

»» Materials on Development Finance



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Social protection as a Financial Cooperation action area

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Social protection has become an important action area for development policy in the last 20 years. Many middle- and low-income countries have implemented social protection measures – most notably, cash transfers and social transfers.

The growing importance of social protection is primarily rooted in the recognition that it is essential for sustainable and inclusive development and economic growth. In a globalised world increasingly defined by fragility, upheaval and uncertainty, social protection systems have two key roles to play. First, they make an important contribution to strengthening social cohesion, with their redistributive effects helping to reduce social inequalities and, in turn, prevent crises or political upheavals from escalating. Second, they play a significant role in strengthening resilience at both the individual and societal levels. By helping people – and not only the poorest

and most vulnerable sections of the public – to better overcome crises, social protection mechanisms make an important contribution to ensuring stable growth and preventing crises from rapidly reversing hard-won development progress.

Social protection instruments

Social protection includes a wide



Social protection

Social protection spans the full range of measures and instruments used to help individuals and households deal with social and economic risks. These include life-cycle risks (age, disability, maternity), health risks (illness), income-related risks (unemployment, price deterioration) and natural disasters.

range of instruments, which we can distinguish between on the basis of their form of financing and purpose (Figure 1).

We can also distinguish between dif-

ferent social protection instruments based on their impact and the methods they use to minimise risks, allowing us to divide them into protective, preventive, productive and transformative approaches:

Protective measures help people to deal with risks that have already materialised, such as natural disasters, economic crises and extreme poverty. These measures are intended to prevent people from unduly limiting their consumption (especially of basic foodstuffs, medicines, etc.) or even having to sell their means of making a living (such as arable land or capital goods).

Preventive measures help people to avert risks in advance (for instance, by strengthening people's basic economic security or building up their savings) or to absorb the impacts of these risks (e.g. with health or old-age insurance).

Productive measures are social protection policies aimed at increasing and stabilising incomes. By boosting purchasing power, for instance, cash

transfers can have a positive effect on local economies. People's basic economic security can be strengthened with sustained effect by linking cash transfers to work-related measures or professional training and education.

Transformative social protection measures are aimed at fundamentally combating the structural root causes of poverty, such as taking women into consideration in terms of access to professional training and education, as well as health services. Measures to strengthen transparency and accountability also have transformative effects when implemented under the rubric of social protection policy. In practice, these impacts can be further strengthened depending on a given measure's intended purpose; for instance, by linking them with other, cross-sectoral measures ("cash-plus" approaches or conditional social transfers; see below).

Social protection in the context of new challenges

In low-income countries in particular, social protection faces special challenges – first and foremost, the increase in catastrophic risks from cli-

mate change, globalisation, migration and the growing number of "**fragile states**" makes the implementation and institutionalisation of social protection mechanisms a long-term challenge. In addition, **demographic change** is becoming increasingly important. In parts of Sub-Saharan Africa, Asia and Latin America, population growth is still very high, meaning that more young people enter the labour market every year than the economy can productively absorb. Yet if population growth declines but life expectancy continues to rise, the proportion of older people will increase significantly. In both cases, social protection (unemployment, old-age security) has an important support function. And in light of growing **migration flows**, social protection in the migrants' countries of origin is considered an important basic requirement for improving people's opportunities in their local areas or strengthening migrants' willingness to return – especially in the case of young people.

