FINAL REPORT

DISCUSSION PAPER ON

TRANSFER VALUES IN KENYA'S NATIONAL SOCIAL SECURITY SYSTEM

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SOCIAL SECURITY SYSTEM

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Acronyms

CFA	Cash for Assets
CGP	Child Grant Programme
CPI	Consumer Price Index
CT-OVC	Cash Transfer to Orphans and Vulnerable Children
FFA	Food for Assets
FSOM	Food Security and Outcome Monitoring
GDP	Gross Domestic Product
HSCT	Harmonized Social Cash Transfer
HSNP	Hunger Safety Net Programme
ILO	International Labour Organization
KIHBS	Kenya Integrated Household Budget Survey
LEAP	Livelihood Empowerment Against Poverty Cash Transfer
MHFB	Minimum Healthy Food Basket
MIS	Management information system
NDMA	National Drought Management Authority
OPCT	Older Persons Cash Transfer
OPM	Oxford Policy Management
PPP	Purchasing Power Parity
PWSD	Persons with Severe Disability
SCT	Social Cash Transfer
UNICEF	United Nations Children's Fund
VAM	Vulnerability and Market Assessment
WFP	World Food Programme

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Executive summary

This paper has been commissioned by the World Food Programme (WFP) and United Nations Children's Fund (UNICEF) to support the Government of Kenya in its policy development. It seeks to examine the current transfer values of Kenya's tax-financed social security schemes and assess whether they are set at an appropriate level.

In most countries, debates on the value of transfers are a normal feature of policy-making, with proponents usually on both sides of the argument, some arguing that they are too low and others that they are too high. The debates indicate that there is no "right" answer and no agreed approach to determining transfer values. Indeed, there is a range of issues to consider when determining the value of transfers including: the purposes of social security schemes; the cost of a minimum standard of living; potential work (dis-) incentives; costs imposed on beneficiaries for complying with any conditions; and the overall cost and fiscal sustainability of the programme.

A key consideration for governments is how to achieve a balance between two objectives that are in tension: how to set the value of the transfer at a level that helps realise *the right to an adequate standard of living*; and, how to set the value low enough so that it remains fiscally affordable and reaches the priority target population, thereby offering as many people as possible *the right to access social security*.

Kenya has five main cash transfer programmes: the Cash Transfer for Orphans and Vulnerable Children (CT-OVC); the Older Persons Cash Transfer (OPCT); the Cash Transfer for Persons with Severe Disabilities (PwSD-CT); the Hunger Safety Net Programme (HSNP); and the Cash for Assets (CFA) programme. The CT-OVC, OPCT, PwSD and CFA programmes all offer a similar transfer value of Ksh 2,000 per month per beneficiary household, while the HSNP has a higher value of Ksh 2,700. Currently, all schemes operate as *household* benefits – rather than *individual* entitlements – offering a fixed amount regardless of household size or composition. The result is that the system as a whole does not respond to differences in vulnerability between households. So, a household with a single older person and five children could only receive the OPCT, and not receive sufficient support to address effectively the additional needs of the children; indeed, it could receive the same level of benefit as a household with an older person and only one child. Therefore, the effectiveness of the system as a whole is reduced as a result of household transfers.

The paper compares Kenya's transfer values with a range of national and international benchmarks, including the household consumption and the food poverty line; the Social Security (Minimum Standards) Convention (No. 102) of the International Labour Organisation; legislated minimum wages; and benefit levels of similar programmes in other countries in Africa and the rest of the world. It also examines to what extent transfer values have kept up with inflation.

Overall, transfer values in the country are modest, representing 29% to 40% of what is required to buy a minimum healthy food basket (MHFB) in arid and semi-arid lands or just over half (55%) of the average amount of resources required to close the national food poverty gap. At the same time, transfer values provided in Kenya are in line with or somewhat higher than those offered in other countries when taking into account the size of the economy and thus the financial capacity to fund social protection.

The paper develops several options to adjust transfer values to account for differences in household size and composition, including: varying the values of the household transfers; moving to a system of family transfers; or transforming existing programmes into a harmonised set of individual entitlements. It also presents results from a microsimulation model that compares the cost, coverage, and impact of a poverty-targeted system of household benefits with a lifecycle social security system.

The main recommendations are as follows:

- Convert the **CT-OVC** from a household benefit into a child benefit, so that an eligible household with multiple children would receive a benefit for every child. The proposed value for the child benefit would be Ksh 500 per child per month. This would be the equivalent of 4% of Kenya's GDP per capita, which is in line with the value of many child benefits across the world. The proposed value is well above the recommended minimum as per the Social Security (Minimum Standards) Convention, 1952 (No. 102) of the International Labour Organisation. It would probably strike an appropriate balance between the progressive realisation of the right to an adequate standard of living, but is also low enough so that it remains fiscally affordable to expand the programme (as coverage is still very limited) and fulfil children's right to access social security.

- Maintain the values of the **OPCT** and **PwSD-CT** at Ksh 2,000, but reform them into individual entitlements. The value of Ksh 2,000 is above the recommended minimum norm of the Social Security (Minimum Standards) Convention, 1952. And, the generosity of the two programmes relative to the size of the economy (and, therefore, funding capacity of the State) is already in line with what other (African) countries are providing. Moreover, in social security systems, it is normal for transfers to adults who are expected not to work – such as older people or persons with severe disabilities – to be higher than for children. Old age pensions and disability benefits are meant to replace income from employment, while a child benefit is meant to be a supplement to the income that carers generate from their own work. Having an old age pension at four times the value of a child benefit is common.

- The methodology to compute the **CFA** transfer value based on WFP's Food Security and Outcome Monitoring could be continued. But, in the medium to long term, as part of efforts to further increase national ownership of the programme, it may be desirable to move towards using statistics produced by the KNBS. Another issue to resolve is that the transfer value of the CFA programme – during the lean months when it is active – is now similar to those of the CT-OVC, OPCT and PWSD. Yet, the CFA is a conditional benefit as participants need to fulfil certain work norms on building community assets whereas the other programmes are unconditional. This creates a certain level of inequity especially in areas where multiple programmes are active. At the same time, households enrolled on the CFA programme are also benefitting from technical assistance which, by and large, may make their assets more productive and sustainable than assets owned by non-beneficiaries.

- Consider bringing the value of the **HSNP** transfer value to bring it in line with the benefit levels of other programmes funded by the Government of Kenya. In northern Kenya, the transfer value of the HSNP is different from the payment sizes provided by the CT-OVC, OPCT and PWSD – which are increasingly active in the HSNP counties too. This creates a degree of inequity as similar households in the same communities may be receiving different benefits. The annual value of the HSNP is around 23% of GDP per capita which is high when compared to the value of similar programmes in many other countries. The value of the HSNP could be 'frozen' until the other programmes, after adopting an indexation mechanisms, have managed to catch up.

- The simplest method to adjust the value of transfers in line with annual inflation would be to use the Consumer Price Index (CPI).

1 Introduction

In recent years, Kenya has made good progress in developing its national social security system. There are three national cash transfers in place – the Cash Transfer for Orphans and Vulnerable Children (CT-OVC), the Older Persons Cash Transfer (OPCT) and the Cash Transfer for Persons with Severe Disabilities (PwSD-CT) – alongside the Hunger Safety Net Programme (HSNP) in northern Kenya and the Cash for Assets (CFA) programme. The schemes are growing, the national Constitution has established the right to social security, and a National Social Protection Policy is in place.

As the system expands, however, policy makers and development partners are increasingly debating whether the value of transfers for the country's main schemes are set at an appropriate level. Indeed, as this report will show, to date Kenya has adopted an inconsistent approach: while the real values of some transfers has fallen in recent years, for others it has risen.

This paper has been commissioned by the World Food Programme (WFP) and United Nations Children's Fund (UNICEF) to support the Government of Kenya in its policy development. It seeks to examine the current transfer values of Kenya's tax-financed social security schemes and assess whether they are set at an appropriate level. It also aims to examine whether a mechanism should be established to automatically adjust the value of transfers year on year.

Section 2 begins the report by discussing the parameters that should be taken into account when assessing the appropriate value of tax-financed social security transfers. Section 3 describes the current transfer values of Kenya's social security schemes, while Section 4 benchmarks them against a range of national and international norms. Section 5 reviews how transfer values could be adjusted to account for differences in household size and household composition. Section 6 examines alternatives for increasing the value of transfers year on year to account for inflation. Finally, Section 7 brings the findings together in a conclusion.

Box 1: Definition of social security

All Kenyans have the right to access social security, according to the national Constitution. Social security is conventionally understood as referring to regular and predictable income transfers, and comprises two types of programmes:

- **Tax-financed social security transfers** are financed usually from general taxation. Some are provided as entitlements – such as universal social pensions – while others are targeted at the poor and referred to as social assistance. Kenya currently does not have any entitlement programmes. The programmes referred to as "safety nets" in Kenya are forms of social assistance rather than entitlements.
- **Social insurance transfers,** which are financed from the contributions of members of schemes.

This report focuses on transfer values of tax-financed social security schemes.

2 Parameters for decision making on transfer values

In most countries, debates on the value of transfers are a normal feature of policy-making, with proponents usually on both sides of the argument, some arguing that they are too low and others that they are too high. The debates indicate that there is no "right" answer and no agreed approach to determining transfer values. Indeed, there is a range of issues to consider when determining the value of transfers including:

1. the purposes of social security schemes;
2. the cost of a minimum standard of living (or poverty line);
3. the overall cost and fiscal sustainability of schemes;
4. the risk of labour disincentives; and
5. the cost imposed on beneficiaries for complying with any conditions. Each will be discussed in turn.

2.1 Purposes of social security schemes

A key factor to take into account when setting transfer values is the purposes of the social security schemes. Different types of social security instrument have distinct purposes so would be expected to have different transfer values. Some examples are given below:

- **Old age pensions** are expected to provide a transfer value to enable individuals to have a minimum level of income if they can no longer work. They are, in effect, a replacement for income from employment.

- **Child benefits** are meant to provide families with a supplement to the income they obtain from work, so that they can provide additional resources to their children. However, they are not expected to cover the full cost of raising children.

- **Disability benefits** can have various purposes. Some disability benefits compensate persons with disabilities with the additional costs they face, with the aim of gaining greater equality with non-disabled people. Other disability benefits for those of working age are focused at those who cannot work and, as with old age pensions, are meant to provide individuals with a minimum income, as a replacement for income from employment. And disability benefits for children are meant to enable families to receive support for the additional costs they face in caring for their children.

- **Targeted social assistance benefits for households** are intended to provide a supplement to households living in poverty, to alleviate their poverty but not, by themselves, to eliminate it. Households are still expected to gain the majority of their income from their own work.

- **Unemployment benefits** are expected to provide individuals with a minimum income for a limited period, so that they and their families can have a minimum guaranteed standard of living while the recipient looks for alternative employment.

Table 1: Main tax-financed social security transfers in Kenya and their intended beneficiaries

PROGRAMME	INTENDED BENEFICIARIES
Cash Transfer – Orphans and Vulnerable Children programme (CT-OVC)	Households living in poverty that contain at least one OVC
Older Persons Cash Transfer programme (OPCT)	Older people living in poverty
Persons with Severe Disabilities Cash Transfer (PsD-CT)	Persons with severe disabilities living in poverty
Hunger Safety Net Programme (HSNP)	The poorest 25% of households in four northern counties of Kenya
Cash for Assets (CFA) programme	Food insecure households in arid and semi-arid lands

- **Workfare schemes** are expected to provide individuals with the minimum level of income that they may expect to receive if they were employed in the local labour market. Indeed, there are strong arguments for ensuring that workfare benefits are linked to minimum wages in countries where such mechanisms exist.

When it is recognised that different types of social security scheme have different purposes, the logical conclusion is that the value of transfer should be determined based on achieving the purpose of each transfer. So, it would be expected that each social security scheme would, potentially, have a different value of transfer.

Kenya has five cash-based tax-financed social security transfers, although some are entirely or partially funded by donor funding (and, therefore, from the taxes of citizens of other countries). The five main programmes and their intended beneficiaries are outlined in Table 1.

In theory, the schemes are meant to reach different types of beneficiaries, and some schemes are meant to be for individuals (such as older persons or persons with severe disabilities) and others for households. In practice, the schemes are currently all being treated as targeted social assistance transfers for households living in poverty. Therefore, each household is meant to be able to receive only a single transfer. So, for example, a household receiving the HSNP should not be able to receive the OPCT, even if it comprises two families (one of which may be a single older person). The driver behind the move to household transfers is, essentially, a desire to spread a limited social security budget to as many households as possible.

