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This SAGE Beneficiary in Kyankwanzi district (extreme right) used savings to open up a village retail shop

# Social Pensions and their Contribution to Economic Growth

Stephen Kidd and Anh Tran

## Summary

Old age pensions are usually viewed as a cost to the state and, despite their significant impacts on the wellbeing of older persons, it is rare for them to be understood as investments in economic growth. Yet, there is good evidence that an inclusive old age pension should be a core element of any country's economic growth strategies. Uganda's Senior Citizens' Grant (SCG) is an excellent example of an inclusive pension and there is good evidence of its impacts on economic growth.

Pensions contribute to economic growth through a range of pathways at household, community and national levels. Within households, they are used to invest in children, tackling stunting and enabling them to attend and perform well in school, thereby helping them become a more effective and productive workforce. Pensioners and their families use the cash they receive to invest in income-generating activities while working age household members are better able to gain employment, increasing overall productivity of the labour force. They also enable households to recover their productivity more quickly following shocks.

Across communities, the injection of cash into markets can stimulate local economies, with significant multiplier effects. Many entrepreneurs can benefit from the increased economic activity in local markets and there is good evidence of traders, in particular, doing well. Others, including unemployed young people, can sell their labour to pensioners. In fact, in recent years, the districts where the SCG has been implemented have performed better than other districts across a range of indicators, including employment. Governments can also use the payment of pensions to encourage financial service providers to increase their presence in more remote parts of the country.

At national level, the increased consumption and demand generated by people spending their pensions can be a significant stimulus to national economies, bringing benefits to business. Inclusive pensions can strengthen social cohesion, generating more peaceful and equitable societies and building an improved investment climate. Universal tax-financed pensions can also underpin contributory schemes, helping them grow their funds and offering resources for large investments in the economy. Furthermore, as the IMF argues, high levels of inequality can hinder growth and old age pensions have proven to be a key tool in reducing inequality.

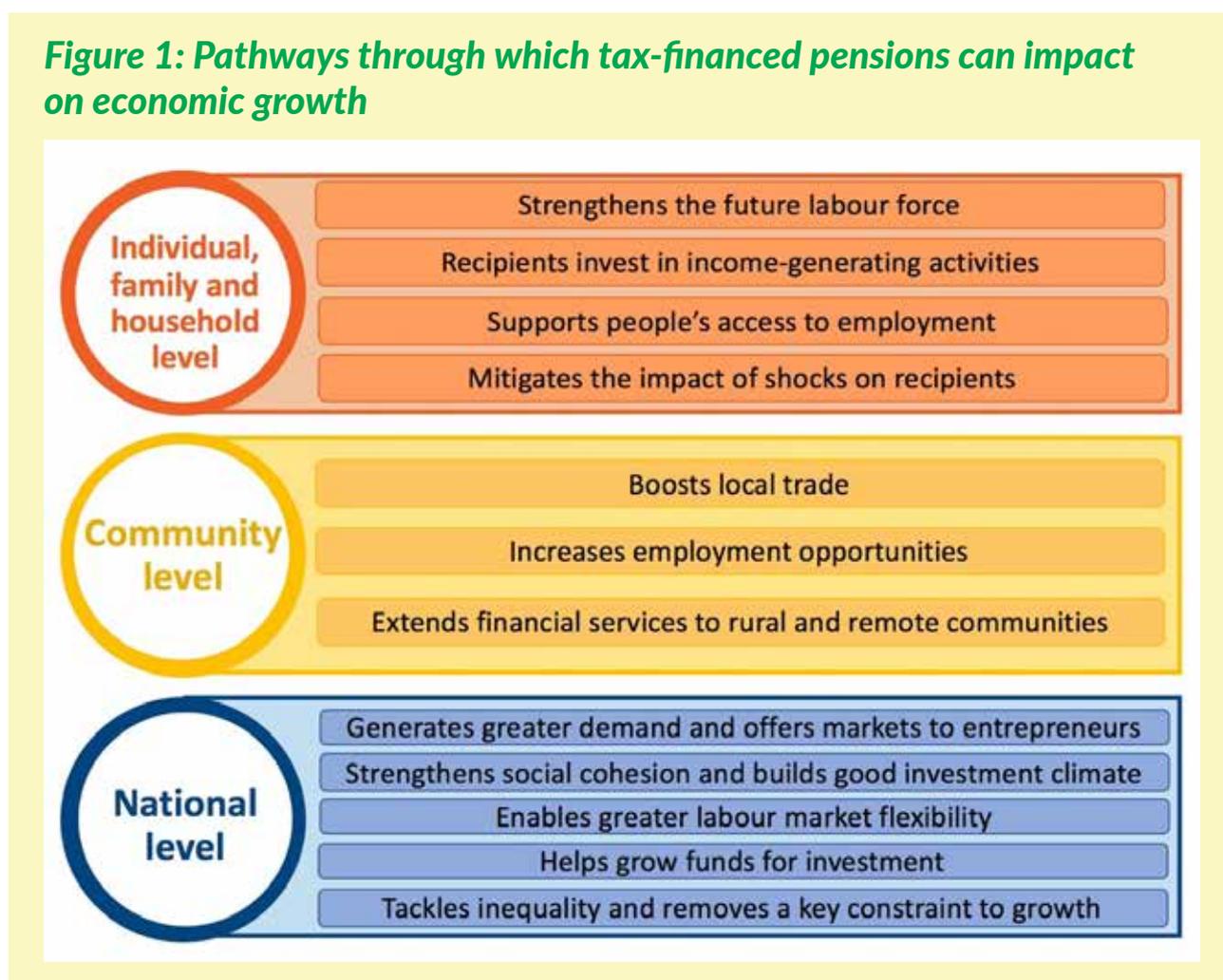
Therefore, the SCG could play a major role in generating economic growth across Uganda, as well as ensuring that the benefits of growth are shared. It is imperative that it is rolled out nationally as soon as possible so that the country can derive the maximum economic, social and political benefits. A national old age pension for everyone aged 65 years and above would cost no more than 0.4 per cent of GDP but the impacts would be very significant, ensuring that every Ugandan lives his or her final years in dignity while enhancing the productivity of the labour force and benefiting entrepreneurs nationwide.