How KfW approaches social protection

Within the KfW portfolio, social protec-

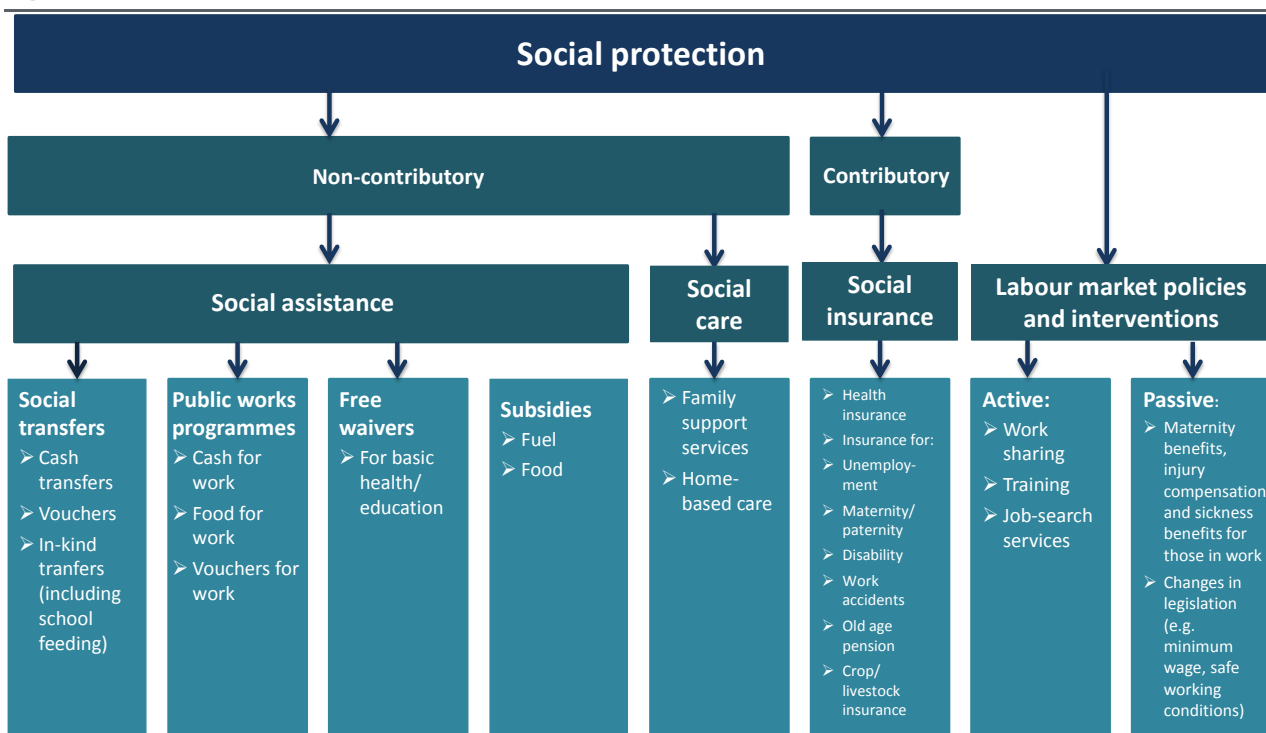
tion in the stricter sense includes all demand-side approaches to basic security, protection from the risk of illness through insurance schemes or voucher programmes, and protection from climate-related risks (such as insurance against crop failure).

KfW Development Bank is currently financing 124 social protection projects in 28 countries and 5 multi-country projects (mostly in Sub-Saharan Africa). The financing volume for all ongoing FC social protection projects was around EUR 1.213 billion as of the end of 2019, most of which is financed from German Federal Ministry for Economic Cooperation and Development (BMZ) funds.

The funds are generally issued to the partner countries on a grant basis. By the end of 2019, the ongoing FC projects had reached around 19 million people.

65% of the funds are spent on "basic security" (see Figure 2). This funding primarily goes to public cash-for-work programmes for refugees and displaced persons in Sub-Saharan Africa and the Middle East, as well as cash transfer programmes. The latter in-

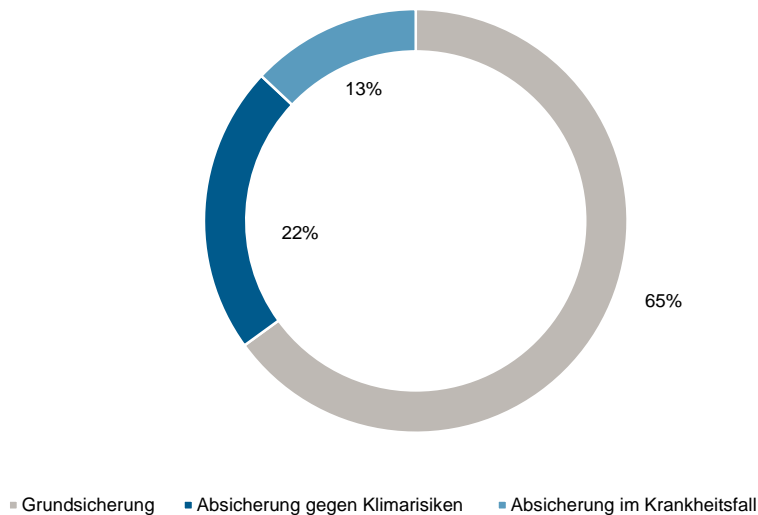
Figure 1: Overview of social protection instruments



Source: Social Protection Topic Guide, October 2019, K4D and UKaid

https://opendocs.ids.ac.uk/opendocs/bitstream/handle/20.500.12413/14885/Social_Protection_Topic_Guide_online.pdf?sequence=1&isAllowed=y

Figure 2: New social protection commitments in 2019



Source: own data

clude regular direct transfers of money to vulnerable groups such as older people, orphans, pregnant women, disabled people, people in chronic poverty and groups with a limited capacity to help themselves independently. In addition to voucher programmes designed for purposes such as strengthening impoverished people’s access to high-quality public health services (Yemen, Cameroon and Cambodia), 15% of KfW’s funding in this area is also spent on supporting the development of health insurance systems (Pakistan and Tanzania). 20% of the funds are currently being invested in the development and expansion of climate risk insurance policies.

