Helping when destitution threatens
How social protection is helping reduce poverty and promote development

Cash for the bare essentials: In Malawi, poor families receive social transfers. 

Photo: Désirée Schulz
Dear Readers,

Getting into difficult situations is part of many people’s lives. They may lose their jobs, fall ill, have an accident or simply no longer be able to manage their daily tasks on their own, once they reach old age. Here in Germany, when these life crises strike, our social protection systems come into action. In our partner countries in Africa, Asia and Latin America, things are different. There, the vast majority of the population do not have social protection – in times of crisis, they may be pushed to the brink of absolute poverty.

It was long believed that in developing countries and emerging economies, the family supports its members. If someone fell ill, other family members would step in. Children would take care of their parents in their old age. Yet these intact structures are crumbling – rural migration, diseases such as HIV/AIDS in Africa and migration are making them increasingly rare. In development cooperation, social protection is therefore playing an increasingly important role. It is a key element in the fight against poverty, and in preserving people’s opportunities for development.

On behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), KfW Development Bank is helping provide people in our partner countries with social protection. Through 23 ongoing projects in 14 countries, we are currently reaching almost 100 million people. The case examples described in this dossier demonstrate that social protection provides people with fresh hope. In Cambodia, a pregnant woman is now receiving good medical care. In rural Malawi, social transfers are helping the poorest of the poor. And in South Africa, life insurance providers are giving people living with HIV/AIDS new prospects.

Yours truly

Winfried Kopper
Sanna Stockstrom

In the industrialised countries, most people enjoy social protection. They have health, pension and life insurance, and when in need receive social cash transfers from the state. In developing countries and emerging economies, things are different. Some 80 per cent of the world’s population live without social protection. When affected by old age, failed harvests, sickness, accidents, or the death of the main breadwinner, many people face an immediate threat of absolute poverty.

The Universal Declaration of Human Rights already states that "Everyone, as a member of society, has the right to social security". Today, social protection is seen as an important element for reducing poverty and promoting sustainable economic growth. It is gaining importance in development cooperation.

The German Federal Ministry for Economic Cooperation and Development (BMZ) has published a ‘Sector Strategy on Social Protection’. According to this strategy paper, partner countries are to be supported in strengthening their existing social protection systems or launching them where they do not yet exist. This is not only about ensuring that...
the state performs its duty of care toward its citizens. An important role is also to be played by private assistance for those in need as well as informal support within families, which is to be maintained and strengthened.

The social safety net of ‘the family’ is becoming an increasing rarity.

In intact extended families in Africa, Asia and Latin America, family members traditionally provide reciprocal support. If the family is unable to help, the village community will step in, for instance to ensure that orphans are taken care of and the sick do not go hungry. Yet these intact family and community networks are becoming increasingly rare, and this private form of social protection is crumbling. Young people are leaving their villages in search of work. In sub-Saharan Africa and parts of Asia the high rate of HIV means that there are fewer and fewer family members who are able to work. Those who are infected die or become chronically ill and must be looked after, often by their grandparents. In states afflicted by crises and conflicts such as the Democratic Republic of the Congo or Afghanistan, many people face a daily fight for survival – they have no stable income from which they could form reserves, and they remain without social protection.

When people are not protected against life risks, the whole society is affected. The needy save on food, thus weakening their health and ability to work. They sell their property, and stop sending their children to school. Without access to education, the next generation has barely any prospects for getting a good job and higher income. As a result, poverty becomes chronic and entire economies suffer and stagnate. This can be counteracted by establishing health insurance systems. Another option is a “Social Protection Floor”, as the International Labour Organisation suggests, which creates prospects in times of need and can strengthen people’s ability to help themselves. This should benefit chiefly those in absolute poverty, including vulnerable groups such as women, children and old people. These social transfers may include both cash transfers and transfers in-kind. They may sometimes be tied to specific condition- alities such as sending children to school or

Old people face a growing threat of poverty as traditional family structures continue to break down.

Social protection: financed through contributions or taxes

Public social security systems can be funded in two ways: through social insurance contributions, i.e. contributions made by employees and employers, or through taxation. To reach all sections of the population, almost all governments today rely on various combinations of the two approaches: tax-based instruments to protect the livelihoods of the poor, and contribution-based systems for people with more income to protect their standard of living.

This is because the absolute poor are virtually unable to make any regular and significant contributions. In developing countries and emerging economies this group also includes underage orphans, chronically sick and people with disabilities. They require assistance in the form of social transfers funded from taxation in order to be able to escape the poverty trap. Other people, who may be able to contribute regularly, may nevertheless need support in certain situations such as old age, maternity, unemployment or protracted illness. For this group, risk protection is funded through contributions.

To ensure that public social protection systems can be financed sustainably, governments must rely on each citizen’s individual responsibility. This is why it makes sense for governments to also promote private provision as well as introducing public social insurance for health and pensions funded through contributions. To prevent poverty in old age, some developing countries have introduced social pension schemes funded through taxation. They guarantee people a basic income during old age. Those who also take out private pension cover are then able to increase their income during old age by making this provision during their working lives.

