

### Background

Two important types of social protection schemes in operations in Bangladesh are cash transfer schemes and food assisted schemes. They entail different types of cost to implement. Moreover, their impacts on individual, households, community and country may vary considerably. NSSS (2015) recommended to convert most of the food assisted schemes to cash schemes in a phased manner. Such a move may require better understanding of cost and benefits of these schemes. Accordingly, a Cost-Benefit ratio study to determine the value for money or cost effectiveness has conducted for selected cash and food assisted schemes implemented in Bangladesh.

### Research Objectives

- To examine the value for money of and its impact on expanding programme coverage or increasing transfer size as means of social security protection;
- To estimate the cost-benefit of cash transfer social security programmes under at least 5 of the largest programmes and 3 of the largest food exchange Program

### Methodological approaches

- Desk research for literature review Using HIED 2016 Data
- Qualitative methods
- Empirical approach using micro-econometrics
- Field survey for gathering first-hand information

### Research Findings

**Administrative Cost – International Evidence:** For 16 cash and near cash schemes, the average administrative cost has been at 8.2 percent. Average cost for CCT schemes is also same at 8.2 percent. The administrative cost has been found highest for the food schemes. Average cost for food schemes is around 25.2 percent – almost three times of the administrative cost reported for cash and near cash schemes. The higher administrative costs for the food-assisted schemes compared to the cash schemes are mainly due to the logistical costs of transportation, storage, preparation, and related losses during these phases of such schemes. On the basis of these global findings, it has been suggested that desirable administrative cost for cash schemes may range from 8 percent to 15 percent. While on the same logic, for food schemes it may vary between 25 percent and 35 percent.

A study on EU countries clearly established a strong correlation between adequate administrative cost and poverty outcomes. On average the EU spent about 1 percent of their GDP on administrative cost. Countries like Denmark, Ireland, the Netherlands and France allocate around 1.4 to 1.6% of their GDP on administrative cost with higher impact on poverty compared to countries with lower administrative cost such as Romania, Malta, Hungary and Estonia spent around 0.2% of their GDP on administration costs of social protection systems

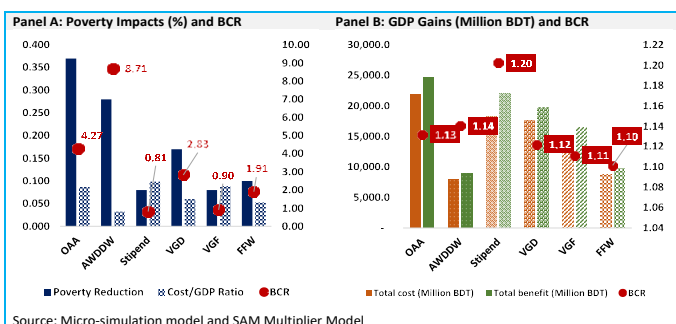
**Administrative Cost – National Evidence:** Administrative costs by social protection schemes are not well documented in Bangladesh and hence it is a challenge to estimate (or calculate) the administrative costs. Available data suggests that administrative cost of cash and CCT is around 4 percent.

. While administrative cost of food schemes has been found at around 10 percent. Low or inadequate allocation of resource for administrative costs are associated high exclusion and inclusion errors (for instance, in the OAA the exclusion errors are in the range of 32 – 35 percent) and leakages of resource (in the case of stipend programmes, the leakage has been estimated at 20-40 percent).

**Benefit – Cost Ratio:** An analytical framework has been adopted to calculate the benefit-cost ratio (BCR) of selected cash and food schemes include two components – assessing the total costs of these schemes (i.e. transfer costs plus administrative costs) and estimating benefits of these interventions. Data for two years – 2016 and 2018 – have been collected for BCR estimation. Year 2016 has been selected since poverty estimates are available for that year through the use of HIES 2016. On the other hand, choice of year 2018 has been suggested as being the most recent year for which data are available.

Seven schemes have been selected for the BCR assessment. They are: **Pure Cash Transfer Schemes:** Old Age Allowances (OAA); and Allowances of Widow, destitute and deserted women (AWDDW). **Condition Cash Transfer (CCT) Schemes:** Primary Education Stipend Programmes (PES); and Secondary Education Stipend Programmes (SES). **Food Transfer Schemes:** Vulnerable Group Development Programmes (VGD); Vulnerable Group Feeding Programmes (VGF); and Food for Work Programmes (FFW).

