International Institute of Social Studies

Working Paper
No. 610

Cash transfer as a social policy instrument or a tool of adjustment policy: from indirect subsidies (to energy and utilities) to cash subsidies in Iran, 2010-2014

Mahmoud Meskoub

September 2015

ISSN 0921-0210

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ABSTRACT

Cash transfers (CT) whether as income support to the elderly, poor households or other vulnerable groups have been hailed as one of the most innovative and effective social policy initiatives in the developing world. Available evidence suggest that their success would depend on their financial sustainability, low inflation and maintenance of a broad social policy support in areas such as food, health, education and housing.

It is against this international experience and evidence that this paper sets out to evaluate the Iranian CT programme that was introduced by Ahmadi-Nejad as part of a major liberalization of energy prices in 2010 in order to bring domestic prices of energy and public utilities (water and electricity) in line with international prices. The Iranian CT programme became one of the largest of its kind in the world, with 90 per cent of population covered and costing 12 per cent of the GDP in 2010.

This paper* discusses the main characteristics of the Iranian programme and evaluates its impacts on household income, inflation, poverty alleviation and related welfare issues in areas such as health and nutrition. Comparison will be made with some of the major CT programmes around the world (e.g. Mexico and Brazil) to explore lessons that can be learned from such international experiences to reform the Iranian programme towards a targeted approach. It is in this context that the paper will ask whether CT programmes are complementary to or a substitute for broader social policy measures in developing countries.

Keywords

Cash transfer, social policy, energy/fuel subsidy, adjustment policy, poverty, inequality, Iran.

* I would like to thank Dr Teh Nurullahi (formerly of the Research Institute of the Statistical Centre of Iran) who kindly provided me with the results of the Household Budget Surveys (HBS) of Iran, and Mr Nader Mehri who provided statistical assistance with the data analysis of HBS. I also benefited from comments of participants of the annual conferences of the British Social Policy Association, Sheffield, UK (14-16 July 2014) and the World Congress of the Middle Eastern Studies (WOCMES), Ankara, Turkey (18-22 August 2014) where previous drafts of this paper were presented. Comments regarding this paper are welcome. Please address to **messkoub@iss.nl**

1. Introduction

Since the shift in development paradigm in the 1980s from state run and mixed economy to market oriented approach, poverty, inequality and distributional issues have become marginal issues in economic policy debate. Efficient working of the markets, economic growth and the trickle down effect were expected to reduce absolute poverty over time, whilst inequalities were explained to be the result of different ownership of endowments, including physical and human capital and different levels of 'effort' and thus part of the working of the market. Economic growth failed to reduce absolute poverty in countries with corrupt ruling classes that dominated predatory states. Ironically, absolute poverty declined more rapidly in countries with strong centralized state where either market was dominant, like Thailand and Indonesia (and before that Taiwan and South Korea), or in countries where market was gradually introduced, like China.

The counterpart of this paradigm shift in social policy were the move away from development of human capital and a broad universal approach to health and education provisioning and redistribution, and towards the residual approach of social safety nets, risk-based and individual responsibility; that also failed to reduce poverty and inequality.[1]

In the 1990s Poverty reduction moved back onto the national and international development agenda and with it a plethora of 'new' social policy instruments with targeted cash transfer being the most prominent one. Cash transfers, however, were linked, through conditions, to other social policy areas such as health, education and gender discrimination. Families receiving CT have been obliged to ensure regular vaccination and health check ups and school attendance of their children especially the girls (as in the case of Oportunidades programme in Mexico). (Barrientos, 2008) Other large scale cash transfer programmes have been in operation in different countries with different target groups – e.g. children and elderly in South Africa and rural poor in India. (DFID, 2009)

[1] For further discussion of these paradigm shifts in relation to social policy see Molyneux (2008) and Lavinas (2013).

Iran's experience with CT is different from those noted above. CT was introduced in Iran as part of an energy price reform/adjustment strategy in order to bring national energy prices to the international level thus eliminating huge indirect subsidies that have caused waste of resources through over-consumption and loss of valuable of foreign exchange. Moreover, low domestic price of petrol and utilities were also deemed regressive since they indirectly subsidized richer households who were among the biggest consumer of energy. The energy price reform had the objective of removing the indirect subsidies and replacing it with a direct subsidy, i.e. CT, to those who would be most affected by it, including private households and the productive sector of the economy.

Following a brief theoretical discussion of CT as a social policy instrument, this paper provides a critical discussion of some of the best example of main CT programmes in the world: Bolsa Familia in Brazi and Oportunidades in Mexico, against which the CT programme in Iran should be measured. The final sections deal with a detailed discussion of the context and history of the CT programme in Iran and its impact on the poor and low income groups and why the CT programme needs a social policy dimension to deliver its goal of truly targeting the subsidy system on the majority of population who should share in the wealth of the country.

