

## **EXTENDING THE SCOPE OF SOCIAL PROTECTION IN ZIMBABWE**

Rapid Diagnostic Exercise

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### **KEY POINTS**

- Zimbabwe's young population continues to be the main demographic feature that most characterizes Zimbabwe's population. However, the demographic profile illustrates favorable conditions characterized by working age population growing at a higher rate than the overall population coupled with declining dependency ratios. It represents a "window of opportunity" for Zimbabwe to invest in children in a sustainable manner.
- The overall cost of establishing an effective Social Protection Floor is estimated at only 2.55 percent of GDP. Furthermore, benefiting from the favorable demographic profile, the cost of the system is projected to even decline as a percentage of GDP over time and reaching 1.341 percent of GDP in 2020.
- Public Spending on Social Protection in Zimbabwe is very low in comparison with international recommended spending levels.
- An effective Social Protection Floor is affordable and within the national fiscal envelope if specific measures are undertaken e.g. reprioritizing expenditures and intergenerational equitable tax on mining. However, there is a need for short-term measures to smoothen the transition to fund the proposed system in combination with other long-term adjustment measures. This includes: reaching debt swaps agreements that allows Zimbabwe to commit injecting the equivalent amount of the debt into social sector projects.
- The system can provide optimal impact if it is implemented all together. However, stand-alone benefit can be implemented first. For instance, an old-age pension can be implemented with a cost of less than a half percentage point of GDP. This is particularly interesting as preliminary administrative data from the Harmonized Social Cash Transfer Program (ZHSCTP) showed that about 70 percent of the program benefit recipients are old-age. Therefore, an old-age pension scheme can accomplish the same results obtained from the ZHSCTP with two main advantages: first, significantly minimizing administrative cost and burden. Second, more transparency and less errors of exclusion.
- Recommended work: Impact analysis (when PICES data are made available), feasibility of social health insurance (please see annex), stand-alone social Old-age pension scheme, and integration of existing public Social Protection schemes.

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## **1- Introduction**

### **1.1. Overview and Study Objective**

This study aims at ...

### **1.2. Definitions and UNICEF Engagement in Social Protection<sup>1</sup>**

Social Protection is defined as the set of public and private policies and programmes aimed at preventing, reducing and eliminating economic and social vulnerabilities to poverty and deprivation. Social protection is essential to furthering UNICEF's commitment to the realization of the rights of children, women and families to an adequate standard of living and essential services. At the core of social protection measures, UNICEF places emphasis on four components:

- Social cash transfers
- Programs to ensure economic and social access to services
- Social support services
- Legislation and policies to ensure equity and non-discrimination in children's and families' access to services and employment/livelihoods

This rapid diagnostic exercise covers mainly the social cash transfer component<sup>2</sup>. These transfers are small predictable sums of money to households to alleviate household poverty and achieve other desired social outcomes. Such grants empower recipients by providing them with greater freedom of choice in consumption decisions, and have demonstrated positive effects on food consumption, diet diversity, and expenditure on basic rights to health and education.

In addition to sharing many of the sources of vulnerability faced by their families and communities, children further face age-specific vulnerabilities that differ from those of adults. This is coupled with the fact that children tend to be over-represented among the poor. Children, therefore, require special attention during the process of designing or re-engineering of the country's Social Protection system. As a global advocate for children, UNICEF has a unique role to play in ensuring that social protection programmes are sensitive to children's rights and needs. UNICEF has been working on social protection for many years. Its engagement in social protection spans 124 programmes in 93 countries, reflecting the increasing recognition of UNICEF as an influential partner in Social Protection at national and international levels.

Social Protection is a potentially powerful tool in helping UNICEF realizes its vision of a world where the rights of every child are realized. Children's right to Social Protection is outlined in Article 26 of the CRC:

1. "States Parties shall recognize for every child the right to benefit from social security, including social insurance, and shall take the necessary measures to achieve the full realization of this right in accordance with their national law.

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<sup>1</sup> Some parts of this section are adapted from UNICEF Social Protection framework.

<sup>2</sup> In a proposed parallel exercise, we identified the need to integrate a social health insurance into the social protection mix. Please see elaborated concept note attached herewith.

2. The benefits should, where appropriate, be granted, taking into account the resources and the circumstances of the child and persons having responsibility for the maintenance of the child, as well as any other consideration relevant to an application for benefits made by or on behalf of the child.”

Article 27 is also particularly relevant:

1. “States Parties recognize the right of every child to a standard of living adequate for the child's physical, mental, spiritual, moral and social development.
3. States Parties, in accordance with national conditions and within their means, shall take appropriate measures to assist parents and others responsible for the child to implement this right and shall in case of need provide material assistance and support programmes, particularly with regard to nutrition, clothing and housing.”

It is important to underline that social protection is a cross-sectorial issue for children. With its explicit focus on reducing children’s vulnerability, social protection can play a key role in addressing some of the underlying barriers which stand in the way improving children’s wellbeing. By reaching out to those who are economically and socially excluded, social protection compliments sector interventions in health and nutrition, education, child protection, and HIV/AIDS to improve outcomes and increase equity.

UNICEF’s work on social protection highlights three key principles:

- 1- As a human-rights organization, UNICEF is committed to social protection as a fundamental right for children and as a key policy for supporting equity and social justice. While UNICEF supports the goal of achieving universal coverage, it recognizes the challenges inherent in providing universal coverage i.e. resource constraints. With this in mind, UNICEF advocates for **progressive realization of universal coverage**: UNICEF supports measures conducive to building universal coverage over time in a given context. Targeted programs may be chosen when it is desired that specific tailored interventions address the additional needs of particular populations. But when vulnerability is widespread, universal coverage is more appropriate and more efficient method for ensuring that all those who are in need benefit (less stigma, higher poverty impact, less error of exclusion, administratively easier and cheaper).
- 2- One of the key principles for UNICEF’s work in this area is **inclusive social protection**. Mainstreaming inclusive social protection entails moving away from targeted approaches towards particular groups to look at the underlying causes of exclusion these groups share – such as discrimination, stigma, and geographical location. From a child-sensitive perspective, most vulnerable children often experience age-specific vulnerabilities, compounded by other sources shared at household and community level such as location.
- 3- UNICEF supports **long-term, nationally-owned and –led systems**. Work on social protection must fall within and support the national framework. Except in cases where government capacity to implement or coordinate is weak or when there is a humanitarian crisis, UNICEF will not implement or fund others’ implementation of social protection programs outside of government collaboration.

## 2. ZIMBABWE: SOCIOECONOMIC BACKGROUND FOR SOCIAL PROTECTION

### 2.1. Demographic Profile

The most recent population figure in 2002 estimated Zimbabwe's population at 11.632 million (ZIMSTAT, 2012), other estimates have projected the population to have reached almost 13 million in 2012 (UN, 2011c). Between 2000-2010, Zimbabwe's population grew at an average annual rate of almost zero as compared with the high rates in the 1990s. This is mainly mirroring that massive emigration over the same period, which is estimated at an average of 160 thousands a year, in the wake of deteriorating living conditions witnessed. Some population projection figures estimated that Zimbabweans have begun to return in large numbers and have, or expected to, reversed sign of net migration for the first time since the early 1990s (UN, 2011c).

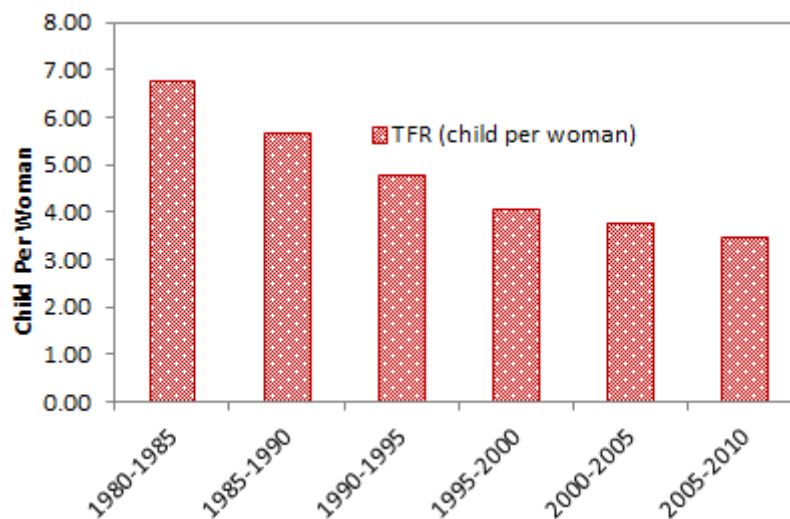
Table 1: Population Change in thousands, 1980 – 2015

Period	Population growth rate%	Population change per year	Birth	Death	Net Migration
1980-1985	3.9	313	363	78	28
1985-1990	3.4	323	381	83	25
1990-1995	2.2	243	390	108	-39
1995-2000	1.4	165	381	176	-40
2000-2005	0.1	12	372	220	-140
2005-2010	0.0	0	370	190	-180
2010-2015	2.2	286	381	155	60

Source: Based on data from (UN, 2011c)

The pattern of declining natural population growth (excluding migration) can be explained by two underlying factors: fertility rates and mortality rates. Since 1980, Total Fertility Rate (TFR) decreased by almost half, from 6.75 children per woman in early 1980 to 3.47 children per woman in 2005-2010 (UN, 2011c).

Figure 1: Total Fertility Rates, 1980 – 2010

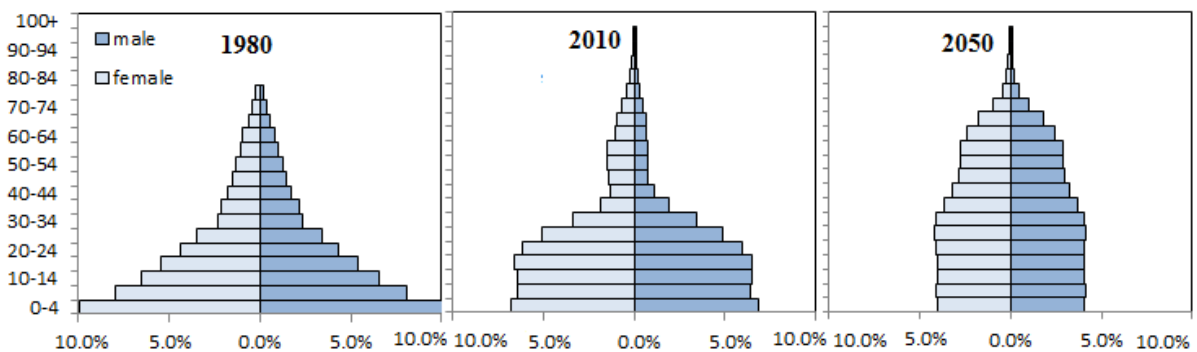


Source: Based on data from UN (2011c).

The second factor, the mortality rate, increased over the same period. The infant mortality rate declined from a rate of 49 infant deaths per 1,000 live births in mid 1980s (ZIMSTAT and ICF international, 2012) to 57 infant deaths per 1,000 live births in 2005-2010 (ZIMSTAT and ICF international, 2012). The crude death rate was estimated at 15.1 deaths per 1,000 live in 2005-2010, as compared with a rate of 9.6 deaths per 1000 in the early 1980s. Life expectancy at birth, therefore, declined steadily and stood at only 46.6 years in 2005–2010, compared to 60.4 years in 1980-1985(UN, 2011c).

As a result of declining fertility rates, mortality and life expectancy, the population structure has changed notably over the past few decades. The median age of the population increased from 15.5 years in 1980 to 19.3 years in 2010 (UN, 2011c). Nevertheless, Zimbabwe’s young population continues to be the main demographic feature that most characterizes Zimbabwe’s population.