# 1. INTRODUCTION

**Worldwide, old age pensions are the largest social protection schemes and increasingly common across low and middle-income countries.** Uganda's Senior Citizens Grant (SCG) is a great example, offering Shs25,000 (US\$7.00) per month to everyone aged over-65 years (and 60 years in Karamoja) across 15 districts.<sup>1</sup> There are currently 153,200 recipients of the pension, reaching 13 per cent of those aged 65 years and over nationwide. A number of other countries in Africa offer similar inclusive pensions to all older people, financed by government.

**There is strong evidence of old age pensions having positive impacts on the wellbeing of older persons.** Nonetheless, pensions are usually viewed as a cost to the state. It is rare for them to be understood as *investments in economic growth*. Yet, to a large extent this is what they are. As Figure 1 indicates, old age pensions – such as the SCG – can have significant impacts on economic growth through a variety of pathways including: helping build a strong and productive future work-force; encouraging risk-taking and investment by micro-entrepreneurs; increasing employment; protecting against shocks and crises; stimulating local and national markets; supporting the expansion of financial services; helping build funds for investment; building social cohesion and strengthening the investment climate; and, tackling inequality, a major impediment to economic growth. This paper outlines some of the evidence on how social pensions promote economic growth at household, community and national levels.

**Figure 1: Pathways through which tax-financed pensions can impact on economic growth**



<sup>1</sup> The Senior Citizens' Grant is also given to the oldest 100 people in sub-counties across 25 districts.



## 2. INDIVIDUAL, FAMILY AND HOUSEHOLD LEVEL IMPACTS

Social pensions offer a range of benefits to individuals, families and households which, when multiplied across the entire population, can have very significant impacts on economic growth.

### 2.1. Building the quality of the future labour force

**A successful economy depends on the quality and productivity of its workforce, which means that countries need to invest in the capacity and skills of children to prepare them for entry into the labour market and maximise their future productivity.** A strong labour force means that national economies are more competitive and better able to attract private sector investment.<sup>2</sup> The Growth Commission (2008) noted that: *‘Every country that sustained high growth for long periods put substantial effort into schooling its citizens and deepening its human capital,’* and that, *‘investments in the health, knowledge, and skills of the people—human capital—are as important as investments in the more visible, physical capital of the country.’*

<sup>2</sup> Ahmed (2010); Dioikitopoulos (2014).

**Many older persons use their pension income to care for their grandchildren, thereby building their capabilities and future productivity.** In Namibia, for example, older people give around half their pensions to children to help with schooling, food and other costs;<sup>3</sup> and, in Brazil and South Africa, over 80 per cent of pensioners share the majority of their pensions with others, much of it with children. <sup>4</sup>In Uganda, a substantial number of children either live with or are indirectly supported by older persons so, by investing in older people, the Government can also invest in children.

