

Portfolio Analysis Social Protection

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Portfolio analysis for the 2023 financial year

Summary

In 2023, KfW Development Bank's new commitments for social protection, totaling 32 new projects, amounted to around 673 million Euros. This represents a decrease of around 55% to the previous year. The main cause for this decline is the expiration of COVID-19 related funds. The focus of the new commitments in 2023 were in the areas of "basic assistance", "temporary employment promotion", and "temporary multisectoral assistance". More than half of the projects are implemented in fragile contexts (according to the OECD definition). In 2023, more than 20,3 million people benefitted from improved access to social protection services. The volume of the ongoing portfolio of KfW Development Bank in the area of social protection amounted to approximately 5.4 billion Euros as of 31.12.2023 (205 ongoing projects).

Inclusive and adaptive social protection systems, which can flexibly respond to crises, are a prerequisite for the long-term reduction of poverty and inequality and a cornerstone for social cohesion and peaceful coexistence. The BMZ has prioritized access to adaptive social protection systems to address global challenges, such as combatting poverty and hunger and promoting just transition.

KfW Development Bank supports its partner countries in the development and expansion of adaptive social protection systems and in the use of social protection instruments (such as cash transfers for food security or basic services, basic education, employment, etc.) on behalf of and with funds from the German federal government and other donors. The focus is on the development and expansion of (digital) infrastructure, the disbursement of basic assistance, access to insurance solutions against climate risks and in the event of illness, as well as temporary employment promotion.

Portfolio development: new commitments have declined compared to 2022 but are above pre-COVID levels

In 2023, new commitments for social protection amounted to 673 million Euros, approximately 55% below the previous year (see Fig. 1). This decline is partly due to the reduction in measures initiated by the German government to mitigate the negative social impacts of the COVID-19 pandemic, which had significantly contributed to new commitments in previous years.

Compared to 2019 – the year before the pandemic – new commitments for social protection in 2023 are still three times higher at 673 million Euros. This development highlights the

importance Germany places on social protection to achieve the SDGs and to address global challenges.

The development of the type of funding (see Fig. 2) shows that the high commitments during the pandemic were mainly financed through concessional loans (promotional and development loans). The use of loans decreased significantly in 2023; since then, grant funds from the federal budget have predominated again (as was the case before the pandemic).

Figure 1: Development of number and volume (in EUR) of new projects in the area of social protection

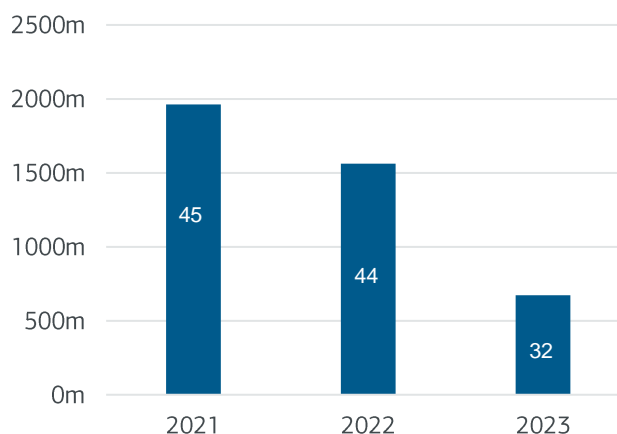
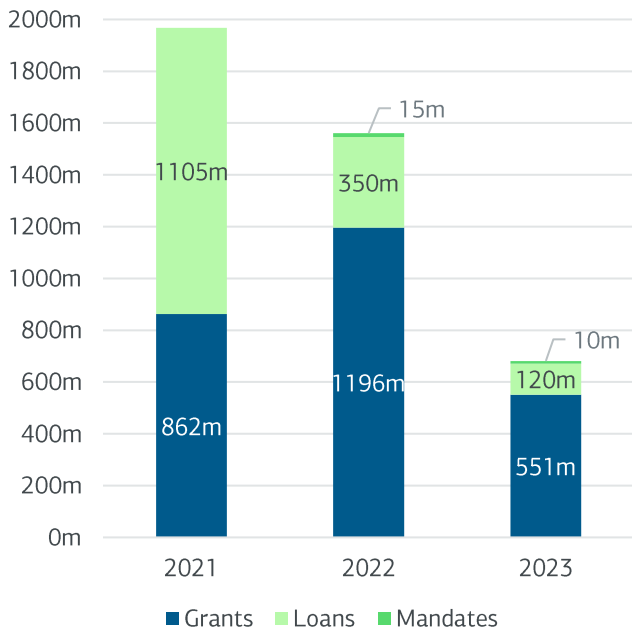