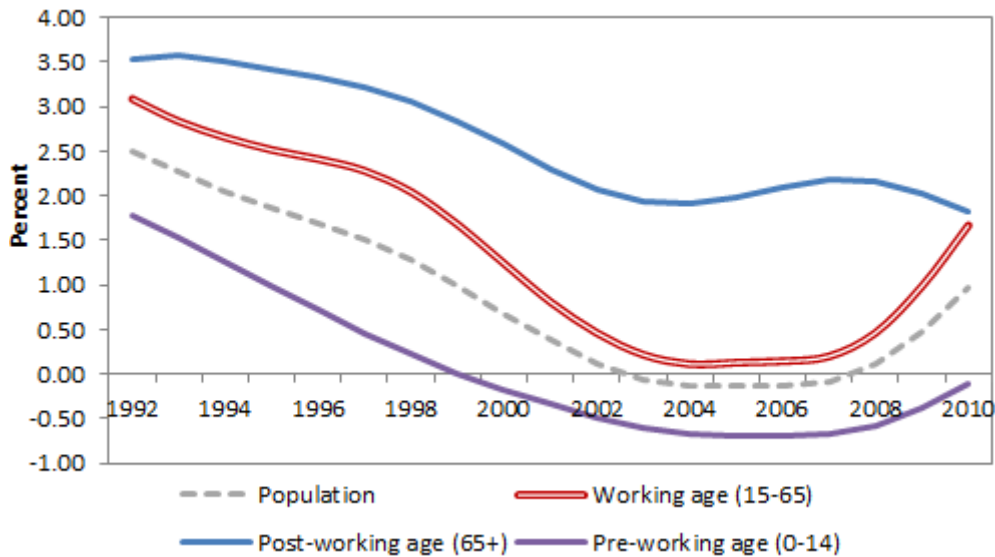
Figure 2: Population Pyramid, 1980 - 2050



Source: Own calculation based data from on UN (2011a).

The broadening second quarter (age 20-40) of Zimbabwe’s population pyramid has two main consequences: First, the likelihood of future steady, possibly an increased, population growth, even when the fertility rate is declining. This phenomenon is known as the “demographic momentum,” which occurs due to the fact that more people are in their productive years. Second: favorable demographic environment in which the working-age population expands at a higher rate than that of the general population as shown below, which can form what is widely referred to as “demographic window of opportunity.”

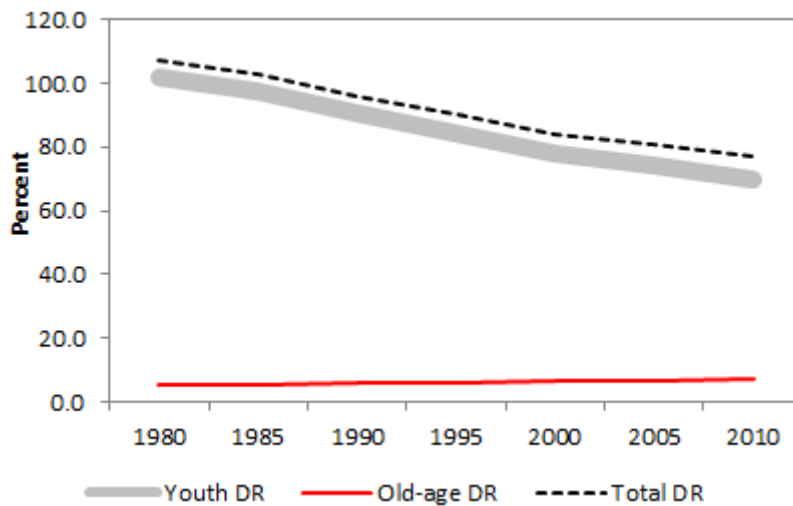
Figure 3: Population Growth Rates, by Major Age Groups, Percent, 2000 – 2010



Source: Own calculation based on data from UN (2011a).

Similarly, decreasing trends have been observed in the Youth Dependency Ratio (number of children under 15 years to one working-age person) and the Total Dependency Ratio (number of children under 15 years and elderly over 65 year-old to every person of working-age).

Figure 4: Dependency Ratios, Percent, 1980 – 2010



Source: Own calculation based on data from UN (2011a).

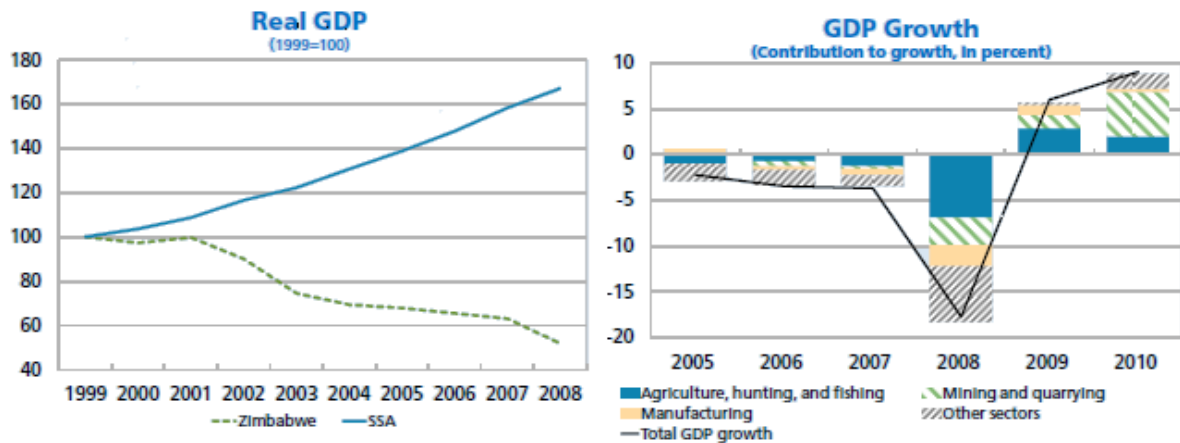
## 2.2. Labor and Macroeconomic Environment

While the expansion of the working-age population, as explained earlier, and subsequently the enlargement of the labor force, can present a favorable condition (reduced dependency ratios), it also constitutes a substantial challenge to the local economy to create adequate jobs to absorb the rapid entry into the labor market of new participants. Although it is widely argued that youth unemployment of age less than 25 is particularly alarming, there has been no reliable and recent labor market data that can be used. (to be updated with the LFS data when it is made available)



Over the past couple of years, Zimbabwe's economy has witnessed a rapid economic growth averaged in real term 7.73 percent between 2009-2011 (IMF, 2011), which is more than 6.7 percentage points above the population growth, resulting in a general improvement in real GDP per capita. However, economic growth started from a low base following almost two decades of declining output culminated in 2008 with Zimbabwe's worst economic and humanitarian crisis in its post-independence history, which left Zimbabwe behind the rest of sub-Saharan countries.

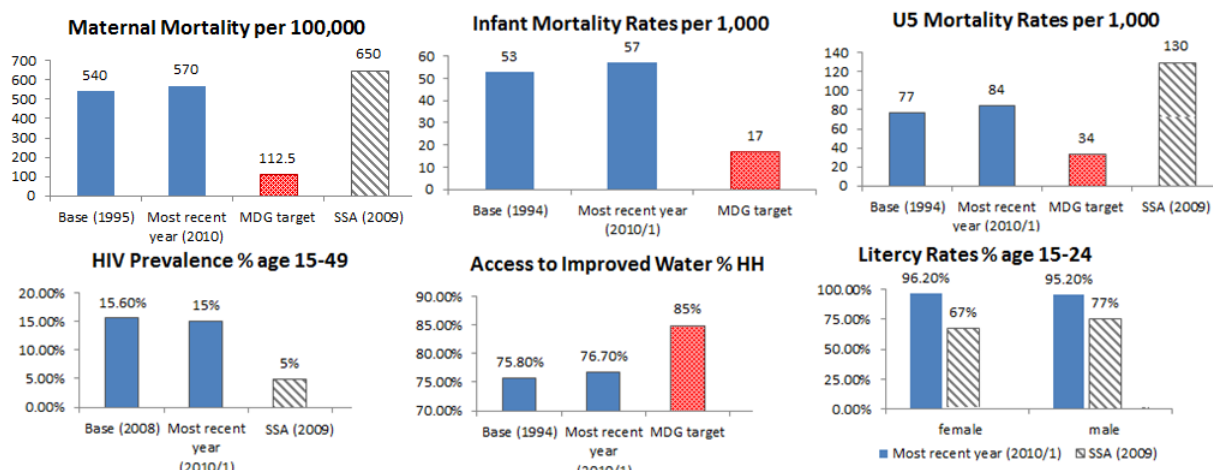
Figure 5: Economic Performance



Source: IMF (2011).

A series of favourable conditions both internal (improved policies) and external (high commodity prices, the resumption of official diamond trade, capital inflows, and sizeable off-budget donor grants estimated at 8.6 percent of GDP in 2010 (IMF, 2011)) played a significant role in sustaining the economic recovery, but most importantly halted the deterioration of human development indicators. Nevertheless, this recent recovery is far from reversing the social cost borne or meeting the indicators of most of the MDGs.

Figure 6: Key Social Indicators against MDGs targets and Regional Averages



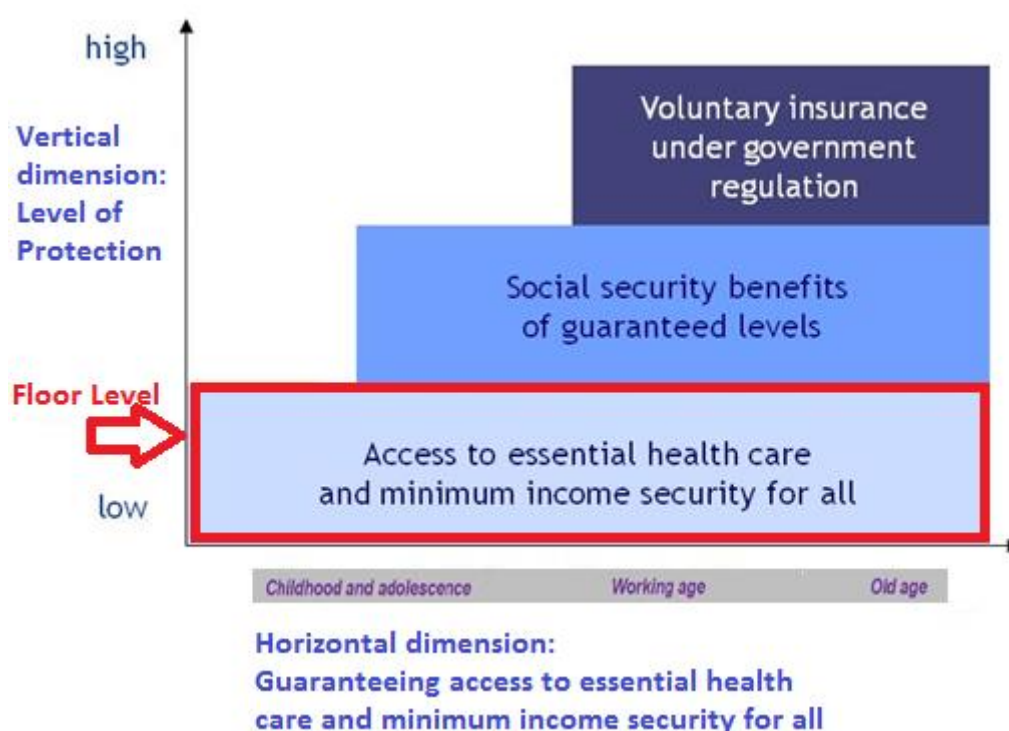
Source: based on data from (UN, 2011), (ZIMSTAT, 2010), (ZIMSTAT and ICF international, 2012), and (WB, 2011)

### 3. INTEGRATED SOCIAL PROTECTION SYSTEM: FRAMEWORK AND IMPACT

#### 3.1. Framework

UNICEF's approach to social protection argues for integrated systems to address the multiple and compounding vulnerabilities faced by children and their families. As one of the cooperating agencies, UNICEF's engagement and key principles for Social Protection (outlined in page xx) support the realization of the UN adopted Social Protection Floor Initiative (SPF-I)<sup>3</sup>. The SPF-I emphasizes the need to guarantee a basic set of rights across the life cycle (from children to old-age). This basic set of right aims at enabling and empowering all members of a society to access a minimum package of transfers and services at all times. This exercise will use this modality as the framework including the use of the UNICEF-ILO Social Protection Floor costing tool to propose a set of interventions and cost them.