To obtain money for state-funded social protection, a number of countries rely on various sources of financing: a portion of value added tax is retained (Ghana), or taxes are raised on commodities such as oil and gas (Bolivia, Norway). In Brazil a social pension for the rural population is funded from 2.2 per cent of the tax revenues for agricultural products. In India, a state pension scheme has been introduced for employees in the informal sector – the New Pension Scheme Lite. Here, citizens are required to save at least 1,000 rupees (14 euros) a year on a special savings account for their old age. The Indian government then adds an amount of 1,000 rupees.
regular visits to the doctor. Then they are referred to as “conditional” cash transfers.

| More and more developing countries are establishing social protection systems |

More and more developing and emerging countries are recognising the importance of social protection systems and establishing them accordingly. These systems are designed both to provide basic risk protection for poor people and to stabilise economies. When a government ensures social protection for its citizens, this helps legitimate governance. People see the state as a service provider, which leads to improved social cohesion.

Social protection can also have stabilising macroeconomic effects. This was demonstrated by the lessons learned from the economic and financial crisis in Asia in 2008/2009. Those countries that had introduced broad-based social protection programmes for their population following the major Asian financial crisis of 1997/1998, such as Indonesia, were then significantly less adversely affected by the recent crisis than they had been ten years previously.

Public social security systems may assume various forms. It is financed either from contributions or from taxation (see box). Pension and health insurance is financed through contributions. Social cash transfers, i.e. transfers made to help people on the brink of absolute poverty, are paid for through taxes.

Establishing or reforming public social security systems in developing countries entails challenges. It is very difficult for the governments to actually reach most of the working population, especially the poor. They are either employed in the informal sector, do not have any permanent employment or work as day labourers or migrant workers. Moreover, people who are actually in employment also go through periods of unemployment from time to time. Under these conditions it is difficult to raise regular contributions. At the same time, in many developing and emerging countries tax revenues are low.

Public administrations are often poorly developed, which means that establishing social security systems also faces structural problems. Data on citizens needs to be collected and regularly verified. Contributions to pension funds, for instance, need to be professionally invested and managed. Entitlements need to be calculated, and social cash transfers paid out. Yet many poor people do not have a bank account, and cash payments are logistically complex and risky. At the same time, administrations lack computers, databases and software. Many countries do not have a residents’ register, and people in rural areas are unable to read or write, and possess neither a birth certificate nor an ID card.

| Innovative models of social protection in emerging economies |

Despite such problems, over the last 20 years emerging economies such as Chile, Brazil and India have managed to introduce innovative social protection systems. They have used state-of-the-art technology in order to manage data transparently, and provide poor people with simple and easy-to-understand insurance cover and application procedures. They have also pursued innovative ways of funding these systems. In India a social insurance fund has been specially set up for construction workers. When the authorities inspect planning applications, one per cent of the construction costs are automatically channelled into the fund. This way of raising contributions in the Indian construction sector, where most of the employees are informal sector workers, provides an effective alternative to the standard contributions otherwise paid by employees and employers.

German development cooperation is building on such international experiences. In many countries KfW Development Bank is promoting both, public social security systems, as well as private forms of risk protection. These include social cash transfers to give people basic income during life crises and programmes that come into effect in situations of need – such as micro-insurance for farmers, which pay out compensation in case of crop failures.
KfW is supporting its partners in modernising their administrations. This involves installing computers, establishing management information systems with comprehensive databases and introducing efficient financial software. This enables administrators to record and verify data for social cash transfers to potentially eligible citizens. To record household data, officials must often visit the people concerned in their homes. With mobile devices such as tablets, laptops and smart phones, for instance to take photos so that people can be identified, their job becomes much easier.

Payment messages arrive on mobile phones.

In many countries smart card technologies are being used. These cards are often used as insurance and cash cards simultaneously. Biometric data identifying the cardholder are stored on a microchip. In many countries, mobile phones are used for payments. This is because in developing and emerging countries, even poor people often own a mobile phone, on which they can receive a message concerning a transfer payment together with an “identification number”. With this message they can then go to a kiosk where the transfer is paid out. In India a health insurance scheme for poor people is using a similar technology. Hospitals use card readers to verify the patient’s details, and then charge the health insurance company directly for the medical services provided, by electronic means.

Finally, we must not forget that it is not only the family and the state that play an important role in social protection. Private actors such as insurance companies and non-governmental organisations also help support people in need. Some microfinance institutions, for instance, offer poor people not only loans, but also affordable insurance cover, e.g. against crop failures, and micro-pension schemes. Such small-scale insurance products provide disadvantaged sections of the population with better protection against life risks. This enables them to withstand illness or phases of unemployment without immediately falling into poverty.

If poor people are better able to cope with such crises, they are also able to resume work and become productive again much sooner than without such support mechanisms. Social protection is thus also an important investment in the future because it safeguards present growth and keeps it sustainable.

