



REPUBLIC OF GHANA

**MINISTRY OF FINANCE**

# **INDEXATION MECHANISM OF BENEFITS UNDER THE LIVELIHOOD EMPOWERMENT AGAINST POVERTY (LEAP) CASH TRANSFER PROGRAMME**

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## 1.0 BACKGROUND

1. The Livelihood Empowerment Against Poverty (LEAP) cash transfer programme, which was first implemented in 2008, specifically targets poor, households with:
  - i. orphaned and vulnerable children (OVC);
  - ii. people with severe disabilities who are unable to work;
  - iii. elderly people 65 years of age and older; and
  - iv. pregnant women and mothers of young children.
2. By end 2022, LEAP had reached about 346,019 households throughout the country. Government, through the Ministry of Gender, Children and Social Protection (MoGCSP) is currently undertaking a review of the programme’s beneficiary composition to phase out non-extremely poor households and replace them with those identified as extremely poor by the National Household Registry.
3. As part of efforts being made by Government to mitigate the impact of increasing cost of living on the poor and vulnerable, Government, in the 2023 National Budget (Pg.86; Par;371), increased monthly LEAP benefit levels by one hundred percent as indicated in Table 1.

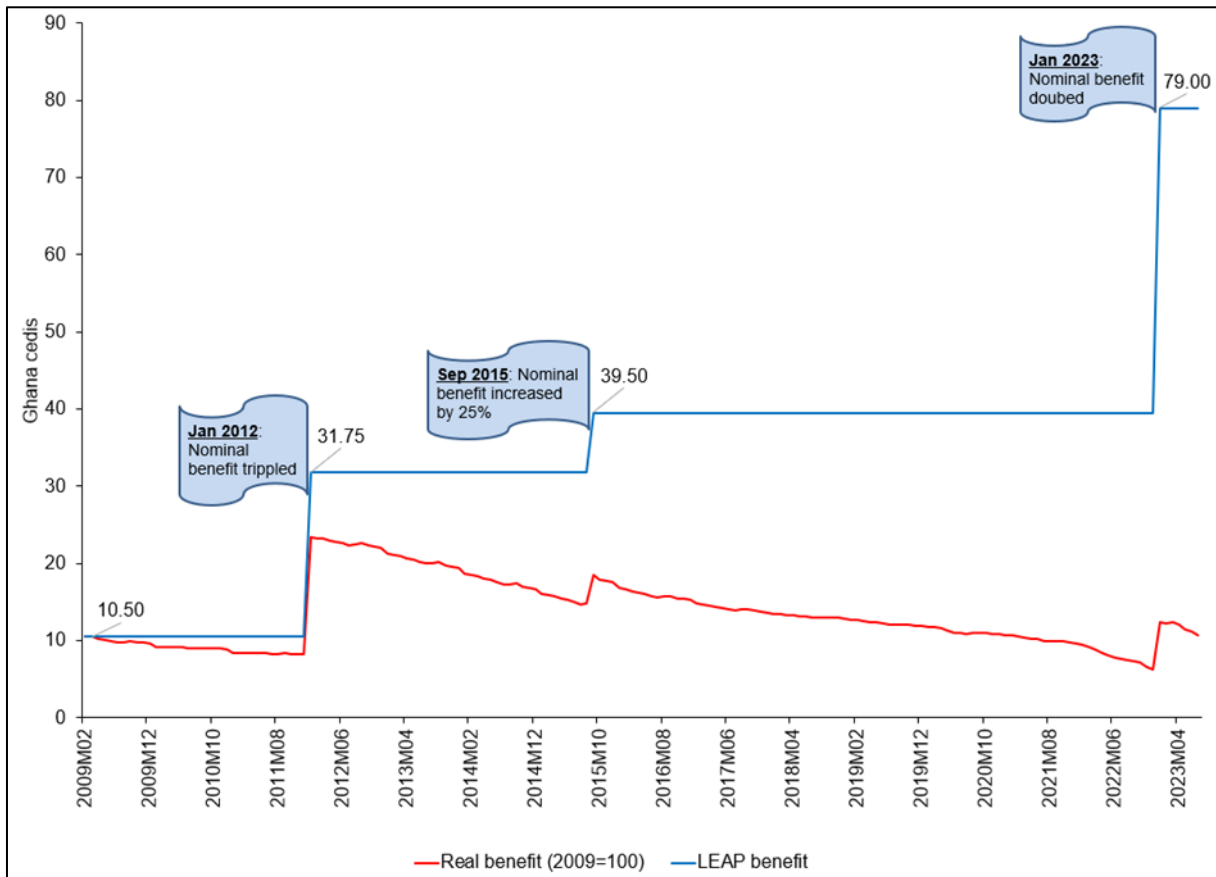
**Table 1: LEAP Benefits**

Number of eligible beneficiaries in the Household	Grant amount per month (Prior to 2023)	Grant amount per month (Current)
1	32	64
2	38	76
3	44	88
4 and above	53	106

4. Before the 2023 doubling, however, the transfer level had only been adjusted twice: in January 2012 and in September 2015. Figure 1 shows the trend in nominal and real terms using 2009 prices. Between February 2009 and December 2011, the real value fell by 22 percent. After the 2012 revision, the value declined further by 37 percent between January

2012 and August 2015. In the period preceding the latest revision (September 2015 and December 2022), the real value reduced significantly by 66 percent.