2. Cash Transfer and Social Policy: some theoretical issues

Cash transfers are not new in the social welfare provisioning organized by the state or through private donations and organisations. In fact cash transfer is as old as money and has been around since the advent of the market economy. Those falling on hard times because of natural disasters, accidents, personal misfortune or lack of access to productive resources had to rely on the benevolence of the better off individuals and families and religious organization. Benevolence takes many forms and alms giving in the form of cash is one of the oldest types of cash transfer.

From the earliest times the poor's access to markets has been mediated through cash transfer. Availability of goods and their market prices have therefore been of critical importance to the poor. To understand how and why cash transfers operate and impact on the poor we need to understand the historical and socio-economic setting within

which markets exists and cash transfers take place. The cash transfer under the reformed English Poor Law had different economic and social implication for the poor and society than a child support cash transfer in 21st century Britain or Turkey. The reformed English Poor Law was meant to provide a short term respite to the poor, whilst facilitating mobility of labour by ensuring that the poor could not rely on one parish for their livelihood by imposing strict condition on who could or could not receive it. A 21st century child support/benefit on the other hand is as much about poverty alleviation as about providing support to children so that their life chances are not compromised by family economic situation.[2]

In more modern times, cash transfers have been an important part of the 20th century welfare and social policies which also cover among other areas health and education provisioning. Cash transfers have ranged from, *inter alia*, unemployment benefits, child benefits, disability benefits to basic minimum income and pensions. All such transfers have been based on some basic targeting principle such as employment status, age or disability.

The economic rationale behind cash transfer is to help household to meet their needs by paying for them. The emphasis on paying is to draw attention to the fact that CT is fundamentally a market based approach to the problem of poverty. There are other aspects of CT that are neatly summarized in the DFID (2011) definition: 'Cash transfers are direct, regular and predictable non-contributory payments that raise and smooth incomes with the objective of reducing poverty and vulnerability**.** **'** (p. 20)

For CT to achieve its main objective of income and as a result consumption smoothing, the recipients should be assured of their regularity and continuity, implying that there should be a long term commitment to the programme. CT should also be adjusted in line with inflation if it were to achieve the consumption smoothing objective in real terms. A stable macroeconomic environment and long term state budgetary commitment are therefore essential for the success of the CT programmes.

[2] Child supports may have other functions such as encouraging labour force participation of women.

(DFID, 2011 and 2013).[3]

At microeconomic level, a cash transfer will improve the budget constraint of the recipient, if the amount of cash paid out makes a sizable contribution to household income and if the inflation rate is low. The relative price change of the essential items consumed by a recipient should also remain stable. If for example food price inflation is higher than the general inflation, it will have a disproportionate negative impact on the low income groups who spend a larger proportion of their income on food.

In short, both macroeconomic (a stable macro environment and budgetary commitment to CT as well as a low inflation) and microeconomic conditions have to be fulfilled for a CT programme have the desired impact on the income and consumption of the low income and poor people. The point has to be emphasized that if a CT is combined with an orthodox adjustment programme with the objective of reducing expenditure and employment the CT will work more as a protective (income replacement) than a promotive (building up of human capital) social policy measure. We will return to examine these conditions as we assess different CT programmes.

Even with the above conditions at work, there is no guarantee that the CT will be spent on essentials or invested in household human capital in health and education. That is one reason for linking CT to other social policy programmes and objectives by requiring households to send their daughters to school or take their children for routine health check ups and vaccination.

Besides the complementarity between CT and other social policy objectives, goods and services should be available and accessible for households to consume. It is clear that a functioning market in goods and services that the poor require is a pre-condition for the operation and success of CT programmes.

The market based approach of CT has important ideological underpinnings that combines consumer choice on the demand side, with a mainly private sector

[3] See also Fiszbein and Schady (2009) for a comprehensive survey of cash transfer policies in developing countries.

production and supply side of the economy. The state functions to ensure monetary and fiscal stability to achieve a low inflation environment for the objectives of CT to be realized. A CT programme would be expected to give back the 'control' to the poor because it replaces a top-down and bureaucratic poverty alleviation programme that distributes goods and services as part of in-kind transfer programmes with one that allows the poor the freedom to buy what they need and want. Further justification for giving an increased role to the market in poverty alleviation has been due to the corruption and profligacy of state officials and poor governance of public funds that have eroded the legitimacy and role of public sector in social provisioning and in-kind transfers. In such an environment it should not be surprising that the poor themselves might well favour the transparency of cash transfers to other types of support.

Support for CT has also come from international NGOs and advocacy groups like Oxfam and Save the Children Fund, who have argued for cash transfers as a tool of providing support during emergencies. (Jackson and Kukrety, 2012) The coalition of ideologically divers interest groups supporting CT programmes is very impressive indeed. [4]

CT programmes around the world have had varied origins and histories that influence their evolution, sustainability and impact on poverty; reflecting the path dependency of any social policy. This path dependency is to a large extent driven by the political forces that shape the policy process of setting a policy agenda, formulating a policy, involvement of different stakeholders and the legal and institutional arrangements for policy implementation. It would be useful to briefly review two of the most noted CT programmes in the world - Bolsa Familia and Opportunidades - that are conditional. But why conditional CT or CCT?