Figure 2: Development of new commitment volume by type of funding (in EUR)¹



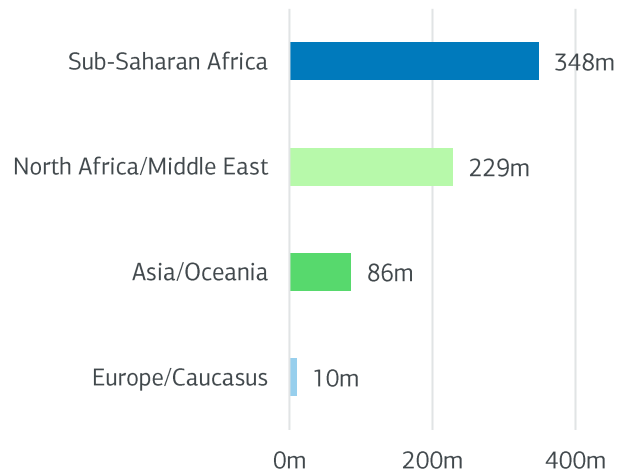
More than 20.3 million people with improved access to social protection services in 2023

In 2023, the new commitments ensured that more than 20.3 million people benefitted from social protection measures². Most people were reached in the regions of Sub-Sahara Africa (approximately 9.8 million people) as well as North Africa and the Middle East (approximately 9.6 million people). A large fraction was reached through employment promotion approaches (approximately 9 million people or 44%) and social security (especially basic assistance; more than 6.7 million people or 33%). Due to the above-average gender impact (see Fig. 7), social protection also contributes to promoting gender equality and to putting marginalized groups into focus. Cash transfers, in particular, have proven to have a positive impact on food security and improve access to basic services, such as health, education, drinking water, etc.³

Regional Focus: Africa, MENA and Asia

In 2023, the focus of commitments was on Sub-Saharan Africa, followed by North Africa/Middle East and Asia/Oceania (see Fig. 3).

Figure 3: Promotional regions 2023 (in EUR)



The highest volumes with new commitments went to Morocco (EUR 122 million), Somalia (EUR 53 million), and Pakistan (EUR 52 million).

In Morocco, KfW supports the government with a subsidized loan to gradually build a nationwide social protection system and expand employment opportunities for young people in the formal sector as part of its reform agenda and efforts.

In Somalia, KfW provides transitional aid to strengthen the resilience of vulnerable groups, such as pregnant women, children, and internally displaced persons, by providing basic services, through UN agencies UNICEF and WFP. Additionally, KfW supports pregnant and lactating women and their families with 23 million Euros via UNICEF, providing cash transfers and training to enable better nutrition and health conditions. The focus is on utilizing and further expanding the national social protection system to support the Somali state in their long-term systemic development.

In Pakistan, two projects focus on both financing basic services through cash transfers and providing municipal infrastructure for people affected by poverty and displacement, as well as strengthening the adaptive social protection system. This system can quickly and effectively scale up social protection measures to more people in events like the major flooding in 2022.

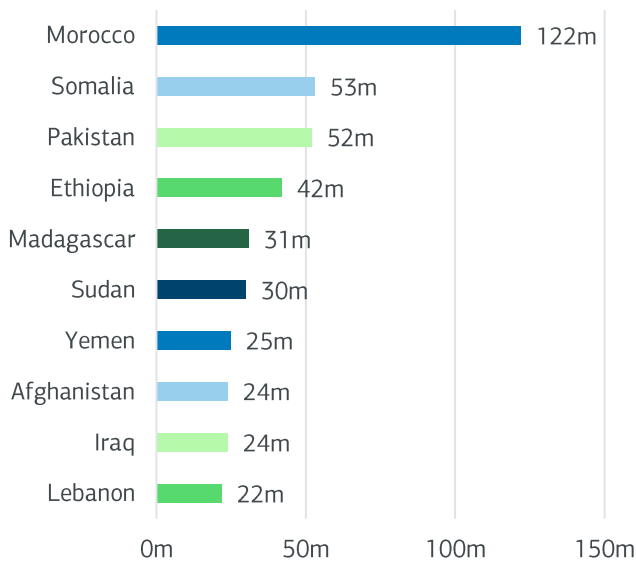
¹ New commitments including EUR 8 million in budgetary resources as interest subsidies.