Irrespective of whether schemes are individual or household transfers, the intended beneficiaries are meant to be living in poverty. However, this raises the question of who is living in poverty in Kenya. According to the latest available data (from the KIHBS 2005/06), 46% of the population were living below the official national poverty line. In reality many more were living in poverty or vulnerable to poverty. For instance, using a World Bank classification based on different international poverty lines, 34% of the population was considered to be extremely poor (living on less than PPP $1.9 per day); 59% was extremely or moderately poor (less than $3.1 a day); while 94% of the population was either poor or vulnerable (less than PPP $10 a day) and only 6% of the population could be considered to be middle class or rich with a high level of income security.

Indeed, research from panel surveys conducted in Kenya and elsewhere shows that household incomes and consumption are highly dynamic, with a high proportion of the population moving below and above the poverty line each year. For instance, in a large-scale 10-year study in rural Kenya, only 16% of households never experienced an episode of poverty between 1997 and 2007. In other words, at least 84% were living in poverty at some point between 1997 and 2007 and all would benefit from access to social protection to either alleviate their poverty or provide them with some form of income security to reduce the likelihood of falling into extreme poverty.[1]

The implications for transfer values for poverty programmes is that, ideally, they should be set at a level that not only addresses poverty for those experiencing it at any point in time, but also offers protection to stop people from falling into poverty. However, this is the ideal: whether countries can afford to do this is another question.

2.2 Cost of a minimum standard of living

In line with the right to "an adequate standard of living" that is found in a range of human rights conventions ratified by Kenya[2], social security transfers should contribute to achieving this aim. Therefore, the country needs to decide what would be an adequate standard of living. While this should be understood in multidimensional terms, a key component is household income. Countries, therefore, should – ideally – make decisions on where to set this minimum standard. There is no standard approach to this and Section 4 will discuss a range of options including using poverty lines and minimum wages as standards, and assess Kenya's social security transfers against these standards.

However, even if developing countries can decide on a minimum level of income for its citizens, it is highly unlikely that they can achieve this level in the short term. Therefore, the principle of the "***progressive realisation of the right to an adequate standard of living***" needs to be taken into account. Governments may, in the long term, aim to achieve this minimum level of income but, in the shorter term, the level of transfer that they offer will be limited by fiscal resources. So, a lower level of transfer may be selected which, over time, is adjusted above the level of inflation to eventually reach the value that is regarded as the ideal minimum, so that the right to a minimum standard of living is progressively realised.

2.3 Trade-off between coverage and transfer value

When deciding a minimum standard of transfer, governments also have to take into account the ***right to access social security***, which is enshrined in various international human rights treaties and the Constitution of Kenya**.** If a transfer value is set too high, within a context of limited budgetary resources, this will necessarily result in a lower number of recipients which will, in effect, deny many other people in need of social protection the right to access social security.

1 Data from Beegle et al (2016). For a further discussion see Gelders (2016b).
2 Including: the Universal Declaration of Human Rights; the International Covenant on Economic Social and Cultural Rights; the Convention on the Rights of the Child; the Convention on the Elimination of All Forms of Discrimination Against Women; and the Convention on the Rights of Persons with Disabilities.

Box 2: Calculation of budgets for tax-financed social security schemes

The combination of the parameters of coverage and transfer value determine the overall budget of a tax-financed social security scheme (although administrative cost should also be included). As such, the basic equation for calculating the cost of any social transfer programme involves multiplying the coverage of a scheme by the benefit level. For example, if there were 100 recipients of a scheme all receiving $10 per year, the cost of the programme per year would be $1,000. It is also important to take account of the costs associated with administering a programme.

The key costing equation for social transfers

Coverage	x	Benefit level	=	Cost of transfers
For example:				
100 recipients	x	$10 transfer per year	=	Transfers will cost $1,000

Therefore, once government has set a budget, it needs to make a trade-off between two rights: the right to access social security, and the right to an adequate standard of living. This is a trade-off between ***coverage*** and ***transfer value*** since, as Box 2 explains, budgets for tax-financed social security schemes are calculated by multiplying the number of beneficiaries by the value of transfers (and adding on administrative costs).

The combination of the parameters of coverage and transfer value determine the overall budget of a tax-financed social security scheme (although administrative cost should also be included). As such, the basic equation for calculating the cost of any social transfer programme involves multiplying the coverage of a scheme by the benefit level. For example, if there were 100 recipients of a scheme all receiving $10 per year, the cost of the programme per year would be $1,000.[3] It is also important to take account of the costs associated with administering a programme.

The trade-off that governments need to make can be illustrated by a hypothetical case of a budget of Ksh 1 billion. The government could decide to provide Ksh 3,000 per month to around 28,000 beneficiaries. Or, alternatively, it could offer Ksh 2000 per month to around 41,700 beneficiaries and Ksh 1,000 per month to around 83,300 beneficiaries.

A further example could be the OPCT scheme. In the expansion plan for the OPCT, it is expected that the scheme will reach 460,000 people in 2016/17. If the current transfer value of Ksh 2,000 per month were paid, this would give a budget of Ksh 11.04 billion. However, if the value were reduced to Ksh 1,500 per month, then the scheme could reach 613,000 people, a significant increase. However, if the value were raised to Ksh 3,000 per month, then the OPCT would only reach 306,000, depriving many older people

3 For further information on calculating the costs of a social security programme, see ILO and Development Pathways (2016).

Box 3: Implications of varying transfer values for the design of the OPCT

Under the current design of the OPCT – which aims to reach the poorest older people aged 65 years and over – with 460,000 recipients in 2016/17 it would be possible to reach around 34% of the target population. However, by targeting the "poorest," the Kenyan government has to deal with the same kind of challenges that are generated by poverty targeting around the world, such as high errors (exclusion errors of above 50% are the norm), expensive selection methods, disquiet in communities, the stigma of beneficiaries, weak public support, and public criticisms resulting from these challenges.

Kenya could, however, adopt a very different design, following the example of countries such as Nepal and Vietnam which provide individual entitlements for everyone over a certain age of eligibility, while reducing the age of eligibility over time. For example, Nepal began its old age pension for everyone over 75 years and reduced it to 70 years, and 60 for certain categories of older people. Vietnam began at 90+ years, reduced it to 80+ years and plans, over time, to reduce it to over-65s. As entitlements, these programmes are more popular than those targeted at the poor and, as a result, there is more likely to be popular demand to reduce the age of eligibility.

Under current budget plans, Kenya could, in 2016/17, provide a universal old age pension to everyone aged 74 years and over. And, if the value of the transfer were reduced to Ksh 1,500, it could offer a universal transfer to everyone aged 72 years and over. Given that a proportion of older people will not access the scheme – often better-off older people decide not to apply for social pensions – it may be possible to already offer the OPCT to everyone aged over 70 years. This would have the advantage of being very simple – and inexpensive – to deliver and have strong support in communities and across the national population. And, as an entitlement – which would be given to citizens as a right (in line with the Constitution of Kenya) – it would not generate stigma but, instead, dignity. Over time, the government could gradually reduce the age of eligibility to 65 years, knowing that such a reduction would have strong popular and political support.

of their right to access social security. As Box 3 explains, such trade-offs could have significant implications for the overall design of the scheme.

So, a key consideration for governments is how to achieve a balance between two aims that are in tension: how to set the value of the transfer at a level that helps realise the right to an adequate standard of living; and, how to set the value low enough so that it remains affordable and reaches the priority target population, thereby offering as many people as possible the right to access social security.

There is, unfortunately, no right answer to this conundrum and, effectively, it is a political judgement. However, prioritising coverage over transfer value as schemes grow could result in a virtuous circle by engendering political pressures for increases in transfer values. As explained by studies on the political economy of targeting, schemes that are tightly targeted to the poorest – and which, therefore, have low coverage – tend to be unpopular, since the majority of the population are excluded. In a democratic context, governments are reluctant to invest in such schemes, which tend to have low budgets and low transfer values.[4] In Kenya, for example, as Section 6 will indicate, the real value of the transfers of the nation's poverty targeted schemes has fallen over time. In contrast, schemes with high coverage – in particular universal schemes – tend to be much more popular and, as a result, have higher transfer values, since policy-makers are more willing to invest in them while citizens are more willing to pay taxes, because the majority of the population – including the most powerful – know that they will receive something in return.

The implication for Kenya is that if, at this stage in the development of its national social security system, it were to prioritise the expansion of coverage over increases in the value of transfers, coverage may eventually reach a point at which the political benefits of high coverage kick in and popular support results in increases in transfer values, alongside expansion in coverage. Indeed, as Box 3 indicates, changes in the design of schemes – in particular the OPCT – could create an impression of greater inclusivity and much higher coverage and, consequently, result in greater popular support for the schemes and, therefore, higher budgets, leading to both even higher coverage and higher transfer values over time. Therefore, both the rights to access social security and an adequate standard of living would be more quickly realised.

In terms of overall impact on poverty, the options taken in the trade-off between coverage and transfer value make little difference. Simulations undertaken using KIHBS 2005/06 data illustrate this point.[5] Two options with the same budget – 0.64% of GDP – but different coverage and transfer values were simulated:

- ***Scenario 1:*** Providing 20% of households with a benefit of Ksh 1,500 per month; or,
- ***Scenario 2:*** Providing 10% of households with a benefit of Ksh 3,000 per month

Both scenarios would have almost the same impact on poverty and extreme poverty at the macro-level. Scenario 1 would reduce the national poverty rate from 46.6% to 45.0% and the extreme poverty rate from 19.5% to 17.5%, while scenario 2 would reduce the national poverty rate from 46.6% to 44.9% and the extreme poverty rate from 19.5% to 17.5%. Both scenarios would reduce the poverty gap – the average shortfall of the total population from the poverty line – from 16.6% to 17.5%, while the extreme poverty gap would reduce from 6.1% to 4.9% and 4.6%, under scenario 1 and 2 respectively.

2.4 Work disincentives

When transfers are directed at working age people who are capable of work – such as targeted household transfer schemes – the value of the transfer should not be set at a level that discourages people from working. If people receive sufficient income from transfers to enable them not to work, they may decide not to work. Therefore, transfer values should always be set at a level that means that families will still need to work. However, given the current value of transfers in Kenya, this is unlikely to be an issue at present.

In reality, disincentives to work mainly derive from poverty targeting rather than the value of transfers alone. When households are provided with transfers on the basis that they live in poverty, if they work and gain an income that brings them above the eligibility criteria for the poverty targeted scheme – and this results in them being removed from the scheme – they may decide not to work so as to continue to receive the poverty transfers (see Box 4 for a more detailed explanation). While the disincentive to work as a result

4 See Sen (1995), Pritchett (2005), Mkandawire (2005) and Kidd (2015).
5 Development Pathways (2016). Kenya: Costing and simulation tool for cash transfer programmes. The estimates are based on KIHBS 2005/06, where the poverty line per adult equivalent is set to Ksh 1,562 per month (in 2005/06 values) in rural areas and Ksh 2,913 per month in urban areas. The extreme poverty line per adult equivalent is set at Ksh 988 per in rural areas and Ksh 1,474 in urban areas.

Box 4: Poverty-based selection and disincentives to work – A simple illustrative example

Let us assume that a country provides families with young children with a social protection benefit of $10,000 per year. Choices on the selection mechanism are likely to have a significant impact on the actual incomes of those families.

In a country that selects families earning less than $10,000, a family earning $9,000 would receive an income of $19,000. However, a family earning $11,000 would have the entire social protection benefit withdrawn – an extremely high marginal rate of taxation – leaving them with only their income from work, in other words $11,000. It would make sense for them to work less and earn $9,000 since this would increase their income to $19,000.

In contrast, in a country providing universal benefits, a family earning $9,000 would have an overall income of $19,000 while a family with an earned income of $11,000 would have an overall income of $21,000. There would be no disincentive to work. Instead, work would guarantee a higher income. Children in these families would be much better off.

of means testing is commonly recognised in developed countries, across developing countries evidence has recently been found in Georgia, Argentina and Uruguay.[6] These disincentives to work due to targeting are not present when schemes are universal.

One means of reducing the disincentive to work in poverty targeted schemes is to taper the value of the transfer. So, as the income of beneficiaries increases, they gradually lose a proportion of the benefit: so the value of transfers would vary, with those on higher incomes – but still eligible – receiving lower transfers while those with lower incomes receive higher transfers. This reduces the marginal rate of taxation so should reduce the perverse incentive. However, since Kenya uses community based targeting and proxy means testing – which have high levels of inaccuracy – to identify beneficiaries, it is not possible to introduce tapering effectively.

2.5 Costs of conditionalities

If schemes are conditional, the cost of complying with the condition should, ideally, be taken into account when assessing the value of transfers, although this is usually not done in conditional cash transfer (CCTs) programmes. Indeed, because CCTs are usually poverty targeted, they tend to have lower value transfers than entitlement schemes. Furthermore, it needs to be noted that certain categories of people may find the costs of complying to be much higher than those experienced by others: for example, some families may face higher transport costs for their children to attend schools (e.g. due to transport costs), while people with disabilities always face higher costs of compliance.

