

Cash transfer as a social policy instrument or a tool of adjustment policy: Iran 2009-2015

IIEA

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Introduction and relevance to Iran

- **International:**
 - Market based approach to poverty alleviation (LDCs and DCs)
 - Poverty alleviation programme and improvement in human capital (health and education of children, especially girls)
 - CT for specific objective: child welfare, accommodation support (rent), disability support...state does not provide the good directly but helps the individual to purchase the good in the market
 - Income maintenance
 - Not necessarily long term commitment, annual or periodic review and approval of budget
 - Condition: household poverty and need and use of proxies : age (old or young), disability, female headed,....
 - Part of social policy programmes (in DCs and LDcs)
 - Macroeconomic stability (CT scheme cost to government budget small and stable inflation)

Cash Transfer (CT) in Iran – a short history

From indirect to direct subsidy

- Pre-2010 domestic fuel prices: petrol US\$0.10, diesel \$0.02 p.l. Cheap energy and utility prices (domestic and industrial)
- Liberalise domestic energy and utility prices (gas, electricity water) and petroleum products, wheat, rice, sugar, cooking oil and milk and reduce the of negative impact on family budget (WB support)
- Replace indirect subsidies with direct cash subsidy: 50% people, 20% industry, 30% government.
- Funding: Use money raised by removal of indirect subsidies.
- Money raised not sufficient to cover direct cash subsidy programme, borrowing from the central bank
- Disbursement: very little to industry, most to CT.

Cash transfer - Iran

- **N.B. CT Not a poverty alleviation programme**
- Who gets it? Universal/self declaration.
- How much per person, per month?
 - 2010: 40000 toman = US\$40
 - 2016: 45000 toman = US\$13
- Purchasing power in rial more than halved (inflation).
- Coverage?: 90+ % of population. Largest in the world.
- Cost? Estimate 10% GDP or \$30 bln in 1st year.
- Organisation: electronic transfer through bank accounts

International Comparison

Relative Coverage (% population):

- Ecuador 40%
- Brazil 30% and Mexico 20% (2012)
- Colombia 11% (2012)
- Cambodia 1%
- **Iran 90+% (universal)**

Costs (% of GDP):

- Brazil, Mexico, Ecuador: 0.5%
- Chile: 0.08%
- **Iran 10% GDP**

Benefits relative to mean household income (%)

- Mexico: 20 %
- Honduras: 4%
- Bangladesh, Cambodia, and Pakistan < 4%
- **Iran: Family of 4 gets 4 x 455000 tomans per month (Shargh 10-3-2116),**
 - **22% official minimum monthly wage of 812000 tomans in 2016**
 - **16% min. w + housing sub+child support+consumption goods sub in 2016**
 - **18% expenditure of household in poorest decile in 2013**

Economic situation since 2010

- Inflation:
 - industrial costs due to removal of subsidy,
 - budget deficit & cash injection
 - Devaluation 250%. 2010: T1000=\$1, 2016: T3450=\$1
- Unemployment (lack of support to industry+sanctions+recession+....)
- macroeconomic instability
- Food price inflation 2010-12: +/-50%
- 2016 purchasing power of CT less than 1/2 of its 2010 level
 - 2016: T45K at constant 2010 prices = T20K
- No continuous evaluation system to change/improve programme
- Opportunity cost of CT: investment for job creation and/or social support?
- Prices after 4 years – e.g. Petrol prices (at black market rates of \$):
 - 2009: \$0.10
 - 2010: \$0.40
 - 2013: \$0.23
 - 2014: \$0.39
 - 2016: \$0.30

CT since 2013-Rouhani

- Budget deficit so cut CT
- Targeting the poor?
- Exclude richest 30% (parliament)
- Top 30% a financial target (covers budget deficit)!
- Identification problem
- Limited info on individual income and assets (no reliable tax return)
- Access bank accounts, land registry, etc.? (very hot potato!)
- Re-registration and voluntary exclusion
- Result: +/- 95% population (74 mln) again registered!
(Suspicion that at least 10% of registration are bogus)
- Government's claim (Aug. 2014): identified 10 mln high income

To keep or NOT to keep... CT!?

- By NOW purchasing power of T45K is more than halved
- Time limited nature of CT in Iran (maximum 5 years?)
- BUT CT: social protection morphed into basic income 'entitlement'
- What is the exit strategy? Employment and increase welfare (real income) through social provisioning...
- **De-commodification of the housing market, health and education...**
- Shift the discussion to macroeconomic stability social policy and investment to create jobs

Maintain Household Income

- Support to health, education and housing + cash transfer?
- Percentage of total expenditure lowest 5 deciles of urban household on:
 - housing 34%
 - Food 26%
 - Health 10%
 - Education 2%
- Percentage of non-food expenditure of lowest 5 deciles urban income groups:
 - 40-50% Housing
 - 13-15% health.

Some ideas...on reform of CT in Iran

- CT is a short term problem and has to be dealt with
- How to target the 'poor'?: Use existing information sources to identify the bottom 60-70% of population. Don't waste money on setting up a new system
- Stabilise income and purchasing power by lowering inflation, unemployment and stable/'realistic' foreign exchange rate
- Improve direct (income, property) tax collection and widen tax base
- Continue with adjustment of energy prices to finance short term cost of CT, direct transparent support to the industrial sector (esp. energy intensive firms) in a time limited fashion.
- Shift the social subsidy policy towards social welfare to reduce household budget constraint
- Social cohesion as the basic principle of social policy