**Figure 1: Nominal and Real value of LEAP Transfer Amount**



Source: Based on the World Bank Social Protection Public Expenditure Review and IMF

- The LEAP cash grant's purchasing power, despite being enhanced, falls short of both regional best practices and 2015 levels.

## 2.0 JUSTIFICATION FOR LEAP BENEFITS INDEXATION MECHANISM

- On 17<sup>th</sup> May, 2023, the IMF's Executive Board approved Ghana's IMF-Supported 3-year US\$3bn Post-Covid-19 Programme for Economic Growth (PC-PEG as part of measures to address the current economic challenges, restore and entrench macroeconomic stability, restore fiscal and debt sustainability, build resilience through strong and wide-ranging structural reforms, and promote inclusive & sustainable growth whilst protecting the poor and the vulnerable.

7. A key pillar of the Programme is protecting the poor and the vulnerable through enhancement of existing social protection programmes. The LEAP has been identified of one of four key Social Intervention Programme that are being enhanced to support the poor and the vulnerable. The rest are School feeding Programme, National Health Insurance (NHI) Programme, and Capitation Grant. As mentioned earlier, the Government through the 2023 Budget doubled the LEAP benefits, effective January 2023. In addition, the IMF-Supported PC-PEG introduced a structural reform benchmark to index the benefits under the LEAP Programme approved by Cabinet, by end September, 2023 to ensure the benefits value is not eroded by inflation.
8. The data on LEAP cash transfer programme show that since the inception and operationalisation of the LEAP Programme in 2008, the benefits were first increased in Jan 2012, secondly in September 2015, and lately January 2023. Since the increases have not kept pace with inflation over the period, the LEAP cash grant has lost purchasing power in recent years. More specifically, in real terms using 2009 prices, the LEAP benefits reduced by 22% from Feb 2009 to Dec 2011, by 37% between Jan 2012 and Aug 2015, and by 66% between Sep 2015 to Dec 2022. In addition, the proportion of LEAP benefits to Household expenditure reduced from about 13% in 2016/2017 to 4-6% at the end of 2022.
9. A study by UNICEF conducted in 2015 shows that transfers amounts that comprise around 20% of pre-programmed household consumption have resulted in larger programme impact across household measures. Further studies show that case studies like the Zambia's Child Grant Program (CGP, 2014) and the Malawi Mchinji Pilot Scheme (2008), both of which transferred close to 30% of pre-programmed consumption to households realized significant impacts across a range of domains including health, schooling, nutrition, investment, and productive activity. On the other hand, programmes that transfer much less than 20% of household consumption as observed in the case of Lesotho, Ghana and Tanzania showed increasingly smaller and more selected impacts across fewer domains.
10. The depletion of the real value of LEAP benefits over time has given rise to a need for a systematic approach to revising the benefits to curb the erosion phenomenon. In this regard, Government of Ghana is adopting an approach to index the LEAP benefits to changes in the overall price level as part of measures to protect the real value of the benefits to beneficiaries.

### 3.0 METHODOLOGY

11. The proposed indexation methodology is a simple, annual adjustment of the LEAP benefits linked to lagged inflation to be done in October each year , expressed as:

$$LB_{t+1} = LB_t(1 + inf_t) \dots\dots\dots (1)$$

Where:  $LB_{t+1}$  = Average LEAP Benefit per household for the next fiscal year;

$LB_t$  = Average LEAP benefit per household for the current year; and

$inf_t$  = 12-month annual average inflation from October of previous year to September of current year ( $Oct_{t-1}$  to  $Sep_t$ ) estimated from Ghana Statistical Service (GSS) Consumer Price Index release.

12. In the indexation formula (Equation 1):
- i. The use of lagged inflation series is to minimize errors and potential biases linked to forecasting inflation;
  - ii. The indexation formula will reflect any additional increase in the benefits provided by government prior to the indexation adjustment of the ensuing year; and
  - iii. To ensure sustainability of the indexation mechanism, the annual adjustment of the LEAP benefits will be capped at 50%.