**The stunting of young children is a massive future loss to any economy since the impacts on their cognitive development are irreversible, reducing their future productivity in the labour force.** As the Growth Commission (2008) has argued: *‘Ill health and poor nutrition in early childhood seems to have a first-order impact on both growth and equality.’* Children experiencing stunting are likely to earn 26 per cent less as adults than if they had reached their full development potential.<sup>5</sup> Yet, stunting affects 33 per cent of young children in Uganda, many living with older persons. Social pensions can significantly reduce stunting. For example, children living with old age pensioners in South Africa are up to 5 centimetres taller than other children while Uganda’s SCG has contributed to an increase in weight-for-height of children of 0.86 standard deviations alongside a 10 per cent increase in the number of meals eaten each day by children aged 0-5 years.<sup>6</sup>

**Children also need to attend and perform well at school if the future labour force is to be strengthened.** Access to social pensions has been shown to increase school participation, with pensioners helping cover the costs of their grandchildren’s education.<sup>7</sup> In South Africa, the Old Age Grant has resulted in an 8 per cent increase in school attendance among the poorest quintile of the population; in Brazil, it has reduced the enrolment gap among girls by 20 per cent; and, in Bolivia, school enrolment is 8 percentage points higher in old age pensioner households. Positive impacts on children’s education have also been observed in Uganda: for example, one study showed that the proportion of children aged 6-12 years finalising primary school increased from 68 per cent to 71 per cent, while the mean number of days missed in the previous 30 scheduled school days fell from 1.7 days to 1.1;<sup>8</sup> another study indicated a 14 per cent increase in children living with SCG pensioners attending primary and secondary school.<sup>9</sup> Furthermore, children aged 6-17 years living with SCG recipients eat 10 per cent more meals, which is likely to increase their performance at school.<sup>10</sup>

*‘The old mainly help their grandchildren with the little SCG cash they get. They buy books, pens, clothes for their grandchildren, something they never used to do before SAGE.’*

*‘Even just the other day I bought her beans to take to school because they had chased her back and her father didn’t have any money to buy beans for her.’*

Source: Brook et al (2016)

**The parents of children can also invest more in their own children, once their own elderly parents access pensions, further enhancing their children’s capacities and future productivity.** In South Africa, Mexico and the Philippines, for example, older people receive lower remittances from their adult children once they benefit from the pension, thereby freeing up resources that can be used on children.<sup>11</sup> It is likely that the same has occurred in Uganda.

## 2.2. Increasing employment and income-generating activities

**Social pensions enable recipients to engage in income generating activities and micro-enterprises, thereby increasing their current productivity.** The guarantee of a regular transfer and income security

<sup>3</sup> Devereux (2001).

<sup>4</sup> Barrientos and Lloyd-Sherlock (2011).

<sup>5</sup> Richter et al (2017).

<sup>6</sup> Duflo (2000); Case (2001); EPRI (2016); Brook et al (2016); Kidd (2016).

<sup>7</sup> See Kidd (2014) and Bastagli et al (2016) for further evidence.

<sup>8</sup> Brook et al (2016).

<sup>9</sup> Samson et al (2016).

<sup>10</sup> Brook et al (2016).

<sup>11</sup> Jensen (2004); Knox-Vydmanov, Horn and Sevilla (2017); Salinas-Rodríguez et al. (2014).

can transform the worldview of pensioners and their household members: they no longer need to worry about feeding their families and, instead of living a day-to-day existence, can make longer-term plans and invest in their own income generating activities, including entering into riskier but higher return activities. Furthermore, recipients of pensions have better diets and health, enabling them to be more productive. Among SCG recipients, for example, the proportion experiencing little or no hunger increased from 45 per cent to 62 per cent.<sup>12</sup> There is also evidence of pensions resulting in higher cognitive ability among older people, which will enable them to remain productive for longer.<sup>13</sup>

**There are many examples worldwide of social pension programmes enabling recipients to engage in income generating activities.** For example: in Bolivia, households

invested their pension income in productive activities which increased food consumption by 1.5 times the value of the pension;<sup>14</sup> in Swaziland, recipients of the Old Age Grant have invested their transfers in informal farming activities;<sup>15</sup> in Brazil, recipients of the pension have moved from subsistence to small-scale surplus agriculture;<sup>16</sup> and, in South Africa and Zambia, pensions have been used to establish and expand informal microenterprises.<sup>17</sup> Box 1 gives an example from South Africa on how the provision of the Old Age Grant not only enabled children to remain at school and gain better jobs, but also helped the pensioner establish a small business.

*'This money has helped me a lot. It has made me eat. If it wasn't there, I wouldn't eat.'*

*'The pension has given me hope to wish for tomorrow because the situation is no longer hopeless. I know I will wake up and eat I will not beg people for food anymore.'*

*'Before, some beneficiaries looked malnourished. But now they look much younger, simply because they can afford their basic needs.'*

Source: Brooks et al (2016).