The focus of KfW’s commitments in the social protection field has shifted considerably in recent years. In 2016, the financing volumes for basic security and health care were almost the same at EUR 298 billion and EUR 238 billion, respectively. However, since then, in the face of increasingly frequent global crises, basic security has grown particularly strongly and clearly become the more substantial of the two.

Alongside long-term Financial Cooperation, social protection measures must also be designed to include accompanying technical advice and support for the partner countries where they are to be implemented. This is often accomplished through

cooperation with German Technical Cooperation (GIZ) or international organisations such as the World Bank and the ILO.

a) Basic security

Basic security can be understood as a safety net in the form of cash and non-cash benefits, which predominantly allows people in poverty and those unable to work to satisfy their most important basic needs and to be better equipped to deal with crises and shocks. Over the long term, basic security policies play an important role in overcoming chronic poverty, undernutrition and hunger, and promoting social and economic inclusion. Enabling people to regain a foothold after crisis strikes improves their ability to cope with future crises and shocks (resilience building). Basic security policies make an important contribution towards improving beneficiaries’ health and potential to achieve – people who receive basic security benefits invest more in education and health (especially their children’s education and health). As a result, intergenerational poverty can be reduced. Last but not least, basic security is a catalyst for economic development. When combined with professional education efforts, basic security can encourage economic activity and strengthen local economies by bringing more money into these areas.

KfW’s support in the field of basic security includes a wide range of

measures – especially (i) labour-intensive job programmes, (ii) cash transfers and (iii) voucher systems.

Labour-intensive employment measures (cash/food for work)

Labour-intensive employment measures are policies that involve providing cash or non-cash compensation for work while also aiming to create physical or social infrastructure for the benefit of the public (e.g. schools, roads, parks). As a result, these measures yield a “double dividend” in terms of development policy, giving participants an income they and their families can use to stay afloat, while the infrastructure created improves general conditions for the future economic development of the region. These programmes are often commissioned by the government, with poor individuals and households who are fit for work making up their target group. No special skills are required to facilitate the participation of as broad a section of the population



Case study: Social Fund for Development in Yemen



On behalf of the Federal Ministry for Economic Cooperation and Development (BMZ), KfW finances labour-intensive employment measures in a series of countries, including Yemen. Since 2015, it has been possible to improve the living situation of 38,000 households in the country that were severely affected by the civil war or in potentially food vulnerable situations. The aim is to improve individual income and create infrastructure that enables those affected to develop long-term, productive sources of income (e.g. via better market access). This is accomplished through activities such as the rehabilitation of land and terraced plots or the construction of rain-water harvesting systems for households and small feeder roads.

as possible. The level of compensation is usually very low, which is intended to guarantee that only the poorest of the poor benefit from the programme (self-selection mechanism).

Cash transfers

Cash transfers are direct, regular and predictable transfers of money, whether issued straight to the recipient in the form of hard cash or via an intermediary platform using electronic systems such as bank accounts, mobile phone accounts or chip cards. The target group mostly consists of households in deep poverty with limited earning capacity. In certain cases, the receipt of cash transfers can be tied to specific conditions. Conditional social transfers are intended to improve future life opportunities for children in particular and, in turn, reduce the intergenerational persistence of poverty through activities such as regular doctor's appointments, school attendance or similar.

Cash-plus programmes link cash transfers to additional complementary measures and services, aiming to lift affected households out of poverty sustainably and for the long term (graduation). As a result, many of these programmes include measures to strengthen people's earning capacity and employability or include active labour market policies. The latter category will take different forms depending on the situation at hand, ranging from non-recurring start-up funding linked with professional development opportunities to improved access to micro-loans or traditional activation policies such as advice, job appointments and apprenticeship placements. But cash-plus measures also address other issues, such as problems with health and violence among young people or the need to reduce the numbers of pupils leaving school early.