Figure 7: the UN adopted Social Protection Floor



Within this framework, two main limitations have been identified of this rapid exercise:

- 1- It does not map out existing social protection provisions that might also fall under the economic security part of the SPF. A wide selection and fragmented cash transfer programs exist in Zimbabwe. Due to data availability and time constraints, this rapid exercise does not cover them. In addition, the proposed integrated system is sought to complement the existing programs for stronger impact, particularly among vulnerable households. More specifically, the proposed system is

<sup>3</sup> The UN Chief Executives Board for Coordination (CEB), supported by its High level Committee on Programmes (HLCP) adopted the *Social Protection Floor Initiative (SPF-I)*, as one of its nine joint crisis initiatives to cope with the effects of the economic crisis. For further information, please check <http://www.socialsecurityextension.org/gimi/gess/ShowTheme.do?tid=1321>

promoted as the first level of the safety net where households receive the benefit to help meet part of the expenses associated with school, nutrition, old-age and other vulnerability. The existing programs are additional benefits that can address the extra and special needs of the particular household. The combined benefits will, therefore, have a consolidated and stronger impact.

- 2- It does not cover access to essential services part of the SPF, which needs to be carefully looked at in a separate exercise and by theme (e.g. access to health, access to quality education etc.). Having said that, this rapid exercise is thought to be the first step in this area and is recommended to be followed an important exercise on integrating a social health insurance (please see annex 1).

### 3.2. Benefit Parameters, Conditionality, and Targeting

#### Benefit Parameters: benefits covered, eligibility, and benefits amount

In line with the SPF, the investigated integrated system of Social Protection consists of the following set of interventions: old-age pensions, child benefits, disability benefits, orphan benefits, education stipends, and birth registration lump-sum benefit. The following table summarizes key benefit parameters:

Table 2: Key Parameters for the Investigated Integrated System

<b>Category</b>	<b>Benefit amount</b>	<b>Eligibility</b>
<b>Birth Registration lump-sum</b>	\$20.74 (lump-sum amount)	Newborns
<b>Child benefit</b>	\$74.6 per year per child 10% premium per disabled child 10% premium per orphan	less than 5 years-old
<b>Disability</b>	\$186.62 per year	Person with disability who does not receive child benefit or old age pension
<b>Orphan</b>	\$74.65 per year	Orphan child who is less than 15 and does not receive child benefit
<b>Education Stipend</b>	\$74.65 per year	Girls in high school
<b>Old-age</b>	\$186.62 per year	Age 65+

While the above benefits amount are low in value as a stand-alone benefit, they are meant to complement each other and provide the first level of income security for the household as a unit explained in the SPF in figure (xxxx), especially in the event of loss of income. An example of a poor household can help illustrate this point. For this purpose, let us assume that the household consists of a grandmother taking care of 4 orphan children with no breadwinner in the household. The children ages are 2,4, 7, and 13. The 7 year-old child lives with disability. In the absence of any form of support, this family relies on domestic garden ran by the grandmother to support the family, but also on the 15-year old female child who left school to work and support the family. If the SPF is implemented, the family together will get the following benefits:

Table 3: A Hypothetical poor Household Income under the Scheme Proposed

<b>Category</b>	<b>Yearly Benefit Amount</b>	<b>Eligible member</b>
<b>Child benefit</b>	\$74.6 X 2 + 10% premium per orphan = \$164.12	Children age 1 and 4
<b>Disability</b>	\$186.62 per year	Child age 7
<b>Orphan</b>	\$74.65 per year	Child age 13
<b>Education Stipend</b>	\$74.65 per year	Child age 13
<b>Old-age</b>	\$186.62 per year	grandmother
<b>Total</b>	<b>\$686.66 a year (\$57.22 a month)</b>	

### Conditionality

There is increasing evidence on the impact and outcomes of both conditional cash transfers<sup>4</sup> and unconditional transfers. Although there is evidence to suggest that both have positive outcomes, the particular role and attribution of these outcomes to conditionality remains an open debate. The study proposes that the cash transfer directed to children in school age is to be conditional on attending school<sup>5</sup>. For other populations groups, linkages to other sought positive behaviour changes can be also investigated (eg health check-ups). The study is hoped to initiate a broader discussion with cross-sectorial experts to ultimately decide whether conditionality and linkages are desired, and if yes, what they are. A separate exercise is needed to make sure that whatever conditionalities imposed are costed and within the supply side constraints.

### Targeting

While benefits proposed hypothetically cover all individuals falling under the eligibility criteria of the particular group it belongs to, it is assumed that a form of targeting is implicitly built in:

- 1- Self-selection targeting: the low level benefit amount coupled with other administrative measures (eg. excluding children from well-off households who attend private schools), will ultimately result in less than 100% coverage in the eligible base.
- 2- Categorical targeting: For children benefits, poverty is positively correlated with the number of children in the household. Therefore, cash transfers that varied with the number of children in the household are pro-poor, even if non-poor households receive the same per-child benefit amount. To illustrate this point, assume that there are only two households: A and B. Household A is a low-income household with monthly income of \$200. Household B is better off with monthly income of \$1000. As in many poor households, household A has 4 children whereas household B has 2 children. Furthermore, for simplicity, assume that the proposed system is fully financed by an income tax (more realistic and reasonable financing mechanisms can give even a better outcome). The income tax that is needed to fund the

<sup>4</sup> conditional cash transfers are given to beneficiaries conditional on particular actions, such as sending children to school or attending regular health check-ups

<sup>5</sup> This is not expected to significantly create supply-side problems as primary school enrolment in Zimbabwe is already high. There is enough ground to think that the additional increase in demand due to the incentive will be within the current capacity of the government. But once conditionalities are agreed upon by wider audience, a separate exercise can look into this in more details.

system is 10% on income of all households. Assuming that the two households take up the child benefit of \$20 and applying the study proposed categorical targeting, the following table compares between the two households:

Table 4: Comparison between Two Hypothetical Households

	HH A	HH B
Monthly HH income before	\$200	\$1000
Number of Children	4	2
Total entitlements, proposed benefit	4 x 20 = \$80	2 x 20 = \$40
Tax	10% x 200 = \$20	10% x 1000 = \$100
Monthly Household income after	\$260	\$940
Net gain	260-200 = \$60	940-1000= - \$60

So the net impact is a net transfer from the rich household to the poor household. Note that impact can be even further strengthened if the financing mechanism is selected in a way that does not affect the poor households.

As for old-age benefit, preliminary administrative data from the Harmonized Social Cash Transfer Program (ZHSCTP) showed that about 70 percent of the benefit recipients are old-age. What can be a major issue are errors of exclusion and inclusion, estimated at 15-25 percent each. Any attempt to scale up using the same complex targeting criteria might exacerbate the errors as well as escalating the administrative costs. An alternative approach to scaling up is to directly and universally target the old-age. The demographic profile is in favor of such intervention as will be shown in next chapter, at the same time it will necessarily reduce administrative cost. Combined with the other benefits, errors of exclusion, which is more important, will be reduced significantly.

Other investigated benefits mainly uses categorical targeting (e.g. disability and orphan), which is appropriate in the context of Zimbabwe, but it is an area for further analysis to establish the evidence based on micro data.

### 3.3. Impact of the Integrated System of Social Protection

The integrated system approach for Social Protection offers an adaptable set of interventions that can achieve equitable outcome, promote human dignity, and minimize social unrest. It also promotes macroeconomic stability. The following are three main dimensions for the integrated system impact.

#### 3.2.1. Impact on consumption poverty

Assessing the potential impact of the integrated system on consumption requires the availability and use of household data. There are several models that can be used to simulate the impact on poverty resulted from introducing the integrated system. It would be best done when the new survey data (PICES) on poverty are made available, expected early 2013. But the following list collects evidence from selected country examples<sup>6</sup> of impact on poverty and inequality:

<sup>6</sup> The evidence was collected from multiple sources and used in the brief (UNICEF, 2010), available at <http://www>

- Mexico: The Oportunidades program reduced the poverty headcount ratio by 10%, the poverty gap by 30%, and the poverty severity by 45%
- South Africa: Social pensions and transfers have reduced poverty gap by 47%.
- Senegal: Social pension is estimated to reduce poverty by 35%
- Tanzania: Social pension is estimated to reduce poverty by 40%
- Kyrgyz Republic: Social Protection is estimated to have reduced extreme poverty headcount and poverty gap among beneficiaries by 24% and 42%, respectively. Total poverty ratios are estimated to have reduced by 10% and 22% for the extreme poverty headcount and poverty gap, respectively.
- Brazil: the combination of the Continuous Cash Benefit (BPC) —a means-tested pension and disability grant—and the Bolsa Família contributed an estimated 28% of the fall in the Gini coefficient between 1995 and 2004

### 3.2.1. Impact on non-income dimensions<sup>7</sup>

While simulating the impact of the proposed system on non-income dimensions is challenging and beyond the scope of this exercise, evidence from different countries shows that progress to achieve the MDGs can be accelerated when cash transfer programs and approaches are used to complement supply side interventions by increasing demand to services. Below is a list of selected country examples:

#### School enrolment, child labour, and early marriage

- Bangladesh: The stipend program for girls' education (FSP) is believed to have increased girls' net primary enrolment between 1996 and 2002/3 from 48% to 86%.
- Ethiopia, South Africa, Malawi, Mexico, Nicaragua, Brazil, Ecuador, Cambodia, Pakistan and Turkey: Transfer programmes have demonstrated significant percentage point increases in enrolment and/or attendance.
- Zambia, Malawi, Brazil, Columbia, Nicaragua, Mexico: overall positive effects on girls' education.
- Malawi: new enrolment was twice as high in households participating in cash transfer scheme (8.3% vs 3.4%) within a one year period.
- Malawi: cash transfers to adolescent girls increased school attendance, and led to a significant decline in early marriage, pregnancy, self-reported sexual activity and HIV prevalence among beneficiaries.
- Mexico: Oportunidades had little impact at primary level (where enrolment was already high), but secondary school enrolment of girls increased by 11-14%, compared to 5-8% for boys. It also resulted in a reduction in probability of working for ages 8-17.
- Brazil: the Programa de Erradicação do Trabalho Infantil (PETI) reduced both the probability of children working and their likelihood to be engaged in higher-risk activities.

#### Nutrition:

- Nicaragua: The Red de Protección cash transfer programme reduced stunting among children 6-59 months by 5.3 percentage points, with stronger impacts among poorer families. Moreover, during the coffee price shock, beneficiaries of this program were able to maintain

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<sup>7</sup> The evidence was collected from multiple sources and used in the brief (UNICEF, 2010), available at [http://www.unicef.org/socialpolicy/files/Social\\_Protection\\_Accelerating\\_the\\_MDGs\\_with\\_Equity\(2\).pdf](http://www.unicef.org/socialpolicy/files/Social_Protection_Accelerating_the_MDGs_with_Equity(2).pdf)

and modestly increase per capita food consumption, while in other comparable households per capita consumption declined sharply.