²In addition, many people are reached through nationwide reform programs in social security systems, which, for the sake of uniform

recording systematics and recording transparency, are not added to the individual beneficiaries.

³ See also: Cash transfers: what does the evidence say? ODI 2016 <https://odi.org/en/publications/cash-transfers-what-does-the-evidence-say-a-rigorous-review-of-impacts-and-the-role-of-design-and-implementation-features/>

Figure 4: Top 10 countries by new commitments in 2023 (in EUR)



Funding Sources: BMZ & KfW Market Funds

The funds committed for new projects in 2023 came from various titles of the BMZ, the EU, and from KfW market funds (see Table 1). A variety of development finance instruments were used, subsidized loans (development loans), bilateral grants, policy-based financing, and insurance approaches. Since the BMZ budget for 2024 is declining (with significant cuts in special initiatives that play a crucial role in financing social protection projects), a further decline in new commitments for social protection programs is expected in 2024.

Table 1: Sources of funds for new projects in 2023

Source	Amount (in EUR)	Percentage
BMZ-Special-Initiatives (SI-AGER, Transitional Aid, SI-GA)	304m	45 %
Standard BMZ Loan Title	232m	34 %
KfW-Funds	120m	18 %
BMZ Regional Title	11m	2 %
EU	10m	2 %
Total	677m⁴	100 %

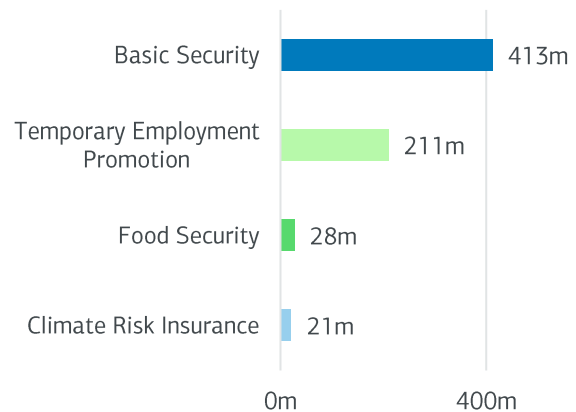
Continued focus on basic security through cash transfers and temporary employment promotion

Investments in basic security amounted to over 413 million Euros, approximately 61% of the new commitment volume in 2023. The focus was on the utilization and strengthening of the national security systems, whenever possible, as seen in Ghana, Morocco, Somalia, and Pakistan. Thematic areas of focus

include employment promotion at around 31%, followed by food security at 4%.

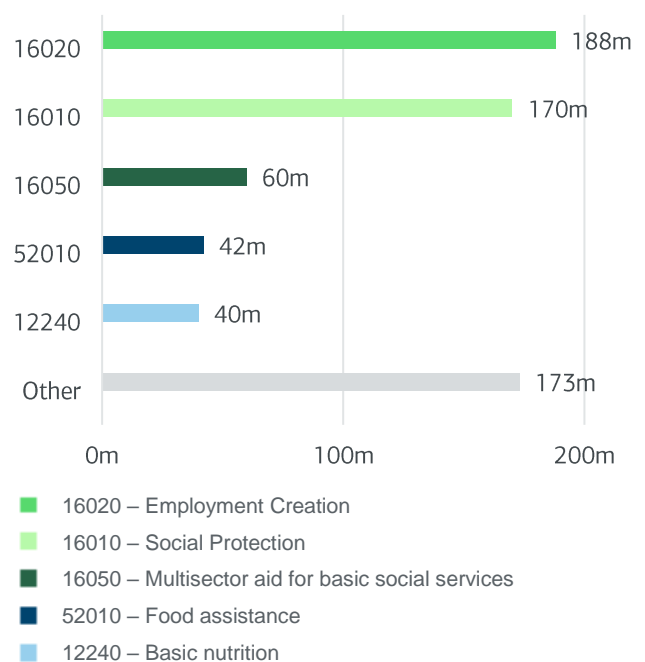
In the area of climate risk insurance, the new commitments in 2023 consisted of premium subsidies for the African Risk Capacity to help countries insure against climate risks and to channel payouts into the social protection of those affected.

