



Promoting Pro-Poor Growth

EMPLOYMENT AND
SOCIAL PROTECTION



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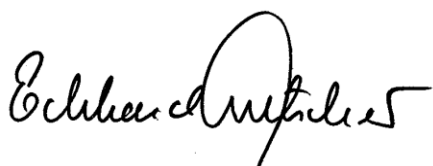
Foreword

Promoting pro-poor growth – enabling a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to and benefit from growth - will be critical in achieving a sustainable trajectory out of poverty and meeting the Millennium Development Goals; especially the target of halving the proportion of people living on less than one dollar a day. Developing and sharing good practice in advancing this agenda has been the focus of the Development Assistance Committee (DAC) through its Network on Poverty Reduction (POVNET) since 2003.

The “DAC Guidelines: Poverty Reduction”, published in 2001, show that poverty has multiple and interlinked causes and dimensions: economic, human, political, socio-cultural, protective/security. The work of POVNET since then has given priority to addressing strategies and policies in key areas for promoting pro-poor economic growth.

Employment and social protection are two critical avenues towards achieving Pro-Poor Growth and the Millennium Development Goals. The majority of poor people work, but employment conditions are poor, productivity low and incomes inadequate. Policies that improve conditions in the informal economy increase the productivity and employability of poor people; and policies that improve the enabling environment for local entrepreneurship will lead to better employment outcomes in developing countries. Social protection enables households to invest in productive activities and human capital, which raises their productivity and incomes. Social protection can be affordable, including for low-income countries, and efficiently tackles poverty through improved health, increased school attendance and reduced hunger.

Social protection and employment are development priorities not only in times of crises, but they gain importance in difficult economic periods. There is growing demand in developing countries for more public action on social protection and employment. To help donors respond, the DAC endorsed the enclosed policy statement at its High-Level Meeting on 27-28 May 2009 which encourages donors to provide adequate, long-term and predictable financial assistance to underpin developing countries’ efforts to build social protection systems and to make employment and decent work a key objective of development co-operation. In addition, POVNET has developed the enclosed Policy Guidance Notes for donors on employment and social protection. This work complements the policy guidance POVNET has already published on agriculture, infrastructure and private sector development.



Eckhard Deutscher
DAC Chair



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In order to achieve its aims, the OECD has set up a number of specialised committees. One of these is the Development Assistance Committee, whose members have agreed to secure an expansion of aggregate volume resources made available to developing countries and to improve their effectiveness. To this end, members periodically review together both the amount and the nature of their contributions to aid programmes, bilateral and multilateral, and consult each other on all other relevant aspects of their development assistance policies.

The members of the Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Community.

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Acronyms

| | |
|--------|--|
| AFD | <i>Agence Française de Développement*</i> |
| CSO | Civil Society Organisation |
| CSR | Corporate Social Responsibility |
| DAC | Development Assistance Committee (OECD) |
| DFID | UK Department for International Development |
| DECT | Dowa Emergency Cash Transfer |
| GDP | Gross Domestic Product |
| ICT | Information and communications technology |
| ILO | International Labour Organisation |
| IMF | International Monetary Fund |
| MDG | Millennium Development Goal |
| M&E | Monitoring and evaluation |
| NGO | Non-governmental organisation |
| OECD | Organisation for Economic Co-operation and Development |
| POVNET | DAC Network on Poverty Reduction |
| UNESCO | United Nations Educational, Scientific and Cultural Organization |
| UNICEF | United Nations Children's Fund |
| UNRISD | United Nations Research Institute for Social Development |
| WTO | World Trade Organisation |

* Denotes acronym in original language

Making Economic Growth More Pro-Poor: The Role of Employment and Social Protection*

Sustained economic growth, in which poor women and men participate directly, as both agents and beneficiaries, is essential for reducing poverty. Recurring crises expose the vulnerability of poor individuals and families as well as their jobs and livelihoods. The current economic crisis, and the on-going challenges of population growth, price volatility, food insecurity and climate change, highlight the need for more effective public actions to address the real constraints and opportunities faced by poor women and men.