Vouchers

Voucher programmes help to facilitate access to social welfare services or help beneficiaries to meet other basic needs. They are a versatile instrument used not only in the health and education sectors, but also in areas



Case study: Social Cash Transfer Programme (SCTP) in Malawi



KfW has provided Federal Ministry for Economic Cooperation and Development (BMZ) funds to support the SCTP in seven districts of Malawi since 2009, as well as EU funds in seven additional districts since 2014. This saw direct payments issued to a total of 130,000 households (around 580,000 people) to enable them to meet their basic daily needs and pay for their children's school attendance. Other donors include the World Bank, Irish Aid and the Malawian government, which has allowed the programme to cover every district in the country since 2018. Households leaving the programme receive a non-recurring special payment to invest in capital goods to help underpin their livelihoods after the transfer payments have ceased. The FC financing facilitated the development of an extensive digital management information system, which is used nationwide – including for other social welfare programmes. The impacts of the SCTP show that unconditional social transfer programmes do not necessarily increase dependency and that people in poverty are also able to manage their money – despite the small amounts transferred, the programme yielded important economic multiplier effects. For every one Malawian kwacha (MWK) paid out in transfers, households were able to generate an additional MWK 0.69 in productive activities.

External evaluations have demonstrated that the programme has made an effective contribution to alleviating poverty in Malawi. The recipient families eat more regularly, while more children go to school and stay in school longer overall. The improved living conditions also have a knock-on effect on their social lives. Young girls in recipient households are under less pressure to go into sex work to increase the household income or help to sustain themselves. In addition, there are fewer early pregnancies and health in general has improved, with the under-five mortality rate falling. The number of households with assets such as livestock or land has grown, and their overall financial situation has improved.

like food security (access to basic food items), agriculture (access to production inputs such as seeds and

fertilisers), and travel and rent allowances. As a demand-driven form of financing, voucher programmes also have an important influence on the quality of services provided in areas such as education and healthcare.



Case study: vouchers for professional skills development in Ghana



This voucher programme helps poorer tradesmen, workers and apprentices at small and microenterprises in the informal sector to gain useful skills for their respective career path. The programme also assists these groups in obtaining formal, nationally recognised qualifications within a dual training framework, following the *competency-based training* approach in selected occupational fields. The FC module's objective is to improve the target group's access to need-based professional education, promoting decent employment through the use of voucher-funded professional training at facilities that meet clearly defined quality criteria and have been accredited as such by the regulator. The electronic vouchers are used to fund (1) modular courses, (2) training and certification costs, (3) coordination efforts by the trade associations and, when necessary, (4) food and overnight accommodation costs for apprentices at the training facilities.

Given the demand-driven nature of its financing, the project creates incentives for the training facilities to constantly improve the quality and real-world relevance of the courses offered.

More than 70% of the approximately 13,000 trainees have been women and around half have been apprentices.

The aim of issuing vouchers for specific services or products is often to promote a desired behavioural change, such as increased use of reproductive health services or adoption of a more balanced diet. This provides an unbureaucratic method for improving vulnerable and marginalised groups' ability to access important services and meet basic needs.

b) Coverage in the event of illness

Poverty is simultaneously a root cause and a consequence of poor health, since illness is by far the most common factor causing people to fall into poverty (loss of earnings and high cost of being sick). The lack of access to information, money and adequate health services significantly adds to the poor level of health among impoverished and marginalised people. And fragile health also increases the risk of people becoming impoverished in the first place, as it limits productivity over the long term and in extreme cases can even threaten lives, for instance, due to high costs for urgently needed medical care. This also affects other members of the household (e.g. when children are taken out of school to compensate for lost income).

Subsidised health insurance systems can help to improve impoverished people's access to health services, as



Definition: adaptive/shock-responsive social protection

Social protection systems are intended to help people safeguard against risks that pose an existential threat, such as illness, unemployment, disability or death.

In the past, people were typically affected unexpectedly, individually and independently from each other to a large extent, so it was easy to balance these risks within social protection systems using risk pooling.

However, in recent times, risk scenarios that have the potential to affect great numbers of people are becoming more frequent (known as covariate shocks). Typical examples are extreme weather events, natural disasters, economic and political crises (such as civil wars or banking crises), and pandemics. Adaptive or shock-responsive social protection systems are those that are deliberately designed to react reliably and flexibly to extreme situations of this nature (very high number of cases to be dealt with at the same time, extraordinary funding requirements, high levels of urgency).

part of a health insurance project for pregnant women in five regions of Tanzania.

well as to minimise the risk of life-threatening health costs for the

household effectively and for the long term. This, in turn, makes a consider-



Case study: R4 in Ethiopia

The holistic R4 approach comprises four measures for better handling of weather risks: residents are offered both economically and financially sustainable drought insurance policies (risk transfer); and protection measures are introduced to prevent erosion and retain water during heavy rains, all of which work together to reduce the target group's vulnerability to weather risks. Above and beyond this, small farmers can invest in the diversification of their income with micro-loans; for example, by purchasing bees so that they can produce and sell honey. Farmers are also given special training to encourage them to save when possible, creating a nest egg for if their crop fails. Currently, around 30,000 households in northern Ethiopia are benefiting from the resilience programme. The target group will be increased to a total of 130,000 households through the extension made possible by this Financial Cooperation project.

