Universal Child Benefit Case Studies: The Experience of Iran

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Summary

Iran has had a universal child benefit (UCB) since December 2010. This benefit is an integral part of a nation-wide universal "cash subsidy" programme that was introduced to compensate the population for price rises resulting from massive cuts in subsidies, mainly on fuel. The benefit entitles every child, alongside every adult, to a fixed sum of 455,000 rials per month—equivalent to US$45 per person in 2018— paid to household heads. While no dedicated impact studies as such exist, various studies have documented a positive impact on poverty and income distribution.

In 2016-2017 some better-off households (less than 10 per cent so far) had been losing their benefit as universalism is slowly ceding to targeting to save costs. It is worth noting that the affluence targeting effort of identifying the richer households, through means and proxy means tests did have some positive outcomes. It meant comprehensive datasets and identification systems were developed. Another very important observation is that the purchasing power of the benefit has been steadily diminishing over time due to high inflation, to less than $6/person in mid-2019.

While some design issues plagued this innovative programme from inception, the programme was put in place smoothly. The timing proved problematic however as external pressures (economic sanctions in particular) have had a highly adverse impact and curtailed the ability of the government to ensure the sustainability of the programme, as well as the effectiveness of the cash grant due to the exchange rate deterioration.

Background and Context

Iran is a major oil-exporting country with a population of over 80 million, of whom some 22 million, or 27 per cent, are children under 18 years of age. It is an Islamic Republic with a complex political system. Long-standing challenges, including economic sanctions, have disrupted overall development and the well-being of the population, particularly in recent years.

Numerous programmes have long sought to address the needs of specific groups of children with assistance in cash or kind. Non-contributory social protection programmes in Iran already exist, and any new design that does not consider the inherent inefficiencies of the system could further threaten its financial stability. However, there have been challenges in delivering timely and adequate assistance to vulnerable groups. The "hidden subsidy", valued at over USD 80 billion, of energy products, for instance, mostly reached the most well-off households.

In December 2010, Iran introduced one of the largest cash transfer programmes of its kind in the world – the Targeted Subsidies Reform Act – to compensate for the impacts of its subsidy reform. The cash transfer reached almost universal coverage in 2011, with 73 million Iranians receiving cash benefits, costing the Government IRR 3,300 billion every month. In 2011, transfers amounted to 6.5 per cent of GDP and about 29 per cent of the median household income.

A UCB was introduced, arguably by default, as part of this universal cash transfer programme, since it covered the entire population, regardless of age. The grant therefore entitled every child, alongside every adult, to a fixed sum of IRR 455,000 a month – equivalent at the time to USD 45 per person at the official exchange rate – paid to heads of household. While no impact studies as such exist, various surveys have documented a positive impact on poverty and income distribution, in the early years of the grant's existence. Income inequality as measured by the Gini coefficient stands at 0.398[1], and has been increasing since 2012.

This "cash subsidy" scheme emerged as the most practical means of compensating the population for the reform of price subsidies that saw prices of some basic goods and services (i.e. fuel, water and electricity, bread, etc.) rise by several multiples. The universality of transfers, in particular, resulted from a failed attempt at targeting the 70% of the population below the median national income, which was the original intention. The UCB is thus the by-product of a reform effort aimed at rationalising an inefficient system of price subsidies that was regarded as being regressive.

While some 4% of the population forfeited their right to the transfer voluntarily, or were unwittingly left out from the start (staving off concerns of capture by the elite), and a similar percentage have more recently been excluded for being too well-off to need it, over 90 per cent of the population continues to have the transfer deposited in their bank accounts at midnight once a month throughout the country. Adjustments due to changes in household composition (births, death, marriage, etc.) are automatic and rapid as the relevant national databases are linked.

But the design of the plan did not account for the persistent inflation in Iran. The purchasing power of the cash transfer has thus been steadily diminishing over time, standing at less than USD 10 in mid-2018. While some design issues plagued this innovative programme from its inception, it was put in place smoothly. The timing proved problematic, however, as external pressures (economic sanctions in particular) have had a highly adverse impact and curtailed the ability of the government to ensure the sustainability of the programme.

Poverty rates and income inequality have declined somewhat in Iran after the first year of implementation, as a result of cash transfers (Salehi-Isfahani, 2016). However, since then poverty has risen, and the situation has taken a dramatic turn for the worse in 2018 following the near-collapse of the currency and acceleration in inflation.