Employment and social protection, two critical avenues towards achieving pro-poor growth and the Millennium Development Goals (MDGs), have not received enough attention in public policy making:

- Productive employment and decent work are the main routes out of poverty. Well-functioning labour markets and an enabling environment for local entrepreneurship are essential to increase employment opportunities for the poor. Policies that recognise and improve conditions in the informal economy, where most poor women and men earn their livelihoods, are critical to poverty reduction. Increasing the employability of poor people, especially for women and youth, unlocks their potential to contribute to growth.
- Social protection directly reduces poverty and helps make growth more pro-poor. It stimulates the involvement of poor women and men in economic growth, protects the poorest and most vulnerable in a downturn and contributes to social cohesion and stability. It helps build human capital, manage risks, promote investment and entrepreneurship and improve participation in labour markets. Social protection programmes can be affordable, including for the poorest countries, and represent good value for money.

Actions in these two areas are mutually reinforcing and promote pro-poor growth. Better and more productive jobs raise incomes, allow social spending by poor workers and help finance social protection. Social protection improves the productivity and employability of poor people and stabilises and increases their incomes and links short-term coping strategies with longer-term growth enhancing and poverty reduction strategies.

* This Policy Statement was endorsed at the DAC High-Level Meeting on 27-28 May 2009.

Action on both employment and social protection will be a critical and countercyclical element of developing countries' response to the current global economic recession. Measures in these areas will help protect the progress made over the last decade towards achieving MDG 1 in the face of global recession and volatility in international markets. Combinations of measures promoting social protection (*e.g.* cash transfers) and employment (*e.g.* workfare) will help protect the most vulnerable while also promoting longer-term recovery.

Developing countries will need considerable assistance from donors to build the foundations for the economic rebound. They also need support when providing social protection measures to build resilience to the recession and tackle the real economic hardships faced by poor people. Though obviously difficult when budgets are under pressure and fiscal space is limited, it is even more important now to create the conditions and incentives for pro-poor growth that will reduce poverty and build livelihoods robust enough to weather the storms of the global economic climate.

Social protection

Social protection refers to policies and actions which enhance the capacity of poor and vulnerable people to escape from poverty and enable them to better manage risks and shocks. Social protection measures include social insurance, social transfers and minimum labour standards.

Social protection directly reduces poverty, stimulates the involvement of poor women and men in the economy and contributes to social cohesion and stability

Social protection directly reduces poverty through improved health outcomes, increased school attendance, hunger reduction and livelihoods promotion. It helps reduce gender disparities in human development outcomes. It can provide essential support to vulnerable members of society who are unable to work.

Social protection makes growth more pro-poor by enabling household investment in productive activities and human capital, raising productivity and incomes. It helps poor women and men to manage the trade-offs between meeting immediate needs and securing future livelihoods. Social protection helps poor and vulnerable households to safeguard their assets and adopt effective coping strategies to meet challenges arising from man-made and natural disasters, economic crises and climate change. This allows households to invest in more productive but often riskier livelihood strategies.

By strengthening the employability of poor women and men and enabling them to seek and obtain better and more remunerative work, social protection promotes their participation in the labour force. Social protection thus builds self reliance, not dependency.

Social protection reinforces the social contract that can help legitimise and strengthen the state, which is particularly important in fragile contexts.

Well-designed social protection programmes can be affordable, including for the poorest countries, represent good value for money and require strong political commitment

The costs of social protection measures can be kept relatively low and manageable by starting small and developing them over several years. Context-specific targeting and delivery are critical design and capacity issues which impact on costs and the ability to reach the poor and achieve desired outcomes. Evidence shows that even small programmes bring benefits, as supported by evidence from *e.g.* the International Labour Organisation (ILO) and South Africa.

Social protection policies need to be directed at the informal economy to maximise reach and results. As social protection is generally seen as essentially linked to formal working environments, workers in the informal economy tend to be invisible to policy makers.

The state has the primary role in providing the framework for delivering social protection. Social protection systems thus require strong and sustained political commitment to deliver lasting benefits and must be integrated into national social policy frameworks. Investment in implementation systems, monitoring and evaluation, fiduciary risk management and accountability mechanisms are important for the effective and sustainable delivery of social protection.

Employment and labour markets

The MDG 1 target on *productive employment and decent work for all* emphasises the importance of employment for reducing poverty. The vast majority of poor people work, but employment conditions are frequently poor, productivity low and incomes inadequate.