### **Box 1: The many pathways to generating income as a result of social pensions – an example from South Africa**<sup>18</sup>

Mamzoli is a widow from the Eastern Cape region of South Africa. She has a number of children and is directly responsible for supporting a daughter and six grandchildren, while her two male children live in the city where they moved to gain an education. A few years ago, she began to receive the state Old Age Grant which provides a regular monthly income of around US\$90. As a result, her son Simpiwe – one of those at school in the city – was able to reduce the amount he sent to his mother as a remittance. This meant that he could continue his schooling and, consequently, obtain a better-paid job. Once he had this job, he was able to support his sibling to stay on at school and, in turn, he gained more productive employment. Eventually, Mamzoli's children were able to buy her a gas-powered fridge, which she has used to start a small business, selling meat and alcohol. Her own income has, therefore, increased but so has the income of her entire kinship network, including many children.

And, it all came about as the result of one old age pension .....

**Across Uganda, SCG recipients have also used their pension income for investment.** Within two years of the scheme commencing, there had already been a 45 per cent increase in the number of recipients buying productive assets and a 77 per cent growth in those purchasing livestock, alongside a 42 per cent increase in the value of their purchases.<sup>19</sup> SCG recipients have also begun buying medicine for their animals.<sup>20</sup> Many have established or expanded small businesses, including older women making

<sup>12</sup> Brook et al (2016); Kidd (2016).

<sup>13</sup> Aguila et al. (2011); Galiani et al (2014).

<sup>14</sup> Martinez (2004).

<sup>15</sup> RHVP, HelpAge International and UNICEF (2010).

<sup>16</sup> Delgado and Cardoso (2000).

<sup>17</sup> CARE (2009); Barrientos & Lloyd-Sherlock (2002).

<sup>18</sup> This story is taken from Neves et al (2009).

<sup>19</sup> Brook et al (2016).

<sup>20</sup> Llewellyn and Kuss (2017).

beverages, engaging in basket making and operating as small traders. Older people are now selling to trading centres, selling goods such as sweets, boiled eggs, tobacco, soap, clothes, vegetables, livestock, mats, baskets and cassava chips, among other items. In fact, older entrepreneurs have been able to expand their businesses as a result of the increased demand generated by other community members receiving the pension. Some recipients of the SCG have moved from subsistence to surplus farming, purchasing seeds, pesticides and even pumped water systems.<sup>21</sup> Other recipients have invested in tree planting: Llewellyn and Kuss (2017) met one recipient who had planted 500 Eucalyptus trees while another was planting 2 acres of pine trees. As Box 2 indicates, even vulnerable SCG recipients are able to invest in productive activities.

*The SCG money – when I get it – I use to buy animals and keep it in that form. This helps me avoid consuming it all. [Female beneficiary, Kiboga]*

*I managed to buy one sheep and they are multiplying steadily. I have also managed to save Shs 400,000 and now I am planning to top it up and also buy a calf. [Beneficiary, Kaberamaido].*

Source: Brook et al (2016)

#### Box 2: Example of particularly vulnerable SCG recipients engaging in income generating activities

A researcher studying the SCG noted: “I stayed with an old man who was sick and very weak and his wife was caring for him. Both were recipients of the grant. While he told me how the SCG had helped him access medicines and buy him better food, his wife was quick to add that, with the last lump sum that they had just received in May 2017, they had also paid labourers to manage their farm and bought a big pig for Shs100,000. She proudly showed the pig to me the following day when we went to the garden together. From the beaming smile on mother’s face, we could see that she was very happy about this. She only bought male pigs and she said, “Given my age now and distance to the area where the pigs stay, I cannot rear female pigs, they need more attention when the piglets are born or else they will be eaten by roaming dogs when I am not there. This is why I keep male ones, castrated so they become very big and I sell.”

Source: Palladium (2017)

**Not only are recipients of social pensions able to invest the money they receive, they are also better able to access loans for investment since they are regarded as more creditworthy.** SCG recipients have accessed loans from SACCOs but more often from more informal Village Savings and Loans Associations (VSLAs).<sup>22</sup> Recipients have also developed rotating savings schemes to enable them to access higher sums which could be invested (or used to purchase larger items such as corrugated iron sheets). SACCO managers have noticed that SCG recipients have become more financially literate, due to their involvement in formal and informal financial services.<sup>23</sup>

