

»» Studies and Proceedings

Social protection:
an effective and sustainable investment in
developing countries



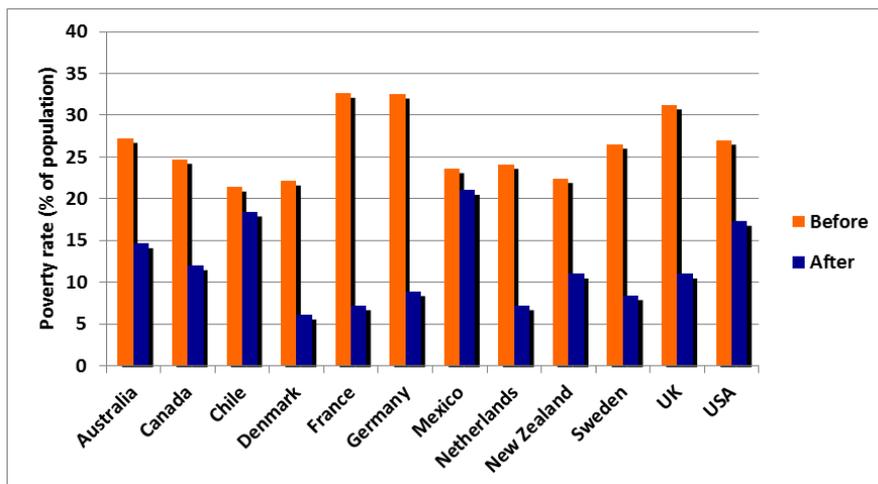
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Introduction

A comprehensive and effective social protection system is an essential component of a market economy. The success of developed countries has – in part – been the result of their investments in social protection. On average, OECD countries spend around 14% of GDP on their national social protection systems. As Figure 1 indicates, developed countries would look very different without investments in social protection, with significantly higher poverty rates. Germany, for example, invests around 16% of GDP in social protection, reducing the national poverty rate from 32.5% to 8.9% and bringing significant other benefits such as lower inequality and greater social cohesion. In terms of expenditure, social protection is the largest public service in developed countries.

Figure 1: Poverty rates before and after social protection (and taxation) in a selection of OECD countries in 2007



Source: OECD Social Expenditure Database at: <http://www.oecd.org/els/soc/social-expenditure-databasesocx.htm>

In recent years, there has been a growing acceptance that social protection also has a key role to play in the social and economic policy of developing countries. In 2009, for example, the United Nations endorsed the concept of a social protection floor for all countries, which includes a set of tax-financed social security guarantees for children, those of working age – to protect them against the risks of sickness, disability, maternity and unemployment – and the elderly.¹ In fact, a number of middle income countries have already made significant investments in social protection: Brazil, South Africa and Mauritius, for example, spend around 3% of GDP on tax-financed benefits, in particular old age pensions, disability benefits and child grants. When social insurance spending is included, overall investment in some middle income countries can be as high as in developed countries: for example, it reaches around 12% of GDP in both Brazil and Uzbekistan. Some low-income countries – such as Bangladesh and Nepal – are also establishing relatively comprehensive systems, although expenditure is still less than 1% of GDP.

¹ See ILO Recommendation Concerning National Floors of Social Protection (2012), at: [http://www.socialprotectionfloor-gateway.org/files/SPF_recommendation_June_2012\(1\).pdf](http://www.socialprotectionfloor-gateway.org/files/SPF_recommendation_June_2012(1).pdf)

Increasingly, international development partners are financing small-scale pilot schemes, including KfW's support for the Social Cash Transfer in Malawi.

This note will set out some of the evidence on the impacts of tax-financed social protection schemes in developing countries. It will demonstrate that they are bringing significant positive benefits to developing countries across a wide range of areas, including tackling poverty, building human capital (health and education), promoting greater engagement in the labour market, directly stimulating economic growth, strengthening social cohesion, and, importantly, restoring a sense of dignity and self-worth to the most vulnerable and excluded members of society. However, the messages in the paper should not be interpreted as claiming that social protection is a magic bullet. As will be discussed, it is important that schemes are well designed if returns on investment are to be maximised. And, as Figure 2 indicates, social protection should be regarded as one essential component of broader national investment in a range of social services, such as education, health, social care and labour market support.