'[W]hen there is a strong rationale to redistribute, a CCT can be justified under two broad sets of conditions: first, when private investment in human capital among the poor is suboptimal from a social point of view and, second, when conditions are necessary for political economy reasons (that is, redistribution is politically feasible only when conditioned on good behavior).' (Fiszbein and Schady 2009, p. 11)

[4] The Economist magazine in 2010 referred to the Brazilian cash transfer programme as "the world's favourite new anti-poverty device" (The Economist, 2010).

Brazil's Bolsa Familia is a case in point. It is a programme that pays a minimum income to poor households as part of a policy of reducing absolute poverty whilst it is expected that it would lead to building up the household human capital and productive capacity through improved health and education of children. The latter objective is achieved through the conditions for receiving the cash. Households have to ensure their children achieve a minimum school attendance record. They also have to comply with various preventive measures such as vaccination and health monitoring of children, pre-natal pregnant women and nursing mothers. Bolsa Familia has its origin in Bolsa Escola that started by some municipalities in 1995 and later with federal support in 1997 to tackle poverty. It is important to note that Bolsa Escola is a legacy of the 1988 Constitutional change that not only provided for a citizenship based social assistance, but promoted decentralization leading to municipal activism to tackle poverty. In 2001 it became a federal programme under the Ministry of Education. The success of Bolsa Escola encouraged the federal government to initiate similar cash transfer programmes: in 2001 it started Bolsa Alimentaco (under the Ministry of Health) to tackle infant mortality and malnutrition, and in 2003 it started Auxilio Gas (under the Ministry of Mines and Energy) to subsidise the poor following the liberalization of gas prices; and Agente Jovem which was targeted at the youth.

Paradoxically the coming to power of President Lula of the Workers Party in 2002 did not bode well for the above anti-poverty programmes. He was more concerned with hunger in Brazil and initiated an in-kind/cash programme to tackle the problem. Faced with opposition from the beneficiaries, experts and policy makers he quickly changed course and in 2003 created the Bolsa Familia that consolidated all the existing programmes and offered cash transfer to 11 million households in extreme poverty.[5] That by 2011 had reached 13.3 million households according to the latest ILO (2015) figures or about 53.2 million people, a quarter of the population.[6]

Bolsa Familia makes a big impact on household income of the poor by raising their income by between 50 and 100 per cent, depending on their initial income and

[5] For further details see Barrientos (2013) who provides a succinct and notable account of the evolution of the social assistance in Brazil.
[6] [http://www.social-protection.org/gimi/gess/ShowTheme.do?tid=1805. Accessed 1 July 2015]

number of children.[7] Since the introduction of Bolsa Escola,that was replaced by Bolsa Familia, the annual inflation rate in Brazil has been mostly between 5 and 7 per cent, thus maintaining the purchasing power of the CT. (EU, 2015) The total cost of the Bolsa Familia programme was a manageable 0.4 per cent of the GDP in 2010. (Barrientos, 2013)

Bolsa Familia has not been without its critiques on the left who point out that it is, still, missing a large number of the poor, and is administratively complex and expensive to run in terms of means testing and monitoring. Those on the right point out to its missing some of the deserving poor whilst providing for the undeserving and creating a culture of dependency and clientalism. (Hall, 2008) However, there is a general agreement that the Bolsa Familia has been relatively successful: it has had a wide coverage (a quarter of population), has made a substantial impact on household income in a fairly stable macroeconomic environment, and at a very modest and sustainable cost to the economy, 0.4 per cent of GDP.

Some of the other CT programmes in countries with large population share characteristics of Brazil's CT. For example in Mexico the Oportunidades cover about 25 per cent of the population, two third of them in rural areas, at the cost of around 0.4 per cent of the GDP in 2010. (Barrientos, et al., 2008)

The Oportunidades's impact on the income of the poor could be substantial. In 2012 the Mexican government social development agency, *Coneval,* put the monthly poverty line at $183 in urban areas and $117 in rural areas. An Oportunidades' cash transfer that varies between $10 and $50, depending on the level of schooling of children in the household, plus an extra monthly $15 health related grant could raise the household income between a minimum of 20 per cent (10+15/183) in urban areas to 30 per cent (10+35/117) in rural areas. These ratios would rise to a maximum of 35 per cent (50+15/183) in urban and 55 per cent (50+15/117) in rural areas. The impact of the Oportunidades' cash transfer on the extreme poor would be even higher when we consider the *Conveal*'s measure of extreme poverty: a monthly income of $62 in

[7] For further details see Hall (2008), pp. 805-806, and Barrientos (2013), pp. 892-893.

rural areas and $88 in urban areas. (Latin Times, 2013)

It is important to note that both programmes have had a fairly extensive monitoring and evaluation units. (Barrientos, 2008) It is against such benchmarks that we should compare other CT programmes and investigate the Iranian CT programme.