*An old woman told me that she and her husband received the grant and had become members of a rotating saving scheme with five beneficiaries who would collect Shs30,000 per person every two months. Each time by rotation, one person from the group benefitted from the combined savings of Shs150,000. This provided a substantial amount of investment which could be used to buy building materials such as corrugated iron sheets.*

Source: Palladium (2017)

**The capacity to invest in income generating activities is not restricted to the direct beneficiary.** Other family members can be involved. For example, in Colombia, younger male family members living with pensioners increased their participation in occupations requiring up-front investment.<sup>24</sup> In Uganda, there has been a 12.6 per cent increase in the proportion of adults from SCG households engaged in a secondary activity, in addition to their main livelihood.<sup>25</sup>

**The provision of old age pensions means that grandparents are able to care for young children, enabling the parents, in particular mothers, to access employment.** One study found that, among

<sup>21</sup> Llewellyn and Kuss (2017).

<sup>22</sup> Brook et al (2016); Ibrahim and Namuddu (2014); Bukuluki and Watson (2012); and Llewellyn and Kuss (2017).

<sup>23</sup> Llewellyn and Kuss (2017).

<sup>24</sup> Pfitze and Rodriguez-Castelán (2015).

<sup>25</sup> Llewellyn and Kuss (2017).



*Anna Adeke used the savings from the grant to buy a cow. She hopes to multiply her herd and further improve her income.*

household members of working age living with SCG recipients, there was a 9 per cent increase in the number working alongside a 16 per cent increase in the number of hours worked each week.<sup>26</sup> Another study showed that, in communities located relatively far from markets, adults in SCG households dedicated an additional two months to labour market activities.<sup>27</sup> Pensions can also facilitate the migration of younger people and the parents of young children to engage in more productive employment, often in urban areas.<sup>28</sup> Given that the provision of childcare by pensioners results in higher incomes for households,

this further feeds through into greater investment in children and income generating activities.

### **Social pensions enable older persons to withdraw from the labour force, freeing up space for younger people.**

A social pension in Brazil resulted in a reduction in hours worked among those aged 65 years and above while Mexico's social pension reduced the proportion of recipients undertaking paid work by 20 per cent, although most switched to working in family businesses.<sup>29</sup> A similar effect has been observed in Uganda, as a result of the SCG. Many older people are withdrawing from casual labour, thereby opening spaces in the labour market for younger persons.<sup>30</sup>

*'We have more labour opportunities because old people have stopped competing with us.'*

*'Many fewer elderly people who receive the SCG are working in tea plantations compared to the numbers before.'*

*'These people [on the SCG] who used to do casual labour were so many but now their numbers have reduced drastically'*

Source: Llewellyn and Kuss (2017)

## **2.3. Mitigating the impacts of shocks and crises**

**Major covariate shocks and crises – such as natural disasters and external economic crises – can cause significant damage to national economies, in particular if the families affected have to sell their productive assets as a coping strategy.** Household level shocks – such as ill-health, disability or unemployment – can have similar impacts, which can also inhibit national economic growth. By not selling their assets, families can bounce back to higher productivity more quickly once the crisis dissipates, offering a significant boost to the economy. SCG recipients have used the transfer for emergencies, particularly when hit by a health shock or crops are destroyed as a result of climatic conditions.<sup>31</sup> A key feature of the SCG in helping beneficiaries address shocks is the regularity of the SCG grant, which is provided every two months. Furthermore, SCG recipients are better able to access loans if hit by a crisis so that they do not sell off their assets (although some recipients deliberately invest in livestock as a risk mitigation strategy).<sup>32</sup>

<sup>26</sup> Brook *et al* (2016).

<sup>27</sup> Llewellyn and Kuss (2017).

<sup>28</sup> Ardington and Lund (1995); Posel *et al* (2004).

<sup>29</sup> Kassouf and Oliveira (2012); Galiani *et al* (2014).

<sup>30</sup> Llewellyn and Kuss (2017).

<sup>31</sup> Brook *et al* (2016)

<sup>32</sup> Kuss and Llewellyn (2016); Llewellyn and Kuss (2017).

### 3. LOCAL ECONOMIC IMPACTS

There is a range of further local level effects that boost growth. This section outlines how social pensions generate multipliers in local economies and support the expansion of financial services.

#### 3.1. Multiplier impacts on local economies

**Injecting cash through social pensions into local economies can give a very significant boost.**

In a number of studies across Africa, the FAO (2016) has shown that similar social protection transfers generate multipliers of between 1.3 and 2.4 for the cash entering communities, as a result of greater consumption, trade and employment. In refugee settlements in Uganda, Zhu *et al* (2016) found that each refugee household receiving cash assistance increased the annual real income in the local economy – both refugee and host communities – by Shs3.7 million (US\$1,106).