Figure 2: Investing in social services to build the security and resilience of poor families

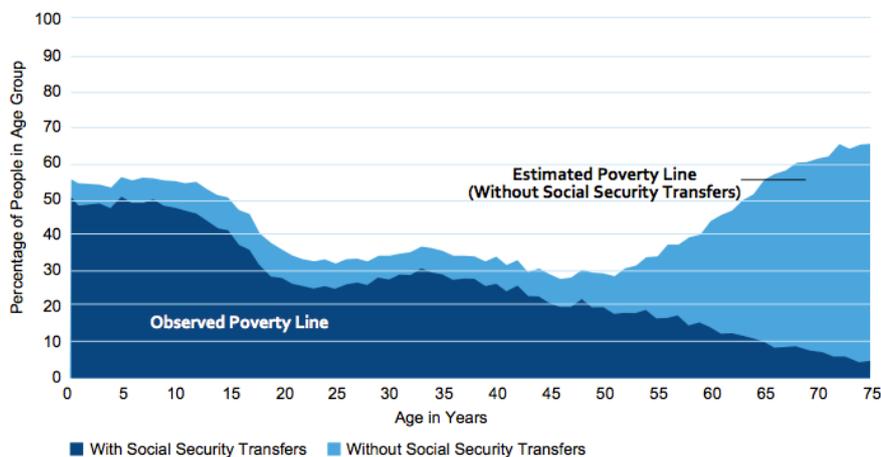


Impacts of social protection

Social protection has positive impacts on income poverty.....

The main reason for investing in social protection is to improve the incomes of individuals and families. There is good evidence of schemes providing recipients with greater income security, although the extent of the impacts depends on the level of investment. In countries with significant investments, impacts can be impressive. In South Africa, in 2004, for example, the entire social protection system was responsible for a 47% reduction in the national poverty gap, with social transfers comprising – in 2008 – 73% of the income of families in the poorest decile² (Samson et al 2004; Liebbrandt et al 2010). Figure 3 shows the impacts on the poverty rate across age groups in Brazil, with the most significant impacts among the elderly reflecting the country's strong focus on old age pensions. In fact, Gaspirini et al (2007) have estimated that Brazil's old age pensions have reduced the poverty rate among older people from 48% to 4%.

Figure 3: The impact on poverty rates across the ages, by social protection schemes in Brazil



Source: Barbieri (2010). See also: Kidd and Huda (2013).

....offers greater diversity in diets and better nutrition.....

As a result of higher incomes, the diets of families living in poverty can improve. During the first six months of Malawi's Social Cash Transfer programme, for example, there was a significant increase in the consumption of protein among recipient households, with the proportion of households eating meat and fish in the previous week increasing from 24% to 81% (Miller et al 2008). Improved diets can translate into improved nutrition, as long as the transfer is sufficiently large. In South Africa, both the Child Support Grant and Old Age Pension have increased the height of young children by between 3 and 5 centimetres, with the improved

² Impacts are likely to have increased since 2004, since investment in South Africa's social protection schemes has grown significantly

nutrition almost certainly enhancing children's cognitive development.³ In fact, the earlier that children enrol on the Child Support Grant, the higher their test scores in mathematics and reading once they are at school.⁴ Positive impacts on early childhood cognitive development have also been observed in Ecuador and Nicaragua (World Bank/IMF 2009).

.... enables children to access education and provides better health for the whole family.....

Even when countries provide free education, many children are unable to access school due to poverty and often have to work to supplement the family income. When families benefit from regular and predictable transfers, many are able to send their children to school. Brazil's Bolsa Familia programme has reduced the probability of dropping out of school by 63% (Veras et al 2007). In Malawi's Social Cash transfer scheme, school enrolment among beneficiaries increased by 8.3 percentage points, compared to 3.4 percentage points in comparison households (Miller et al 2008). The presence of an old age pensioner in households can have similar impacts: in South Africa, there was an 8% increase in school attendance among the poorest quintile of the population;⁵ and, in Brazil, the pension has reduced the enrolment gap for girls by 20% (Evangelista de Carvalho Filho 2008).⁶ In some contexts, small cash transfers have been used as incentives to encourage children to attend school: in Pakistan's Punjab Female School Stipend programme – which provides US\$2.50 per month – enrolment increased by up to 32% while the probability of finishing middle school increased by 3-6 percentage points (IEG 2011).