- South Africa: children in households receiving a pension have on average 5cm greater growth than those in households without a pension – this is the equivalent of approximately half a year’s growth for Black and Coloured children.
- Mexico, Malawi, and Colombia: Social Protection programmes demonstrate reductions in stunting.

#### Health

- Mexico: Oportunidades led to a 17 per cent decline in rural infant mortality (8 percentage points on average). It also led to a reduction of maternal mortality by 11% among women participating and impacts were strongest in more marginalized communities.
- Bolivia: between 1993 and 1997, infant mortality rates among participating households in Bolivia’s Social Fund declined from 61 to 31 per 1000. For non-participating comparable households, infant mortality rates did actually increase from 60 to 67 per 1000. Under 5 mortality rates fell over the same period from 94 to 55 per 1000 in participating households, but rose from 93 to 108 per 1000 in comparable non-participating households.
- Peru: The Juntos conditional cash transfer programme reduced women giving birth at home, in an area with high levels of maternal mortality.
- In all cash transfer programs for which there is data, with the exception of the PATH programme in Jamaica, incidence of illness has decreased among children, particularly younger children.

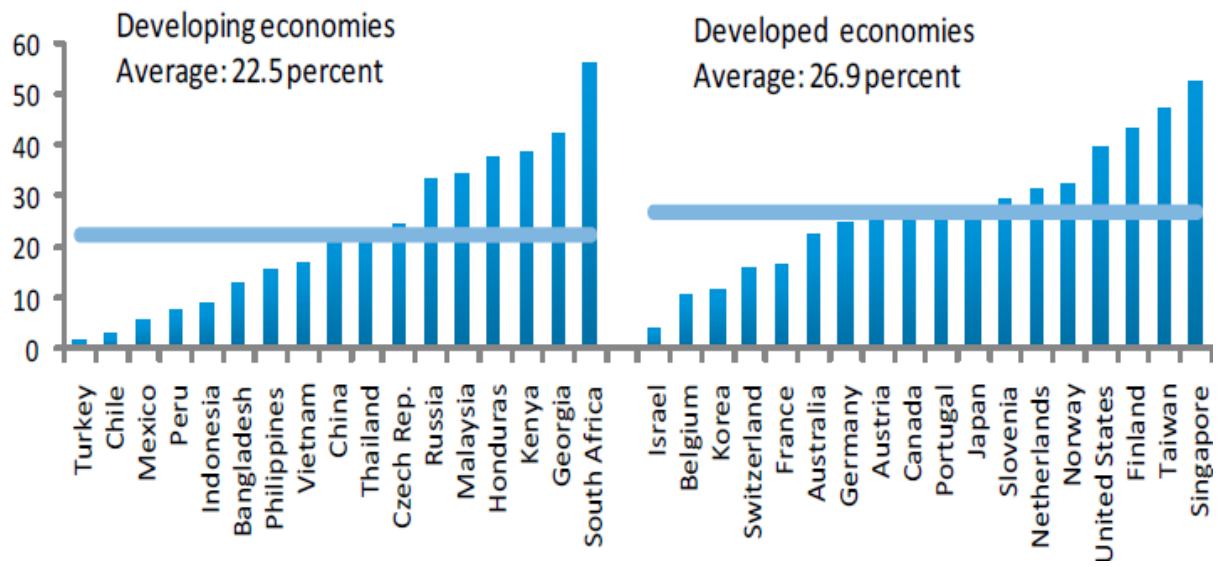
#### HIV/AIDS

- Malawi: cash transfers to adolescent girls increased school attendance, and led to a significant decline in early marriage, pregnancy, self-reported sexual activity and HIV prevalence among beneficiaries.
- Kenya: cash transfers were used by households to increase ARV treatment for children and adults.

### **3.4. Impact on economic growth**

A coherent social cash transfer program that ultimately results in an income transfer from the rich to the poor can play a significant role as an economic stimulus to foster economic growth. This is due to the fact that poor households have a high marginal propensity to consume. The additional incomes poor households receive (from the program or other sources) are spent in large on basic necessities, whereas richer households’ incremental reductions of their incomes (resulted from financing the benefit) are not expected to reduce their consumption with the full amount. This gives a rise to a multiplier effect: the increased consumption resulted from the benefit leads to increased incomes of local producers and service providers, which further leads to increased consumption, etc. In other words, the initial amount spent on the proposed system of benefits may cause a change in aggregate output that is a multiple of the initial change. For instance, an increase of 1 percent of GDP in Bolsa Familia program in Barzil was estimated to result in a positive change of 1.44 percent in GDP (ILO, 2011). Not surprising, cash transfers programs comprise a significant portion of the fiscal stimulus packages in rich and poor countries alike. It was estimated that on average about 25 percent of fiscal stimulus spending was invested in social protection in both middle and higher income countries (UNICEF, 2010b).

Figure 8: Size of Social Protection Component of Stimulus Packages (% of total announced amount)



Source: UNICEF (2010)

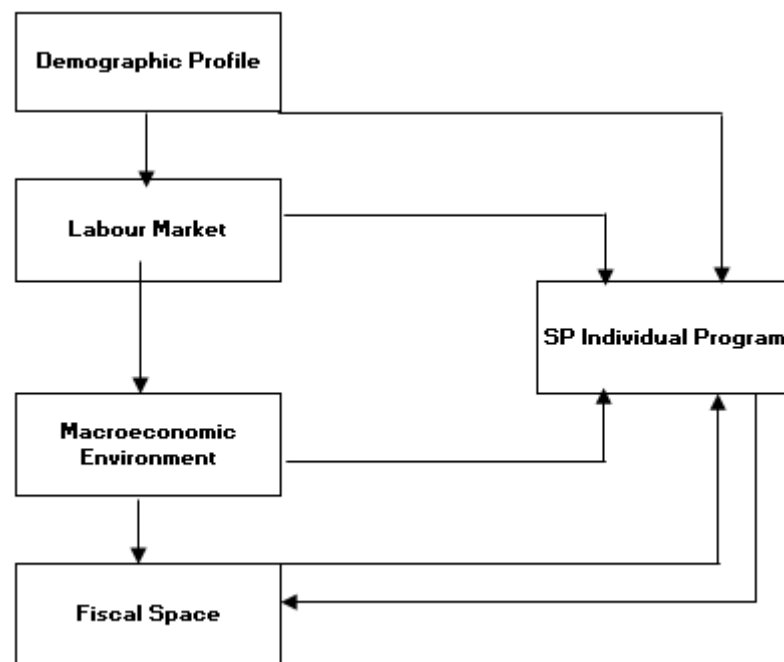


## 4. COSTING THE SYSTEM OF CHILD BENEFITS

### 4.1. Projection Methodology

This exercise uses the UNICEF-ILO Social Protection Floor Costing Tool to project the cost of the integrated system over the projection horizon. The basic idea of the tool is that the projection exercise is divided into three parts: First, projecting the determinants of the Social Protection system (demographic, labor, and macroeconomic). Second, under a set of specified assumptions on the benefit parameters (eligibility conditions, coverage, benefit level etc.), each individual program is projected separately using the projected determinants as an input. Third: projecting the national budget. The linkages and dependency structure of the projection parts are illustrated in the following diagram.

Figure 9: Components of the Projection Model used in the UNICEF-ILO Social Protection Floor Costing Tool

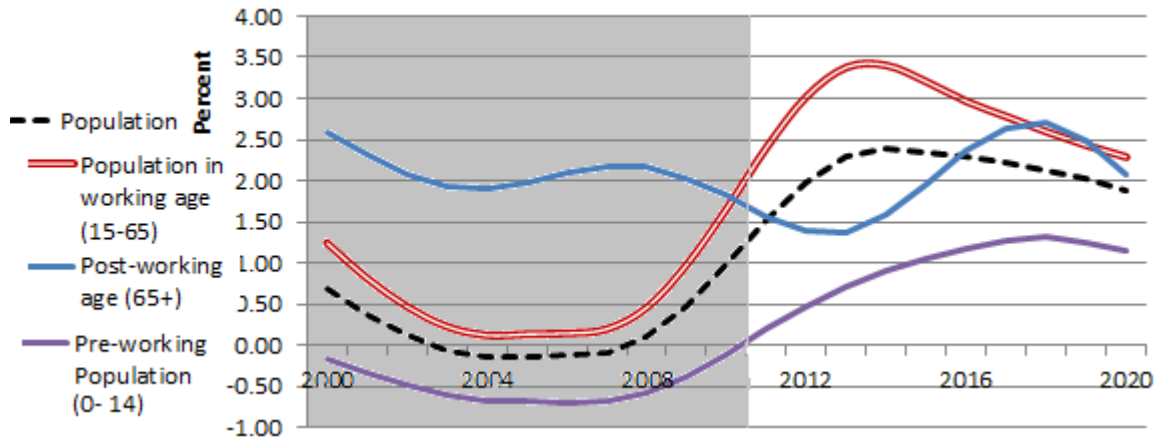


### 4.2. Projection Assumptions and Results

#### 4.2.1. Projection of the determinants of Social Protection:

For the demographic projection, the study uses the medium-variant population projection made available by the United Nations Department of Economic and Social Affairs, Population Division. The data set is disaggregated by sex and single-year age. The following graph illustrates the growth rates of demographic population groups

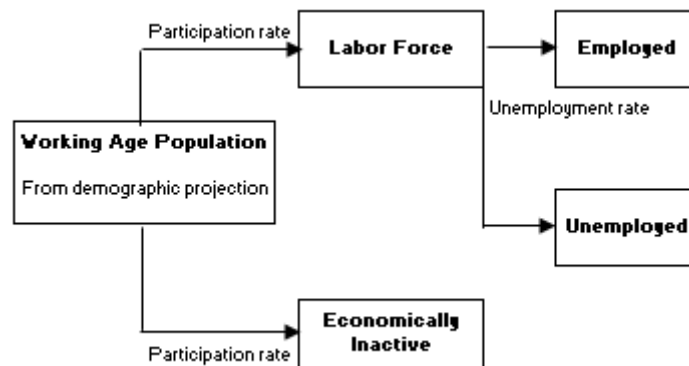
Figure 10: Population Growth Rates by Major Age Groups, 2010 - 2030



Source: Based on data from UN (2011a).

Labor market model is directly built on the population model. The following diagram presents the structural relationships that relate both models (the population model and the labor force model) for each year in the projection period and disaggregation by age and gender.