Programmes and projects

How KfW is supporting its partners with social protection

On behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), KfW Development Bank is currently supporting 23 social protection projects and programmes in 14 countries, many of them in sub-Saharan Africa. These projects are worth a total of more than EUR 250 million. Most of this money comes from the German federal budget (grants). Through these projects, almost 100 million people are being reached worldwide. In Africa, most of them belong to the absolute poor.

The various programmes involve different forms of social protection. Some 70 per cent of the funding is used to provide various types of health-related social protection mechanisms, including health insurance schemes and voucher systems. KfW is promoting models of this kind e.g. in Kenya and Cambodia. These enable poor people to obtain, either free of charge or for a small fee, state-subsidised vouchers that entitle them to receive certain medical services.

A further 18 per cent of the funding is being channelled into social cash transfer programmes. Under these programmes, particularly vulnerable groups such as old people, orphans, expectant mothers or ultra-poor families receive support to make ends meet. KfW is supporting Germany’s partner countries in modernising their administrations and in developing sustainable financing models for social protection systems. This will allow countries to organise the payment of social cash transfers more efficiently and transparently.

KfW is promoting its partners in modernising their administrations. This involves installing computers, establishing management information systems with comprehensive databases and introducing efficient financial software. This enables administrators to record and verify data for social cash transfers to potentially eligible citizens. To record household data, officials must often visit the people concerned in their homes. With mobile devices such as tablets, laptops and smart phones, for instance to take photos so that people can be identified, their job becomes much easier.

Payment messages arrive on mobile phones.

In many countries smart card technologies are being used. These cards are often used as insurance and cash cards simultaneously. Biometric data identifying the cardholder are stored on a microchip. In many countries, mobile phones are used for payments. This is because in developing and emerging countries, even poor people often own a mobile phone, on which they can receive a message concerning a transfer payment together with an “identification number”. With this message they can then go to a kiosk where the transfer is paid out. In India a health insurance scheme for poor people is using a similar technology. Hospitals use card readers to verify the patient’s details, and then charge the health insurance company directly for the medical services provided, by electronic means.

Finally, we must not forget that it is not only the family and the state that play an important role in social protection. Private actors such as insurance companies and non-governmental organisations also help support people in need. Some microfinance institutions, for instance, offer poor people not only loans, but also affordable insurance cover, e.g. against crop failures, and micro-pension schemes. Such small-scale insurance products provide disadvantaged sections of the population with better protection against life risks. This enables them to withstand illness or phases of unemployment without immediately falling into poverty.

If poor people are better able to cope with such crises, they are also able to resume work and become productive again much sooner than without such support mechanisms. Social protection is thus also an important investment in the future because it safeguards present growth and keeps it sustainable.

Sanna Stockstrom is a sector economist in KfW’s Competence Centre for Education, Health and Social Protection.
“Social solidarity demands it”

Wolfgang Bichmann, former director of KfW’s division for social policy issues for many years, discusses the importance of social protection in development cooperation.

Mr Bichmann, given your many years of experience, how important do you believe social protection is for development cooperation?

Ever since the UN formulated the Millennium Development Goals (MDGs) in the year 2000, if not before, the importance of social protection has been recognised worldwide: poverty reduction, improved access to education for children, lower child mortality and better maternal health are central demands of the MDGs. Social protection is important and is becoming even more important in ensuring that people gain opportunities for development rather than plunging into poverty.

What do you mean when you talk about “social protection”?

First of all, it’s about protecting disadvantaged sections of the population against emergencies and life risks, such as illness. This is why we are promoting access to health services, for instance through voucher systems. Other social protection programmes are designed for children, mothers, pregnant women, people with disabilities, old people or invalids. To ensure that everyone has at least a basic income social cash transfers exist which are paid out to particularly poor families in order to cover their basic needs. We also do this in Germany. In developing countries, however, the transfer amounts are very much smaller.

Is there not a risk that payments of this kind might cause people to become dependent and lose their ability to help themselves?

There are poor people who are unable to help themselves and who need support. Social solidarity demands that we provide for them.

In developing countries there have long been no provisions for dealing with poor sections of the population. In many countries, though, people have been rethinking this issue. A number of governments now see it as an important task to support and emerging economies. Countries like Brazil and China have established social protection systems that they finance themselves. In poor countries such as Malawi, donors assume a high proportion of the costs. In these cases we aim to support the development of administration and monitoring structures. This is the only way to ensure that social cash transfers really do reach only the families who are entitled to them.

In Africa in particular, social transfers of this kind reach perhaps several hundred thousand people, yet there are millions of poor people. Isn’t this just a drop in the ocean?

No, it’s more than that. Social cash transfers to poor families aren’t the only thing. These are only paid out in cases of acute hardship and when people are unable to work fully. In countries such as Lesotho, Namibia and South Africa there is also a basic social pension for everyone over 65. Labour-intensive public works programmes are also a form of social protection. This is how many schools, roads and health posts are built in Africa, for example. We support governments in establishing a safety net for sections of the population which are at risk – to help as many people as possible lift themselves out of poverty.