3. Why Cash Transfer in Iran?

Unlike other countries the cash transfer in Iran did not emerge out of a poverty alleviation and social policy agenda but was part of a wide-ranging overhaul of various state subsidies and, more broadly, an orthodox market oriented adjustment programme.[8]

The reform of the extensive Iranian direct and indirect subsidy system, parts of which dated back to the pre-1979 (pre-revolution) period (Encyclopaedia Iranica, 2015), has been on the government agenda at least since Mohammad Khatami's presidency in early 1990s. The policy makers and their international advisors at the World Bank were, however, mindful of the impact of the change in the subsidy system on the populations and its social costs. The experience of food riots and national protests following the removal subsidies in Egypt, Morocco, Jordan and other MENA countries would focus minds. (Walton and Seddon, 1994)

In early 1990s there were protests in Iran against liberalisations of the economy (Ibid.) and in 2007 (during the first term of Ahmadi-Nejad's presidency) petrol price rise from 8 to 11 US cents a liter led to riots and attacks on some petrol station. (Financial Times, 28 June 2007)[9] It should be noted that the state indirect subsidy package to goods and services was seen as regressive by effectively favouring those who consumed more, in particular gas, electricity and petrol. Low refining facilities in Iran has meant that the government had to subsidize imported petrol that was sold at home below international prices, at the cost of about $5 billion a year in 2007. As an example of the gap between domestic and international prices compare pre-adjustment price of a liter of petrol in Iran at US$0.10[10] with that in the neighbouring countries of Turkey and Pakistan at $1.80, and an international average of $2.00.

[8] For one of the latest policy initiative to combine cash transfer for the poor with a fuel price adjustment see Cooke, et al. (2014) that discusses the Ghanaian experience.

[9] For a brief account of some of the protests which were motivated by economic and political demands in Iran see Sustar and Sepehriwa (2009).

[10] Hereafter a $ sign indicates US dollars.

In this context it was argued that a social protection package should be put in place to counter the negative impact of the liberalization. As early as 2001 the World Bank argued that:

'Rationalization of subsidies, particularly the extensive energy subsidies, as well as privatization will require commensurate measures such as worker training, cash compensation, short-term employment creation, etc. The absence of a clearly articulated social protection strategy could act as a barrier to implementation of the reforms. The Bank plans to work with the Government in preparing a social assessment of the reform program in terms of its impact on the different income groups, and articulating a social protection strategy which builds on the various Plan initiatives.' (World Bank, 2001, P. 17)

In 2010 Iran embarked on a major adjustment of its domestic prices of energy (gasoline, natural gas and other petroleum products) as well as public utilities (water and electricity), major food items (sugar, wheat, rice, cooking oil, milk) and state owned service provisions (in areas of post, air and rail transport) in order to bring them closer to international prices. Implicit or indirect subsidies in all these areas (mostly on energy and food) would cost an estimated $100 billion dollars a year in 2009 or about one third of the GDP. [11](Tabatabai, 2010)

The first article of the law, officially referred to as *Targeted Subsidies Reform* (Guillaume, et al. 2011), passed by the Iranian parliament in January 2010 stipulated that by the end of the 5th Development Plan in 2015 domestic prices of all fuels in Iran must gradually be raised to reach 90 per cent of the FOB price of fuel in the Persian Gulf. It was envisaged that the adjustment of prices would be gradual and take place over the 2010-2015 period.[12] The secondary nature of the cash transfer/compensation in the adjustment policy is reflected in its place as the seventh article of the law. However, it seems that the need for the compensation of the impact on the poor was part of the implicit bargain between the government and the public as the following assessment by the IMF (coauthored with Dr. M. R. Farzin, Deputy Minister of Economy and Finance and Head of the Subsidy Reform Headquarters in Iran) reveals:

[11] See Tabatabai (2010) for further details and an excellent summary of the reform of the subsidy system in Iran. See also, Guillaume, et al. (2011) for a discussion of the consumer choice analytics and the chronicle of the reform programme that has been coauthored with the then Iranian deputy economy minister in charge of the reform programme. On more recent developments see Hasanzadeh (2012). Moshiri (2013) provides a good account of the impact of the reform on the energy sector in Iran.
[12] Corresponding to the 5th Development Plan (1389-94 in the Iranian solar calendar).