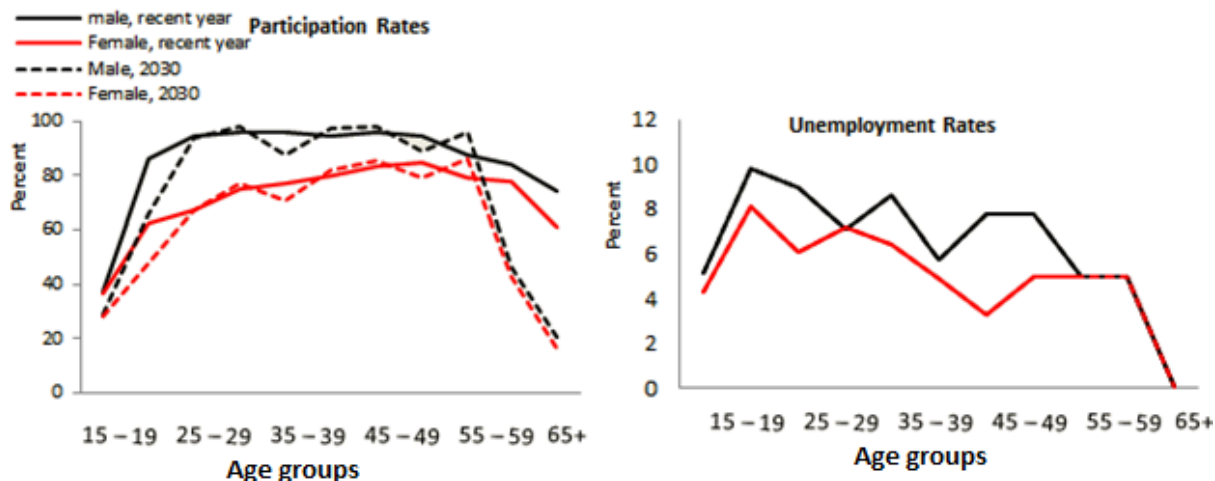
Figure 11: Labor Market Model Overview



Assumptions were made explicitly on participation rates and unemployment rates. For the latest available participation rates<sup>8</sup>, it is largely assumed that the force participation rates by age group will not change significantly, but some modifications were assumed to be reached over a period of 20 years. For the unemployment rate, it is assumed that age and gender-specific unemployment rates for the most recent data available are expected to remain constant over the projection period. The overall slight decrease in unemployment rate over the projection period is basically resulted from the change in the demographic structure of the underlying population.

Figure 12: Labor Market Model's Assumptions: Unemployment and Participation Rates, by gender and Age-groups

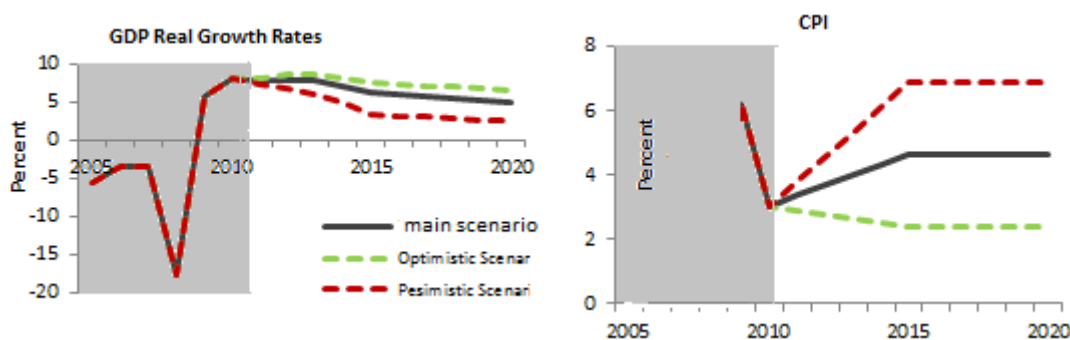
<sup>8</sup> The new Labor Force Survey data has not been published. Once the new data are made available, they will be used. Furthermore, the above assumptions will be revisited.



Applying age and gender-specific participation rates and unemployment rates on the working-age population (obtained from the population projection) for each year of the projection period produces the sought labor force disaggregated by age, gender, and working status (economically active, economically inactive, employed, and unemployed).

For the macroeconomic model, the tool is built on the neoclassical long-run path of economic growth, which decomposes growth into two components: the growth rate of the employed population and technological progress. The growth of employment is fed directly from the labor force model. The tool assumes that the technological progress is captured by labor productivity growth. Over the past three years, growth in labor productivity in Zimbabwe averaged above 5 percent, but this very high rate follows years of declining labor productivity and is not expected to be sustained over a very long period. The study assumes that this rate will gradually decrease and reach 2.7 percent in 2015 and 2.5 in 2020. The study also looks at two scenarios: the optimistic one with labor productivity growth is maintained at 4 percent; and pessimistic scenario with labor productivity growth is 0 percent. For the inflation rate (CPI), the average annual rate over the past 3 years, which was estimated at 4.63 percent, is assumed to remain constant over the same period under the main assumption scenario. For the optimistic (pessimistic) scenario, it is assumed it will gradually decline (increase) to 2.39 (6.87) percent by 2015 and remain the same until 2020. GDP deflator is assumed to converge to the CPI by 2020.

Figure 13: Macroeconomic Model's Assumptions- GDP Growth Rate and CPI Rate



For the public finance projection, this exercise assumed that revenues and expenditures will change slightly as a percentage of GDP, which is in line with IMF medium term projections (more discussions are in chapter xxx).

#### 4.2.2. Projection of Individual Social Protection Programs

The first assumption that needs to be specified is regarding coverage ratio among the underlying population. The following table summarizes the coverage ration assumed for each individual program<sup>9</sup>.

Table 5: Coverage Rates Projection Assumptions

<b>Category</b>	<b>Underlying population</b>	<b>Coverage ratio</b>
<b>Birth Registration lump-sum</b>	Newborns	48.3%-75%
<b>Child benefit</b>	less than 5 years-old	50%
<b>Disability</b>	Person with disability who does not receive child benefit or old age pension	100%
<b>Orphan</b>	Orphan child who is less than 15 and does not receive child benefit	100%
<b>Education Stipend</b>	Girls in high school	100%
<b>Old-age</b>	Age 65+	50%

Applying these rates into the corresponding age groups that was already projected gives the specific program's beneficiaries as shown in table (xxx).

Table 6: Costing Results: Beneficiaries

	<b>2012</b>	<b>2014</b>	<b>2016</b>	<b>2018</b>	<b>2020</b>
<b>Male Covered Population (000)</b>					
Universal Pension	114	115	116	118	119
Universal Child Benefit	444	457	470	483	492
Universal Disability Benefit	266	282	297	312	327
Orphan Benefit	163	165	168	172	177
Education stipend	0	0	0	0	0
New Birth Lump-sum Benefit	91	96	103	113	120
<b>Female Covered Population (000)</b>					
Universal Pension	155	162	173	187	200
Universal Child Benefit	441	453	466	479	488
Universal Disability Benefit	284	298	311	323	334
Orphan Benefit	162	164	167	171	176
Education stipend	226	229	234	240	250
New Birth Lump-sum Benefit	92	96	102	111	119

Over the projection period, benefits are assumed to maintain real value in US\$ (indexed with inflation). However, as the economy is expected to grow in real term, benefit level will decline in

<sup>9</sup> These assumptions are meant as a starting point. They (and many other parameters eg benefit amount) can be changed in the costing tool and immediately one can see the cost implication of any change.

relative value over the projection period. Table (xxx) traces the benefit level development over the projection period.

Table 7: Costing Results: Benefit Level in US\$ and as a Percent of GDP per Capita

<b>Annual Amount of Benefit per Beneficiary (US\$)</b>	<b>2012</b>	<b>2014</b>	<b>2016</b>	<b>2018</b>	<b>2020</b>
Universal Pension	186.62	202.45	221.64	242.64	265.63
Universal Child Benefit	74.65	80.98	88.65	97.05	106.25
Universal Disability Benefit	186.62	202.45	221.64	242.64	265.63
Orphan Benefit	74.65	80.98	88.65	97.05	106.25
Education stipend	74.65	80.98	88.65	97.05	106.25
New Birth Lump-sum Benefit	20.74	22.49	24.63	26.96	29.51
<b>Amount of Benefit as a Percentage of percapita GDP</b>					
Universal Pension	21.349%	16.626%	13.992%	12.389%	11.526%
Universal Child Benefit	8.539%	6.650%	5.597%	4.956%	4.610%
Universal Disability Benefit	21.349%	16.626%	13.992%	12.389%	11.526%
Orphan Benefit	8.539%	6.650%	5.597%	4.956%	4.610%
Education stipend	8.539%	6.650%	5.597%	4.956%	4.610%
New Birth Lump-sum Benefit	2.372%	1.847%	1.555%	1.377%	1.281%

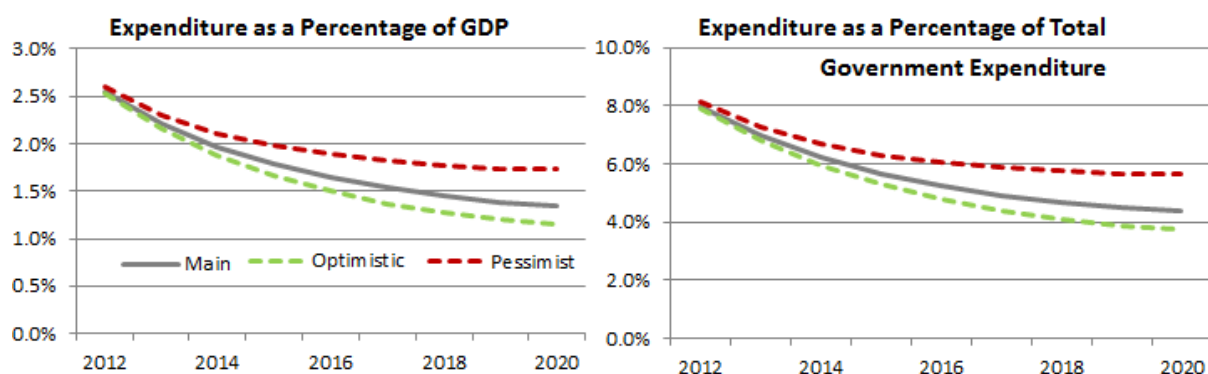
Multiplying beneficiaries with benefit amounts specified earlier and adding administrative cost (10 percent of benefit amount) produces cost of each individual program. The following table summarizes the cost of each program expressed in US\$, percentage of GDP, and percentage of Government expenditure.

Table 8: Costing Results: Overall Cost in in US\$, Percentage of GDP, and Percentage of Government Expenditure

	2012	2014	2016	2018	2020
<b>Expenditure (US\$, 000)</b>	<b>291,743</b>	<b>327,759</b>	<b>372,838</b>	<b>424,580</b>	<b>481,143</b>
Universal Pension	55,186	61,652	70,436	81,287	93,097
Universal Child Benefit	74,152	82,667	93,167	104,870	116,843
Universal Disability Benefit	112,972	128,998	148,221	169,487	193,045
Orphan Benefit	26,716	29,278	32,644	36,629	41,213
Education stipend	18,540	20,409	22,794	25,659	29,175
New Birth Lump-sum Benefit	4,177	4,755	5,577	6,647	7,771
<b>Expenditure as a Percentage of GDP</b>	<b>2.550%</b>	<b>1.964%</b>	<b>1.640%</b>	<b>1.447%</b>	<b>1.341%</b>
Universal Pension	0.482%	0.369%	0.310%	0.277%	0.259%
Universal Child Benefit	0.648%	0.495%	0.410%	0.357%	0.326%
Universal Disability Benefit	0.987%	0.773%	0.652%	0.578%	0.538%
Orphan Benefit	0.234%	0.175%	0.144%	0.125%	0.115%
Education stipend	0.162%	0.122%	0.100%	0.087%	0.081%
New Birth Lump-sum Benefit	0.037%	0.028%	0.025%	0.023%	0.022%
<b>Expenditure as a Percentage of Total Government Expenditure</b>	<b>7.984%</b>	<b>6.212%</b>	<b>5.243%</b>	<b>4.674%</b>	<b>4.377%</b>
Universal Pension	1.510%	1.168%	0.990%	0.895%	0.847%
Universal Child Benefit	2.029%	1.567%	1.310%	1.154%	1.063%
Universal Disability Benefit	3.092%	2.445%	2.084%	1.866%	1.756%
Orphan Benefit	0.731%	0.555%	0.459%	0.403%	0.375%
Education stipend	0.507%	0.387%	0.321%	0.282%	0.265%
New Birth Lump-sum Benefit	0.114%	0.090%	0.078%	0.073%	0.071%

The above results are also calculated for each macroeconomic scenario discussed earlier. The following figure compares results under each scenario.