Is there not a risk of creating envy when only a few people receive social cash transfers while others go away empty-handed?

The challenge is to make social cash transfer programmes transparent. The criteria for entitlement to support must be defined clearly and impartially. Envy can be avoided if representatives of the community are involved in selecting those in need, and if clear monitoring mechanisms exist. The reasons why recipients have been selected must be clear to people. In Southern Africa, KfW is supporting families headed by children, because their parents have died of AIDS. Very many people immediately understand why. It’s because these AIDS orphans need help, otherwise they will have no chance of a better future.

Social transfers must be transparent: Entitlement criteria must be clearly defined.

Mr Bichmann has worked in the field of social policy at KfW Development Bank for 20 years. From 2003 to 2012 he was Director of the Competence Centre for Health, Education and Social Protection.

Photo: KfW

Michael Ruffert and Hannah Milberg conducted the interview.
Breaking the vicious cycle of poverty
In Malawi, particularly vulnerable families receive social cash transfers.

Désirée Schulz

Malawi is one of the poorest countries in the world. Around half of the population lives below the poverty line. To ensure that the poorest of the poor are still able to buy clothing and send their children to school, they are receiving regular cash transfers.

Ane Amoni is a widow. “My husband died recently”, she explains in a faltering voice. She doesn’t mention what he died of. She lives in a small village in a rural area, and besides her own two children she also looks after two children of an aunt who recently died of AIDS. The HIV rate in the Southern African country of Malawi is high.

Only rarely does Ane Amoni manage to do some work on the farmers’ fields and earn some income of her own. On these few days she earns between 100 and 150 Malawian kwacha per day – equivalent to between 30 and 40 cents. “Most of the time I have to look after the family and the children, so I can no longer earn any money”, she complains. To supplement her meagre income, which is barely enough to survive on, Amoni therefore receives a so-called “social cash transfer”. She regularly gets money from the Malawian government.

Many people sign with their thumbprint.

Payment day is once every two months in Salima District. Like many other poor people in this region, the widow is waiting in the queue, wearing a tattered dress. Seated at a desk at the front are two men with lists of those entitled to the cash transfer. The amounts to which the various families are entitled are neatly written down. The payment must be receipted on the list. Illiteracy is high in this area, and many people “sign” for receipt simply with a thumbprint. Although Ane Amoni has never been to school, she has learned to read and write a little – and signs in her own name.

Salima is one of the first districts where the Malawian government grants such financial transfers to particularly vulnerable and ultra-poor households. These payments are designed to enable poor people to meet their daily basic needs for things like food and medical care. The transfers also cover costs for sending children to school, to prevent them from being caught in a vicious cycle of poverty. Through edu-
cation, at least they will have the chance of a better future.

The Malawian government is being supported by KfW Development Bank, the United Nations Children’s Fund (UNICEF) and other international donors. “The programme is one of the five pillars of Malawi’s National Social Support Policy”, explains KfW sector economist Sanna Stockstrom. The government plans to expand the programme country-wide in the near future.

Families receive the transfer when they qualify as extremely poor and labour-strained. The size of the transfers depends on family members living a household, and children of school age. Ane Amoni is therefore entitled to a monthly sum of 2,600 kwacha. So far, though, she has only been receiving 2,400 kwacha. Her youngest child only started school this year. This change has not yet been recorded.

| Money for food and clothing |

The average amount paid out at present is 2,000 kwacha. This is equivalent to a little more than five Euros. Not much money in Europe, but in rural Africa it is enough at least for the bare essentials needed to get by and survive. Ane Amoni uses the money mainly for food, soap, salt and clothing. So far a total of just under 29,000 households – more than 100,000 people – have benefited from the programme.

Fenita Ezara has to look after her husband, who is old and sick. She also looks after two of her own children, as well as two orphans she has adopted, and a grandchild. Because she qualifies as poor, she receives social transfers.

Families receive the transfer when they qualify as extremely poor and labour-constrained. The size of the transfers depends on family members living a household, and children of school age. Ane Amoni is therefore entitled to a monthly sum of 2,600 kwacha. So far, though, she has only been receiving 2,400 kwacha. Her youngest child only started school this year. This change has not yet been recorded.

### Malawi

Located in Southern Africa, Malawi has a population of around 14 million. More than half of them live in poverty, and approximately one fifth of all Malawian households are unable to generate an income that would secure their daily basic needs. On average they live on just one meal a day. Many suffer from chronic malnutrition and cannot afford clothing or soap. Children often do not go to school because there is no money for school uniforms, shoes, exercise books, pens and pencils or transport.

Families are also considered extremely poor if they have no household members who are able to work. Many have emigrated in search of jobs, but earn too little to send back remittances. Moreover, in those areas of Malawi that are particularly badly affected by poverty, many people die of AIDS. They leave behind children, the elderly, the chronically sick and people with disabilities. Some families are headed entirely by orphans. As a result, without government support they will have virtually no chance of lifting themselves out of poverty.