Increases in school enrolment and attendance are often accompanied by reductions in child labour. So, in the Punjab Stipend scheme, participation by girls in the labour force fell by almost half (IEG 2011). Positive impacts on child labour have been found in a range of other countries, including Cambodia, Brazil, Nicaragua and Ecuador.⁷ In the latter case, while overall consumption fell in some households when families received the Bono de Desarrollo Humano scheme, this was entirely due to the reduction in income from child labour.⁸

There is good evidence of families using their cash to access health services. In Lesotho, the introduction of the old age pension led to 50% of recipients increasing their spending on healthcare, in Uzbekistan 12% of child benefits are spent on health, while, in Mexico's Oportunidades scheme, health visits have increased by 18%.⁹ There is also evidence of impacts on health outcomes. In Malawi, the Social Cash Transfer reduced the incidence of illness by 23%, compared to an 11% reduction among children not enrolled in the scheme (Miller et al 2008). Early enrolment in South Africa's Child Support Grant reduces the likelihood of becoming ill, particularly among boys (DSD, SASSA and UNICEF 2012). And, in Colombia, the incidence of diarrhoea in children younger than 24 months was reduced by 36% (Attanasio et al 2005).

.....offers the opportunity for income generation.....

Rather than increasing dependency – a common fear among policy makers – the receipt of a social protection transfer can facilitate greater engagement in the labour market. In Brazil, the Bolsa Familia scheme has increased the labour participation rates of households by 2.6 percentage points, with female participation increasing by 4.3 percentage points (Oliviera et al 2007). Similarly, in South Africa, households receiving the Child Support Grant are 15% more likely to be in employment (Samson 2009). One reason for the increase in employment rates is that recipients are more likely to look for work. So, for example, households receiving

3 Agüero et al (2007), Duflo (2000), and Case (2001) | 4 DSD, SASSA and UNICEF (2012) | 5 Samson et al (2004). | 6 Evangelista de Carvalho Filho (2008) | 7 Skoufias and Parker (2001), Maluccio and Flores (2008), Schady and Araujo (2006), Edmonds and Schady (2009), Filmer and Schady (2009). | 8 Edmonds and Schady (2009). While the transfer provided US\$15 per month, the median monthly wage for child labour was US\$80 | 9 Samson et al (2007), Barrientos and Scott (2008) and ISR (2011, in UNICEF 2012)

South Africa's Child Support Grant are 18% more likely to search for jobs than non-recipients (Samson 2009). In both Mexico and South Africa, it was found that recipients were able to look for work because they could afford bus fares and presentable clothes.¹⁰

Well-designed social protection schemes also enable families to invest in their own income generating activities. In Mexico's Oportunidades programme, 14% of transfers were invested in productive assets, including animals and land (Gertler et al 2007); in Nicaragua, recipients increased their spending on agricultural equipment (Maluccio 2007); and, in Brazil, the Bolsa Familia scheme has increased the probability of beneficiaries engaging in small businesses (Lichand 2010). Indeed, even schemes directed at the elderly, people with disabilities and other particularly vulnerable families have resulted in recipients investing in small enterprises, with examples found in countries such as South Africa, Nepal, Lesotho, Zambia, Malawi, Mozambique and Uganda.¹¹ As Box 1 describes, social transfers can permeate social networks, benefitting a range of people over time.

Box 1: The many pathways to generating income as a result of social transfers – an example from South Africa¹²

Mamzoli is a widow from the Eastern Cape region of South Africa. She has a number of children and is directly responsible for supporting a daughter and six grandchildren, while her two male children live in the city, where they moved to gain an education. A few years ago, she began to receive the state old age pension which provides a regular monthly income of around €75. As a result, her son Simpiwe – one of those at school in the city – was able to reduce the amount he sent his mother as a remittance. This meant that he could continue his schooling and, consequently, obtain a better-paid job. Once he had this job, he was able to support his siblings to stay on at school and, in turn, gain more productive employment. Eventually, Mamzoli's children were able to buy her a gas-powered fridge, which she has used to start a small business, selling meat and alcohol. Her own income has, therefore, increased but so has the income of her entire kinship network, including many children.

And, it all came about as the result of one social transfer.....

There are a number of explanations for why people are more likely to engage in the labour market when in receipt of a social transfer. In practical terms, they have cash to invest and can capitalise on this as banks and microfinance institutions are more willing to provide loans and credit.¹³ However, importantly, the guarantee of a regular transfer transforms the worldview of recipients by infusing their lives with predictability. They no longer need to worry about feeding their family and so, instead of living a day-to-day existence, they can make longer-term plans and invest in their own income generating activities, even entering into riskier but higher return activities (Devereux 2002).