A UCB offers many merits to the economy of developing countries such as Iran: (1) it curtails inefficiencies and reduces the risks of corruption, the latter often embodied in the difference between market price and subsidised facilities (such as exchange rate) for producers and importers of basic goods, and therefore it reaches all of the population; (2) it connects households to at least a bank account, and therefore facilitates financial inclusion; (3) the consolidated household databases for the programme result in data-driven and -informed governance. The government used the databases to reform its programmes and found much misappropriation and poor targeting.

Benefit Description

Benefit summary

Law: *The Targeted Subsidies Reform Act*, was passed in January 2010 and implemented in December of the same year

Coverage: All individuals/children that are citizens of the Islamic Republic of Iran.

Number of Children covered: In 2011, 73 million Iranians were receiving cash benefits. However, a new law adopted in April 2016 set a ceiling for the total amount to be distributed in cash to "needy" households. This implied the exclusion of some 24 million recipients (30 per cent of all). But the government has been slow in following up. As a result, only about five per cent of the population has so far been dropped from the programme, and in 2018 more than 76 million Iranians (out of about 82 million) received the cash benefit. The efforts to stop transferring the cash benefit to households in the three upper deciles continues; however, political barriers have slowed down the process.

Financing: Financed from the proceeds collected through higher prices of subsidised goods and services, with the shortfall covered from other government sources.

Cost: In 2011 the benefit amounted to roughly USD$40 billion or over 6 per cent of GDP in 2011 immediately after the introduction of the

1. Statistical Center of Iran, 2017 https://www.amar.org.ir/Portals/0/News/1396/chhvdsh-rs96.pdf

programme. However, this now represents a far lower dollar amount and GDP share (around USD10 billion) having remained fixed in nominal terms despite sustained high inflation over the years.

Qualifying conditions: Recipients must be resident citizens of Iran.

Benefit description: A fixed sum of 455,000 *rials* per month—equivalent to US$45 in 2010 – is paid per person to the household heads in proportion to their household size.

Administrative Organisation: The benefit is administered through the [Organization for Targeted Subsidies].

Impact evaluations

No dedicated impact evaluation of Iran's programme exists, in part because no control groups can be formed when virtually everyone is participating. Some studies, however, shed light on a few aspects. According to the Statistical Centre of Iran (2016), the Gini coefficient of expenditure distribution in the country as a whole declined from 0.41 in 2010/11 to 0.37 in 2011/12, the first year of the programme. The corresponding decline in urban areas was from 0.39 to 0.38 and in rural areas from 0.38 to 0.34. Simulations by Salehi-Isfahani et al. (2015) also show that the net effect of price reform/cash transfer programme was a reduction in income inequality and a 4.7 per cent decline in poverty by the third month of the programme compared to the same period a year earlier.

As regards labour supply, using panel data of receivers and non-receivers of transfers in the early months of the programme, Salehi-Isfahani and Mostafavi-Dehzooei (2017) find no negative effect on either the hours worked or the participation rates amongst the bottom 40 per cent of income groups. They only find a negative labour supply effect amongst the 20-29 age group which they attribute to the possible effect of cash transfers on increased participation of youth in tertiary education, which may be regarded as an investment effect rather than as a substitution of work for leisure. They, in fact, find a positive labour supply effect in the services sector, which they interpret as the possible effect of cash transfers in relaxing credit constraints on self-employed workers. However, these figures should be treated with caution owing to possible favouritism toward the programme, that they draw from the programmes very early years, and they studies do not use standard evaluation techniques such as having a control group.

The administrative costs, one-off and borne at the start of the programme, were rather minimal in view of the huge size of the programme, its universality (no targeting costs) and other benefits (linked databases, the extension of banking services to all, etc.). Moreover, once off the ground, administrative costs became insignificant as transfers are made automatically and instantaneously once a month. With the attempt to introduce targeting in recent years, however, such costs are bound to mount.

Current Developments

Remarkable as this programme is, it is in now serious jeopardy due to at least four weaknesses: inadequate funding, the declining value of the transfer amount in real terms, and the current policy of abandoning universality in favour of targeting to the "needy".[2]

For instance, the first problem was structural: while the programme was meant to be entirely financed by (up to one-half of) the new proceeds from higher prices of subsidised goods and services, the nominal level of transfers was set at too high a level relative to the stipulations of the relevant law. As a result of a shortage of funds has been a perennial problem necessitating mobilisation of supplementary funds from other sources, a requirement that has over the years become increasingly more difficult to meet.