Policies that recognise and improve conditions in the informal economy, where most poor women and men earn their livelihoods, are critical to poverty reduction

Most poor people, and particularly women, earn their livelihoods in the informal economy, which does not necessarily shrink with economic growth. Policies aimed at increasing employment and reducing poverty will be more effective when they take into account the informal economy. This means that measures, such as skills development, the promotion of entrepreneurship and improving working conditions, must be designed for delivery and impact in the informal economy.

Measures that facilitate the process of formalisation of firms and labour should generate more productive employment and decent work, improve social protection and reduce poverty. Policies need to reduce barriers and provide incentives to formalisation and tackle the forces driving informality.

Increasing the employability of poor people, especially for women and youth, unlocks their potential to contribute to growth

Promoting the employment of women makes sound economic, social and political sense, and is all the more important in economic downturns, which impact severely on women. Young people and women face particular barriers and biases concerning their access and participation in economic growth, resulting in a major underutilised potential for growth and poverty reduction. Their employability can be promoted through measures that specifically address their respective constraints and potentials and also by giving particular attention to activities where they have high labour market participation.

The productivity and employability of poor women and men can also be increased with well-tailored and recognised vocational training, building on basic education and life skills. These programmes have to be demand-driven, apply also to the informal economy and become an integral part of education and employment strategies.

Well-functioning labour markets and an enabling environment for local entrepreneurship are essential to increase employment opportunities for the poor

A sound understanding of how labour markets are structured and work is needed for policy making. Donors should support developing country efforts that improve knowledge and sex-disaggregated statistics in order to strengthen evidence-based policy making and involve other stakeholders in that process. A multi-stakeholder approach, supporting a broad-based dialogue, is crucial to establishing socially responsible employment practices and regulating labour markets in ways that deliver state, employer and employee objectives.

International migration due to labour market imbalances needs to be better managed through a stronger partnership between origin and destination countries and through more coherent approaches to promote development outcomes and minimise negative effects. Making the best of migration requires countries to: (i) conduct more research and sharing of good practices, including how to manage the impacts of brain-drain; (ii) encourage brain-gain through circular or return migration; (iii) reduce the transfer cost and improve the security of remittances; and (iv) strengthen co-operation with diaspora communities. Remittances are an important resource flow to developing countries and are already being adversely affected by the global recession, adding to the vulnerability of developing countries and their citizens.

Employment contributes towards stability and economic recovery in fragile situations. Short-term employment creation is an essential component of post-conflict strategies alongside longer-term investments in the enabling environment for the private sector.

Implications for donors

There is growing demand in partner countries, and from regional institutions such as the African Union, for more public action on social protection and employment. Many countries incorporate strategies and targets in these areas in their national development

and poverty reduction programmes. As donors, we need to respond positively to this demand and support these developing country policy initiatives.

Donors' support for social protection programmes should provide adequate, long-term and predictable financial assistance to help partner governments establish gender-sensitive social protection programmes and create the conditions for those programmes to be politically and financially sustainable. This is especially important in the current situation of contracting fiscal space and declining financial inflows. Such support must be provided through harmonised and co-ordinated financing mechanisms in support of nationally defined strategies and programmes. This requires:

- Supporting developing countries' own efforts to build the political commitment and policy processes needed to develop and implement social protection systems.
- Committing to a long-term partnership, including financial and technical support, to underpin developing countries' efforts to build social protection systems.
- Investing in developing country initiatives to develop and share knowledge on the effective design and implementation of social protection systems.

Productive employment and decent work needs to be a key objective of development co-operation. This requires:

- Taking specific measures to improve employment, productivity and working conditions in the informal economy, facilitate formalisation, encourage entrepreneurship and promote more, productive and decent employment in the formal economy.
- Increasing the participation of women and young people in the labour market, by addressing the discrimination, constraints and barriers that they face and by strengthening measures to improve access to demand-driven vocational training.
- Supporting developing-country efforts to improve knowledge and sex-disaggregated statistics to strengthen evidence-based policy making and involving other stakeholders in that process.