Of course, when policy makers contemplate whether to introduce conditionalities, they should assess whether they bring any added value. As Kidd (2016) explains, there is no robust evidence of conditionalities offering any added value, since impacts on education and nutrition are the result of the cash that families receive, rather than their fear of sanctions.

6 See Kits et al (2013); Gasparini and Garganta (2015); Bergolo et al (2015).

3. Transfer values in Kenya

Table 2: Values of current schemes in Kenya

SCHEME	MONTHLY VALUE OF TRANSFER	ANNUAL VALUE OF TRANSFER
OPCT	Ksh 2,000 per month	Ksh 24,000
CT-OVC	Ksh 2,000 per month	Ksh 24,000
PwSD	Ksh 2,000 per month	Ksh 24,000
HSNP	Ksh 2,550 per month	Ksh 30,600
CFA	Ksh 2,000 per month	Ksh 14,000[8]

Table 2 sets out the current value of transfers in Kenya. Among those schemes that are not linked to a work requirement, the OPCT, CT-OVC and PwSD programmes all have a similar value of transfer at Ksh 2,000 per month, while the HSNP has a higher value of Ksh 2,700. The CFA also has a transfer value at Ksh 2,000 per month – which has been recently reduced from Ksh 2,500 per month – although it expects most recipients to work on building community assets.[7] Furthermore, the CFA is provided only during the seven lean months, which means that the annual value of the transfer is Ksh 10,000 below the other transfers and the effective monthly value of the transfer is only Ksh 1,170. However, households receiving the CFA transfer are also benefiting from significant technical assistance which, by and large, may make their assets more productive and sustainable than assets owned by non-beneficiaries.

Table 3 outlines the purpose of each scheme and the original logic behind the setting of the transfer value in each scheme. The differing benefit levels reflect the programmes' different histories. The CT-OVC was the first large-scale cash transfer programme in Kenya, aimed at supporting caregivers with the cost of child rearing and encouraging investment in human capital development. Its transfer value – set in 2006 when the programme started expanding nationwide – was based on calculations that considered the average income of the target group, the poverty line, and average monthly expenditures on health and education. At the time, the transfer represented around 12% of the poverty line and 25% to 30% of the income of households below the poverty line.

The transfer levels for the OPCT (introduced in 2006) and PwSD (introduced in 2011) were set at the same level as the CT-OVC, as government wanted to align the schemes, although the programmes

7 The CFA programme also includes a small proportion of labour-constrained households without able-bodied adults who can receive the benefit without having to work on the assets (although this practice is now being discouraged by WFP as other unconditional cash transfer programmes are expanding).

8 The annual value of the CFA transfer is only Ksh 14,000 because it is only provided for 7 months per year. The scheme does not provide a transfer during the non-lean months (January, February, March, July and August).

Table 3: Objectives of Kenya's social security schemes and the rationale for the transfer values

SCHEME	OBJECTIVE	RATIONALE FOR TRANSFER VALUE
OPCT	To strengthen the capacities of older persons and improve their livelihood while alleviating integrated poverty through sustainable social protection mechanisms	Based on average income of target group, poverty line, and average monthly expenditures on health and education. Represented around 12% of the poverty line and 25-30% of the income of poor households when first set. No mechanisms for adjusting for inflation.
CT-OVC	To provide regular cash transfers to families living with OVC to encourage fostering and retention of children and to promote their human capital development	
PwSD	To support persons with severe disabilities who require permanent care, they continue to depend on parents or care givers.	
HSNP	To deliver cash transfers aimed at reducing poverty, food insecurity and malnutrition, and promote asset retention and accumulation	Set at 75% of the cost of a full-food basket food ration in 2006. Adjusted regularly for inflation.
CFA	To build resilience and enable people, households, communities and counties to meet their own food and nutrition needs	Equal to 75% of household food needs in arid lands and 50% in semi-arid lands. Adjusted when local food prices change by more than 10% until January 2016 when the Ksh 2,000 value was adopted.

have different objectives and target groups. Ideally, however, the objectives of each scheme – and the characteristics of their target groups – should be taken into account when determining the transfer values.

The value of the CFA is meant to cover 50% of the food needs of household beneficiaries in semi-arid lands during the lean season and 75% in arid regions (where WFP provides food rather than cash). It is based on the average retail prices in a county from information that comes through a series of price monitoring activities conducted by the WFP's Vulnerability and Market Assessment (VAM) unit, usually triangulated with price information available from NDMA and the Ministry of Agriculture. For instance, if the retail value of a basic family food basket of maize, beans, oil and salt is Ksh 5,000 in the local shops in a particular area, and the rains assessment has indicated that households can meet approximately 50% of their own food needs through casual labour and/or home production, then WFP will transfer Ksh 2,500 (50% of the full cost of the food basket) to fill the "food gap". The value of the CFA typically increases or decrease when local food prices change by more than 10%, although in practice (upward) revisions are at times deferred because of the need to ration limited programme resources.

Finally, the value of the HSNP was calculated as 75% of the value of the World Food Programme food aid ration in 2006, when the value of the transfer was first set. Over time, it has been increased regularly to account for inflation.

4. Value of transfers in Kenya compared to national and international benchmarks

There is a range of national and international benchmarks that can be used to assess the adequacy of transfer values. As discussed earlier, they could be compared to a minimum income standard, linked to the right to an adequate standard of living. This section will examine two approaches: 1) comparison with household consumption and the average income required to lift all households out of extreme poverty (i.e. closing the poverty gap); and 2) comparison against the minimum wage. A third means of assessing the value of Kenya's transfers is to compare them with the value of similar transfers in other countries.

4.1 Comparison with household consumption and food poverty gap

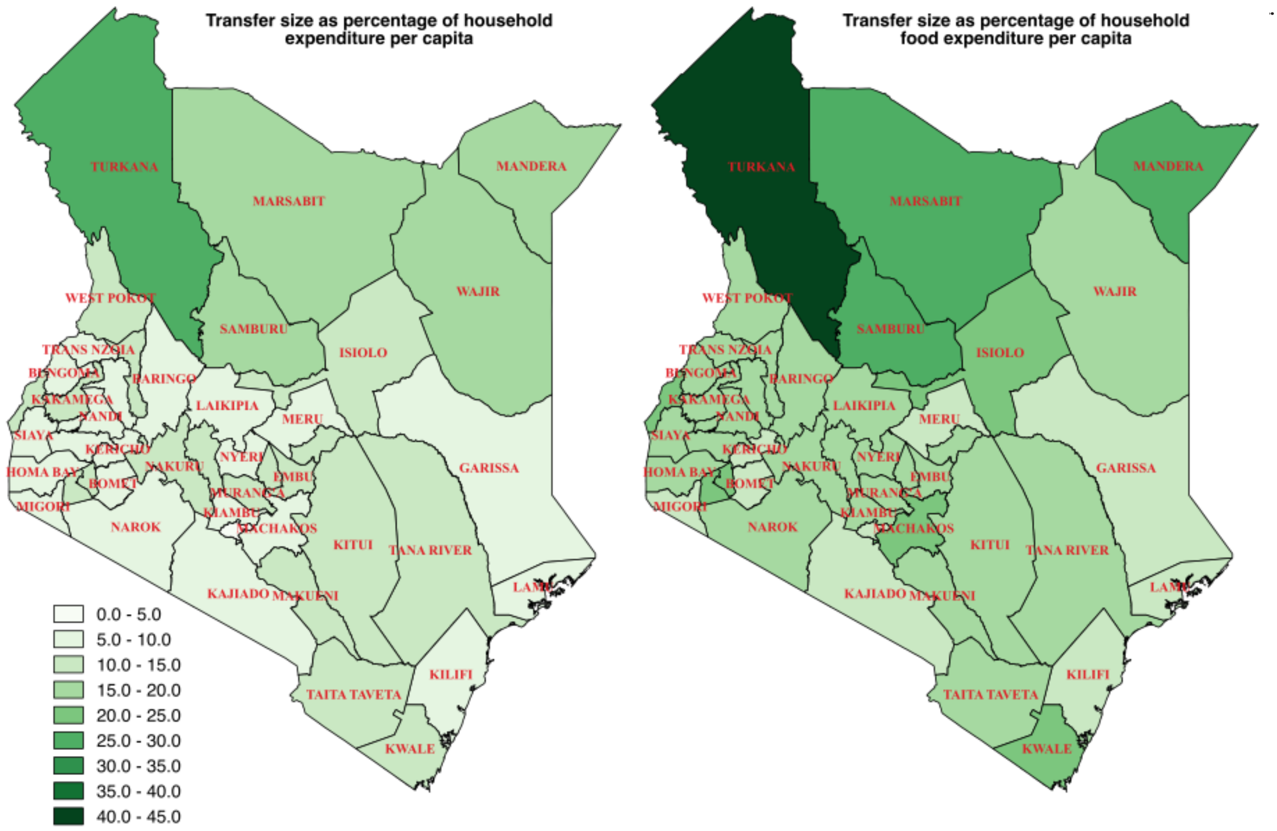
A useful starting point is to compare the value of cash transfers with the average levels of consumption in Kenyan households. According to the latest available Integrated Household Budget Survey (KIHBS) in 2005/06, the average household expenditure per person per month is Ksh 6,450 and the average food consumption expenditure equals Ksh 3,235 (expressed in 2016 prices, adjusted for inflation using the Consumer Price Index).[9] Taking the CT-OVC as an example, the estimated value of the transfer per beneficiary household member is equivalent to approximately 8% of total household expenditure per capita and 16% of food expenditure. However, as illustrated in Map 1 below, there is significant regional variation because expenditure patterns differ substantially across the country. So, the size of the transfer value is equivalent to roughly 28% of average household spending in Turkana compared with only 4% in Nairobi.

If a social assistance poverty benefit were to be designed to make a significant impact on extreme poverty, one approach could be to calculate the increase in consumption required for the average person living in food poverty to reach the food poverty line. The Kenyan National Bureau of Statistics (KNBS) estimates the food poverty line by costing bundles of basic food items that provide 2,250 kilocalories per adult equivalent per day.[10] Separate food baskets are constructed for urban and rural areas that attain this minimum nutritional requirement, based on the actual food consumption patterns of households in the second and third quintile so that the items in the basket are consistent with local tastes.

At the time of the latest KIHBS in 2005/06, the official food poverty lines were set at Ksh 988 and Ksh 1,474 for rural and urban areas in monthly adult equivalent terms, yielding a headcount poverty rate of 41% in urban areas and 47% in rural areas. The poverty gap ratio was 16%. When computing these figures on a per capita basis, and using the CPI to adjust for inflation since 2006, it is estimated that the average amount required to close the national food poverty gap is equal to Ksh 806 per month

9 Unfortunately, no more recent data is available, as the results from the KIHBS 2015/16 have not yet been released.
10 For details, see: KNBS (2007). Basic report on well-being in Kenya based on Kenya Integrated Household Budget Survey 2005/06.

Map 1: Value of CT-OVC as a percentage of estimated household expenditure per capita, by county[11]



per person.[12] If provided to each household based on the number of individuals per household, given an average household size of 4.5 people[13], the average value of transfer per household would be Ksh 3,630 per month. This indicates that the current transfer value of Ksh 2,000 provided by the CT-OVC, OPCT, PWsD-CT and CFA is roughly equivalent to just over half (55%) of the average amount of resources required to close the food poverty gap.

Another useful benchmark is the price of the Minimum Healthy Food Basket (MHFB), providing 2,100 kcal per person per day (see Table 4). It is calculated regularly by WFP as part of its triannual Food Security and Outcome Monitoring (FSOM) in arid and semi-arid lands. During the period May 2014 to May 2016, the average price for the MHFB was Ksh 54 per person per day. With an average household size of 4.15 in arid and semi-arid lands[14], this translates into a minimum threshold of Ksh 6,841 per household per month to meet nutritional requirements. Using these figures as a benchmark suggests that

11 Calculations based on expenditure data from the KIHBS 2005/06, expressed in 2016 prices, and the average per capita value of the CT-OVC in beneficiary households.
12 Note that the value of the transfer would not close the extreme poverty gap since some households are close to the extreme poverty gap and, with this transfer, would have consumption that is much higher than the extreme poverty line, while the poorest households would not reach the poverty line
13 This is the average household size in rural areas according to Kenya's 2014 Demographic and Health Survey.
14 As per the 2014 KDHS.