Furthermore, chronic undernutrition means that the health status of these sections of the population is poor. This can have fatal consequences, particularly for children, because they become more susceptible to diseases such as HIV/AIDS, tuberculosis, malaria and diarrhoea. Life expectancy in Malawi is 49 for men and 50 for women. Malawi is thus one of the countries with the lowest life expectancy anywhere in the world.
Rosemary Katasiliza lives in a family of five. So far the social cash transfers have not taken into account the fact that three of the children go to school – the Community Social Support Committee has now confirmed her entitlement.

over for soap, salt, medicine and school materials. Nevertheless, her eldest son must help supplement the family income. He is 15 years old and attends secondary school. During school holidays, like his mother he works in other farmers’ fields for a low wage.

Fenita Ezara recently told the Community Social Support Committee that the money she gets is not sufficient. She receives only 1,800 kwacha per month, even though she is entitled to 2,800. This is because in her household of seven there are three children attending primary school and one boy who attends secondary school. Fenita Ezara is not the only person entitled to social cash transfers who receives too little money. Since most recipients have no idea how the amount is calculated, hardly any of them have complained so far.

| There is a shortage of computers and modern technology. |

Paying out the social cash transfers on time and adjusting the amounts in line with the changing life situation of the recipients is not an easy task in Malawi. There are barely any social workers, and functioning administrations do not exist everywhere.

There is a shortage of computers and modern technology for registering and verifying the identity of claimants. “We are supporting the government in developing the human and technical capacities that will enable the authorities to implement the Malawi Social Cash Transfer Programme effectively”, explains Sanna Stockstrom. A further aim is to raise public awareness and understanding of who is entitled to benefits and why.

Activities revolve around establishing a management information system. The aim is to modernise the administrations structurally and equip them with more computers. This should facilitate the payments and their monitoring. The plan is to verify the household data electronically when each payment is made. “Then it will be possible to update any changes immediately and adjust the amounts”, says Sanna Stockstrom. This is why KfW is promoting the establishment of central databases and computer-based administrative procedures. This should guarantee that the amounts calculated for the social cash transfers take into account whether and how the life circumstances of the families have changed.

In the long term there are plans to facilitate “mobile banking” using mobile phones. Save the Children and the European Union are also involved in this programme. In close consultation with KfW, UNICEF is promoting the training of ministerial and district employees and is also providing institutional consulting services.

Rosemary Katasiliza, who is also waiting in the queue, has at least succeeded in having her actual life situation taken into account in the payments she receives. Her card, which identifies her as a beneficiary of the programme, lists five people, none of whom go to school. Yet three of the children who live in her family now attend the eighth grade of primary school – and Rosemary Katasiliza had pointed this out. The Community Committee has since verified the details, and established that the information she supplied is correct.

### What benefits are paid?

| To receive social cash transfers, beneficiaries must meet two criteria: |

**Extremely poor:** In Malawi, households are classified as extremely poor if they fall well below the international poverty line and earn less than 20 cents per day. This includes the poorest 10% of the country’s poor population.

**Labour-constrained:** No family member of working age (defined as being between 19 and 64) is able to work. Or only one family member is able to work but must at the same time be providing for at least three children or close relatives. One typical example in Africa is a grandmother with three grandchildren to feed.

<table>
<thead>
<tr>
<th>Size of household</th>
<th>Amount paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 person</td>
<td>600 kwacha (≈ 1.5 €)</td>
</tr>
<tr>
<td>2 persons</td>
<td>1000 kwacha</td>
</tr>
<tr>
<td>3 persons</td>
<td>1400 kwacha</td>
</tr>
<tr>
<td>4 persons</td>
<td>1800 kwacha</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Child at school</th>
<th>Add. payment/child</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>200 kwacha</td>
</tr>
<tr>
<td>Secondary school</td>
<td>400 kwacha</td>
</tr>
</tbody>
</table>

### What benefits are paid?

To receive social cash transfers, beneficiaries must meet two criteria:

**Extremely poor:** In Malawi, households are classified as extremely poor if they fall well below the international poverty line and earn less than 20 cents per day. This includes the poorest 10% of the country’s poor population.

**Labour-constrained:** No family member of working age (defined as being between 19 and 64) is able to work. Or only one family member is able to work but must at the same time be providing for at least three children or close relatives. One typical example in Africa is a grandmother with three grandchildren to feed.

There is a shortage of computers and modern technology for registering and verifying the identity of claimants. “We are supporting the government in developing the human and technical capacities that will enable the authorities to implement the Malawi Social Cash Transfer Programme effectively”, explains Sanna Stockstrom. A further aim is to raise public awareness and understanding of who is entitled to benefits and why.

Activities revolve around establishing a management information system. The aim is to modernise the administrations structurally and equip them with more computers. This should facilitate the payments and their monitoring. The plan is to verify the household data electronically when each payment is made. “Then it will be possible to update any changes immediately and adjust the amounts”, says Sanna Stockstrom. This is why KfW is promoting the establishment of central databases and computer-based administrative procedures. This should guarantee that the amounts calculated for the social cash transfers take into account whether and how the life circumstances of the families have changed.