‘The reform would also improve social equity in the distribution of Iran’s hydrocarbon wealth. For the poor who benefited little for [sic] cheap domestic energy price, the compensation would represent a large share of their income, lifting virtually every Iranian out of poverty. This gave the government a powerful public relations and moral argument in support of the reform.’ (Guillaum, et al. 2011, p. 8)

Under the adjustment policy the indirect subsidies to energy and goods would be reduced and replaced by direct subsidies to three categories of consumers, producers and state owned enterprises in order to mitigate the negative impact of price increases. This was and still is an important feature of the adjustment policy that distinguishes it from the other welfare/social policy oriented CT programmes. Fifty per cent of the income generated from the energy price increases was stipulated by law to be spent on direct cash transfer to households, as well as providing them with an indirect subsidy through support to social security and general social support in areas of housing, health, etc. Support to agriculture and industry were expected to take another 30 per cent of income generated whilst the state was expected to use the remaining 20 per cent to mitigate the impact of fuel price rise on its current and capital expenditure. The programme was expected to pay for itself and without any need to raise new money either through taxation or central bank activities (e.g. through printing of money or selling of bonds). Self-financing feature of the programme was expected to make it, in principle, non-inflationary as no new money would be injected into the banking system.

The implementation of the cash transfer was carefully planned in order to minimize the political and social risks that followed earlier attempts to raise petrol and energy price. Despite the debates and arguments, that found their way into the law, to target the compensation and CT on the needy households (the bottom 30 to 50 per cent income groups) through some kind of means testing, it was eventually decided that CT would be based on self-registration without any screening of the means since Iran lacked any proper income/tax registration system. By October 2010 61 millions (80 per cent of population) had registered. The amount of CT per person, irrespective of age, was set at $40 per month, paid out every other months through specially set up bank accounts in the name of the registered head of household. The first two installments were paid out together on the very day the energy price increase came

into effect (18 December 2010). Ten days later the government announced a supplementary transfer of 80,000 rials (or $8) per household as compensation for the increased price of bread. (Guillaume, et al., 2011)

The energy price hikes were quite extraordinary. The price of regular petrol for private cars increased by four fold (from 1000 to 4000 rials a liter) for up to 60 liters a month, beyond which private motorists had to pay seven times the pre-reform price. The public transportation industry was offered a higher quota at 4000 rials per liter. The increase in diesel prices was even higher. The price for the transportation industry was raised from 160 to 1500 rials per liter subject to a quota, whilst the 'free' market price was raised to 3500 rials per liter. Natural gas prices increased seven fold (from 100-130 rials per cubic meter (M^3) to 700 rials per M^3 for households and 15 fold for electricity power plants (from 50 rials per M^3 to 800 rials per M^3). Electricity prices experienced an almost three fold increase (from 160 rials per kWh to 450 rials per kWh). The tariff structure, however, varied according to the volume of consumption, industrial sector and geographic region. [13]

Active measures were also taken to contain the inflationary impact of price rises, the government resorted to well publicized administrative price controls, stockpiling of essential consumer goods and advice to the Central Bank to appreciate the rial. (Guillaum, et al. 2011, p. 11) Despite some success in early 2010 that saw inflation coming down to around 7 per cent from a high of 30 per cent in 2008, inflation rate started to increase by late 2010 mainly due to the Central Bank credit financing of a major low cost housing project – Maskan Mehr – and a rise in world commodity prices. By early 2011 inflation rate stood at around 12 per cent. Inflation accelerated later with large devaluation of rial from 10000 to 26000 rials to a dollar, and government borrowing from the Central Bank to finance the cash transfer policy, as the expected income generated from the energy price rise did not match the expenditure on cash transfer; and finally the government's failure to continue with price controls - producers started to charge higher prices and pass higher energy costs to consumers. By late 2012 the official inflation rate had reached to about 25 per cent,

[13] In this respect price rises were targeted. For a more detailed discussion see Ehsani (2012), pp. 3-4, and Moshiri (2013), p. 34.

with most basic staple food having inflation rate of around 50 per cent.[14] Three years into the price adjustment programme, and by the time Ahmadi Nejad left power, the consumer price index had officially reached 50 per cent on an annual basis.

Let us now turn to a discussion of the importance of the cash transfer to household budget for different income groups over the years.

4. The impact of the price adjustment and CT on different income groups

Legitimacy and success of an economic policy is built on its social acceptance, that in turn would depend on the theoretical and empirical evidence provided and the gain promised and eventually delivered to the majority of population.

From early on the officials were mindful of the socially destabilising impacts of such a major price adjustment exercise given the earlier experiences in Iran and other countries.[15] They were also careful to avoid confrontations with the public if at all possible; not that they would shy away from using the strong and brutal arm of the state to achieve their objectives; as evidenced by the lack of tolerance shown to the opposition (of any political colour) before and after the price adjustment programme! Guillaum, et al. (2011) provide an excellent account of the careful planning of price increases, its fine tuning according to poverty of regions and sensitive sectors like transportation.

The rich in general have been the biggest consumer of home energy and water and spend more on transportation, most of which would be related to their higher consumption of petrol - car ownership increases with the level of income in Iran. In 2009 80 per cent of households in the top income decile owned cars compared with 3

[14] A high inflation rate on basic consumer goods has been observed by the author during his regular visit during his regular visits to Iran during 2012. This is further supported by observations made by Ehsani (2012) who also refers to the findings of the Research Department of the Iranian parliament who came up with a figure of 60 per cent.