Figure 14: Costing Results under the Study Macroeconomic Scenarios



## 5. FINANCING AND FISCAL SPACE

This exercise recognises the importance of the national budget as a tool to achieve sustainable progress in the fulfilment of societies' goals. This chapter provides an assessment of Zimbabwe's fiscal envelope to identify preliminary areas to free (or create) some fiscal space to fund scaling up the Social Protection system to become an effective Social Protection Floor as discussed earlier. It is hoped that this will initiate a broader and inclusive dialogue that will ultimately arrive at the mix that maximizes the society's social welfare.

Fiscal space is defined as "the room in the government's budget that allows it to provide resources for a desired purpose without jeopardising the sustainability of its financial position or the stability of the economy" (Heller, 2005). In general, there are several options available for decision makers to create fiscal space to fund economic and social development. Main options include (Ortiz, Chai, & Cummins, 2011):

- Improved taxation
- Reprioritization of expenditures
- More accommodating macroeconomic framework (eg tolerance to some inflation, fiscal deficit)
- Using fiscal and central bank foreign exchange reserves
- Increased aid and transfers
- Borrowing or restructuring existing debt for national development

Before investigating each option, the national budget including the off-budget grants and off budget expenditure is presented below in current US\$ and as a percent of GDP, the information in the budget will be referred to frequently in the coming sections.

Table 9: National Budget in Million US\$ and as a Percent of GDP 2009-2016<sup>10</sup>

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<sup>10</sup> Note that there has been reassessment in the budget 2011/2, this will be updated accordingly when reliable data are made available.

Note also where there are national figures on the budget that are different from the above figures; the study used the IMF estimates as they are comparable across years/nations.

	Million US\$						Percent of GDP					
	Estimated		Budget	IMF Projected (Unchanged Policies Scenario)			Estimated		Budget	IMF Projected (Unchanged Policies Scenario)		
	2009	2010	2011	2012	2014	2016	2009	2010	2011	2012	2014	2016
<b>Total revenue &amp; grants</b>	<b>974</b>	<b>2,199</b>	<b>2,601</b>	<b>2,683</b>	<b>2,931</b>	<b>3,259</b>	<b>16.7%</b>	<b>29.4%</b>	<b>29.2%</b>	<b>28.7%</b>	<b>28.5%</b>	<b>28.3%</b>
Tax revenue	882	2,074	2,418	2,502	2,732	3,036	15.1%	27.7%	27.1%	26.7%	26.6%	26.4%
Nontax revenue	51	124	180	178	196	219	0.9%	1.7%	2.0%	1.9%	1.9%	1.9%
Budget grants	41	1	3	3	3	4	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Off-budget grants (excl. food aid)</b>	<b>351</b>	<b>630</b>	<b>571</b>	<b>435</b>	<b>435</b>	<b>435</b>	<b>6.0%</b>	<b>8.4%</b>	<b>6.4%</b>	<b>4.6%</b>	<b>4.2%</b>	<b>3.8%</b>
<b>Total expenditure &amp; net lending</b>	<b>1,143</b>	<b>2,402</b>	<b>3,183</b>	<b>3,169</b>	<b>3,194</b>	<b>3,563</b>	<b>19.6%</b>	<b>32.1%</b>	<b>35.7%</b>	<b>33.9%</b>	<b>31.0%</b>	<b>30.9%</b>
Current expenditure	1,097	1,809	2,372	2,451	2,716	3,049	18.8%	24.2%	26.6%	26.2%	26.4%	26.5%
Employment costs	517	1,063	1,542	1,622	1,785	1,999	8.9%	14.2%	17.3%	17.3%	17.3%	17.4%
Interest payments	197	206	221	254	299	343	3.4%	2.8%	2.5%	2.7%	2.9%	3.0%
Goods and services	260	362	425	381	419	469	4.5%	4.8%	4.8%	4.1%	4.1%	4.1%
Grants and transfers	123	178	184	194	213	238	2.1%	2.4%	2.1%	2.1%	2.1%	2.1%
Capital expenditure and net lending	46	593	811	718	478	514	0.8%	7.9%	9.1%	7.7%	4.6%	4.5%
<b>Off budget expenditure</b>	<b>351</b>	<b>630</b>	<b>571</b>	<b>435</b>	<b>435</b>	<b>435</b>	<b>6.0%</b>	<b>8.4%</b>	<b>6.4%</b>	<b>4.6%</b>	<b>4.2%</b>	<b>3.8%</b>
<b>Overall balance</b>	<b>-169</b>	<b>-203</b>	<b>-582</b>	<b>-486</b>	<b>-263</b>	<b>-304</b>	<b>-2.9%</b>	<b>-2.7%</b>	<b>-6.5%</b>	<b>-5.2%</b>	<b>-2.6%</b>	<b>-2.6%</b>
Subsidies to public sector, producers/ex	23	12	0	0	0	0	0.4%	0.2%	0.0%	0.0%	0.0%	0.0%
<b>Overall balance (incl subsidies)</b>	<b>-192</b>	<b>-215</b>	<b>-582</b>	<b>-486</b>	<b>-263</b>	<b>-304</b>	<b>-3.3%</b>	<b>-2.9%</b>	<b>-6.5%</b>	<b>-5.2%</b>	<b>-2.6%</b>	<b>-2.6%</b>

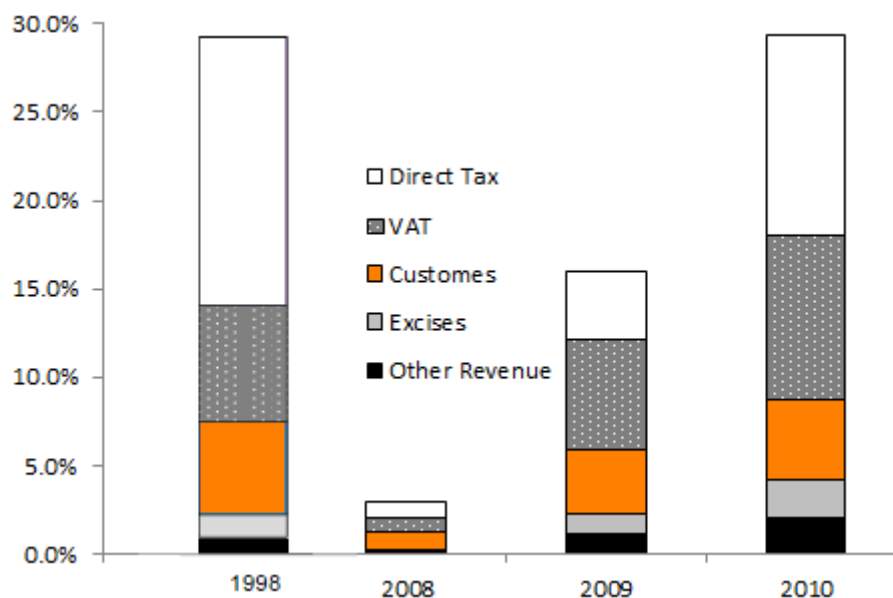
Source: IMF (2011).

### 5.1. Improved taxation

A decade of high inflation and economic decline, which led to widespread of informal economy, undermined revenue collection in Zimbabwe. Budget revenue fell from more than 28 percent of GDP in 1998 to only 3 percent of GDP in 2008 (IMF, 2011). Following the implementation of the government's short-term economic recovery program in 2009 and the adoption of the multicurrency system, budget revenues started recovering in 2009 and reached the levels recorded (as a percentage of GDP) prior to the decade of the economic decline.

Figure 15: Revenue as a Percent of GDP, 1998-2010





Source: based on data from IMF (2011), and IMF (2010)

The share of VAT in the total revenue is high accounted for almost 40 percent of the tax revenue in 2009. The price stability, therefore, is one of the major factors that helped the recovery in tax revenues, but improvements in tax policy and administration functions of the Zimbabwean Revenue Agency (ZIMRA) has also contributed to the revenue increase. Over the medium term, the IMF latest estimates indicated that revenues are expected to stabilize at about 28 percent of GDP, as Zimbabwe simplifies its tariff structure in line with its commitments under regional trade agreements (IMF, 2011). In comparison with countries at the same economic level, Zimbabwe's tax revenue to GDP ratio is high.

Table 10: Budget Revenues (Tax and non-Tax) as a Percent of GDP for Different Income Group Countries

2001/2	Total Revenue	Tax Revenue	Non-Tax Revenue
<b>Low-income countries</b>	18.0	14.9	3.1
Zimbabwe (2010)	29.4	27.7	1.7
<b>Lower-middle-income countries</b>	22.0	16.0	6.1
<b>Upper-middle-income countries</b>	25.6	21.0	4.6
<b>High-income countries</b>	32.8	27.5	5.3

Source: Compiled from different national budgets and reported in UNICEF Learning Module on Social Budgeting (UNICEF, 2011). For Zimbabwe (IMF, 2011)

The high tax revenue/GDP ratio is particularly important when considering using this option to create fiscal space or mobilizing additional revenue. In the case of Zimbabwe's high ratio, it highlights the need to ensure that the resurgent revenues or any additional revenue are not impeding growth, adversely affecting the poor, nor reducing competitiveness of the local economy to attract and retain businesses. What can be particularly of concern and needs further investigation is the IMF's

recommendation to eliminate the temporary VAT and customs duties exemptions on the 36 basic commodities (IMF, 2011). VAT is a regressive tax; the elimination of exemptions on goods that constitute spending item of the poor households' budget will automatically translate into further pressure on their budgets and reverse gains that they might have captured from the recent price stability. If VAT exemptions on basic necessities were eliminated, a parallel measures need to be in place to offset the welfare loss.

What can be an area to generate additional resources is increased taxation of the mining sector to achieve balanced level of intergenerational equity so the next generation needs benefit from the nation's wealth. A tax on extraction activities and re-investing this tax revenue in child-focused programs (education, computers for all children, universal child benefit, etc.) produces inter-generationally equitable outcome. This options needs to further looked at.