*'There are traders who bring goods here by truck like cabbages, traders from Luwero district bring their pineapples and bananas here and sell and when they have sold everything they go back.'*

Source: Mugumya *et al* (2017)

**Uganda's SCG is an excellent example of the multiplier effect of injecting cash into communities through social transfers.** A recent study comparing SCG with non-SCG districts has demonstrated that the SCG districts consistently perform better across a wide range of indicators. For example, the SCG contributed to a six percentage point increase in employment and an 80 per cent growth in median wages within districts.<sup>33</sup>

**Local markets across Uganda have become more dynamic as a result of the SCG.**

A 2013 study in Kiboga and Kyenjojo found almost every store owner reporting that business had improved after the introduction of the SCG, resulting in them restocking more regularly while lengthening their opening hours.<sup>34</sup> Many traders had begun to stay open for business the whole year instead of closing down during the lean periods. Another study found similar impacts, with small businesses consistently increasing their turnovers and profits, following the introduction of the SCG. Most trade takes place on payment days.<sup>35</sup> Both outside traders and shopkeepers from the community gather around pay points on payday and recipients make immediate purchases of basic needs such as soap, beans, oil, sugar, salt, and clothing as well as "luxury" items such as meat and fish. However, pensioners also purchase larger more expensive items such as housing materials, agricultural inputs, livestock, mobile phones and solar panels.<sup>36</sup> Since SCG pensioners are more creditworthy, they are also able to obtain credit from shopkeepers, which is repaid on paydays.

*"You should see the market on a pay day: it's beautiful!"*

*"On the day of payment, you will find so many beneficiaries heading to the market to buy food such as meat, fish and cassava: the market is full of people."*

*"On the day of the pension, I walk with my head held high because I get a large number of customers. Previously I used to sell four crates of soda but now I sell between five and ten. The business is doing better: I also sell about thirty plates of food per day."*

*"There is more cash now. Whatever we stock we are sure that, when the elderly receive these transfers, we shall sell, thus more profits."*

Source: Brook *et al* (2016)

**The SCG not only benefits local entrepreneurs: there is also evidence of traders from other areas travelling to SCG communities to sell their goods.** For example, in Kisojo in Kyenjojo, traders travelled from the neighbouring district of Mubende to sell their goods on payday.<sup>37</sup> Indeed, the increased competition may be the reason why there is no evidence of the SCG leading to a rise in inflation. In fact, there is evidence of greater competition resulting in prices falling.

<sup>33</sup> Samson *et al* (2016)

<sup>34</sup> Ibrahim and Namuddu (2013).

<sup>35</sup> Brook *et al* (2016).

<sup>36</sup> Brook *et al* (2016); Llewellyn and Kuss (2017).

<sup>37</sup> Brook *et al* (2016).

**A further multiplier impact comes from the employment opportunities offered by SCG pensioners to other community members often to work in agriculture, build houses or dig pit latrines.**<sup>38</sup> Boda-boda riders have benefitted greatly from the SCG, since they often take pensioners to the paypoints while enabling them to return home with their purchased goods.<sup>39</sup> As Mugumya et al (2017) were told, boda-boda operators were ‘making a kill on every pay day.’ Many of those benefiting from employment by SCG recipients are young people, so the scheme is helping address the challenge of youth unemployment and underemployment.

### 3.2. Extending financial services to rural and more remote communities

The potential for economic growth is reduced in many low and middle-income countries by the



*Jamil Kibalama, a war veteran, also used savings from his grant to buy a cow.*

**absence of adequate financial services in many rural and more remote communities.** However, the

introduction of social pensions can be used by governments as a means of extending financial services across the country. Since payments need to be made as close as possible to recipients, governments can insist that payment service providers establish pay-points within a short distance of all recipients. Forward-thinking payment service providers can use these pay-points to not only pay the recipients but to offer financial services – such as loans, savings accounts and insurance products – to both the recipients and other members of the community.

The SCG is a good example: PostBank Uganda has set up bank accounts for recipients through which they can receive their grants. PostBank is using the SCG programme to build its presence in rural areas and expand its client base.

**Financial services in local communities also develop through recipients contributing to micro-finance organisations.** SACCOs and VSLAs are becoming stronger as a result of SCG recipients’ savings, thereby benefitting everyone in the community.<sup>40</sup> More community members are able to take loans, which has a further knock-on effect of enabling them to invest in their own income-generating activities and small businesses.

