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KfW Social Protection Portfolio Analysis 2018

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Improving social protection is a stand-alone goal under the global Sustainable Development Agenda (SDG 1, 3). At the same time, efficient and effective social protection systems are an essential prerequisite for reducing poverty and inequality as overarching core goals of Agenda 2030 (“Leaving no one behind”). However, approximately 55% of the global population lives without social protection: many people are at immediate risk of extreme poverty due to age, poor harvests, illness, accidents or the death of the main breadwinner.

Basic security is the focus of the portfolio

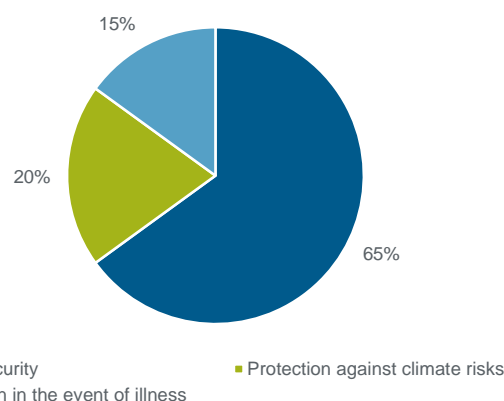
KfW Development Bank supports the development and expansion of social protection systems on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ) and various authorities in its partner countries. It works together with its partners to develop country-specific solutions and innovative concepts.

The goal of social protection is always to overcome poverty or to alleviate the effects of poverty and to protect people from risks that threaten their existence. Within the KfW portfolio, social protection in the stricter sense includes all demand-side approaches to basic security (i.e. the initiators of the demand or the beneficiaries receive the benefits directly) as well as protection against serious risks such as illness, unemployment or crop failure. This protection could take the form of state or private insurance, for example, or social transfer concepts and employment programmes.

At the end of 2018, the “social protection” portfolio at KfW Development Bank consisted of exactly 100 ongoing projects with a total commitment volume of around EUR 1 billion¹. Alongside projects in 25 different countries, the portfolio also includes five regional programmes. The portfolio comprises three large funding areas: the “basic security” funding area is the priority in Financial Cooperation (FC) with 64 projects and a volume of EUR 650 million. In second place is the “protection against climate risks” funding area, which is made up of 14 projects and a volume of around EUR 203 million. This area is based on the G7 Initiative “In-suResilience”, which aims to provide access to climate risk insur-

¹ If funding for social protection is only a sub-component of a project, only the commitment volume used for this purpose is included in the analysis. Accompanying, educational and training measures are assigned to each main project. The projects are in different stages of implementation, ranging from the KfW contract with the recipient/implementing organisation through to final appraisal by the KfW evaluation department.

Figure 1: Composition of the current portfolio



Source: own data

ance for an additional 400 million poor and vulnerable people in developing countries by 2020. The “protection in the event of illness” funding area is made up of 22 projects and a volume of around EUR 154 million. In this area, support is provided for the establishment of health insurance systems (e.g. in Tanzania and Pakistan) and voucher programmes to improve access to high-quality health services for the poor, especially in the area of reproductive health (e.g. in Yemen, Cambodia and Cameroon) – see Figure 1.

Table 1: Current portfolio broken down by funding approach

Funding approach	Volume	Percentage
Cash for work	EUR 447,519,662	45%
Indirect insurance	EUR 192,632,381	19%
Cash transfers	EUR 104,180,746	10%
Direct insurance	EUR 81,539,139	8%
Food for work	EUR 68,114,162	7%
Voucher	EUR 60,000,000	6%
Project-based approaches	EUR 31,720,178	3%
Food aid	EUR 21,430,000	2%
Total	EUR 1.007.136.268	100%

Source: own data

Direct and indirect funding approaches to social protection

KfW uses a broad range of funding approaches in the area of social protection (see Table 1). A distinction is made between direct and indirect approaches. In the case of direct approaches, individuals or households are directly protected by health insurance or admission to a cash transfer programme, for example. In indirect approaches on the other hand, the government purchases (index-based) insurance to provide emergency assistance for the affected population, for example, if there is a crisis (whereby in the event of a crisis, the funds can be transferred to the population affected through the established social protection mechanisms). In addition to this type of macro-insurance, the promotion of financial intermediaries such as insurance funds is also one of the indirect approaches to social protection.