Table 4: Cost of the Minimum Healthy Food Basket (MHFB) (in Ksh)[15]

LIVELIHOODS ZONE	LIVELIHOODS ZONE				PER HOUSEHOLD PER MONTH
	May 2014	May 2015	May 2016	Average	
Coastal Marginal	49	52	52	51	6,436
Eastern Pastoral	50	57	63	57	7,151
Grassland Pastoral	48	52	57	52	6,604
Northeastern Pastoral	57	74	59	63	7,992
Northern Pastoral	57	56	54	56	7,025
Northwest Pastoral	51	65	62	59	7,488
Southeastern Marginal	46	49	45	47	5,889
Western Agropastoral	54	44	48	49	6,141
Average	52	56	55	54	6,841

the CT-OVC, OPCT, PWsD-CT and CFA provide, on average, less than a third (29%) of the income required to purchase a minimum healthy food basket while the HSNP provides nearly 40%.

4.2 Comparison with minimum wage

Minimum wages are, ideally, set at a level to provide working families with an adequate – but minimum – income. Kenya has a complex system of minimum wages, which vary according to area and type of employment. Nonetheless, on the assumption that the Government of Kenya regards the lowest minimum wage as still sufficient for a minimum level of subsistence, this minimum wage value could be used as a means of assessing the adequacy of transfer values, when compared to internationally agreed standards.

The Social Security (Minimum Standards) Convention, 1952 (No. 102) of the International Labour Organisation sets out recommended minimum levels of transfer for a range of individual entitlements

15 WFP (2016). Kenya Food Security and Outcome Monitoring (FSOM) Consolidated Report May 2016.

Table 5: Recommended minimum value of transfers by applying the Social Security (Minimum Standards) Convention, 1952 (No. 102) to Kenya's lowest minimum wage

SCHEME	MINIMUM MONTHLY TRANSFER
Child Benefit	Ksh 163
Older Persons Cash Transfer	Ksh 1,087
Cash Transfer for Persons with Severe Disability	Ksh 1,087

schemes, including for older people, people with disabilities and children (although the male bias of the approach is rather old-fashioned).[16] The recommended transfer values are:

- An old age pensioner with wife of pensionable age should receive 40% of their working age wage, which could be interpreted as 20% per person.
- A person with a disability, wife and two children should also receive 40% of the previous wage, but if the invalidity came from an employment injury, the value would be 50%. It may be reasonable to set this at 20% per adult person, since many disability benefits for adults are set at the same level as old age pensions.
- A child benefit should be set at 3% of the wage of an employed person.[17]

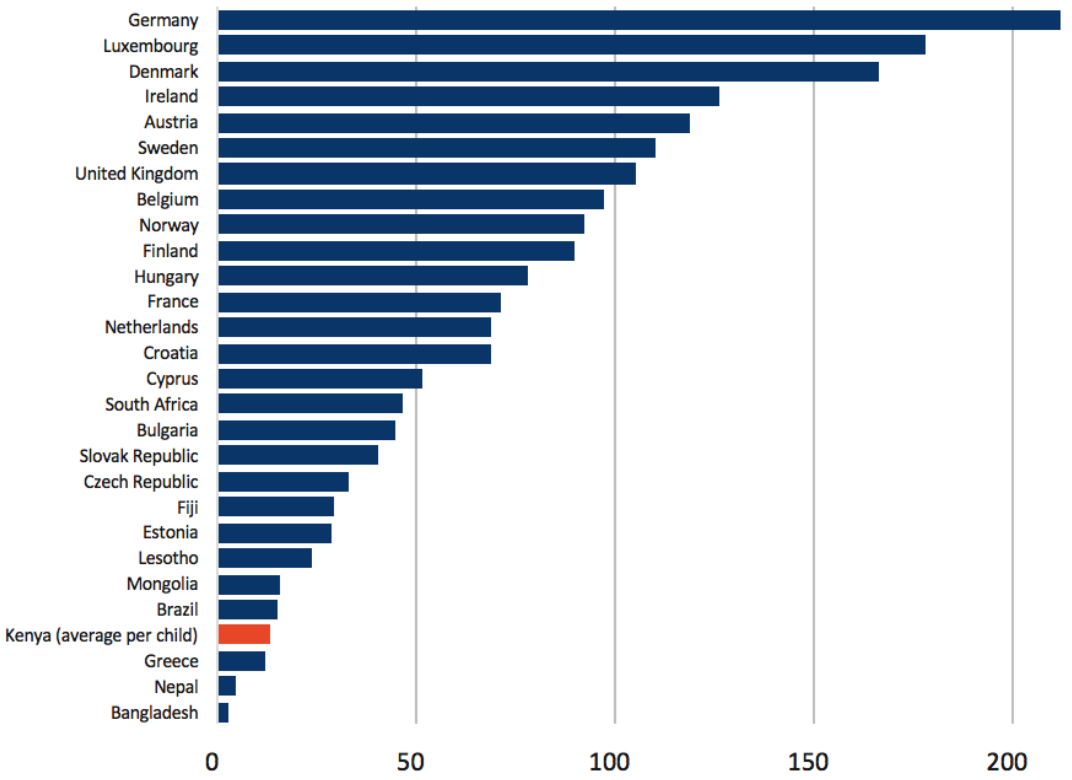
Kenya's lowest minimum wage is for unskilled agricultural workers and is set at Ksh 5,436 per month.[18] If ILO Convention 102 were applied to this value, the recommended value of transfers are outlined in Table 5, including a potential child benefit if Kenya were to continue to move to a lifecycle system. The values suggest that the current benefit levels of the CT-OVC, OPCT and CT-PwSD are relatively generous as they are well above the minimum standard.

4.3 Comparison with other countries

A range of measures could be used to compare Kenya's social security benefits with those of other countries. In this section, two measures will be used: the absolute value of the transfer in US dollars, in Purchasing Power Parity (PPP) terms; the second measure is to compare transfers as a value of percentage of GDP per capita.

16 While Kenya has not (yet) ratified the Social Security (Minimum Standards) Convention, 1952 (No. 102) of the ILO, it does offer an important normative benchmark to assess the value of transfers in the country. Moreover, Kenya has fulfilled the procedural obligations in respect of Recommendation 202 concerning National Floors of Social Protection, which urges Member States to ratify the Convention.
17 Convention 102/1952 does also give the option of 1.5% of the wage.
18 Kenya's Minimum Wages can be found at: http://www.africapay.org/kenya/home/salary/minimum-wages

Figure 1: Transfer value of Kenya's CT-OVC programme in international comparison with other child benefits, using US dollars in PPP terms



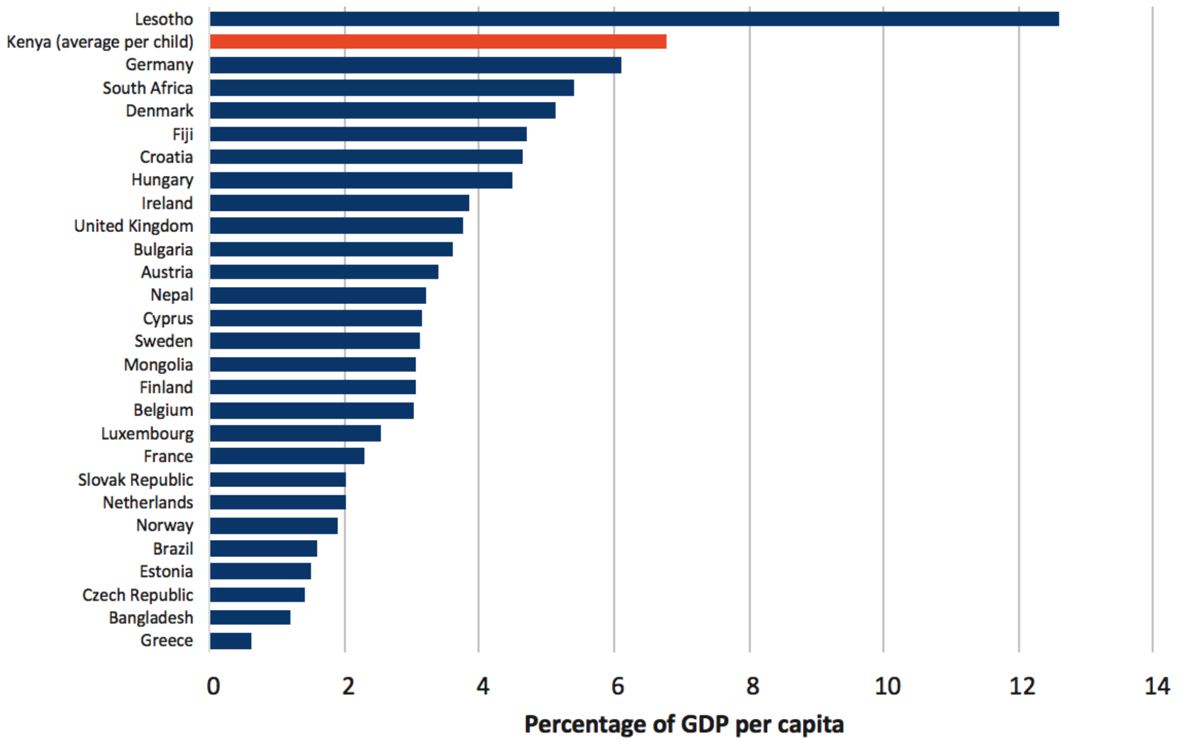
While the PPP comparison is interesting, it is not necessarily a very useful comparison since, in general, richer countries tend to offer higher value transfers. Per capita GDP offers a more accurate comparison in that it effectively takes into account a country's relative capacity to fund its social security schemes.

4.3.1 Cash Transfer for Orphans and Vulnerable Children (CT-OVC)

Although the CT-OVC scheme is delivered as a household transfer, its aim is to support children. Therefore, it is helpful to compare its value with child benefits elsewhere. This does raise an issue of comparability. The CT-OVC programme provides a fixed amount to households, irrespective of the number of children living in that household, so the 'real' value of the transfer varies according to the number of children in the household.

In this comparison with other countries, therefore, the average value of the transfer for each child across all beneficiary households will be used. Based on calculations using the CT-OVC's MIS database, this is currently around Ksh 740 per month per child in beneficiary households. As Figure 1 indicates, when measured in terms of US dollar (PPP) values, Kenya's CT-OVC appears low, although it is similar to Mongolia's highly regarded universal child benefit and the stipend provided for children in Brazil's Bolsa Família programme.

Figure 2: Transfer value of Kenya's CT-OVC scheme in international comparison, using GDP per capita



However, when per capita GDP is used, Kenya's CT-OVC transfer – per child – is high, at nearly 7% of GDP per capita (Figure 2). In other words, compared to the size of its economy, the value of Kenya's CT-OVC programme appears to be more generous than the value of child benefits in many European countries and just above the level of South Africa's child support grant. This could indicate that there may be scope to slightly reduce the value of the transfer (or, to not adjust it for inflation over the next few years) in order to free up budgetary resources for expanding coverage.

4.3.2 Older Persons Cash Transfer (OPCT)

As Figure 3 indicates, the transfer value of Kenya's OPCT is equivalent to US$34 (PPP). This sets the transfer below the value of a range of other richer countries in Africa, is in line with Swaziland and Botswana and ahead of Uganda, Zanzibar and Mozambique.

