includes also the non-poor!
- Targeting by living arrangements shows
 - Greater impact on children living in extremely poor households
 - Since we get similar results if the same fixed budget is transferred both to children and the elderly in extreme poverty we propose
 - CT to children and elderly persons in extreme poverty
 - 0.65 mill households with 2.7 million children& elderly persons

Fiscal affordability

- Uganda is one of the highly aid-dependent country, with nearly half of the national budget donor supported
 - Its revenue raising capacity remains limited, with only 12-13% of GDP
 - Budget deficit of 8.8% in 2005/06
- Government remains committed to its pro-poor spending interventions (1/3 of public expenditure on social sectors)
 - BUT introduction of CT would represent addition financial commitments or it might require switching of resources among the existing programs

Comparison of cost of transfers and actual budget to social sectors, Shs (bill.)



Fiscal affordability (contd.)

- To eliminate absolute income poverty is equivalent to 3.8% of GDP, which is not feasible since the public expenditure of education and health as %GDP is 3.7% and 2.9%, respectively
- Transfer 0.5% GDP translates into 12.2% of the education budget; 15.2% of health budget and 6.1% of the total public social spending
- While limitations of alternative source of funding are clear, inclusion of the less advantaged groups and those living in extreme poverty, among others in the development process will speed up progress towards the achievement of the MDG & PEAP targets.

Concluding remarks

- There is fear among policymakers that CT might be incompatible with long-run income growth for the poor and might in the end lead to more poverty
 - But conditional transfer on human capital development might not be a bad idea
 - Maintain human productivity in the long-run for children in extreme poverty who would otherwise suffer irreparable damage either economically or physically
- Despite strong economic growth, growth in consumption at household level, reduction in income poverty and increased social spending, the quality of life of the extreme poor raises concerns towards the achievement of the MDGs & PEAP targets. Hence a justification for CT scheme