Figure 5: New commitments by field of assistance in 2023 (in EUR)



KfW's internal "marker" for social protection encompasses a broad understanding of social protection: insurance against collective and individual risks (including climate risk), basic security, temporary basic services in the context of displacement and migration (in the form of cash and in-kind benefits), and temporary employment. Figure 6 illustrates how this is reflected in the OECD DAC codes.

Figure 6: Top 5 CRS-Codes by new commitments in 2023 (in EUR)

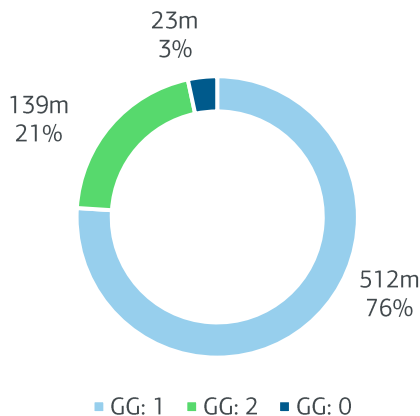


⁴ Slight deviation due to rounding in the individual categories.

Designing inclusive and gender-equitable access to social protection

Women and girls in all their diversity often suffer the most from weak health and social protection systems; at the same time, they significantly contribute to these systems as professionals and through unpaid and paid care work. In the commitment year 2023, a strong focus on promoting gender equality as a primary or secondary goal (identifiers GG2 or GG1) was set with 97% of commitments (2022: 87%).

Figure 7: New commitments with GG-identifiers in 2023



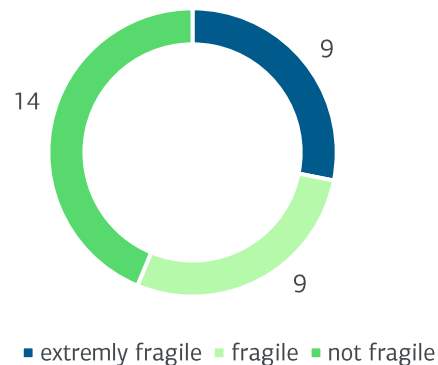
Social protection in fragile contexts remains a focus

With more than half (66%) of the new commitment volume in 2023, KfW promotes social protection and the development and expansion of social protection systems in fragile and extremely fragile countries (according to the OECD definition). Fragile states often have significant deficits in the areas of security, state service delivery, and political legitimacy. In cases where direct collaboration with government partners is not possible due to capacity reasons, KfW finances temporary social protection through cash transfers and employment promotion via UN agencies and non-governmental organizations. It always considers how the built capacities can sustain themselves over the long term and ensures that the financing is well coordinated with the efforts of other financiers such as the World Bank and regional development banks for a complementary impact.

Example: Policy-Based Financing in Ghana

KfW, together with the World Bank, is supporting the Ghanaian government's reform initiatives with a parallel financing of EUR 15 million. The goal is to sustainably strengthen the social safety net and to expand basic security for the poorest segments of the population. This program places a special emphasis on women and disadvantaged groups. Through the EZ Governance-Program, the initiative promotes democratic and inclusive development by enhancing public institutions.

Figure 8: New commitments in fragile contexts in 2023 (absolute numbers)



Outlook

In 2024, strengthening social protection systems and the use of social protection instruments will remain of key importance in financial development cooperation. Comprehensive investments in building social protection systems are necessary to address the increasing challenges posed by fragility, migration, climate change, and the necessary structural transformation. Adaptive social protection systems are capable of quickly reaching vulnerable people in times of crisis. It is crucial to closely integrate temporary assistance with longer-term structural support to increase crisis resilience and to be better prepared for future crises. KfW will continue to support its partners in reforms and the use of social protection instruments, and where possible, promote the development and expansion of adaptive social protection systems.

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