[15] As noted in p. 9 above, a decade before the implementation of the energy price reforms the World Bank (2001) had warned about the need for social protection, employment promotion and direct compensation in the package.

per cent of the bottom decile.[16]

Before the price reform came into effect in 2010, the higher income groups were the biggest consumers of fuel for transportation or of energy and public utilities (water and gas). According the Household Budget Survey (HBS) in 2009/2010 (1389 in the Iranian calendar), just before the price reforms, the urban richest top 10 per cent household expenditure on consumption of 'water, electricity, fuel and lighting' was four times that of the bottom 10 per cent household expenditure on the same items. The expenditure on transport of the top 10 per cent was 10 times that of the bottom third poorest.[17]

A year later and after the introduction of higher energy prices the richest top 10 per cent still spent four times that of the bottom 10 per cent, but the top decile's energy and water bill, etc., had gone up by 300 per cent whilst the bottom decile's bill had gone up by 250 per cent. This reflects the staggered increase in utility prices, the more the consumption the higher the rate at which one would pay. As for transport the top 10 per cent expenditure was 63 times the 3rd poorest group. The top decile's transport expenditure rose by 200 per cent whilst the bottom decile's bill had remained constant.[18]

It should be easy to understand why a CT programme was set up to cushion the impact of these prices increases on lower income households. With CT set at a fixed amount and available to all who could claim it, its impact on household income would obviously be higher for lower income groups. Since CT is given per capita household size matters in terms of the total CT received by a household. Given the average household size of 4 in Iran (3.69 in urban areas and 4.09 in rural areas) in

[16] Household Budget Survey (HBS) of 2009/2010 (1389 on the Iranian calendar), table 1.27, pp. 69-70.
[17] We have to use the bottom 3rd poorest to make our ratio of rich to poor transport expenditure comparable to that based on the available data after the reform in 2010. Note that the object of the exercise is to provide a measure of the gap in consumption of the rich and the poor.
[18] HBS 2009/2010 (1389), table 2.1, pp. 75-76 and HBS 2010/2011, table 2.1, pp. 72-73

2009/2010,[19] the total amount of monthly CT per household was about 1,600,000 rials or $160 at the 2010 exchange rate. The question is whether such a cash transfer would make a sizable contribution to household or individual income. To answer this question we have looked at variety of income measure and poverty lines to gauge the impact of the CT on the poor or the lower income groups.

Iranian poverty line for a household at the start of the reform (2009/2010) has ranged from a national average of 5,000,000 rials ($500) per month to 9,000,000 rials ($900) in metropolitan areas.[20] The range of poverty line on a daily per capita basis would be $3.4 and $7, assuming a family size of four and noting hat the latter figure reflects the high cost of living in metropolitan areas.

The CT of $40 per person would raise the income of a four-member household on poverty line by 32 per cent, whilst the corresponding figure in metropolitan areas would be 18 per cent. Obviously the larger the family on the poverty line the larger the relative impact of a per capita CT.[21]

These are substantial increases for poor households whose expenditure on transportation expenditure had hardly changed following the hike in petrol prices; and despite the increase in home utility bills; which comprised about 7 per cent of the annual expenditure of the lowest decile in urban areas in 2011. (HBS, 1390 [2011], table 5.2) A similar picture emerges when we use a different set of figures on the pay of domestic workers across urban areas. Most of them were paid below the minimum wage (especially in smaller provincial cities) which was almost half the national poverty line of $500 per month. (Ghazie, et al., 2013) If we assume that the official minimum wage of $275 per month prevailed, a monthly CT of $40 would raise the income of the domestic workers by 14 per cent, which increases by about 60 per cent if she were the sole breadwinner of a family of four. But this ratio will be higher in

[19] HBS 2009/2010 (1389), table 1.1 p. 39.
[20] For example, see our own estimates, Ghazie-Tabatabai, Mehri and Messkoub (2013) based on Kiani, et al. (2009), Haydari, et al. (2010), Aminrashti, et al (1338)(2009), Raghfar (2008).
[21] Some Iranian economist use a family size of five for their estimation of poverty line, despite the HBS figure of four as an average family size. See for example, Raghfar (2009)

smaller provincial cities where wages of domestic workers are well below the national minimum.[22]

This was the situation during the first 12 months of the reform. Gradually other events set in that undermined the energy price reform: massive increase in liquidity to finance the large scale nationwide low cost housing project of Maskan Mehr and the CT programme; firms responded to government initial price freeze by reducing production and laying off workers contributing to unemployment, the US led nuclear sanction tightened up affecting most sector and the supply side of the economy and increasing the import costs; and the Iranian currency depreciated by 200 per cent.[23] The consequence of these events for the energy price reform and the poor and middle classes were devastating.