In the long term there are plans to facilitate “mobile banking” using mobile phones. Save the Children and the European Union are also involved in this programme. In close consultation with KfW, UNICEF is promoting the training of ministerial and district employees and is also providing institutional consulting services.

Rosemary Katasiliza, who is also waiting in the queue, has at least succeeded in having her actual life situation taken into account in the payments she receives. Her card, which identifies her as a beneficiary of the programme, lists five people, none of whom go to school. Yet three of the children who live in her family now attend the eighth grade of primary school – and Rosemary Katasiliza had pointed this out. The Community Committee has since verified the details, and established that the information she supplied is correct.
How microinsurance protects against situations of need

In Africa and Asia, millions of people are not insured. A fund is helping change that.

Hannah Milberg

LeapFrog is the first investment fund in the world to support microinsurance companies with capital and expertise. This means that poor people in developing countries are obtaining protection against life risks for only small premiums. Some companies even insure seriously ill people whose life expectancy is actually low.

For a long time David Patient (not his real name), a South African, led a normal life despite being HIV-positive. Then the disease AIDS suddenly breaks out and his immune system collapses. For the first time, this young man is confronted with the possibility that he might die. He wants to take out life insurance so that his partner will be provided for. But who will insure an HIV-positive man? In South Africa, the newly established insurance company AllLife will. This company is not a charitable association. It aims to be a successful business and is careful to ensure that its clients keep their appointments for checkups and treatment. “They keep asking me all the time whether I’m taking my medication and monitoring my blood values”, reported David Patient to the New York Times. “AllLife is very active in keeping me alive”. David Patient took out life insurance with AllLife worth USD 62,500, because he had decided to fight AIDS and presumably prolonged his life expectancy by doing so.

Support for innovative business ideas

AllLife is one of the microinsurance providers promoted by the LeapFrog investment fund. The fund’s mission is to help poor people in Africa and Asia obtain insurance, which is why it supports such innovative business ideas. As well as supporting this insurer in South Africa, the fund has also so far provided USD 41 million to support AllLife in Kenya and Shriram in India, two companies that also intend to develop the microinsurance sector.

The fund has a total of USD 135 million. KfW Development Bank is the largest single investor. LeapFrog invests in companies that systematically offer appropriate insurance products to poor and disadvantaged sections of the population. “With the companies that we promote, the policies are so cheap that even low-income families can afford them”, explains KfW Project Manager Markus Bär.

Ultimately these companies reach those in greatest need of insurance, but for whom there are as yet no appropriate products. Coping with crisis situations is much more difficult for poor people than for the better off. Where income depends on a single breadwinner or a single plot of cropland, an accident or a poor harvest can plunge entire families into hardship.

Investing in the future

Microinsurance policies are designed to protect against the impact of such life-cycle risks. And they can support people in becoming economically more proactive. Many people in developing countries had previously been saving what little money they had for later costs that might be incurred by illness. “A microinsurance policy is cheaper and offers better protection”, says Bär. Farmers can use the money they save to invest in more efficient cropping methods, for instance. Over the next few years, it is envisaged that LeapFrog will help at least 25 million people in Africa and Asia gain protection through microinsurance. In the long term, the fund aims to help developing countries and emerging economies build their own, self-sustaining microinsurance industry. Then more and more people with low incomes or poor health status will be able to make provision, and protect themselves and their families.
Vouchers for health

A voucher project is providing incentives for improved health services.

Michael Ruffert

For many people in developing countries, illness means people must get into debt in order to meet the costs. As a result they are plunged even further into poverty. To ensure that disadvantaged population groups receive social protection, vouchers for medical services are being handed out in some countries. Cambodia is one example.

When Muth Saron had her second child, she had to sell a cow. Otherwise she would have been unable to meet the costs of transport to the hospital and the delivery of her baby. Her family actually needed the animal to plough their paddy fields. “At that time we got poorer and poorer”, explains the 35-year-old woman, who lives in Kampong Thom province in Cambodia.

Then she became pregnant once more. In spite of being poor, she again wanted to give birth under medical supervision, in order to avoid the risks associated with childbirth. Yet she did not know where she was supposed to get the money to pay for her stay in hospital, her transport and her food. “I first wanted to borrow the money from neighbours”, explains Muth Saron. But that was no longer necessary – because as an expectant mother in need, she was able to benefit from the Vouchers for Reproductive Health Services Project in Cambodia, which KfW Development Bank is supporting on behalf of the German government. “Especially poor and vulnerable women receive vouchers that they can use to pay for medical services and other costs associated with pregnancy and birth”, explains KfW Project Manager Jörg Meilicke. The vouchers can be redeemed at public or private health facilities. This enables poor women to make a choice. They can decide for themselves where they would like to be treated and where they would like to use their vouchers – at a private health facility or a public one. This creates competition between the clinics and hospitals and an incentive to provide the best and most effective services possible in order to attract patients.