In terms of per capita GDP, Kenya's OPCT performs somewhat better when compared to other African countries. Figure 4 shows that Kenya's OPCT has a value of around 18% of GDP per capita, which is higher than most other pensions in Africa, and not too different to others, apart from the outlier of Lesotho. As Kidd (2015) shows, it is also in line with average values for pensions across developing countries. Furthermore, it is helpful to note that it is higher than Uganda's pension, which a recent

Figure 3: Transfer value of Kenya's OPCT in international comparison, using US dollars in PPP terms

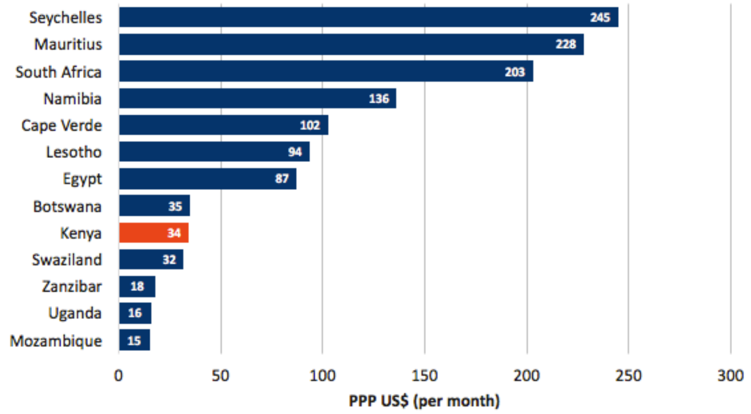


Figure 4: Transfer value of Kenya's OPCT in international comparison, using GDP per capita

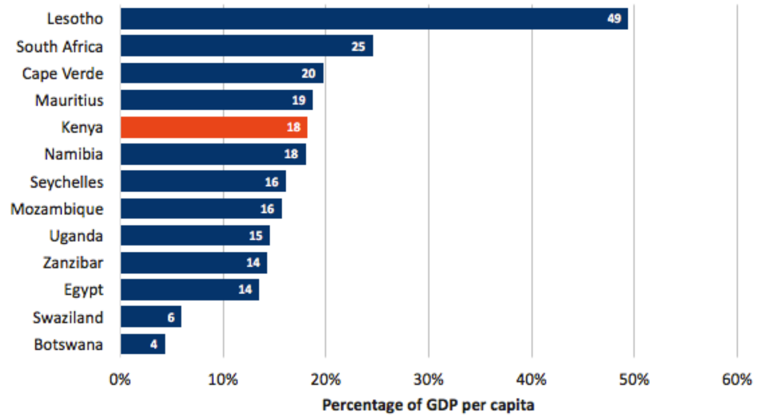


Figure 5: Transfer value of Kenya's PwSD programme in international comparison with other disability benefits, using US dollars in PPP terms

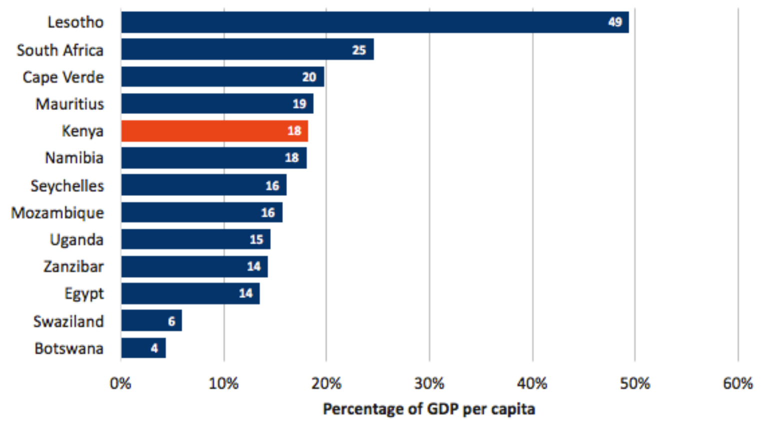
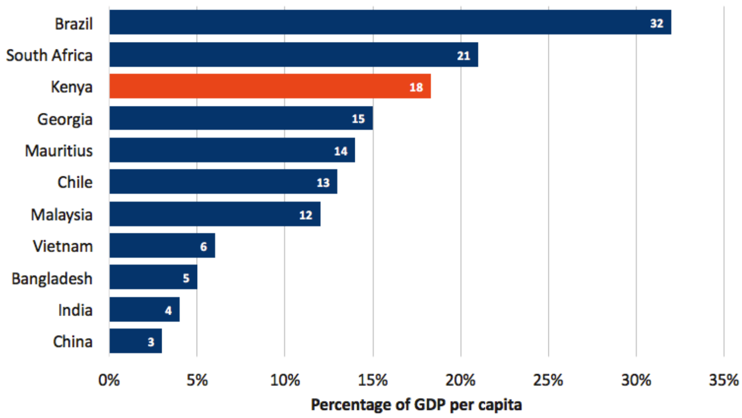


Figure 6: Transfer value of Kenya's PwSD scheme in international comparison, using GDP per capita



evaluation showed to have significant impacts on the wellbeing of older people, their families and communities (OPM 2016).

4.3.3 Cash Transfer for Persons with Severe Disabilities (PwSD-CT)

As noted in Section 2, there is a range of objectives for disability schemes. However, in Kenya, the PwSD scheme aims to support those persons with a disability that is sufficiently severe so as to stop them from working. In many countries, this would imply setting the disability benefit at the value of the old age pension, which is the case in Kenya.

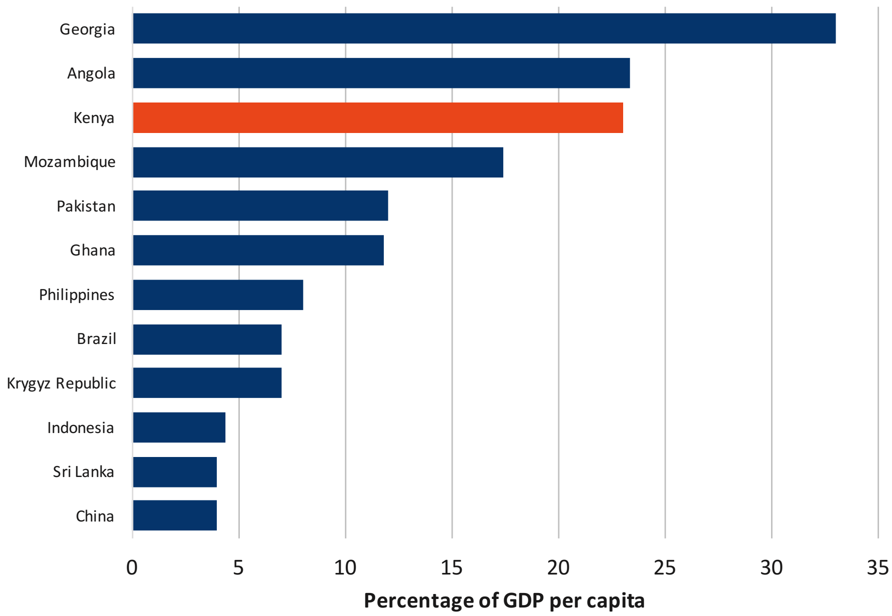
Figure 5 shows the value of Kenya's PwSD programme transfer in US dollar PPP terms, when compared to other countries. While lower than a range of wealthier countries, its value is high when compared to some other countries, including richer countries such as Vietnam and China.

In terms of GDP per capita values, Kenya's PwSD programme is one of the highest across developing countries. Figure 6 indicates that while it is below the value of Brazil and South Africa's transfers, it is higher than in countries such as Georgia, Mauritius and Chile. The high value of Brazil's transfer is because it is a Constitutional benefit and the value of the transfer is mandated to be the same as the minimum wage.

4.3.4 Hunger Safety Net Programme (HSNP)

HSNP is a poverty targeted household transfer and is similar in design to many other programmes in developing countries, some of which are unconditional and others are unconditional. The annual value of the transfer is around 23% of GDP per capita which, as Figure 7 indicates, is high when compared to the value of similar programmes in many other countries. On the basis of the comparison with other countries, there would not be a strong rationale for increasing the value of the transfer, in particular if there were plans to expand the scheme to other regions of Kenya. Indeed, if Kenya retains a household transfer approach, it is recommended that the HSNP monthly value be reduced and that it be set at a level that is sufficiently below the CFA programme, recognising that it does not require people to work.

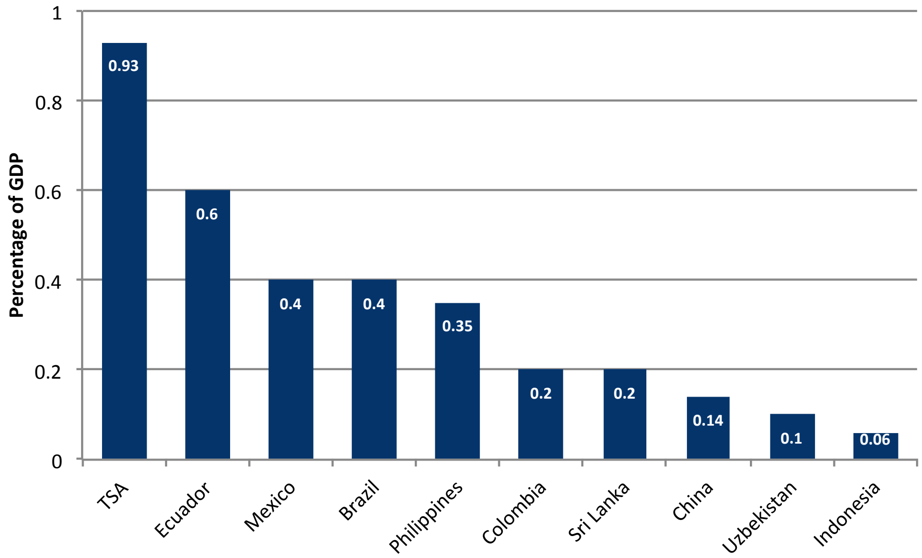
Figure 7: Transfer value of Kenya's HSNP in international comparison, using GDP per capita[19]



Moreover, the effects of the political economy of targeting should be taken into account with poverty targeted transfers. As indicated by Figure 8, developing country governments rarely invest more than 0.4% of GDP. This low level of investment is because poverty targeted schemes tend not to be popular with the majority of the population – since they are excluded from them – so governments are reticent to invest significant amounts in them.[20] If Kenya were to invest 0.4% of GDP in a household based social assistance transfer for the number of households measured as living in extreme poverty, the average transfer would be approximately Ksh 560 per month per household. This is well below the current value and, furthermore, does not take into account consumption dynamics and the fact that many more people would spend some time poverty over a period of a few years. However, it is a politically realistic value in the context of a tightly targeted poverty programme. Offering Ksh 2,000 to the 37% of households under the extreme poverty line at a particular point in time would cost close to 1.5% of GDP, an unrealistically high cost for a poverty targeted programme.

19 Source: Kidd and Damerau (2016) and own compilation.
20 See Kidd (2016) for further explanation.
21 Sources: Fiszbein and Schady (2009), Kidd and Huda (2013) and Kidd and Damerau (2016).

Figure 8: Costs of household poverty targeted social assistance schemes across developing countries[21]



5. Adjusting transfer values to account for differences in household size and composition

While Kenya is currently adopting a household approach to transfers, the fact that household sizes vary has not been taken into account. This has two implications: the effective value of transfers is higher, the smaller the household; and, incentives may be created for larger households to split so that they can access more than one transfer. However, at present, the effective value of transfers is the key concern, since this has implications for the effectiveness of schemes in generating impacts.

Logically, the per capita value of a household transfer varies according to the size of the household. Table 6 sets out the per capita value of Kenya's CT-OVC programme, depending on size of household (although the calculation does not take into account economies of scale or equivalence scales, since these are not known and would vary depending on the characteristics of household members). So, a small household of two people would receive an effective per capita transfer of Ksh 1,000 per month, while an 8-person household would receive only Ksh 250 per month per capita. A similar logic could be applied to the HSNP and CFA schemes.

The difference in per capita values has major consequences for household wellbeing, with smaller households likely to benefit more than larger ones. This can be illustrated by the extent to which the poorest households would leapfrog others in terms of relative wellbeing, depending on the number of household members. So, while a two-person household in the poorest decile would move to almost the fifth decile of consumption wellbeing, a six-person household would only move to the second decile (see Figure 9).

UNICEF (2015) have made the same point when examining transfers across Africa. They have examined the per capita transfer values of different schemes and indicated that some countries provide significantly higher transfers than others, when measured as a percentage of the income of the "poor."[22] They argue that

Table 6: Effective value of per capita transfers in CT-OVC households, in line with the size of households

NUMBER OF HOUSEHOLD MEMBERS	VALUE OF PER CAPITA TRANSFER (PER MONTH)
2	Ksh 1,000
3	Ksh 667
4	Ksh 500
5	Ksh 400
6	Ksh 333
8	Ksh 250

22 Caution needs to be exercised in interpreting these results, since the poverty line in each country is not consistent or comparable.