*There is high demand and supply of wage labour because of the flow of the money unlike before the SCG programme’*

*‘There are many casual labourers in our parish because they know there is money, and jobs are available.’*

*‘Did you work for [the SCG recipients] before the SCG came in? [...] No! How could we work for them! Did they have money? .... They would request help from you to come and do a certain kind of work, but you refuse to help, but now we are the ones begging to work for them’*

Source: Mugumya et al (2017).

*‘Even the amount of money [the SCG recipients] save has increased, before they would save even Shs500 but nowadays they save up to Shs20,000 when they are paid. This is a change as a result of the SCG.’*

*‘Even the non-recipients can now borrow money from the [SCG] recipients because at least now they [recipients] have money unlike those days when the elderly could not lend money to other people.’*

Sources: Llewellyn and Kuss (2017); Firminus et al (2017)

<sup>38</sup> Llewellyn and Kuss (2017).

<sup>39</sup> Ibrahim and Namuddu (2013); Llewellyn and Kuss (2017); Mugumya et al (2017).

<sup>40</sup> Llewellyn and Kuss (2017); Mugumya et al (2017).

## 4. NATIONAL LEVEL IMPACTS

Across national economies, there are a number of economic benefits from investment in social pensions, as outlined below.

### 4.1. Generating greater demand in the economy and supporting entrepreneurs

**The type of multipliers found at local level are also apparent within national economies.** Spending by recipients of social protection transfers can generate significant demand and bring large benefits to entrepreneurs. The availability of cash in the economy is similar to fuel in a car: without it, the car goes nowhere and nor will the economy without the circulation of cash across the country. The spending generated in high-income countries by their old age pension schemes – as noted above, on average around 7.2 per cent of GDP – is a significant driver of higher consumption and economic growth.<sup>41</sup> Indeed, high income countries often increase investment in social protection as a means of generating growth during downturns in the economy. As Harris (2013) explains: ‘*Social protection programmes act as automatic economic stabilizers – helping to preserve purchasing power and support aggregate demand in times of downturn, lessening the impact of a negative shock and facilitating a more rapid recovery from the shock.*’ Both China and Thailand expanded their tax-financed old age pension schemes as a means of stimulating their economies.<sup>42</sup>

**The limited investment by Uganda in social protection transfers – and the limited roll-out of the SCG – means that the nation is losing the opportunity to generate greater consumption and demand internally, thereby hindering entrepreneurs.** A meaningful injection of cash into Uganda’s economy through an expansion of the national social protection system – initially through the SCG – would result in a significant increase in demand and bring a major boost to economic growth, even at a relatively low level of investment.

### 4.2. Strengthening social cohesion and encouraging investment

**Inclusive social pensions can strengthen social cohesion and stability, thereby facilitating increased foreign and domestic investment.** There are many examples from around the world. Nepal’s universal pension was massively expanded at the end of the civil war in 2008 as a peace dividend; in South Africa, an expansion of the national Old Age Grant by the African National Congress after the fall of apartheid generated stability and gave the black population a concrete link to the state; in Mauritius, the country’s universal pension helped build cohesion in a divided society, enabling the country to diversify the national economy from a dependence on sugar production and become Africa’s most prosperous country;<sup>43</sup> and, Bolivia’s old age pension was introduced as a means of dissipating opposition to the privatization of the oil industry.<sup>44</sup>

**There are indications that the SCG could build the social contract and strengthen state-building in Uganda.** Despite having been mainly funded by international donors, the scheme is increasingly regarded as a national programme, with broad support. There are signs that the SCG is becoming more closely associated with the current government. During a recent study, the SCG was, in some areas, referred to as ‘Museveni money’ and as a potential vote winner.<sup>45</sup> Its inclusive nature could play a key role in building social cohesion across Uganda and, in combination with other social protection schemes, increase the willingness of businesses to invest.

<sup>41</sup> OECD Social Expenditure (SOCX) (2013), available at <http://stats.oecd.org/>

<sup>42</sup> Lu (2012); HelpAge International (2013)

<sup>43</sup> Subramanian and Roy (2001).

<sup>44</sup> Müller (2009).

<sup>45</sup> RCA (2017).

### 4.3. Building more flexible labour markets

Economic growth is enhanced if labour markets are more flexible. However, in countries dependent on contributory pension schemes, the loss of employment can threaten income security in old age or following disability, since the unemployed are unable to continue contributing. Countries with inclusive tax-financed pensions are able to reassure workers that they will always be guaranteed a minimum level of income security in the event of old age and disability. Therefore, people may be more willing to accept unemployment. The Senior Citizens Grant could play a similar role in Uganda.