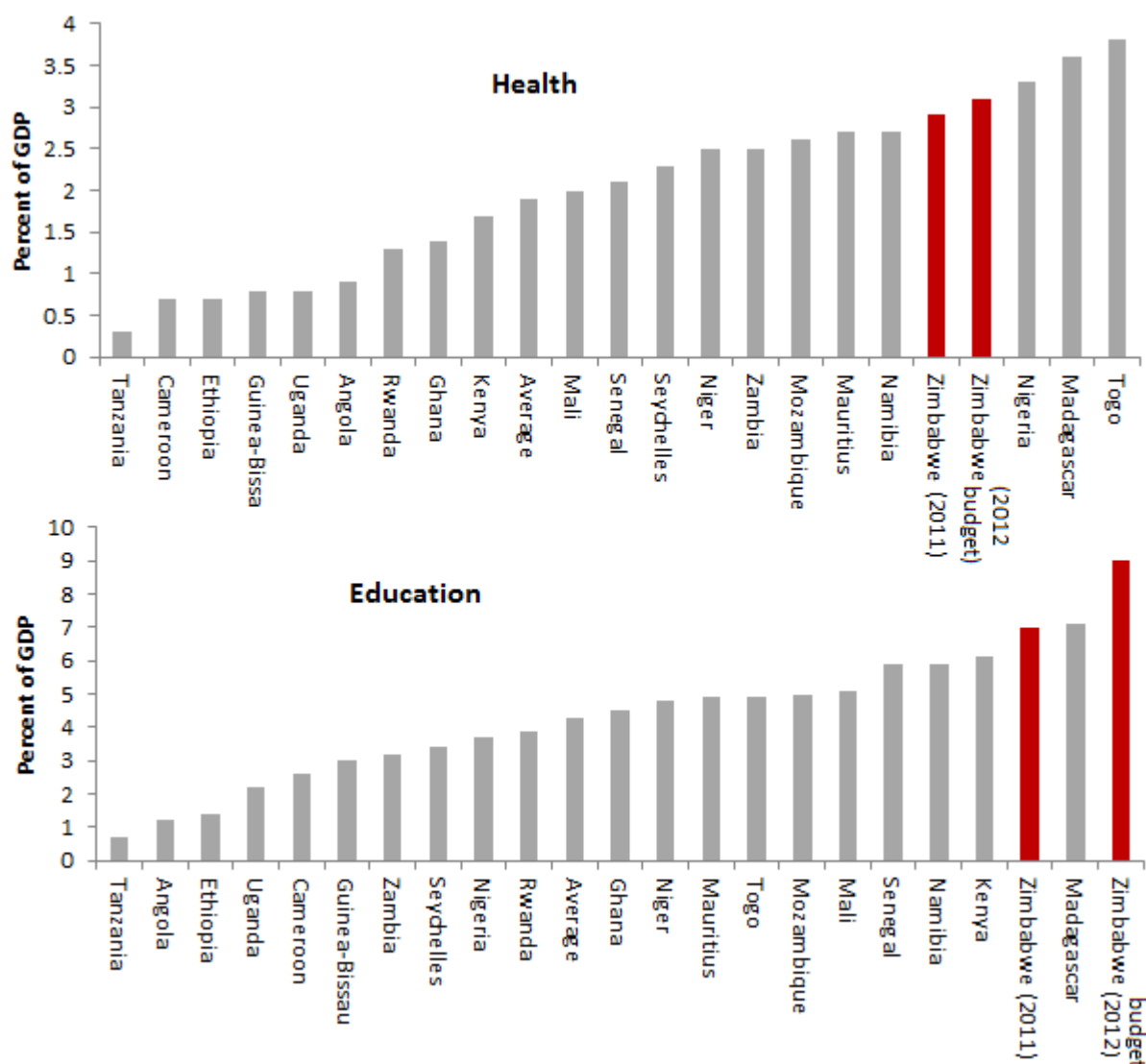
## **5.2. Reprioritization of expenditures**

The national budget for fiscal year 2012 included an increase of allocation to key social sector (health and education), which will bring the ratio to GDP to 3 and 9 percent of GDP to health and education, respectively. If actualized, this will further improve the already favourable position of Zimbabwe's in comparison with regional comparators.

Figure 16: Expenditure on Health and Education as a Percent of GDP, 2009<sup>11</sup>

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<sup>11</sup> Definition of health and education vary between countries. For Zimbabwe 2012, figures are budget allocation.



Source: based on data from IMF (2011), and IMF (2010), MoF

In comparison with internationally recommended spending (see table xxx), the spending on health in 2011 budget is almost one-half the recommended establishment, but meets the threshold for education.

Table 11: International Recommended Spending on Key Social Sectors vs. Zimbabwe's Spending 2011

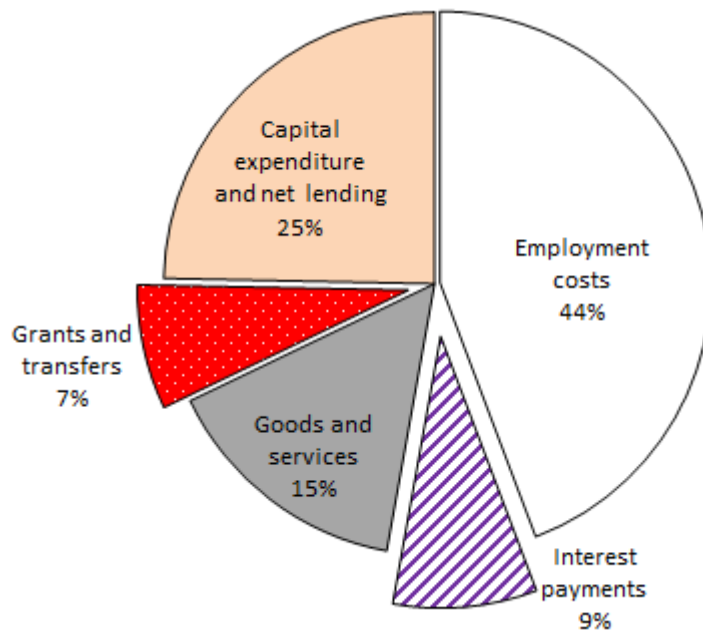
Sector	Agreement	Target	Zimbabwe
Education	Education for All Initiative (2000)	20% G. Exp.	19.5%
Health	Abuja Declaration (2001)	15% G. Exp.	8%
Social Protection	Social Policy Framework for Africa (2008)	4.5% GDP	0.4%
Water and Sanitation	eThekweni Declaration (2008)	1.5% GDP	0.4%
	Sharm El-Sheik Commitment (2008)		(water)

Source: Hagan-Zanker & McCord (2011) and Ministry of Finance (2011)

Table xxx also illustrates that spending on social protection is particularly low, highlighting the need to invest more in this sector. Recall that the overall cost of the proposed integrated system of social cash transfer is about 2.55 percent of GDP. If it is implemented, it can bring spending in social protection to a good level at the same time construct an effective social protection floor.

While the above sectorial view of the budget is essential to ensure sufficient allocation to key social sectors, an alternative approach using economic classification may help provide insights on using this option (reprioritizing expenditure) to create fiscal space.

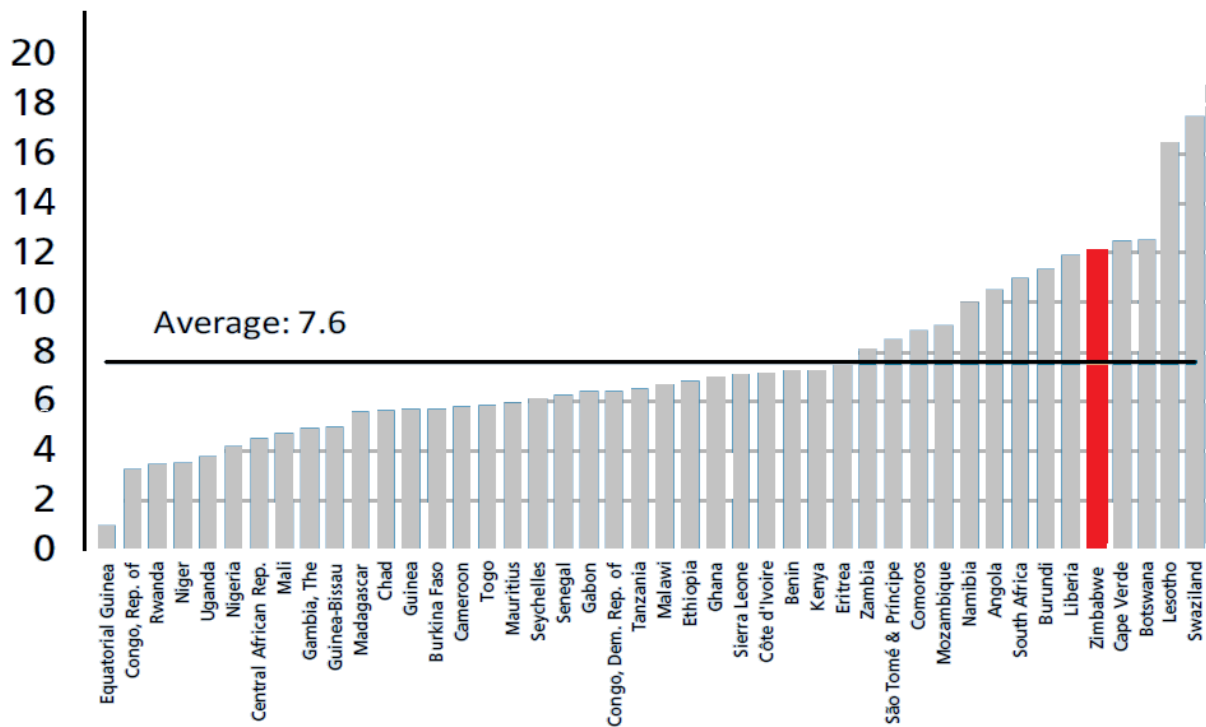
Figure 17: Public Spending as a Percent of Total Spending, Economic Classification, 2011



Source: Based on data from IMF (2011)

Wage bill is particularly high. Although the real value of civil service pay was rapidly eroded during hyperinflation period, since dollarization the civil service wage bill returned back to become one of the highest wage bills in the region.

Figure 18: Wage Bill as a Percent of GDP, 2010



Source: IMF (2011)

Reforming the wage bill provides an excellent opportunity to make great inroads in creating fiscal space to invest in children in a more efficient and effective manner. However, any reform must not jeopardize the delivery of essential services (health and education). One of the measures that can be looked at is staff position irregularities. A recent public payroll audit identified 38,000 staff positions with significant irregularities, including possibly 14,000 ghost workers (IMF, 2011).

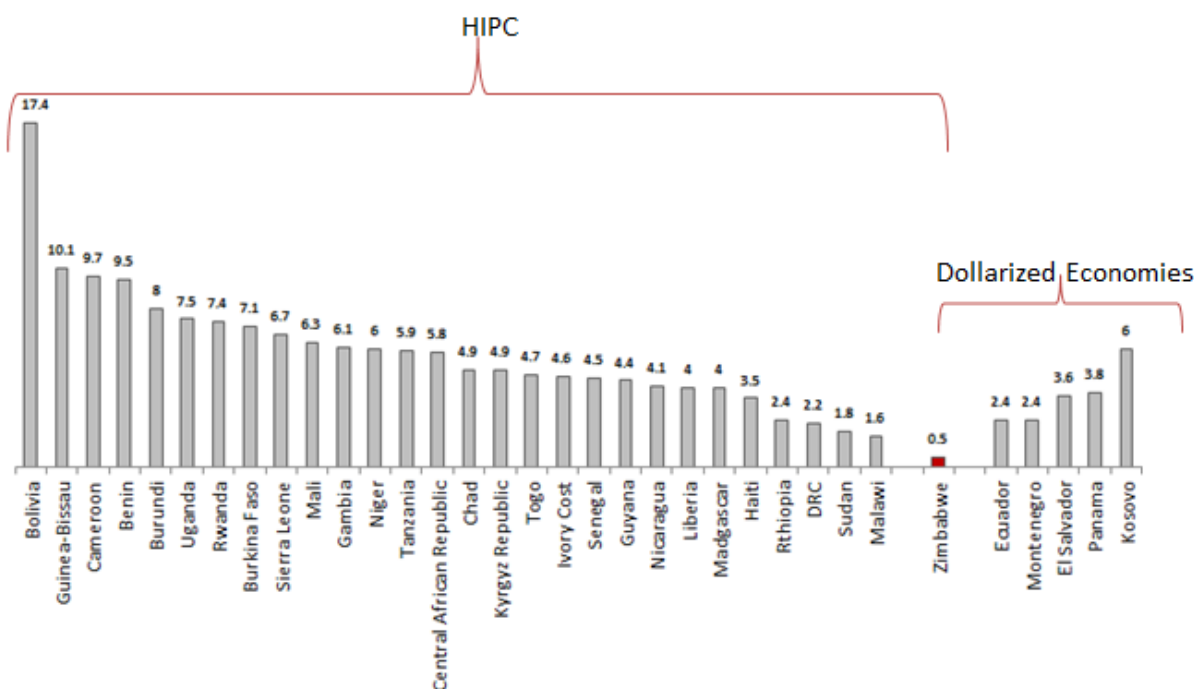
### 5.3. More accommodating macroeconomic framework

This option entails expansionary fiscal and monetary policy framework. This includes tolerance to higher budget deficit and higher levels of inflation. The reliance on this option for Zimbabwe is restricted for two main reasons. First: Zimbabwe remained in debt distress with large and unsustainable debt stock estimated at 118 percent of GDP as of end of 2010 (IMF, 2011). Second: Zimbabwe's adoption of multicurrency system and adhering to cash budget.