Families in receipt of regular transfers are also able to deal more effectively with crises, such as ill health or large-scale shocks such as droughts. In Nicaragua, families on the Red de Proteccion Social scheme were better able to cope with a sharp drop in coffee prices during 2001/02, maintaining household expenditures while those not on the programme struggled (Maluccio 2005). Similarly, in northern Kenya, the Hunger Safety Net Programme (HSNP) provided an important buffer during a series of natural disasters (OPM/IDS 2012). Recipients of social transfers are less likely to use the sale of productive assets as a coping mechanism; in Ethiopia, for example, 60% of households in the Productive Safety Net programme

10 Marcus (2007) and Ardington et al (2009). | 11 See: Ardington and Lund (1995), Devereux et al (2005), Neves et al (2009), Uprety et al (2010), Devereux et al (2005), Covarrubias et al (2011), and Bukuluki and Watson (2012) | 12 This story is taken from Neves et al (2009). | 13 See, for example: Gertler, Martinez and Rubio-Codina (2007), Brazil-MDS (2007), Neves et al (2009), IEG (2011) and OPM/IDS (2012)

(PSNP) avoided selling assets to purchase food. As a result, families are better able to recover from a crisis and return to full production. In contrast, the withdrawal of a transfer can force families to sell their assets in a crisis, as has happened with over 50% of families who left Bangladesh's Targeting the Ultra-Poor (TUP) programme (Krishna et al 2010).

....while consumption increases, stimulating the economy.....

There is evidence that the injection of cash into local economies leads to more dynamic local markets, with non-recipients benefiting by selling their goods and services. For example, in Namibia and Uganda, old age pensions have increased economic activity in communities, with traders benefitting from greater sales;¹⁴ and, in Mexico, non-beneficiaries of the Oportunidades scheme experienced a significant increase in their assets, probably as a result of selling goods and service to beneficiaries¹⁵ (Barrientos and Sabates-Wheeler 2009). This growth in economic activity in local communities is also likely to happen at national level and, indeed, it is common for governments to use expansions of the social security system to boost growth, in particular during recessions: during the global recession of 2009, Thailand made its old age pension universal while Uzbekistan expanded coverage of its child benefits (Kidd 2014). In the United States, there is evidence that investments in unemployment benefits and the Food Stamp programme during the recent global economic recession had as great an impact on growth as investments in infrastructure (Zandi 2008). In fact, simulations in Bangladesh demonstrate that an old age pension would have significant impacts on agriculture, manufacturing, transport and services (Khondker 2014).

.....social cohesion and the social contract are enhanced.....

A further macro-impact of social protection is on social cohesion and the strengthening of the national social contract between citizens and government. By redistributing a part of national wealth through tax and social protection, inequality can be reduced and social tensions reduced. In Brazil, for example, old age pensions have brought about a 12% reduction in inequality (ISSA 2013). More peaceful and cohesive societies enhance overall wellbeing while creating a more favourable environment for business, including foreign direct investment.

Examples of greater social cohesion as a result of investment in social protection can be found across developing countries. South Africa used the expansion of its social protection system to help the country overcome divisions caused by apartheid while the IMF has suggested that the introduction of Mauritius's universal pension played a key role in enabling the country to overcome its racial divisions and accept structural reforms as it moved from a mono-crop economy to become Africa's most successful economy.¹⁶ It is likely that the provision of a universal pension in Nepal during its civil war was a visible expression to those in conflict areas of the value of central government and may have contributed to the final peace settlement.

Of course, social protection can also be used to control discontent and social conflict. The fear of the French Revolution spreading was one of the drivers for an expansion in England's Poor Laws in the late 18th and early 19th Centuries to reach 2.5% of GDP by 1820, perhaps the first example of a formal social protection scheme (Lindert 2004). In recent years, a number of developing countries have established social protection schemes as a response to social conflict. Many of Latin America's conditional cash transfers schemes were responses to high levels of inequality and unrest. Mexico's Oportunidades programme, for example, is the latest in a line of social transfer schemes established after Mexico's entry

14 Devereux (2001), Bukuluki and Watson (2012) and Ibrahim (2013). | 15 There have been similar findings in Brazil (Brazil-MDS 2007; Landim 2009). | 16 Subramanian and Roy (2001)

into the North American Free Trade Agreement (NAFTA). The trade agreement had disrupted the livelihoods of the rural population, as evidenced by the Chiapas uprising. Furthermore, in 1999, China established its Minimum Living Standards (MLS) scheme – a cash transfer for families living in poverty – in response to concerns over more frequent protests (Ngok 2010): following the restructuring of state owned enterprises, unemployment in cities had risen, in particular among middle aged men. As a result, the MLS was initially targeted at urban areas, the source of the threat felt by government, although it was subsequently extended to rural areas. By 2007, there were around 60 million recipients.