The funding shortage, in turn, underlies the other two weaknesses, remedial measures that may be likened to a cure worse than the disease. On the one hand, the nominal amount of the transfers has been kept fixed for eight years despite double-digit inflation throughout the period. As a result, the purchasing power of the transfer has dramatically declined to below a fifth of its original

2. Economic sanction has had a huge impact on the macro and micro economy of Iran and impacts at both levels causing huge suffering of the people especially, children, young people, women, and other vulnerable groups. Improving capacity to collect real-time data for better-informed policy-making will enable the possibility to make a sound foundation to make policy or decision during the crisis like now and protect the most vulnerable before they are exposed to further risks.

value. The transfers now have little effect on the livelihoods of most Iranians, except perhaps the poorest. They are becoming increasingly immaterial and irrelevant.

On the other hand, given the precipitous fall in the purchasing power of the transfers and the unsustainability of the fiscal space for this universal cash benefit, a new policy has been implemented since 2016 to move towards a targeted programme by dropping the better-off participants from the programme. This process could not move as fast as anticipated: at the beginning, it was replete with errors, as might be expected in view of inadequate data and methodology. In 2016, the latest year with such data, of the 840,000 who were dropped from the programme, about 60% had to be restored following their complaints. However, the exclusion mechanisms improved significantly, and individuals who contested their exclusion received a call explaining the reasons behind the decision. Most of them accepted the decision after talking to a trained representative. Those individuals with a complaint were also given the option to submit complementary documents, such as proof of bankruptcy or chronic diseases in order to prove eligibility. If not convinced on the phone, individuals with a grievance had the option to go to an office assigned for this purpose and pursue their case further. At this phase, more than 85% of individuals with a grievance were convinced by the rationale for their exclusion and did not pursue their case further. The call centre experience was a valuable experience, giving citizens the opportunity, claimed by many of them the first time in their lives, to be heard by policymakers. However, the social and political barriers put in place have halted the targeting process.

Lessons learned

Iran has had remarkable success in putting in place a universal cash transfer programme (containing a UCB) in a short period, as well as acquiring useful experience in overcoming significant complications and maintaining it as a meaningful policy. Notwithstanding its large scope and scale, the programme emerged by default as the most rational and practical means of ensuring public support for a fundamental transformation of an outdated system of price subsidies, a need that was widely acknowledged. The roll-out took time (over two years) but was smooth and the political will behind it unparalleled, and the financing method – returning new revenues from higher prices of subsidised goods and services back to the public as compensation – was novel.

The programme has suffered nonetheless from miscalculations on funding strategy and, especially, unfortunate timing, coming as it did during a turbulent period in the country's international relations.

External pressures (sanctions, etc.) have created significant challenges as they have disrupted the country's finances and increased inflation. The future for the cash transfer programme is uncertain, although it may play a role in softening the economic uncertainty currently besetting the country.

As regards potential lessons for the replication of UCB in other countries, it is clearly necessary to muster the necessary political will, create the fiscal space and appropriate tax regime, establish institutional capacity, etc. Iran was able to do these in large part by hitting upon an innovative approach to winning over public support for a massive reform effort through compensation for sacrifices made. The large scale of the funds generated through radical reform of subsidies allowed universal coverage and the same transfer amount to all, notably all children. Circumstances will no doubt differ in other countries, but the option of generating new revenues that will be passed back to the entire population in tangible cash is likely to be available to some of them. Moreover, understanding whether UCB should have a different package for the neediest and affected population rather than a flat package would be an important consideration. A UCB could have provision for vulnerability mapping, especially in the current situation and findings would allow authorities to provide support to affected individuals/children during an economic downturn.

Furthermore, what would probably be critical is to avoid excluding anyone, including adults, to ensure that all children benefit. Other countries need however to do better than Iran in terms of ensuring financial sustainability over the long run and managing broader parameters, be they political or economic, to avoid the programme being derailed through no fault of its own.

The key points that have been learned from this experience are that one, it is better, on the whole, to use cash instead of in-kind subsidies, as it increases the transparency of social provision and reduces corruption. For instance, the budget for many of the in-kind child-focused social protection programmes, have proven not to be cost-effective and would be better combined and distributed as cash benefit to children. Two, nevertheless, in a commodity-based economy, like Iran, it is still appropriate to allocate the same commodity to individuals, and not only cash. This will help diversify a household's asset portfolio, garnish political support of sustainable price adjustment, and shield households in economic crisis (e.g. inflation).

Useful links and sources

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The full UNICEF-ODI Report on universal child benefits, this and other country profiles, conference materials and other links can be found on socialprotection.org at https://www.unicef.org/social-policy/universal-child-benefits.

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