### 5.4. Using fiscal and central bank foreign exchange reserves

This option includes two main sources: First, fiscal reserves including savings from budget surpluses and other state revenues (profit of state-owned companies, export revenue from natural resources). Second, foreign exchange reserves, which are usually accumulated through foreign exchange market interventions by central banks. Countries build up reserves usually to self-insure against economic and financial shocks and also as part of broader efforts to stabilize the macro-economy and increase resilience to shocks (Ortiz, Chai, & Cummins, 2011). Zimbabwe's dollarized economy limits the reserve accumulation to only through the generation of fiscal surpluses. As of end of 2010, Zimbabwe's current reserve covers only 0.4 month of imports (IMF, 2011), which is well below the three-month safe level benchmark. It is also below other fully dollarized economies and peer countries.

Figure 19: Reserves in Multiple of Months of Imports, Average 2007-2009 (Zimbabwe 2010)



Source: Based on data from IMF (2011)

Zimbabwe’s fiscal reserve can possibly benefit from the revenues accrued from surpluses from the natural resources sector, most notably gold, platinum and diamond. According to publicly available data, 2012 estimated production of diamonds may reach 20 million carats (17 percent of global supply by volume) (source needed: Sam’s presentation). The 2012 Budget announced included diamonds revenues of US\$ 600 (Ministry of Finance, 2011). Estimates from the IMF on the present value of Zimbabwe’s mineral wealth (gold, platinum and diamond) under different scenarios range between US\$ 4.5 billion (60.6 percent of GDP) and US\$ 7.7 billion (103.4 percent of GDP)<sup>12</sup> (IMF, 2011). However, there is still substantial uncertainty over the effective flow of revenues of diamonds due to the poor transparency of the environment around diamonds production and sales. For instance, according to another estimate, production is estimated to double by 2015 and expected fiscal revenues from diamonds could possibly reach US\$1.9 billion by 2015 (source: Sam’s presentation. Original source is needed). In any estimate, intergenerational equity requires the devotion of a fair share of the nation’s wealth to child-sensitive programs. Building a social protection floor is child-sensitive as well as it achieves many other sought social gains as discussed earlier.

### 5.5. Increased aid and transfers, borrowing or restructuring existing debt

As explained earlier, Zimbabwe is in debt distress (debt/GDP was estimated at 118 percent end of 2010). The IMF indicated that by end of 2010 all but two external debt indicators exceeded thresholds for low-income countries with weak policy frameworks (IMF, 2011). Although conditional on political stability and reform record, the re-engagement with the international community on comprehensive debt relief under the HIPC Initiative program is very promising. Ideally, it would provide the opportunity to seek re-structuring of existing debt and/or debt swaps according to which the government commits to injecting the equivalent amount into infrastructure, education, health or

<sup>12</sup> Note that the government can only claim part of mineral wealth through taxes and royalties.

other social projects that benefit all Zimbabweans. An integrated Social protection Floor should be a good candidate, providing the expected impact on equity, poverty reduction, governance, and economic growth. This option can be viewed as a temporary measure to start-up this important social investment and to smoothen the transitional period while gradually freeing fiscal space of other long-term measures such as mineral wealth. International aid is also a valid option for scaling up Social Protection in Zimbabwe, but again it should be viewed as a short-term measure to smoothen the transition period while attempting to create the fiscal space through other long-term adjustment measures. Currently, donors' contribution is in off-budget assistance, which includes food aid, medicine, and expenditure from the Multi-Donor Trust Fund. Estimates for the year 2011 stood at about \$770 million, which represents 8.6 percent of GDP. (needs more discussion and further resources to cite)

In addition to legal financial flows, curtailing Illicit Financial Flows (IFFs) could also free up additional resources. IFFs involve capital that is illegally earned, transferred or utilized and include, inter alia, traded goods that are mispriced to avoid higher tariffs, wealth funnelled to offshore accounts to evade income taxes and unreported movements of cash (Ortiz, Chai, & Cummins, 2011). A recent study estimated the IFFs outflow from Zimbabwe between 2000-8 to have totalled US\$ 4.12 billion, or on average amount of US\$515 million annually (Kar, & Curcio, 2011). Thus, it is worthwhile for Zimbabwe to examine possible strategies to crack down on IFFs through increased transparency rules.

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## **Annex: Feasibility Study of Social Health Insurance in Zimbabwe**

### Concept Note

#### **Justification**

The health financing system is a key determinant of the population health and well-being. If well-designed, it reduces financial barriers to access health care and moving towards universal coverage. The overreliance on out-of-pocket payment in Zimbabwe's health system is one of the major impediments as many people are left unable to pay for what they need to restore their health. Of those who are able to find the money to pay for their health care needs, the poor and near-poor are the most vulnerable as they are less able to recover from the financial consequences of out-of-pocket payments and loss of incomes associated with ill health. They often have to cut down expenditures on necessities like food and clothing, and/or resort to long-term counter-productive measures such as selling productive household assets and/or getting children out of school to work. A WHO cross-country study showed how poor households can be protected from poverty resulting from catastrophic health expenditures by reducing the health system's reliance on out-of-pocket payments and providing more financial risk protection.

Social protection in health comprises a variety of financing mechanisms. Besides tax-funded health financing, social health insurance is one important option to ensure social protection in health thereby contributing to equitable coverage. While the Government of Zimbabwe has recognized the need to increase public spending in health (as stated in the MTP), it also recognizes the potential of social health insurance as a means of providing additional funding without increasing financial barriers to health care at the time of use and as a means of generating improvement in the quality of care. In the Health System Assessment 2010, implemented by the Health Systems 20/20 project through the Ministry of Health and Child Welfare, the recommendation for implementing a national health insurance was highlighted. A recent request from the MOHCW to the CCORE identifies the need for research work to assess the willingness to pay for social health insurance among informal sector workers.

#### **Description**

Options for reducing reliance on out-of-pocket payment range between two broad strategies. The first is use of general tax revenue as the main source of finance for risk pooling, a system also referred to as tax-funded health financing. The second is the introduction of social health insurance, where specific contributions for health are collected from workers, self-employed people, enterprises and the government, and are pooled into a single 'social health insurance fund'.

The proposed feasibility study will combine contribution-based financing with tax-financed subsidies to enable the coverage of population groups and specific epidemiological necessities. The mix of financing methods could share the burden of health care expenditures among a broader tax base while also promoting greater potential for cross-subsidy by having contributors and non-contributors in the same pool.

While it is impossible to reach 100% coverage within a short time frame, the system investigated will apply the following approach to allow for growth in the contribution base in a way that is within the fiscal and social envelope of the country. The approach consists:

- Compulsory health insurance through a social security framework for the public and private salaried sector workers and their dependents. Formal salaried employed will pay the

“actuarially” fair contribution rate as a percent of their income, borne equally between the employee and the employer.

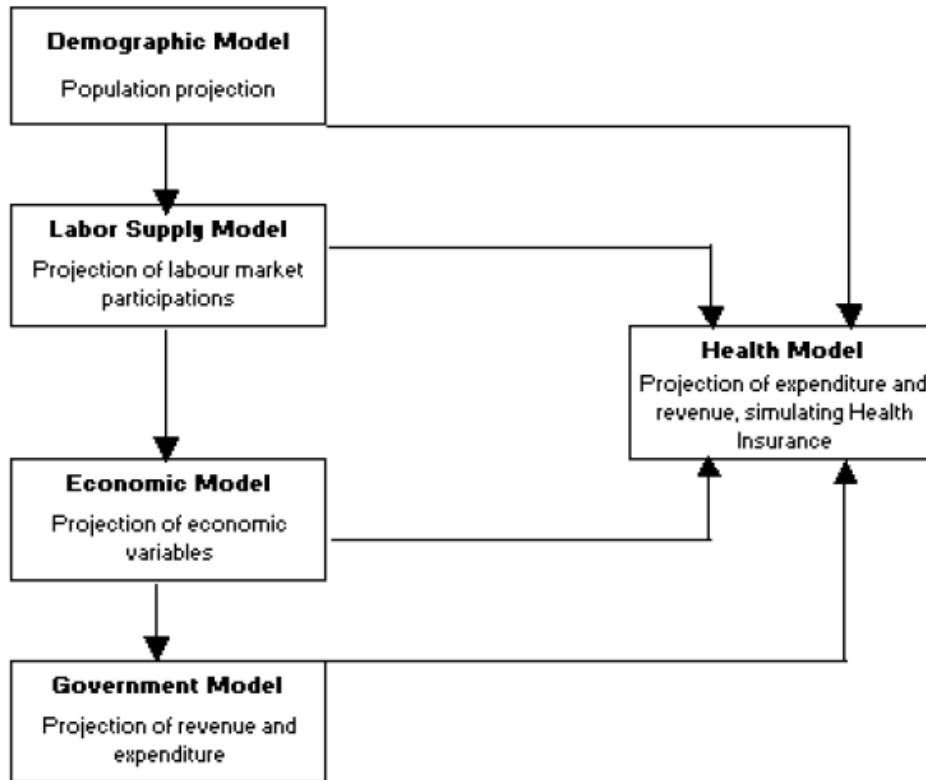
- Voluntary insurance for the self-employed and informal labour sector. To create incentive structure for the informal workers to join in, they will be requested to pay a flat amount that covers them and their families. This flat amount can be subsidised by the government. At the same time, those who select not to obtain the insurance may pay the full cost of service at the point of delivery.
- Social assistance through the use of government funds to purchase health insurance for the non-economically active and/or extremely poor households.

## **Objectives**

In general, the establishment of national health insurance can achieve multiple benefits. First: it provides social protection to the covered population and their families from the impoverishing effects through affordable regular prepayment rather than unpredictable payments at time of illness. Second: it facilitates rational household expenditure on health through regular prepayment. Third: it encourages early consultation and examination and increased use of prevention and health promotion services. Fourth: it contributes to improvement in the quality of health services and enables the delivery of appropriate health care to meet changing needs. Fifth: improvements on equity in access to health care. Sixth: it promotes financial stability and sustainability by sound planning based on predictable revenues from defined contributions and more accurate assessment of needs through pooling of shared risks.

## **Methodological Approach**

The model used is an aggregated model; it looks at the entire health model as a component of a larger social sector and maps its relationship to the macro economic and demographic environment of the country. More precisely, the model will derive the demand and supply sides of the health market through the interaction between the demographic structure, the economy and the health care. The following diagram illustrates the modified model components and its dependency structure.



The model is a demand-driven approach, reflecting the view of health care as a basic human right guaranteed and accessible to every citizen at the same time accounting for the fiscal constraints and the growth path of the economy. It requires the availability of demographic projection, or could be projected under a separate module. The demographic projection then provides the basis for calculating both the expenditure and income sides of the investigated health insurance. It also considers specific gender/age-group utilization rates (J-curve) by level of care and type of provider, and referral rates between different levels of health care service. Unit costs are projected for specific items (e.g., drugs and supplies, and transport, admission, staff etc.). This will allow for the simulation of a wide variety of policy options for the financial consolidation