Most Cambodians do not have any health insurance. In this desperately poor country, the after-effects of the years of civil war and the Khmer Rouge’s reign of terror in the 1970s can still be felt in the health system. There is a shortage of well-equipped hospitals and health posts. And when people, especially from rural areas, visit a doctor or come to a hospital, they must meet the costs themselves.

Muth Saron had her third child under medical supervision. Thanks to the voucher programme she could afford medical care.

For most Cambodians this means more debt and more poverty. They use up their savings and are unable to generate income. Many do not even seek medical care. At present, 80% of births in Cambodia take place in the home, and only 44% are attended by a doctor or a qualified birth attendant.

Cambodia’s Vouchers for Reproductive Health Services Project aims to put this right. It is being implemented initially in three provinces of Cambodia. On behalf of the Cambodian Ministry of Health, an agency identifies the poor and vulnerable women, selects the health service providers, and monitors the handling of accounts and integration of the voucher model at the existing health centres. Since the project was launched, some 17,000 women have received vouchers.

One of them is 35-year-old Chea Sokhom. She lives in a small village and has been classified as “very poor”. This young woman has had seven children, three of whom have already died – a tragic indication of the weakness of Cambodia’s health system. Now she is pregnant again and is benefiting from the...
voucher system in two respects. First of all, she will receive medical care during delivery. Secondly, in the future she will use modern means of contraception, the costs of which will also be paid by the project. She would be barely able to feed any more children.

Muth Saron has already had her third child. Exhausted, she is lying on a simple bed at the health post, her baby next to her. She says a special thanks to the birth attendant and the medical personnel – and is delighted to receive clothing and food for her newborn child.

The project aims to help women like Muth Saron and Chea Sokhom and improve mother and child health in Cambodia. In the long term, the Cambodian government intends to establish its own health insurance system. The voucher project is designed to provide first insights into how particularly poor people can be reached.

| A similar approach in Tanzania |

A similar approach is also being pursued in Tanzania, where the government also intends to establish social insurance systems. This East African country currently has two health funds: the National Health Insurance Fund (NHIF), which insures chiefly civil servants, state officials and their families, and the Community Health Fund (CHF) for poorer sections of the population – meaning chiefly people who work in agriculture or the informal sector. “So far, the CHF has only covered costs for very simple basic health services”, explains KfW Project Manager Mona Ahmed.

Patients insured with the NHIF receive significantly better medical care. Consequently, a pilot project is being conducted in two poor and rural regions, in which needy pregnant women will become members of the NHIF and receive high-quality medical care during pregnancy and delivery. This will include extensive medical attendance, emergency perinatal treatment and medical after-care. “The project will thus be able to help reduce mother and child mortality and prevent birth defects”, explains Ahmed. It is estimated that around 25% of all disabilities could be prevented by better perinatal care.

At the same time the other members of their family will be insured for one year by the CHF, which is being supported by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). Through the programme the government intends to find out more about what form a national social protection system might take, what medical services it should include and how disadvantaged sections of the population can be integrated into it.

However, as the term “conditional” implies, these social cash transfers are only awarded subject to certain conditions. Usually it is then the women who are made responsible for ensuring that children go to school and attend medical checkups. Or women are required to attend courses on child care and nutrition. While these courses are being held they are not allowed to go to work themselves.

This can place a particular strain on single mothers who have to feed their families. These women therefore often drop out of such programmes, as studies in Nicaragua demonstrate. Conditions such as these also consolidate the traditional roles of men and women, and are therefore not conducive to equality. Greater thought must thus be given to the needs of women.

Some programmes in Latin America are already doing just that. In Brazil, women are for instance being offered literacy courses. In other countries such as Nicaragua and the Dominican Republic, further vocational training plays a role. These activities have a more positive effect on the women’s self-confidence and their position within the family than is achieved simply by transferring the money to them directly. It also increases their chances of finding a job and thus lifting themselves out of poverty.

Karolin Herzog has conducted research on gender and poverty reduction and is currently doing her doctorate at the Queen Margaret University in Edinburgh.

Michael Ruffert is a PR Officer at KfW Development Bank.
Protecting people and businesses in crises

Only about 3% of people in developing countries can afford private risk protection.

In developing and emerging countries, public social protection systems either do not exist or are not sufficient to protect people and businesses against natural disasters and blows of fate. Private risk provision is becoming increasingly important. This also applies to small and medium-sized enterprises. They need affordable insurance protection.

In developing and emerging countries, business livelihoods, and especially the livelihoods of small and medium-sized enterprises (SMEs), can quickly be jeopardised when damage occurs if the businesses are not insured. Jobs and economic development may then be threatened. Financeable, private insurance products therefore have an important role to play in safeguarding jobs and income, alleviating poverty and promoting economic development. DEG, a subsidiary of KfW, therefore intends to further increase its investment in insurance markets in developing countries and emerging economies. “Insurance providers are a development market with a future”, emphasises Dr. Michael Bornmann, Member of the Management Board of DEG.

| Insurance – a catalyst for economic development

Establishing a well-functioning insurance system has major effects on development. Insurance policies enable families and businesses to structure their risks such that financial setbacks can be cushioned. This is particularly important for microenterprises and SMEs, which can for instance increase their creditworthiness with insurance policies. Insurance thus also makes an indirect contribution towards expanding the credit market of financial service providers and developing the capital markets in developing countries and emerging economies. Moreover, insurance is an important factor in boosting the economy. Businesses create jobs.