.....and the self-worth and dignity of the most vulnerable members of society is enhanced

Social protection schemes can bring meaningful benefits to the social and psychological wellbeing of potentially vulnerable individuals. Old age pensions, for example, reduce the social exclusion of older people by incorporating them more effectively into social networks. The pension enables them to continue to actively participate in social and kinship networks by sharing their income with others and, as a result, they are more likely to receive support when they need it. So, for example, in Namibia, older people give around half their pensions to children to help with schooling, food and other costs (Devereux 2001). Similarly, in Brazil over 90% of pensioners share the majority of their pension with others (Barrientos and Lloyd-Sherlock 2011). The introduction of old age pensions appears to be linked to increasing the social inclusion of older people: in South Africa, for example, the largest households are those with pensioners¹⁷ while, in Brazil, over 90% of pensioners expressed satisfaction with their family relations.¹⁸

Importantly, old age pensions and disability benefits enable vulnerable people to retain their dignity and self-respect. In South Africa and Brazil, over 90% of older people are satisfied with the respect shown to them by others¹⁹ while older people in South Africa and Zambia invest their pensions in house improvements as a means of regaining their prestige.²⁰ The state of their dwellings are a visible outward sign of wellbeing while, in Zambia a good quality house means that older people do not have to undergo the humiliation of constantly asking kin and neighbours to help with repairs (Kidd S.D. 2010). In Brazil, older people have regained their role as community leaders because, on receipt of the pension, they become some of the most well off people in communities. In Zambia, beneficiaries of an old age benefit have found that people in their community have begun to call them “bosses” as a mark of respect (Kidd S.D. 2010)

17 Neves et al (2010). | 18 Barrientos and Lloyd-Sherlock (2011) | 19 Barrientos and Lloyd-Sherlock (2011) | 20 Neves et al (2010) and Kidd S.D. (2010)

Negative consequences of poor design

As with all social policy, if social protection schemes are poorly designed, the impacts may be reduced and, indeed, there may be negative consequences. Many social protection schemes are targeted at families living in poverty but, because there is no targeting methodology that can accurately measure incomes in developing countries, a high proportion of intended recipients are always excluded from poverty-targeted schemes and, as a result, do not share in the benefits. For example, Brazil's Bolsa Familia scheme excludes 59% of intended recipients while 70% miss out on Mexico's Oportunidades programme (Veras et al 2007). So, while many of those living in extreme poverty are excluded, others who have incomes above the eligibility threshold are able to access schemes, often because people falsify their answers to questions on their income or assets: it is administratively too challenging or expensive to verify the information given. Furthermore, tightly targeting the poor can cause divisions and conflict in communities, weakening their cohesion.²¹ Indeed, in Indonesia, targeting of households living in poverty led to an increase in criminal activity, probably because many people living in poverty felt injustice at being excluded, while there was also a loss of respect for authority.²²

Many social protection schemes are made conditional on engagement in work or behaviour change. Some schemes obliging people to engage in public works to receive a transfer have been found to reduce household productivity and consumption, often because participants are no longer able to work on their own income-generating activities, including their gardens. Furthermore, some public works schemes have increased child undernutrition, probably due to the reduction in production in the household's own income-generating activities and the demands placed on mothers of young children, who can be exhausted when they return home from long days of physically demanding activities. In some circumstances, public works programmes have damaged children's ability to perform well at school, often because they have to withdraw from school to care for younger siblings, while their parents are occupied on the public works scheme.²³ Although there is a strong international lobby for making the receipt of transfers conditional on attending school or health clinics, there is no robust evidence that conditions bring any added value, although they do make schemes significantly more challenging to manage effectively.²⁴ In fact, they may cause harm: in Malawi, a transfer for adolescent girls that was made conditional on school attendance increased psychological trauma, probably because some girls were pressurized to attend school even though abuse was rife.²⁵ There is a strong body of opinion arguing that it is more cost-effective to use messaging – often referred to as nudges – to positively reinforce behaviour changes rather than employing complex and administratively demanding punitive conditions.