Total costs composed of programmes costs and administrative costs. Two approaches have been adopted to assess benefits. In the first approach poverty impacts of them schemes (with and without the schemes) have been determined using the unit record data of HIES 2016. In the second approach, the Social Accounting Matrix (SAM) of Bangladesh for 2012 has been used to derive the economywide impacts (i.e. GDP gains) of these transfers



Higher BCR values have been found for the two cash transfer programmes – OAA and AWDDW. The key drivers for higher BCRs values are larger impact on poverty. Poverty rates reduced by 0.37 percent and 0.28 percent respectively under OAA and AWDDW. BCRs for food schemes especially for VGD and FFW are moderate – ranged between 1.9 percent and 2.8 percent. Relatively lower poverty impacts of VGD (i.e. 0.17 percent) and FFW (i.e. 0.10 percent) compared to OAA and AWDDW led to lower BCRs for these food schemes. On the other hand, lowest BCR value has been found for Stipend programme since poverty reduction is not the main goal of this scheme. Thus, assessing the impact of stipend programmes through the poverty lens may not be the appropriate method. In the case of SAM model approach, highest BCR has been found for stipend mainly due to the inclusion of an added multiplier factor (5%) for human resource development. However, even in the SAM model approach, BCRs of cash schemes have been found higher than BCRs of food schemes.

**Coverage Expansion vs Increased Transfer** Poverty situation may either be impacted through expanding coverage – inclusion additional beneficiaries; enhancing the transfer amounts – higher transfers paid to the existing beneficiaries; improving implementation efficient – better selection of deserving beneficiaries. To assess the effectiveness of these three modalities a micro-simulation model (MSM) based on the HIES 2016 has been used.3 cash schemes (i.e. OAA; AWDDW and Stipend) for the micro-simulation exercise.

Coverage expansion and increased transfer produced large poverty impact compared to current situation only with the assumption of ‘perfect targeting’. If this assumption were excluded the coverage expansion and increased transfer amount did not yield large gains in terms of poverty reduction. It thus envisaged that coverage expansion and increased transfer amount must be pursued along with fixing the system.

**Outcomes of the MSM for OAA are shown below.**

Intervention	Poverty Impact (with OAA)	Vulnerability impact	Budget requires	
Current System	0.37	0.37	Current budget	
Intervention 1	Coverage increase to vulnerability line	3.12	3.43	1.2 times more than the current budget
Intervention 2	Increased transfer to BDT 569 for all elderly living under the poverty line	5.7	-	1.2 times more than the current budget
Intervention 3	Perfect targeting of poor elderly with current transfer amount of BDT 300	3.02	-	0.13 times more than the current budget
Intervention 4	Current system (imprecise selection) with increased transfer amount of BDT 569	0.57	-	1.2 times more than the current budget

The intervention simulations outcomes for the AWDDW scheme is summarised below. The outcomes are similar in direction but more pronounced than the OAA. Intervention 1 may lessen the poverty by 3.12 percentage points and vulnerability by 3.43 percentage points. Intervention 2 has the highest impact on poverty reduction (a gain of 5.7 percentage points) requiring the same budget of intervention 1. Intervention 3 needs least resource than other two interventions to reduce poverty by 3.02 percentage points.

### Recommendations

**Adequate Investment on Administrative Cost:** Given the poor state of administrative cost in Bangladesh social protection system following measures may be adopted.

- In line with the recommendations of the NSSS (2015), Bangladesh must start consolidating the social protection schemes into six core clusters based on the life cycle approach or age-specific schemes. This step would allow the authorities to design and determine an adequate administrative cost system for the social protection schemes in Bangladesh.
- Key agencies involved in policy formulation, resource allocation and implementation may need to be exposed to a systematic acquaintance to the formulation of an adequate administrative cost through tailored trainings; exchange programmes and further in-depth studies
- Experience in developing countries confirms that safety net programs can be run well for modest administrative costs: *roughly 10 percent of overall program costs.* Bangladesh may also consider this for cash and CCT programmes. Furthermore, constructing an index for benchmarking the administrative cost has also been proposed.

**Gradual Phasing of Food Schemes:** Better poverty outcomes led to higher BCRs for the cash schemes compared to the food schemes. The cost-effectiveness outcomes of the competing schemes using the GDP gain utilizing a SAM multiplier model are also higher under the cash or CCT schemes compared to the food schemes. The findings of this study thus re-iterate the NSSS proposal for consolidation of food schemes into one or two major food schemes and converting other food schemes into cash or CCT schemes.

**Arrest Expansion of Social Protection System:** The simulations with expansion of coverage as well as increased transfer payment produced large impact only under the assumption of ‘perfect’ selection (i.e. 100 percent identification of poor and vulnerable population, implying zero exclusion or inclusion errors) of beneficiaries. These experiments clearly suggest that any plan for expanded coverage and enhanced transfer amounts must be associated fixing the system i.e improvement in programme implementation with adequate provision for administrative cost; installation of MIS systems and procedures for better selection.

**A Dedicated Survey on Social Protection System in Bangladesh** may be carried out under the aegis of the General Economics Division. Moreover, this should be supplemented by a comprehensive review of the administrative cost of the major 15 to 20 social protection schemes covering cash, CCT, food and livelihood programmes to find out cost structures, gaps in cost compared to international best practices, and what needs to be done to move towards an adequate administrative cost structure with an aim to improve cost effectiveness.