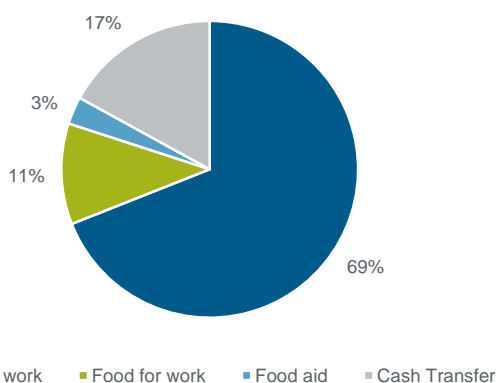
If the overall social protection portfolio of KfW Development Bank is broken down by funding approach, 45% of the commitment volume is accounted for by 49 ongoing “cash for work” programmes, which mainly comprise labour-intensive employment measures for refugees in sub-Saharan Africa and the Middle East. The second strongest instrument, at around EUR 193 million (approx. 19% of the commitment volume), is indirect insurance. Indirect insurance approaches mean that a particularly large number of people can be reached in relation to the financing volume used. However, it is important to keep in mind that the relevant approaches usually “only” provide protection against relatively rare events. The remaining volume is divided into 10% cash transfers, direct insurance (8%), food-for-work programmes (7%), voucher programmes (6%), other programme-based approaches (3%) and food aid (2%).

The funding approaches vary in importance for the three major funding areas (see below).

Basic security: double dividend through cash for work

The cash-for-work programmes clearly dominate in the area of basic security (see Figure 2). These approaches focus on creating paid employment on a temporary basis. The beneficiaries thereby earn a small income, which is intended to improve their living conditions. At the same time, labour deployment (e.g. road construction, soil erosion control, maintenance and repair work, etc.) improves the long-term conditions for development (“double dividend”).

Figure 2: Funding approaches in the basic security portfolio



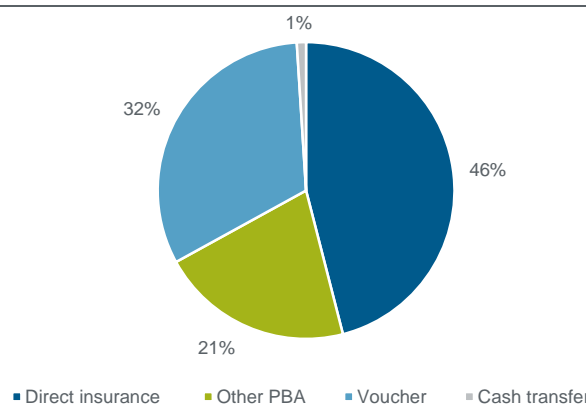
Source: own data

The second most important instrument in the area of basic security is “cash transfers” for the ultra-poor, i.e. people or households who otherwise have no alternative means of earning an income (e.g. because they are too young, too old or ill). Other key instruments related to basic security are food security measures such as food-for-work programmes or direct food aid.

Protection in the event of illness, insurance and more

In quantitative terms, the most important instrument in the area of health insurance is support for the introduction or expansion of health insurance in partner countries. In less developed countries

Figure 3: Funding approaches for protection in the event of illness



Source: own data

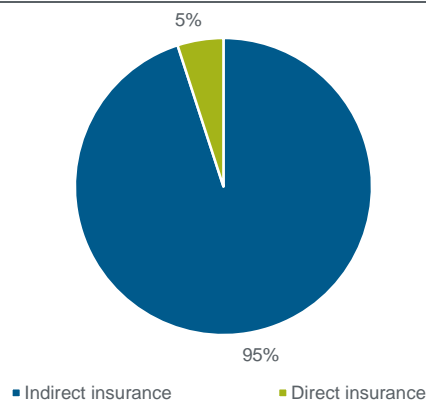
where there is still no viable health insurance system, voucher systems also play an important role as a funding approach. The most needy can purchase vouchers for certain services from accredited health facilities for a small fee. The service providers are subsequently reimbursed for services rendered.

Major health sector reforms are fostered through policy-based approaches (PBAs). Cash transfers play only a minor role in this funding area.

Protection against climate risks on the rise

A more recent priority area of KfW Development Bank is protection against climate risks. As climate change intensifies, it is be-

Figure 4: Funding approaches to protect against climate risks



Source: own data

coming increasingly clear that climate risks can develop into life-threatening crises for more and more people (drought, floods, etc.). In this area, indirect insurance dominates the range of funding approaches.