In general, higher quality design and more effective schemes are more likely to happen when investment is higher. For example, schemes that offer universal coverage are much more likely to include families living in poverty than poverty-targeted schemes. Indeed, many developing countries now offer universal coverage in some schemes, in particular through old age pensions: examples include

21 See, for example, Adato (2000); Adato and Roopnaraine (2004); Streuli (2009); Calder et al. (2011); Kidd and Wylde (2011); Kidd et al (2013); Widjaja (2009); Hannigan (2010); and Hossain (2012) | 22 Cameron and Shah (2011) and, Hossain (2012) | 23 See, for example, Berhane et al (2011), Manley et al (2012) and Tahere and Woldehanna (2012). For a summary of the evidence, see: <http://www.developmentpathways.co.uk/resource-centre/blog/post/117-from-oliver-twist-to-ethiopia-psnp-how-did-workfare-become-so-productive> | 24 Fiszbein and Schady (2009), Kidd and Calder (2011; 2012), Manley et al (2012), Akresh et al (2013) and Benhassine et al (2013) | 25 Baird et al (2011)

Bolivia, Botswana, Brazil, Lesotho, Mauritius, Namibia, Nepal, South Africa, Thailand and Venezuela. However, a universal scheme is significantly more costly than a programme targeted at families living in poverty. Therefore, countries need to decide whether to prioritise higher expenditure (and greater effectiveness) or less effectiveness (and lower cost).

Ensuring financial sustainability

If social protection schemes are to be sustainable, they need to be incorporated into national budgets and funded from taxation. In recent years, there have been many pilot schemes in developing countries that have been promoted and funded by donors yet have not been adopted by national governments. Often, this is because they have been designed without reference to the political economy of the country. As is common in democratic countries, governments want to see electoral rewards from their investment in social protection. Yet, as Sen (1995) points out, people living in poverty tend to have minimal political influence and governments often cannot perceive the electoral reward to be gained from programmes that target those living in poverty. Even well-known poverty-targeted programmes – such as Brazil’s Bolsa Familia – have small budgets when compared with universal schemes (when measured as a percentage of GDP).²⁶ So, when pilot schemes are targeted at families living in poverty, governments in developing countries have not yet shown any meaningful interest in scaling them up.

However, political economy considerations are fundamental to achieving sustainability. Schemes with broader or universal coverage tend to have larger budgets and offer higher transfers than schemes targeted at those living in poverty. As Pritchett (2005) points out, this is because they build alliances between families in poverty and the broader population, including those who are more affluent and are more likely to influence governments politically and reward them electorally.²⁷ In contrast, programmes targeted at those living in poverty can often wither away, due to a lack of political support. So, paradoxically, greater investment in social protection schemes – so that they can provide higher coverage and transfer values – is likely to result in greater sustainability than lower investment in schemes for “the poor.” It is no coincidence that South Africa’s Child Support Grant – which has a high income eligibility threshold so that the majority of the population can access it – has a budget that is 150% higher than that of Bolsa Familia (when measured as a percentage of GDP).

²⁶ In Brazil, the budget for Bolsa Familia is only 0.39% of GDP, while investment in contributory pensions is 7.2%. Much of this is from payroll contributions but the government provides 1.5% of GDP from general taxation to underwrite the cost (Kidd and Huda 2013). | ²⁷ See also: World Bank (1990), Sen (1995), Mkandawire (2005) and Kidd et al (2014)

Conclusion

The benefits of well-designed social protection schemes can be significant and cut across all areas of human wellbeing, economic development and nation building. The evidence on these broad-based benefits can be used to generate political support for social protection schemes, especially among those whose natural tendency is to dismiss social benefits as “handouts.” Social protection can provide individuals and families living in poverty with a minimum level of income security and greater resilience to crises, and offer them an important first step on the ladder out of poverty. Evidence from around the world indicates that most families can be trusted to spend their transfers well, in ways that not only benefit them but also wider society and the economy.

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Phone +49 (0)69 7431-0
Fax +49 (0)69 7431-2944
info@kfw-entwicklungsbank.de
www.kfw.de

Author
Stephen Kidd,
Senior Social Policy Specialist,
Development Pathways

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