### 4.4. Building investment funds

**In many countries, contributory pension funds – both state social insurance and private schemes – are major sources of investment in business and infrastructure.** Contributory pension schemes can build significant funds which can be used for generating economic growth. However, it is important that these are well-designed and aligned to the tax-financed system. For example, as happened in Chile, having a state tax-financed pension that is poverty targeted can create disincentives for employees to contribute to social insurance and private contributory pensions since, by doing so, they may find that they lose out on the state pension. Indeed, in Chile, the poverty-targeting of the state tax-financed pension impeded the expansion of the formal economy and, therefore, the growth of pension funds.<sup>46</sup> The universal design of Uganda's SCG will ensure that these disincentives are not created and can form the platform for the expansion of contributory pensions in Uganda, with significant benefits for investment in the economy.

### 4.5. Tackling inequality and creating the pre-conditions for economic growth

**Investment in social protection is one of the key tools for reducing inequality and there is a growing recognition that high levels of inequality reduce national economic growth.** Grigoli (2017) of the IMF estimates that, when the net Gini coefficient is over 0.27, inequality starts to harm growth yet, in Uganda, the Gini Coefficient is currently estimated to be 0.44<sup>47</sup> Therefore, to stimulate economic growth, countries need to reduce inequality.<sup>48</sup> State pensions are one of the main tools used by countries to bring down inequality and is successful as long as investment is sufficiently high. For example, in countries of the European Union, old age pensions are responsible for about half of the decrease in inequality after tax and transfers;<sup>49</sup> in Brazil, the almost universal system of old age pensions has reduced inequality by 12 per cent while in Georgia the universal pension has reduced the Gini coefficient from 0.41 to 0.37.<sup>50</sup>

**The SCG – and similar inclusive lifecycle social protection schemes – could play a major role in reducing inequality in Uganda and, therefore, contributing to economic growth.** If Uganda were to invest one per cent of GDP in such schemes for older persons, persons with disabilities and children, the national Gini-coefficient would be reduced by 3.2 per cent. If investment were to increase to 3 per cent of GDP, the Gini-coefficient would fall by 10 per cent, a very significant reduction with, potentially, major positive benefits for the national economy.

<sup>46</sup> Barr and Diamond (2008); Kidd (2015).

<sup>47</sup> Source: UNHDI

<sup>48</sup> Hakura *et al* (2016). Per capita income growth in sub-Saharan Africa could be 0.9 percentage points higher on average if inequality was reduced to levels found in Southeast Asian countries.

<sup>49</sup> Source: Social Situation Monitor, "The Effect of Taxes and Benefits in Reducing the Inequality Arising from the Distribution of Original Income," accessed October 24, 2017, <http://ec.europa.eu/social/main.jsp?catId=1050&intPagelD=1954&langId=en>.

<sup>50</sup> International Social Security Association (2013); World Bank (2009)

## 5. Conclusion

**There is strong evidence that investments in tax-financed and inclusive old age pensions are a core component of a successful market economy.** And, the impacts on economic growth occur through multiple pathways. If Uganda were to increase its investment in the Senior Citizens' Grant by rolling it out to all older persons, the cost would be relatively small – no more than 0.4 per cent of GDP – but the impacts on the productivity of the labour force and economic growth would be very significant. Indeed, by generating additional economic growth, the investment in the SCG would begin to pay for itself.

**Nonetheless, it is also important to remember the significant social benefits of social protection.** For example: families can have financial and food security and protection against disasters and shocks; vulnerable individuals – in particular persons with disabilities and older persons – can live their lives in dignity; and women can be empowered.<sup>51</sup> Investing in social protection is particularly important in tackling poverty, especially in the context of Uganda where the national poverty rate rose from 19.7 per cent in 2014 to 27 per cent in 2016. In fact, simulations indicate that the national poverty gap could be reduced by 25 per cent if Uganda were to invest one per cent of GDP in inclusive, lifecycle social protection, including through a national expansion of the SCG. When combined with the economic benefits, it is difficult to understand why countries choose to handicap themselves by not investing in tax-financed pensions and other social protection schemes.

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<sup>51</sup> Source: UBOS (2017).

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MAXWELL  
STAMP | PLC



FOR MORE INFORMATION CONTACT:

**The Expanding Social Protection Programme**

Plot 9 Lourdel Road, Nakasero, Kampala.P.O. Box 28240, Kampala - Uganda

Tel: +256 312 202 050/1 Email: [esp@socialprotection.go.ug](mailto:esp@socialprotection.go.ug)

Website: [www.socialprotection.go.ug](http://www.socialprotection.go.ug)

 [www.facebook.com/expanding-social-protection-programme](http://www.facebook.com/expanding-social-protection-programme)  [www.twitter.com/@ESPprogramme](http://www.twitter.com/@ESPprogramme)