The programme has made a lasting improvement to the food situation, with programme participants increasing their production (including their livestock headcount) while also saving a greater amount.

able contribution to people's long term ability to escape the poverty trap.

A series of countries, including Pakistan, Indonesia and Ghana, have set themselves the goal of ultimately expanding their health insurance systems to the entire population, including poorer sections of the population, and developing integrated health insurance systems. KfW Development Bank is supporting them in these efforts.

In countries that do not yet have sound health insurance schemes, KfW supports access to high-quality health services through voucher programmes for certain health services (especially maternal and paediatric health). Those affected can purchase these vouchers from accredited health facilities for a small fee. The service providers are reimbursed for the costs depending on the service provided.

c) Protection against climate risks

Climate risk insurance policies help households and small-scale producers to better cope with the growing

risks stemming from climate change. Insurance policies provide direct risk protection; for instance, by preventing natural disasters from forcing households to sell their means of making a living, inordinately minimise their consumption or even migrate. In addition, climate insurance policies for subsistence farmers play an important role in supporting the policyholders' livelihoods, enabling them to stay productive despite an incident of crop failure. As a result, climate risk insurance also makes an important contribution to climate change adaptation (resilience building), food security and long-term poverty alleviation.

However, many households are too poor to be able to afford an individual insurance plan. Indirect insurance approaches such as collective coverage can be an effective solution for these cases (e.g. via production cooperatives, micro-finance organisa-



Case study: subsidised health insurance for people in poverty in Pakistan

In Pakistan, KfW is assisting two provincial governments with the introduction of a voluntary health insurance scheme. KfW is financing insurance premiums for the poorest households and helping the private insurers to strengthen their operations. It is hoped that gradually increasing financial involvement from the provincial governments will ensure sustainable financing. Performance-based remuneration (with a flat rate paid per case) guarantees that the health facilities involved in the project generate additional funds, giving them an incentive to improve the quality and scope of their services.

In both regions involved, the project covers some 100,000 households considered "poor" (i.e. around 800,000 people) over a five-year period for defined inpatient hospital treatments. The expansion of insurance services to include outpatient care in the project region is envisaged for the follow-up phase.

tions, trade unions or regional and government institutions). Given the mounting downstream costs of climate change, indirect insurance approaches are also becoming an increasingly important alternative for international aid organisations.

KfW Development Bank supports a range of innovative climate insurance approaches that implement need-based and context-dependent insurance solutions for protection against

extreme weather events. In addition to partial financing of regional insurance funds like the African Union's African Risk Capacity (ARC), these include support for private insurers in setting up climate risk insurance and financing for micro-finance institutions that insure small farmers and entrepreneurs against climate risks (ARDIS). Both of these schemes are financed from the InsuResilience Investment Fund (IIF).

Potential for the future: policy-based financing

While the poorest developing countries are making efforts to establish at least rudimentary basic insurance and health insurance systems, more advanced developing countries are more concerned with expanding the scope of social protection systems (e.g. through pension and unemployment insurance) and extending these to ensure across-the-board coverage. Policy-based financing approaches can also be used in these circumstances to support larger-scale nationwide social protection reform programmes. Policy-based financing approaches provide a need-based package that includes high-level policy dialogue, technical support and large-volume financing (usually soft loans).

Outlook: social protection more important than ever

The COVID-19 pandemic clearly demonstrates the variety of ways in which social protection systems play an important role, both safeguarding people against the immediate risk of illness by facilitating access to necessary health services and providing protection against the associated social and economic risks at individual and societal level.

It is evident from various countries' experiences during the global economic crisis in 2008 that those with stable social protection systems were significantly better equipped to absorb the negative impacts of the crisis, maintain social cohesion and enjoy faster recoveries from the crisis' adverse effects by boosting aggregate demand.

This is underscored by the trends that have emerged so far during the ongoing coronavirus crisis. These developments have shown that the establishment and expansion of social protection systems are not only highly effective in terms of pro-poor growth – they also make it possible to overcome often unavoidable (or, at least, undeserved) crises without having to rapidly forfeit long fought-for development progress and revert back to square one each time a new crisis strikes. In an increasingly volatile world, social protection systems are becoming an ever more critical success factor for sustainable development.



Photos

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