Around 236 million people are reached directly or indirectly

A total of at least 34 million people benefited in 2018 from direct social protection approaches implemented by KfW on behalf of the German Federal Government in the three above-mentioned funding areas. In addition, there are at least 202 million people who are indirectly protected against certain risks that threaten their very existence.

On average, approximately 80% of the directly and indirectly covered target groups live below the poverty line². The percentage of women and men in the direct and indirect target groups is roughly equal at 50% each.

Financing mainly through pure budget funds

The funds of around EUR 1.0 billion used by KfW for social protection projects originate almost exclusively from the federal budget. Only 3% of the funds stem from other donors and are used by KfW as delegated funds in the interest of an efficient division of labour. Almost 48% of the commitments in the area of

Table 2: Sources of financing

Category	Number of projects	Volume (in EUR million)
Standard BMZ title	55	481
Special initiatives	22	222
IKU special funds	10	170
Transitional aid	10	101
Delegated funds	3	33
Total	100	1,007

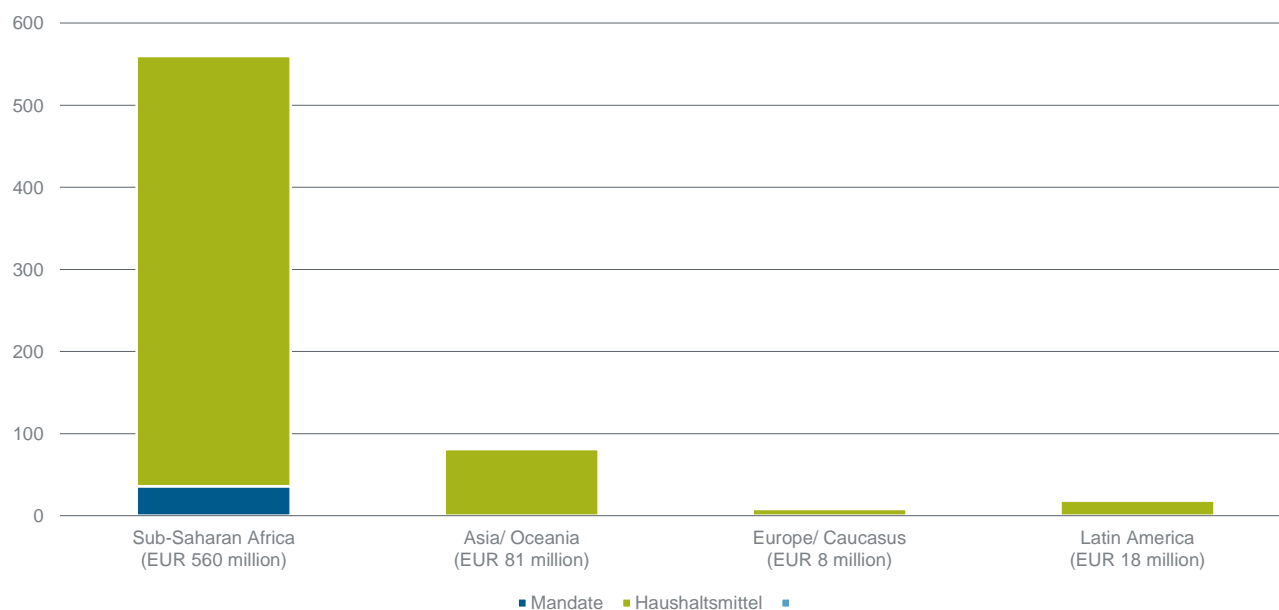
Source: own data

social protection come from the regular BMZ title for bilateral projects. The share of theme-specific commitments from BMZ special funds such as special initiatives or transitional aid is relatively high at 32% – see Table 2.³

The regional focus is Africa

With a total volume of approximately EUR 560 million, more than half of the funds are invested in 47 projects in sub-Saharan Africa. The North Africa / Middle East region is in second place with approximately EUR 264 million and 28 projects – see Figure 5.

Figure 5: Regional distribution of the portfolio and origin of the funds



Source: own data



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² For some projects, the percentage of people living in poverty cannot be recorded exactly or cannot be estimated.

³ Differences in the totals are due to rounding.