Figure 9: Changes in household wellbeing as a result of the CT-OVC programme in line with the size of household[23]

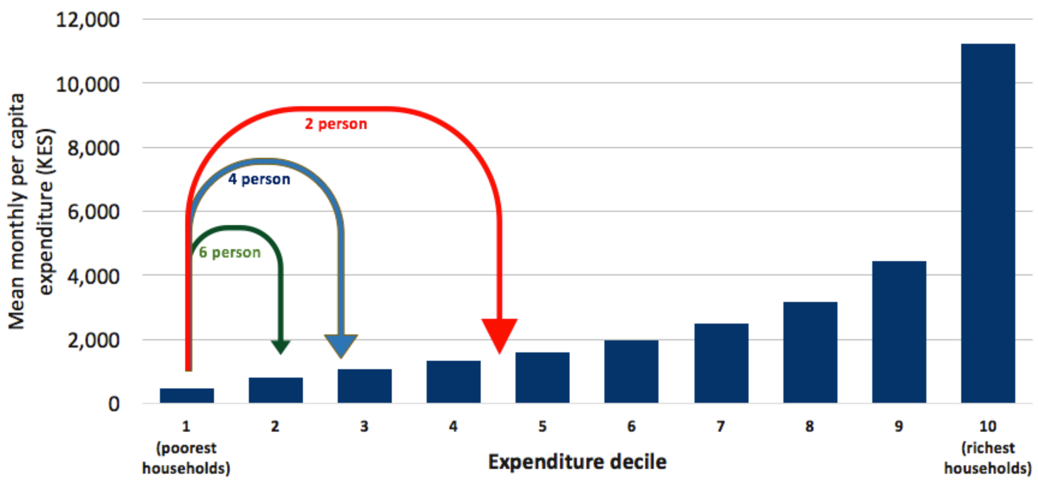
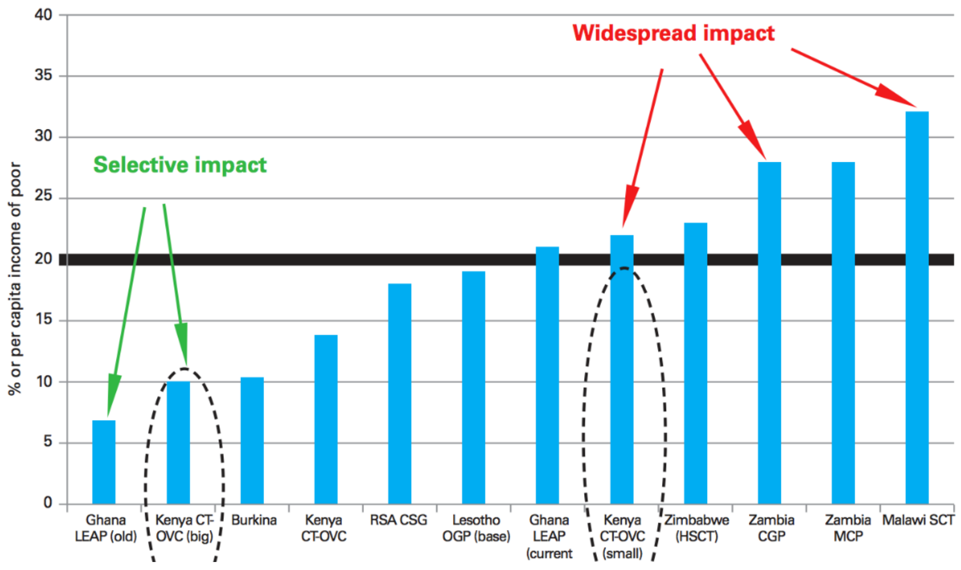


Figure 10: Per capita transfer values across household transfer schemes in Africa[24]



greater impacts are correlated with higher per capita transfer values and note that the CT-OVC programme only reaches what they consider to be a higher value among smaller households (see Figure 10).

23 The data here is taken from the KIHBS 2005/06, with values adjusted.
24 Source: UNICEF (2015).

There are also challenges for households with multiple vulnerabilities, such as old age, disability and childhood. So, on the CT-OVC programme, for example, households with higher numbers of vulnerable individuals receive the same transfer as those with less vulnerabilities. So, for example, households with two children, and differentiated by the disability of the household head, would receive the same transfer value, despite the household with the disabled head being more vulnerable and in greater need of financial support.

This paper put forward three options for addressing the challenge of different sizes of household and multiple vulnerabilities:

1. varying the value of the household transfers, based on size of household;
2. moving to family-based transfers rather than household based transfers; and,
3. moving to a lifecycle system of social protection.

Each is discussed below.

5.1 Option 1: Varying value of the household transfers

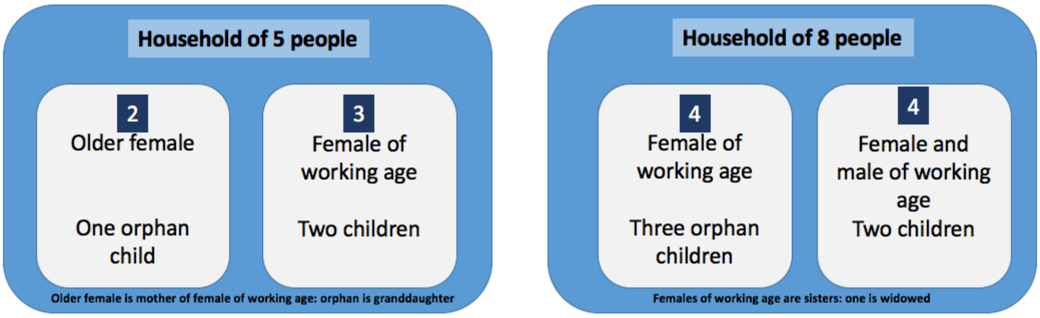
One option to address variable household sizes for household transfers – in effect, for HSNP, CT-OVC and the CFA unconditional transfer – could be to vary the value of the transfer, depending on the number of members of the household. There are various options but the preferred option would be to provide a basic household transfer and then an additional amount for each person regarded as "dependent," such as children, older people and people with severe disabilities. In this case, a decision would have to be made on whether to provide children, older people and people with severe disabilities the same amount. Government should also decide whether to put a limit on the number of dependents that could be taken into account when calculating the value of the transfer.

This option, however, has a number of disadvantages. The first two apply to all household transfers: it denies the right of vulnerable individual adults – such as older people and persons with disabilities – to access their own social security transfer and can leave them in a vulnerable position in the household, potentially denied access to the transfer; and, the issue of double-dipping remains, given the existence of the OPCT and PwSD transfers. For instance, it is unclear why older people and persons with severe disabilities would be denied their right to access the OPCT and PwSD transfers just because they live in a household receiving another household transfer.

The other challenge is that households may grow in size – by taking in more people – so as to increase the value of the transfer they receive. This can be addressed by limiting the number of additional transfers – perhaps to three dependents – but this could create an incentive for large households to split, so that the new households could also receive the transfer.

However, household transfers are a method that most countries move away from, due to their disadvantages – including the limited capacity of governments to accurately identify households living in poverty – and lack of popularity.

Figure 11: Hypothetical examples of households that comprise two families



5.2 Option 2: Moving to family transfers

A second option is to move to family-based transfers. So, in effect, if more than one family lives in a household, each would be able to receive the transfer, if eligible. This is a common option and, indeed, child benefits could be regarded as one form of family transfer: the carers of children receive a transfer based on the number of children in their care. In developing countries, there are examples of household transfers being transformed into family transfers, such as Pakistan's Benazir Income Support Programme (BISP).

To illustrate the concept of family transfers, Figure 11 gives examples of two households that comprise two families. Under a family transfer scheme, each family would receive a transfer (4 transfers in total), rather than transfers only being provided to the household (2 in total). The chances of families splitting to gain access to multiple benefits is much lower than with household benefits.

As with the household transfer, the value of the transfer could vary according to the number of dependents in each family. But, the possibility remains that families could take in more dependents to receive a higher value transfer so, again, a limit could be placed on the number of dependents that could be taken into account when calculating the value of the transfer. But, as with the household transfer, this could encourage families to "lend" children to other families that have less than the maximum number of dependents allowed.

The CFA scheme, too, could be provided on a family rather than a household basis. This would remove a key element of the current challenge with double-dipping since a household comprising two families could receive two transfers. For example, if an older woman were living in a CFA household, she would be eligible to also receive the OPCT.

5.3 Option 3: A lifecycle social security system

Kenya is already implicitly moving towards a lifecycle social security system, which is the system that all countries adopt as democracy and the economy strengthens. In a lifecycle system, most social security schemes are directed towards addressing the challenges faced across the lifecycle: the most common programmes in developed – and many developing – countries are transfers for older people, persons

Box 5: Kenya's approach to delivering social protection

There tends to be two approaches adopted for the design of national social security systems. Some countries offer benefits to households, aiming to target the poorest. To a large extent, this follows the approach followed by some developed countries in the 18th and 19th Centuries. However, as countries develop and democracies strengthen, social security benefits move to being individual entitlements, with the main areas of investment focusing on addressing risks linked to the lifecycle (such as old age, disability, childhood, unemployment, widowhood).

Kenya, at present, is at a crossroads. The Hunger Safety Net Programme (HSNP), Cash Transfers to Orphans and Vulnerable Children (CT-OVC) and Cash/Food for Assets (CFA/FFA) programme are, effectively, household benefits while the Older Persons Cash Transfer (OPCT) and Persons with Severe Disability Cash Transfer (PwSD-CT) have the design characteristics of individual entitlements. Yet, all schemes are treated as if they were household benefits, with households only allowed to receive one benefit (which may result in encouraging households to split, so that they can access more than one benefit).

The dichotomy between household benefits and individual entitlements in Kenya is not surprising. Across developing countries, development partners tend to promote household benefits for the poor while national governments – which, in a democratic environment, are incentivized to develop popular programmes – tend to design individual entitlements. The HSNP, CT-OVC and Cash/Food for Assets schemes have been donor-driven and, therefore, are, unsurprisingly, household benefits for the poor. In contrast, the OPCT and PwSD benefits were government driven – as schemes are in developed countries – and so are designed as individual entitlements, although they are currently treated as if they were household transfers.

A key question for Kenya is whether to continue to follow a household-based transfer approach to social protection or whether to follow the pattern adopted by most countries as they develop by moving towards a system of individual entitlements (which could imply transforming the HSNP, CT-OVC and CFA programmes into individual transfer based schemes). This decision would have significant implications for the value of transfers.

with disabilities, children, survivors (e.g. widows) and the unemployed. So, for example, in South Africa a household with an older person, a person with a severe disability, and two children would be able to receive four benefits: the old age pension, the disability benefit and two child benefits. Therefore, in countries with systems based on individual entitlements, the value of transfers received by households naturally varies according to the level of vulnerability of that household. (See Box 5 for a discussion on the approach adopted in Kenya).

So, if Kenya's social security system were to evolve into an individual lifecycle social security system, households could receive benefits from a number of schemes, in line with their level of demographic and health vulnerabilities. So, in effect, each household would receive a different total value of transfers, depending on their vulnerabilities. A lifecycle approach also deals with the challenge of double-dipping.

In effect, in a lifecycle system it is not a problem if households receive more than one transfer. Multiple transfers are a positive outcome as they enable the national social security system to be moulded to the needs of households.

5.3.1 Proposed transfer values for a lifecycle system

It is proposed to convert the CT-OVC from a household benefit into a child benefit, so that an eligible household with multiple children would receive a benefit for every child. The proposed value for the child benefit would be Ksh 500 per child per month. This value was selected for a number of reasons. Firstly, a value of Ksh 500 would be the equivalent of 4% of Kenya's GDP per capita, which is in line with the value of many child benefits across the world. Secondly, the proposed value is well above the recommended minimum norm (Ksh 163 per child) when applying the Social Security (Minimum Standards) Convention, 1952 (No. 102) of the International Labour Organisation to Kenya's minimum wage. Lastly, such a value would probably strike an appropriate balance between the progressive realisation of the right to an adequate standard of living, but is also low enough so that it remains fiscally affordable to expand the programme (as coverage is still very limited) and fulfil children's right to access social security.

The values of the OPCT and PwSD-CT could be maintained at Ksh 2,000, but they should be turned into individual entitlements. The rationale for maintaining them at Ksh 2,000 is two-fold. On the one hand, a value of Ksh 2,000 is above the recommended minimum norm (Ksh 1,087) when applying the Social Security (Minimum Standards) Convention, 1952 (No. 102) of the International Labour Organisation to Kenya's minimum wage. Moreover, as discussed earlier, the generosity of the two programmes relative to the size of the economy (and, therefore, funding capacity of the State) is very much in line with what other (African) countries are providing. On the other hand, in social security systems, it is normal for transfers to adults who are expected not to work – such as older people or persons with severe disabilities – to be higher than for children. Old age pensions and disability benefits are meant to replace income from employment, while a child benefit is meant to be a supplement to the income that carers generate from their own work. Having an old age pension at four times the value of a child benefit is common: indeed, in some countries – such as South Africa – the difference is greater.

In this context of a national lifecycle social protection system, the value of transfers received by each household would vary. For example:

- A household with two children would receive Ksh 1,000 per month;
- A household with an older person and no children would receive Ksh 2,000 per month;
- A household with an older person and two children would receive Ksh 3,000 per month; and,
- A highly vulnerable household with an older person, a person with a severe disability and 2 children would receive Ksh 5,000 per month.

So, as described earlier, the value of transfers would naturally mould to the level of vulnerability of households, while the perverse incentive for households to split would not be encouraged.[25]

25 In fact, beneficiary households in Kenya already have recipients that could receive multiple benefits. For example, calculations based on MIS data indicate that 25% of households on the CT-OVC scheme include a person aged 65 years and over; and, 27% of households on the HSNP programme include at least one orphan.