### 4.0 KEY CHARACTERISTICS OF THE LEAP BENEFITS INDEXATION MECHANISM

13. The LEAP indexation methodology is structured with the following key characteristics:
- i. **Simplicity:** The method is relatively simple to reduce operational challenges in operationalizing it;
  - ii. **Transparency:** use an objective method that minimizes human intervention/interface;
  - iii. **Easy to communicate:** The indexation methodology should be easy to communicate given that beneficiaries are mostly semi-literate or illiterate. This is partly the reason the adjustments is done only annually and is linked to only

one variable, namely inflation;

- iv. **Sustainability:** the indexation programme should be sustainable. In this regard, it should be linked to government's ability to pay. The LEAP indexation mechanism will therefore employ a more gradual approach to attain the desired  $\geq 20\%$  of household consumption expenditure target required to achieve a full impact.
- v. **Frequency of benefit adjustment:** The benefits adjustment process will be done on an annual basis to foster the simplicity of the process. The Ministry of Finance will work with Ministry of Gender, Children & Social Protection to execute the annual adjustment of LEAP benefits using the indexation mechanism by end October to feed into the ensuing year's national Budget;
- vi. **Efficiency:** The management of LEAP should be rationalized to realise efficiency gains. Such gains could be ploughed back into the benefits;
- vii. **Source of Funding:** The primary source of funding the LEAP Programme should be GoG resources. However, opportunities for alternative funding support, particularly from development partners, should be identified and explored;
- viii. **Reporting:** The MoGCSP should submit quarterly performance report on the implementation of the LEAP Programme to Ministry of Finance with a lag of two months;
- ix. **Monitoring & Evaluation:** The Ministry of Gender, Children and Social Protection (MoGCSP) in conjunction with the Ministry of Finance will conduct periodic monitoring and evaluation of the LEAP Programme. It is expected that through this exercise, beneficiaries who move up the extreme poverty line are taken off and enrolled onto more enabling programmes to ensure the sustenance of their status whilst new persons identified to be extremely poor will be enrolled into the programme.
- x. **Legislation:** The LEAP indexation mechanism will be backed by legislation to enhance its effectiveness and continuity. This will be done through the proposed Social Protection Bill to be presented to parliament by the Ministry of Gender, Children and Social Protection (MoGCSP).
- xi. **Sensitisation:** The Ministry of Gender, Children and Social Protection

(MoGCSP) will engage in public education and sensitization on the introduced mechanism for beneficiaries and their communities, to avoid misconception and enhance their understanding.

## 5.0 FISCAL IMPACT OF INDEXATION MECHANISM

14. A fiscal impact analysis of the introduction of the LEAP benefit indexation mechanism using the 2023 leap grant as a base and projected annual average inflation for 2024 to 2027 shows that the additional fiscal burden of the introduction of the mechanism, all other factors remaining constant, is Ghs78.2 million for 2024, Ghs38.8 million for 2025, Ghs27.0 million for each of 2026 and 2027 as shown in Table 2.

**Table 2: Fiscal Impact of LEAP Benefit Indexation Mechanism**

No.	Item	2024	2025	2026	2027
<b>Monthly (Ghs)</b>					
1	LEAP Grant without indexation	28,145,332	28,145,332	28,145,332	28,145,332
2	LEAP Grant with indexation	34,658,162	31,382,046	30,396,959	30,396,959
3	Fiscal Impact	6,512,830	3,236,713	2,251,627	2,251,627
<b>Yearly (Ghs)</b>					
4	LEAP Grant without indexation	337,743,989	337,743,989	337,743,989	337,743,989
5	LEAP Grant with indexation	415,897,949	376,584,548	364,763,509	364,763,509
6	Fiscal Impact	78,153,959	38,840,559	27,019,519	27,019,519
<b>Parameters</b>					
7	2023 Monthly LEAP Grant (Ghs)	28,145,332			
8	Projected Annual Inflation (Ave) - %	23.1	11.5	8.0	8.0

## 6.0 IMPLEMENTATION MODALITIES

15. When approved by Cabinet, the effective date of implementation will be 1<sup>st</sup> January 2024. The indexation will be made automatic and taken into account at the time of the yearly budget, with the indexed benefits to be applied as of January first of the year considered in the budget.



## **7.0 CONCLUSION AND RECOMMENDATIONS**

### ***7.1 Conclusion***

16. A simple, transparent, and sustainable LEAP benefits indexation mechanism has been proposed for consideration and approval of Cabinet. The mechanism adjusts the LEAP benefits with lagged inflation on an annual basis to ensure that the benefits are not eroded by inflation (Section 3.0). In addition, key characteristics of the indexation mechanism have been outlined in Section 4.0 to support the effective implementation of the LEAP indexation mechanism. The fiscal impact analysis of the indexation mechanism shows that it is sustainable. The indexation mechanism for the LEAP programme is a significant step towards protecting the real value of the LEAP grant to beneficiaries.

### ***7.2 Recommendations***

17. Based on the above considerations, it is recommended that the LEAP grant indexation mechanism as outlined in Section 3.0 of this report and its accompanying characteristics outlined in Section 4.0 be favourably considered and approved by Cabinet.