DEG is currently financing seven projects in the insurance sector. Only recently it teamed up with the Gothaer insurance group and the Dutch development financier FMO to commit a total of USD 70 million for the EMF New Europe Insurance Fund. This fund will be investing in the insurance market in Eastern and South-Eastern Europe. Since 2005 DEG has held an 8% stake in the African Reinsurance Corporation. Through Assur Africa Holding it holds around 14% in the Nigerian property and life insurance company Mansard (formerly GTAssur).

In Asia too, more and more people from the lower and middle-income strata are becoming interested in obtaining better protection against life risks. Here too, businesses require more private provision against damage. DEG is financing the Indonesian life insurance provider PT Avrist Assurance with equity capital and holds a stake of 23%. Together with banks, the company is establishing additional distribution channels for low-cost policies in order to better reach rural regions.

In Latin America, the Mexican insurance group Grupo Maxasem is being supported with a long-term loan worth EUR 15 million. This is also promoting the establishment of a new health insurance company, Prevem, which aims to particularly serve people with low incomes and employees of small and medium-sized enterprises. And in Panama, DEG holds a stake of more than 30% in the World Wide Group. This provider of life and health insurance is strengthening the health system in the region through contracts with local hospitals.

Yet there are still too few insurance companies willing to get involved in developing countries. Sometimes there is a lack of capital, which means they are unable to shoulder the large insurance risks and harness the potential for growth. Sometimes there is a lack of expertise in developing distribution channels. DEG intends to help to close these gaps.

Sabine Huth

is a freelance journalist with a focus on economic and development policy.
Kyrgyzstan: a two per cent tax for social protection

The Central Asian state of Kyrgyzstan is a barren country. The summers are hot and dry, the winters extremely cold; 90% of the country is mountainous. Most of the Kyrgyz population live in these poorly accessible regions, where health care is poor. For a long time only few people have been able to afford a doctor or good medical care.

Now the entire Kyrgyz population are to receive guaranteed basic medical care thanks to the Mandatory Health Insurance Fund (MHIF), which is being promoted by KfW Development Bank on behalf of the German government. The fund is financed from taxes and social insurance contributions made by Kyrgyz citizens employed in the formal sector. Two per cent of their salary is deducted and channelled into the MHIF. Everyone is then entitled to basic medical care – regardless of their employment status.

“The fund cannot pay for all medical services, however”, says KfW project manager Joachim Schüürmann. The money to do that is not available. The treatments the insurance scheme will pay for are therefore defined on a list. For complicated therapies or operations, patients themselves have to pay an additional fee.

The fund has helped expand the health sector in the various parts of the country. It has also helped modernise medical centres and hospitals, and improve the access of the population to health service.

Since 2006 the money in the MHIF has been channelled into a single national fund. The plan is now to improve the quality of health care delivery in the regions – one reason being to achieve the health-related targets of the Millennium Development Goals by 2015, i.e. improving mother and child health. To actually achieve this, however, considerable efforts will still be needed.

KfW Development Bank is Germany’s leading development bank and an integral part of KfW Bankengruppe. The programmes KfW supports are proposed by partner countries during governmental negotiations with the German government and are then set down in a development strategy for each country. On behalf of the German government, particularly the Federal Ministry for Economic Cooperation and Development (BMZ), KfW Development Bank examines whether the projects make a meaningful contribution to development and are eligible for support. If this is the case, KfW experts provide ongoing advice and assistance to partners for the entire duration of their projects.

A bank and a development institution

Financial cooperation with developing countries and emerging economies is subject to the German government’s strategic guidelines and requirements. In this respect, KfW is both a bank and a development institution, with vast financing expertise, a thorough understanding of development, and extensive international experience. KfW uses this unique mix of skills to ensure that development projects achieve the maximum impact, and to support the German government in meeting its international obligations, such as protecting the environment, fighting poverty and combating climate change. In addition, by using its own resources, KfW helps to increase Germany’s official development assistance contributions and take some of the strain off the federal budget. In 2012 alone, KfW committed more than EUR 4.9 billion for development programmes in Africa, Asia, Latin America and South-Eastern Europe.
This dossier is a translation of a supplement to issue 1-2013 of welt-sichten.

Concept and editing: Michael Ruffert (KfW), Anja Ruf (on behalf of welt-sichten).
Copy: Hannah Milberg, Michael Ruffert, Désirée Schulz, Sanna Stockstrom (all KfW), Karolin Herzog and Sabine Huth

Responsible:
Armin Kloß, KfW Bankengruppe

Design: Silke Jarick, Angelika Fritsch

The views expressed by the authors named do not necessarily reflect those of the publisher.