Official figures indicate that inflation increased to 10 per cent in 2011, 22 per cent in 2012, reaching 40 per cent by the time Ahamid Nejad left office in 2013, with food and transport price inflation reaching 50 per cent. Over the same period unemployment soared to at least 12 per cent, (IMF, 2014) with youth unemployment reaching 25 per cent.[24]

The modest increase of the CT by 14 per cent from 400,000 rials to 455,000 rials, which is still being paid in 2015, could not compensate for the high inflation during 2011-2013. The cumulative inflation from 2011 to 2013 reduced the purchasing power of the CT by at about 60 per cent. Yet the monthly CT of 455,000 rials still matters to those on low pay and income. In 2015, the High Council of Labour in Iran raised the minimum wage to 7,112,425 rials per month.[25] CT for a family of four would raise their monthly wage by an extra 1,820,000 rials or by 25 per cent. As we noted earlier, many workers in Iran, especially those in smaller cities, rural areas and in the informal sector earn well below the minimum wage, in which case the CT

[22] The great majority of the domestic workers in Iran are women who work informally and have little official support and bargaining power to seek a minimum wage.
[23] For a detailed account of macroeconomic development in the post-energy price reform period see IMF (2014).
[24] Figures quoted by the http://www.tradingeconomics.com/iran/youth-unemployment-rate and based on Statistical Centre of Iran publications.
[25] *Shargh*, daily newspaper, 8 Tir 1394 [July 2015], No.2336, p. 4.

matters even more.

Since the coming to power of the President Rouhani in 2014 there have been another round of petrol price increases from 7,000 to 10,000 rial per liter, and modest utility price increase. In dollar terms, however petrol prices have only had a modest increase due to the successive devaluation of rial. At the start of the energy price reform price of petrol was raised from 10 to 70 cents, but it is now down to 30 cents; that has further undermined the energy price reform programme, bearing in mind the objective of the original plan to bring the domestic price of petrol to 90 per cent of FOB price over a five year period.

The CT element of the energy price reform has also come in for criticism for being too expensive and inequitable thus defying its original targeting principle. It was expected to be self-financing, but ended up relying on borrowing from the Central Bank to finance it. Nor did it disburse the 30 per cent share of the private sector to help them with higher energy bills and the restructuring with the aim of efficient use of energy. And finally, from the social policy point of view, it did not switch from a CT policy to support to health and social assistance programmes as envisaged in the price reform law. However, the energy price reform has managed to make the increase in energy prices a fact of life that have now been accepted, albeit grudgingly, by the Iranian public; which in itself could make the job of future restructuring of the energy prices more manageable.

Any further energy price reform, however, must move away from a sole focus on a household based compensation and towards institutional social policy measures in areas of health and education and in general taking note of the most important categories of household expenditure. That is how CT programmes as anti-poverty programmes in other countries have been designed and there are lessons to be learned.

5. How does the CT programme in Iran compare with other Countries?

Cost and sustainability, coverage, impact on income of the poor, social policy linkages, institutional structure and monitoring are just few areas that CT programmes can be compared with one another and evaluated on. Because of lack of space we limit our comparison with two of the biggest CT programmes in Latin America:

Oportunidades in Mexico and Bolsa Familia in Brazil.

There are several important and fundamental differences between the Iranian CT and those implemented elsewhere. For the start the plan for switching from general non-targeted fuel and energy subsidy to cash subsidies/CT was in the first instance about the mitigation of the adverse impact of the removal of subsidy on fuel and energy and other goods. Whereas CT programmes most developing countries have been poverty alleviation projects, and more important, they were implemented as part of an overall social policy strategy with regard to health and education.

The CT programme of Iran covers around 90 per cent of the population. Because of its near universal coverage it has even been considered, rather prematurely, as a move towards the introduction of a 'basic income guarantee,' as promoted by the ILO. (Tababatabai, 2010)

Most other cash transfer programmes like Bolsa Familia in Brazil or Oportunidades (that was rebranded as Prospera in 2014) in Mexico are conditional, targeted and cover a much smaller percentage of population. The Oportunidades in Mexico and Bolsa Familia in Brazil cover about 20 and 25 per cent of the total population, respectively. (IDB, 2013, and Barrientos, 2013) Both have specific social policy objectives to lower poverty, improve education, health and nutrition of children and young people and with a strong gender dimension. .

In terms of cost relative to GDP, the Iranian CT programme is one of the most expensive in the world. At the start of the programme in 2009/10, it had an estimated cost of about 12 per cent of the GDP. Over time the relative cost has gradually declined simply due to the nominal growth of GDP. By 2013-14 its estimated cost stood at 5.2 per cent of GDP.[26] By contrast the cost of CT programmes in Brazil and Mexico have been around 0.4 per cent of GDP. (Barrientos, 2013)

[26] The GDP figures in Current Rials are based on the National Account of the Central Bank of Iran and the cost of the CT programme is based on the number (73 million) of and annual disbursement (455,000 rials per month times 12)to each beneficiary.