Table 7: Options for an inclusive lifecycle social security system in Kenya[27]

SCHEME	AGE GROUP	COVERAGE OF GROUP	VALUE OF TRANSFER (MONTHLY)	COST AS % OF GDP	COST (BILLIONS OF SHILLINGS)
Child benefit	0-4	70%	Ksh 500	0.45%	30.45
PwSD-CT[28]	19-64	100%	Ksh 2,000	0.10%	7.15
OPCT	65+	100%	Ksh 2,000	0.47%	32.44
			Total	1.02%	70.04

5.3.2 Estimated cost of a lifecycle system

One option for a lifecycle system is outlined in Table 7. It would cover all older people aged over 65 years with an expanded OPCT, all people of working age with a severe disability with an expanded PwSD-CT and 70% of children aged 0-4 years. It would cost 1% of GDP, which is extremely good value for a comprehensive lifecycle system: for example, South Africa and Mauritius spend around 3% of GDP on less comprehensive systems. Box 6 outlines how the Hunger Safety Net Programme could also be transformed into a lifecycle social security system.[26]

Figure 12 illustrates how the proposed reform of the OPCT, at 0.47% of GDP, would deliver a cost-effective universal pension compared with the similar schemes elsewhere in the world. While this may suggest that the value of Kenya's pension could further be increased, at present it would probably be more sensible to prioritise expanding coverage. However, as discussed in Box 7, one option may be to increase it for the oldest older people.

5.3.3 Estimated coverage and impacts on poverty of a lifecycle system

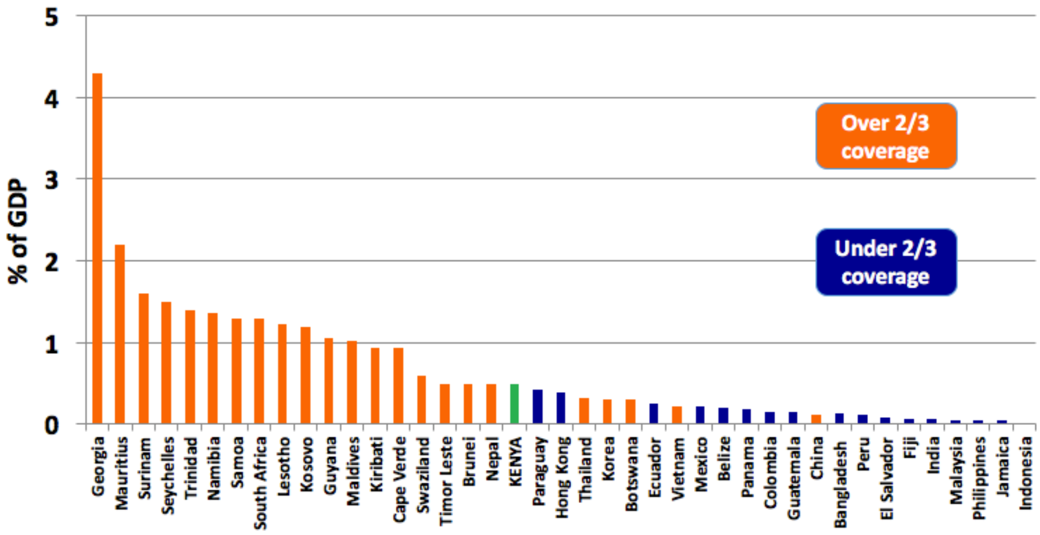
The impacts of the national lifecycle system could be compared to that of a household transfer. The household based transfer to be used in the comparison is based on a total cost of 0.4%, which would be the maximum that could be expected to be invested in such a scheme, based on international experience, due to the lack of popularity of such a system with the majority of citizens (see Section 4). It would provide 9.5% of households with a transfer of Ksh 2,000 per month.

26 See also Gelders (2016a) for proposals on reforming the CFA. Two potential alternative options for the CFA are: (1) Branding it as an infrastructure programme and focusing on the asset-building aspect of its design. This could be placed within a broader framework of addressing climate change; or (b) Promoting the programme as an "employment programme" that is addressing issues of high unemployment or underemployment, potentially focusing on younger people, among whom unemployment is the greatest challenge.

27 See: Development Pathways (2016). Kenya: Costing and simulation tool for cash transfer programmes. The estimates are based on KIHBS 2005/06.

28 It is possible to also introduce a disability benefit for children. It has not been included here because of a lack of information in the KIHBS 2005/06 on childhood disability. But, the cost would be minimal.

Figure 12: Cost of pensions across developing countries, compared to a potential universal pension in Kenya, for everyone aged 65 years and above and at a value of Ksh 2,000



Box 6: Transforming HSNP into an inclusive lifecycle social security scheme

An alternative approach to the design of the HSNP could be adopted. It arose as a donor driven scheme, but it could be transformed into a lifecycle scheme, in line with Kenya's other social security schemes. The rationale for HSNP targeting the poorest households is undermined by the fact that its targeting mechanism is highly flawed and, according to Silva-Leander & Merttens 2016), is little better than random selection. It has been a very expensive selection mechanism while the arbitrary selection of the beneficiaries has not resulted in community or local political support. Indeed, given that almost everyone in the HSNP areas is living in poverty – and consumption is highly dynamic – the aim of targeting some poor within a wider group of poor could be questioned. In effect, the HSNP is currently undertaking rationing rather than targeting in its selection.

A range of alternative design options exist. For example, at a similar cost as the current programme – at around Ksh 4.14 billion per year – it would be possible to offer:

- A pension for everyone over 65 years, at a value of Ksh 2,000 per month (assuming the OPCT covers 20% of older people, in line with the proposed national coverage for 2016/17); and,
- A Child Benefit for all children under age 5 years, at a value of Ksh 500 per month.

Such a scheme would provide individual entitlements to around 81,000 older people and 430,000 children. And, as citizens' entitlements, the schemes are likely to be popular as well as easy to implement, thereby significantly reducing the administrative costs of the HSNP scheme. Furthermore, since almost all beneficiaries would be living in poverty, they would likely be as effective as the current targeting mechanism in addressing poverty, which is the current objective of the scheme.

Alternative scenarios could examine the potential for including a disability benefit, in line with the PwSD.

Box 7: Increasing transfer values for the oldest older people

In Mauritius, the old age pension triples in value at age 90. One reason is to create incentives for family members to care for older people. The size of the transfer is so high – at around 60% of GDP per capita – that it creates a significant incentive for families to care for older people, since they know that they will also benefit from the higher income if their parent or grandparent reaches 90 years of age. Anecdotal evidence indicates that it does encourage greater care of older people, through better nutrition and a greater likelihood of receiving medical care, and when older people reach 90 years of age, it is now a tradition for families to hold celebratory parties. At 100 years of age, the value of the transfer increases once more. While the value of the transfer is high, there are so few beneficiaries older than 90 years that the overall cost to the government is minimal. Yet, its incentive effect significantly enhances the quality of life of Mauritius's older people.

Thailand follows a different strategy, gradually increasing the value of its pension as older people age, with a higher value provided each five years.

Kenya could consider implementing a similar strategy, although it would probably be best to wait until the pension scheme is universal.

The lifecycle system would reach 45% of households nationally – five times more than the household based transfer – and reduce the national poverty rate by 7.6% and the national poverty gap by 14.3%. This can be compared to the 2.3% and 6.3% reductions from the poverty-targeted household transfer. Figure 13 compares the impacts on the national poverty gap of the two approaches across age groups. The lifecycle system would bring about greater impacts across all age groups, with the highest poverty reduction among older people.

Similarly, as shown by Figure 14, the lifecycle system would provide significantly larger coverage of the poorest households, reaching over 70% of those in the poorest decile while the poverty targeted household transfer would only reach around 33% of its target group. The lifecycle system would also enable many of those in the highly insecure middle of the consumption distribution to access social security. If the age of eligibility were increased for children or decreased for older people, the coverage would be even higher, in particular among the poorest. For example, if the age of eligibility for a child benefit were increased to 10 years, coverage of the poorest decile would increase to 85%.The two approaches also offer different values of transfer to households. While the household targeted system would give each household Ksh 2,000 per month, the average value of the per capita transfer would be only Ksh 290 per month among beneficiary household. In contrast, while the lifecycle system would give an average value of transfer of Ksh 1,550 per household, it would offer nearly Ksh 380 per capita to beneficiary households, which is higher than the poverty-targeted household benefit (and, of course, would reach many more households). It would also offer variable transfer values, depending on the vulnerability (i.e. composition) of the household, as indicated by Table 8. For example, 13% of households would receive Ksh 500, while 11% of households would receive between Ksh 500 and 1,000; 13% between Ksh 1,000 and 2,000; around 8% of households would receive Ksh 2,000 or more. Under the lifecycle system, 55% of households in Kenya would be excluded from the tax-financed social security system, while it would be 91% under the household-based transfer system.

29 The model used a targeting error by simulating the performance of a proxy means test.

Figure 13: Comparison of impacts on poverty gap across age groups, for a lifecycle (left side) and household based transfer system (right side)

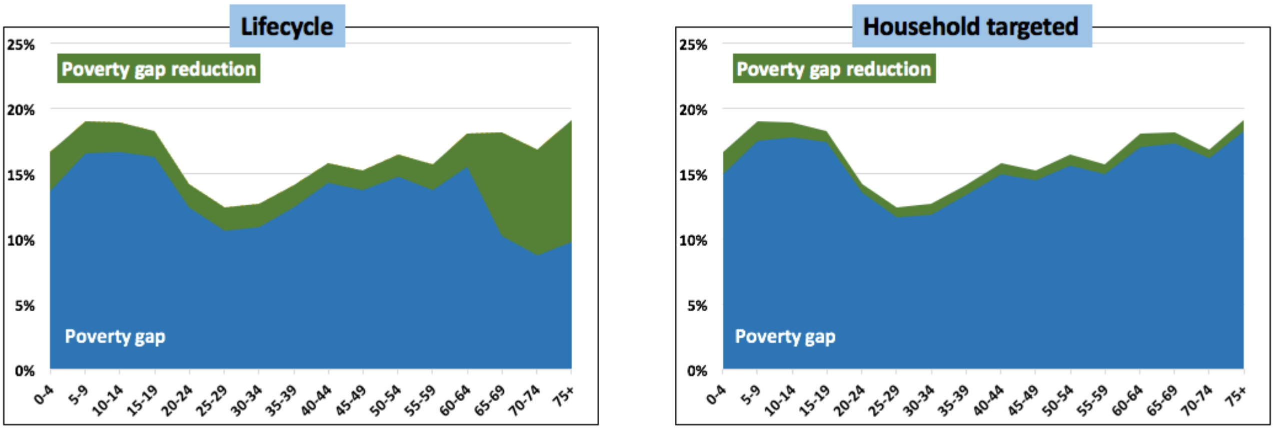


Figure 14: Coverage of households in each consumption decile by lifecycle and household targeted system[29]

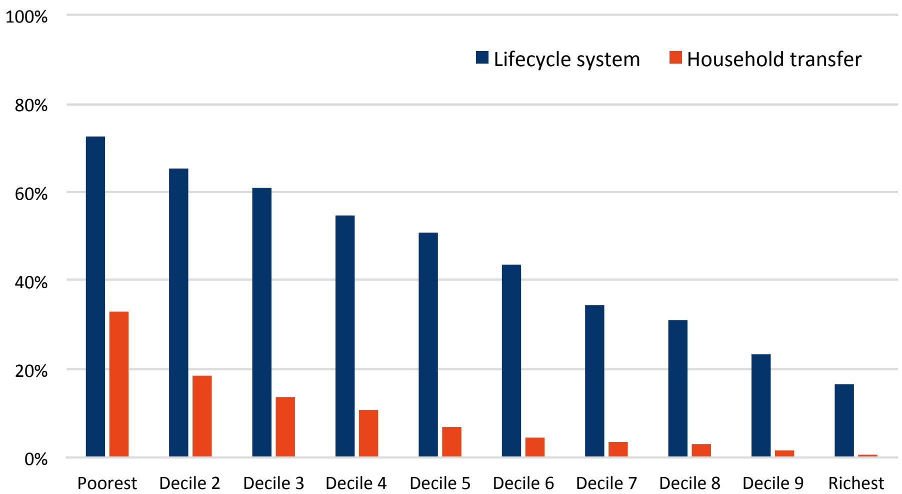


Table 8: Percentage distribution of households by transfer size received under the lifecycle and household targeted system, incorporating all households in Kenya

Total value of transfers (KES)	LIFECYCLE SYSTEM	HOUSEHOLD TRANSFER
0	55%	91%
1 - 500	13%	0%
501 – 1,000	11%	0%
1,001 – 2,000	13%	9%
2,001 – 3,000	4%	0%
3,001 – 4,000	3%	0%

Finally, the average total transfer received by households living under the poverty line – which would include those not receiving any transfer – could be compared. The lifecycle system would provide an average of Ksh 990 while the household transfer would provide only Ksh 385.