With regard to the contribution of CT to household income of the poor over time, the Iranian programme is comparable with other countries. In terms of the minimum wage in 2010/11 the CT raised the income of a four-member household living on one monthly wage by about 60 per cent that by 2015 declined to 25 per cent.[27] In Brazil in 2010 the CT under Bolsa Familia would increase the income of a family of five (with two children below the age of 15 and one youth) on one minimum wage by 30 per cent.[28] (Barrientos, 2013) In Mexico, according to the IDB (2013) the beneficiaries of the Oportunidades programme who were on minimum wage in 1998 experienced a 48 per cent increase in their income; that in 2011 reached to 78 per cent. But similarities end here.

One of the most important difference between the CT experiment in Iran and other countries has been the absence of long term macro economic stability in Iran. Cash transfers in Mexico and Brazil have been introduced during periods of relative domestic macroeconomic stability that ensured the cash payment to households would hold its purchasing power over time. According to the World Bank, since the mid-1990s the annual consumer price index in both countries has, on average, been well below 10 per cent; whilst in Iran an average annual inflation rate of 21 per cent between 2010 and 2014 reduced the purchasing power of the fixed CT by 63 per cent.

Another important feature of CT programme in other countries has been its linkages to other social policy programmes in order to enable the poor to benefit from a range of services that would complement their CT income. This is no more evident than in the cases of Brazil and Mexico where cash transfers have been conditional on school attendance and regular health monitoring of children. This feature along with the extensive and regular evaluation and monitoring of the programme allowed the fine-tuning of the programme that resulted in improved results both in terms of coverage and desired outcomes of poverty alleviation and supporting human capital development of the poor households. These institutions have been lacking in Iran, simply because the prime objective was energy price reform but it was expected that the moving away from indirect subsidy to CT would help the make the overall

[27] Poorer and larger families, especially those living in smaller cities and rural areas experienced a doubling of their income. (IMF, 2014)
[28] Our estimates based on figures provided by Barrientos (2013), table 1, p. 894.

subsidy structure more equitable.

Absolute poverty and inequality declined in the early years of the reform. The universal monthly CT of 40 dollars per head at the start of the programme in 2010/11 would help those below a two dollar a day poverty line to move 'out of poverty.' The relative poverty also declined since a universal CT, by definition, other things being equal, increases the income of the poor more than that of the rich. The Gini coefficient of inequality declined, from 0.41 in 2010/11 to 0.37 in 2011/12 according to the Iranian government statistics. (IMF, 2014) Similar impacts on poverty have been observed in Mexico and Brazil; where the impacts, however, have been more sustained due to the macroeconomic stability, monitoring and evaluation and regular adjustment of the CT programme. (Barrientos, et al., 2008 and Barrientos, 2013) No studies are available on changes in absolute poverty and inequality in Iran since the high inflationary period of 2012-2014, yet the available evidence on the decline in the purchasing power of the CT in combination with the increase in unemployment and high inflation indicate that the gains of the early years of the CT may well have been lost.

Conclusion: What to do with the CT in Iran / where is the Social Policy?

The current debate on the CT programme in Iran is dominated by whether or not it should be targeted towards the poor. What does not get sufficient attention is the link between CT and social policy issues in areas of health and education, and we should add food/nutrition and housing. These four items account for at least three quarter of household budget, especially, of poor households.

Social policy has to be put back at the heart of the CT reform in Iran, that would be well within the original energy price reform law. A social policy that would reduce the pressure on household budget by providing targeted subsidy to health and education.

The financing costs of the CT has also decreased in real terms. Inflation acts as a tax on cash holdings and helps the government to finance its budget deficit. The government needs less real resources to finance its CT programme. The window is

open for a reform of the CT policy and shift of resources to subsidise health, education, nutrition and housing and of course productive investment.

Let us note that the objective of the CT is to improve the household budget, a similar objective could be achieved by reducing cost of the main items of expenditure in household budget, and herein lies the logic of combining CT with subsidies to health, education, nutrition and housing. This requires intervention and management of markets in these areas. Intervention in the market should not be a dirty word, as regrettably is the case in Iran these days! All states with a left or right economic policies intervene in the market with various consequences. It is the judicious and strategic intervention, like those of the South East Asian countries like South Korea, Indonesia and Malaysia, that Iran needs and not arbitrary, populist and at times corrupt interventions in the market.

If Iran wants to have a targeted system it is best to start from below, i.e. identifying the poor. In the short run (i.e. till the end of the 5th Development Plan in 2015) it is best not to waste money on setting up a new elaborate project to identify the poor. By treating this phase of CT as temporary, it is possible to use the available information on existing targeted programmes such as those under the Imam's Assistance Committee (Comiteh Emdad-e Emam) or Justice Share (Sahaam-e Edalat) programme, noting that there would be some overlap among the different sources. These two sources alone cover about half the population and perhaps the majority of the poor and very poor in the country.

However it would not be a financial disaster for the country if the current universal system is maintained until 2016, noting that how inflation has eroded and will continue to erode the CT's purchasing power and its real cost to the government. A wholesale revision if not total abandonment of the direct subsidy project has become even more urgent considering the disastrous economic legacy of Ahmadi-Nejad's government.

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