6. Adjusting the value of transfers to account for inflation

Good practice indicates that the value of transfers should change on a regular basis to ensure that they maintain their real value in the face of inflation. Of course, governments could also choose to increase the value of transfers at above the level of inflation, so that their real value grows over time. A mechanism should be developed to ensure that the value of transfers increases on a regular basis, at least in line with inflation.

In Kenya, the value of most transfers has not increased in line with inflation, as illustrated in Figure 15. In 2007, the CT-OVC scheme paid households Ksh 1,500 per month and, since then, the value has increased once, in 2011, to Ksh 2,000 per month. Yet, at the time, this was insufficient to restore the transfer to its 2007 value. And, since 2007, the CT-OVC, OPCT and PwSD transfers have fallen in real value by 38%. Of course, it could be argued that this has contributed to enabling the Government of Kenya to increase the coverage of the schemes.

Figure 16 shows the change in the value of the CFA programme. The value of the transfer was initially adjusted upwards or downwards whenever local food prices in intervention areas fluctuated by more than 10%. However, since mid-2015, the value of the transfer has been fixed at 2,000. This means, since 2011, that the value of the transfer has dropped by a fifth in local currency.

The HSNP programme has followed a different pattern. As Figure 17 indicates, its value has been regularly adjusted upwards – using estimates of inflation by the IMF – and, between 2009 and 2016, its real value has increased by 40%. So, while in 2009 the HSNP paid a significantly lower transfer than the other

Figure 15: Change in real monthly value of CT-OVC, OPCT and PwSD transfers over time (2007-16)

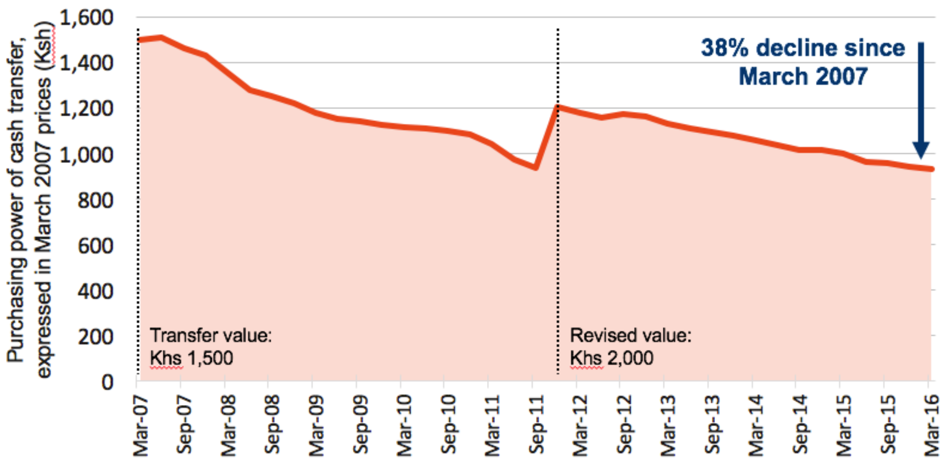


Figure 16: Change in real monthly value of the CFA transfer over time (2011-16)

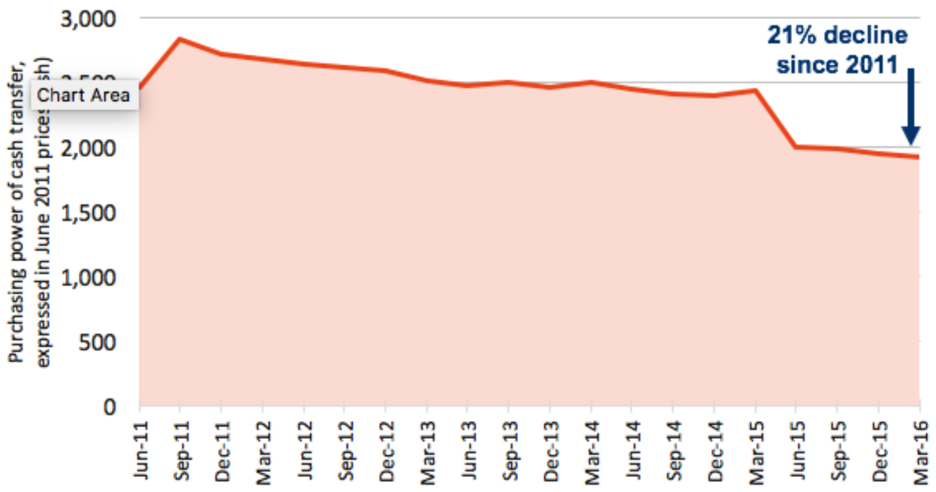
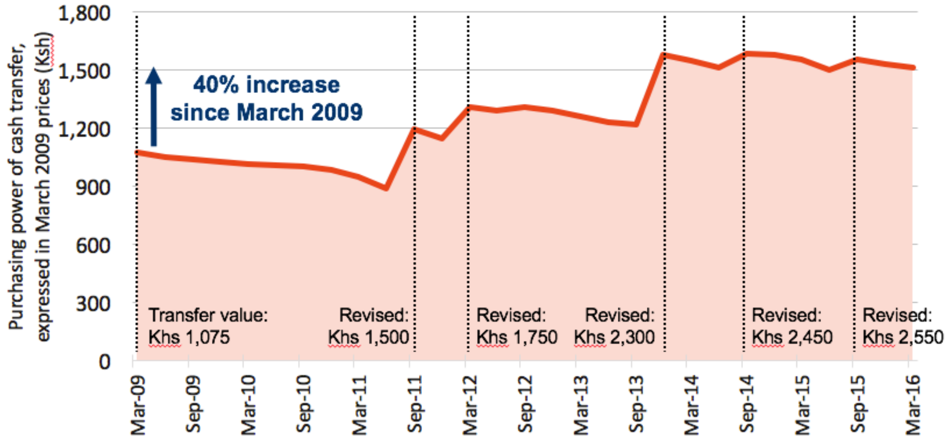


Figure 17: Change in real monthly value of HSNP transfer over time (2009-16)



Government of Kenya social security schemes, it now pays a higher value. This is inconsistent with the approach taken by government for the other schemes, and was possible because the HSNP is, still, largely donor-funded and restricted to a small number of counties. There are, however, some concerns within government regarding the fiscal sustainability of such an approach.

It is recommended that the Government of Kenya establish a mechanism for adjusting the value of its transfers. There is a range of options, outlined below:

- The simplest method would be to adjust the value of transfers in line with annual inflation, using the Consumer Price Index (CPI) published by the Kenya National Bureau of Statistics (KNBS). This would be the most appropriate benchmark for adjusting transfer values of programmes operating nationwide (CT-OVC, OPCT and PwSD). The HSNP relies on IMF estimates but it may be desirable to use KNBS figures too.

- Transfers could be adjusted according to the cost of a basket of food items to meet minimum nutritional requirements, as happens with the CFA programme. However, this could become complicated if regional baskets of goods are used. And, of course, if the value of the basket of goods falls, it may not be politically feasible to reduce transfer values.

- Alternatively, an independent – or government-controlled – body could be constituted that would be responsible for adjusting values on an annual basis, using a range of criteria, such as increases in average wages, increases in the minimum wage, and GDP growth.

7. Conclusion

In most countries, debates on the value of transfers are a normal feature of policy-making, with proponents usually on both sides of the argument, some arguing that they are too low and others that they are too high. The debates indicate that there is no "right" answer and no agreed approach to determining transfer values. Indeed, there is a range of issues to consider when determining the value of transfers including: the purposes of social security schemes; the cost of a minimum standard of living; potential work (dis-) incentives; costs imposed on beneficiaries for complying with any conditions; and the overall cost and fiscal sustainability of the programme.

A key consideration for governments is how to achieve a balance between two objectives that are in tension: how to set the value of the transfer at a level that helps realise *the right to an adequate standard of living*; and, how to set the value low enough so that it remains fiscally affordable and reaches the priority target population, thereby offering as many people as possible *the right to access social security*.

Kenya has five main cash transfer programmes: the Cash Transfer for Orphans and Vulnerable Children (CT-OVC); the Older Persons Cash Transfer (OPCT); the Cash Transfer for Persons with Severe Disabilities (PwSD-CT); the Hunger Safety Net Programme (HSNP); and the Cash for Assets (CFA) programme. The CT-OVC, OPCT, PwSD and CFA programmes all offer a similar transfer value of Ksh 2,000 per month per beneficiary household, while the HSNP has a higher value of Ksh 2,700. Currently, all schemes operate as household benefits, rather than individual entitlements. The result is that the system as a whole does not respond to differences in vulnerability between households. So, a household with a single older person and five children could only receive the OPCT, and not receive sufficient support to address effectively the additional needs of the children; indeed, it could receive the same level of benefit as a household with an older person and only one child. Therefore, the effectiveness of the system as a whole is reduced as a result of household transfers.

The paper compared Kenya's transfer values with a range of national and international benchmarks, including the national poverty line; the Social Security (Minimum Standards) Convention (No. 102) of the International Labour Organisation; legislated minimum wages; and benefit levels of similar programmes in other countries in Africa and the rest of the world. It also examined to what extent transfer values have kept up with inflation.

The paper then developed a number of options to adjust transfer values to account for differences in household size and composition, including: varying the values of the household transfers; moving to a system of family transfers; or transforming existing programmes into a harmonised set of individual entitlements. It presented results from a microsimulation model that compares the cost, coverage, and impact of a poverty-targeted system of household benefits with a lifecycle social security system.

The main recommendations are as follows:

- Convert the **CT-OVC** from a household benefit into a child benefit, so that an eligible household with multiple children would receive a benefit for every child. The proposed value for the child benefit would be Ksh 500 per child per month. This would be the equivalent of 4% of Kenya's GDP per capita, which is in line with the value of many child benefits across the world. The proposed value is well above the recommended minimum as per the Social Security (Minimum Standards) Convention, 1952 (No. 102) of the International Labour Organisation. It would probably strike an appropriate balance between the progressive realisation of the right to an adequate standard of living, but is also low enough so that it remains fiscally affordable to expand the programme (as coverage is still very limited) and fulfil children's right to access social security.

- Maintain the values of the **OPCT** and **PwSD-CT** at Ksh 2,000, but reform them into individual entitlements. The value of Ksh 2,000 is above the recommended minimum norm of the Social Security (Minimum Standards) Convention, 1952. And, the generosity of the two programmes relative to the size of the economy (and, therefore, funding capacity of the State) is already in line with what other (African) countries are providing. Moreover, in social security systems, it is normal for transfers to adults who are expected not to work – such as older people or persons with severe disabilities – to be higher than for children. Old age pensions and disability benefits are meant to replace income from employment, while a child benefit is meant to be a supplement to the income that carers generate from their own work. Having an old age pension at four times the value of a child benefit is common.

- The methodology to compute the **CFA** transfer value based on WFP's Food Security and Outcome Monitoring could be continued. But, in the medium to long term, as part of efforts to further increase national ownership of the programme, it may be desirable to move towards using statistics produced by the KNBS. Another issue to consider is that the transfer value of the CFA programme – during the lean months when it is active – is now similar to those of the CT-OVC, OPCT and PWSD. Yet, the CFA is a conditional benefit as participants need to fulfil certain work norms on building community assets whereas the other programmes are unconditional. This creates a certain level of inequity especially in areas where multiple programmes are active. At the same time, households receiving the CFA transfer are also benefiting from significant technical assistance which, by and large, may make their asset more productive and sustainable than assets owned by non-beneficiaries.

- Consider bringing the value of the **HSNP** transfer value to bring it in line with the benefit levels of other programmes funded by the Government of Kenya. In northern Kenya, the transfer value of the HSNP is different from the payment sizes provided by the CT-OVC, OPCT and PWSD – which are increasingly active in the HSNP counties too. This creates a degree of inequity as similar households in the same communities may be receiving different benefits. The annual value of the HSNP is around 23% of GDP per capita which is high when compared to the value of similar programmes in many other countries. The value of the HSNP could be 'frozen' until the other programmes, after adopting an indexation mechanisms, have managed to catch up.

- The simplest method to adjust the value of transfers in line with annual inflation would be to use the Consumer Price Index (CPI).

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(Footnotes)

1 The annual value of the CFA transfer is only Ksh 14,000 because it is only provided for 7 months per year. The scheme does not provide a transfer during the non-lean months (January, February, March, July and August).

2 It is possible to also introduce a disability benefit for children. It has not been included here because of a lack of information in the KIHBS 2005/06 on childhood disability. But, the cost would be minimal.