Our actions in these areas must be harmonised and aligned with national policy, in line with the Paris Declaration and Accra Agenda for Action. We must commit to developing country policy making processes and to their outcomes. We must also help governments strengthen implementation capacity, foster effective stakeholder engagement and facilitate the empowerment of poor people in national policy-making processes.

Employment is the Major Route Out of Poverty: How Donors Can Help*

Key Policy Messages

- Productive employment and decent work needs to be a key objective of development co-operation and receive greater attention in policy dialogue with developing countries. Productive employment and decent work are the main routes out of poverty, including in fragile environments, and are crucial for achieving the MDGs.
- Specific measures need to be taken to improve employment, productivity and working conditions in the informal economy, facilitate formalisation, encourage entrepreneurship and promote more, productive and decent employment in the formal economy.
- The participation of women and young people in the labour market needs to increase, including by addressing gender-based discrimination, and the constraints and barriers that women and young people face as well as by strengthening measures to improve access to demand-driven vocational training.
- Efforts by partner countries to improve the availability of reliable, sex-disaggregated statistics should be supported because these are crucial for understanding the functioning and dynamics of both the formal and informal labour markets and enhance evidence-based policy making.

Introduction

Productive and decent work¹ is the main route out of poverty for most poor people. By making better employment outcomes an MDG target for eradicating extreme poverty, the international community has highlighted the importance of promoting employment, which is also a core objective for several international organisations including the International Labour Organisation (ILO), World Trade Organisation (WTO) and Organisation for Economic Co-operation and Development (OECD). Employment performance is therefore central to the success of poverty reduction strategies and to efforts to enhance development, but it has to be productive and decent paid employment if individuals, the economy and society are to benefit fully. Both the pace and pattern of

* This Policy Guidance Note and its supporting background papers are published as *Promoting Pro-Poor Growth: Employment*, (2009) OECD, Paris.

economic growth matter as well. A rapid pace of growth and increasing labour productivity are needed to generate large numbers of new and decent jobs in developing countries while a broad-based pattern of growth is needed to maximise the participation of and benefits to poor people.

The lack of sufficient productive and decent employment opportunities is a major bottleneck to reducing poverty and achieving the MDGs; it is also an increasing source of social and political instability. Strengthening the productive resources and capacities of poor women and men enhances their ability and likelihood of finding or creating productive employment. Increases in income, especially for women, result in greater investments in health and education that in turn increase the welfare and productive capacity of the workforce. They also increase poor people's purchasing power which stimulates demand for goods and services, including social protection, leading to additional opportunities for wage and self employment, and contributing to more inclusive and sustainable growth.

Most of the world's poor people are working but have poor employment conditions and earn little. They are working in very diverse environments, mostly in the informal economy, such as unregulated factories and small workshops, on streets or in open spaces, in fields, forests and pastures, or at home. Collectively, they produce a significant share of developing countries' national income [41% in developing countries, compared to 18% in OECD countries (OECD, 2006)] and make up a large untapped potential for further growth. Yet informal workers and businesses remain mostly invisible for policy makers. As a result, they lack basic social protection, are locked into low productivity activities, with scant opportunities for economic mobility, slip more easily into deep poverty and rarely benefit from specific policies targeted at their particular needs and opportunities. As a consequence, incomes earned in the informal economy, where women are over-represented, are lower than those in the formal economy.

Through the work of its Network on Poverty Reduction (POVNET), the OECD's Development Assistance Committee (DAC) has developed policy guidance for donors aimed at reducing poverty by increasing employment and making labour markets work better for poor people. It builds on earlier work on private sector development (UN, 2005). Recognising that poor people identify getting a job – whether through self-employment or from wages – as their most promising path out of poverty (Narayan *et al.*, 2000), this policy guidance advocates making employment a central feature of poverty reduction strategies and highlights the importance of addressing both the formal and informal labour markets more effectively. This policy guidance is based on available evidence from developing countries and lessons learnt from good practices, elaborated after consideration of a series of topics: (i) informality, (ii) vocational training, (iii) international migration, (iv) social protection, (v) youth and employment, (vi) women and employment, and (vii) situations of fragility. Additional work, including a conceptual framework on employment and poverty reduction and on the relationship between economic growth, employment and poverty reduction, underpinned preparation of this guidance.

The dynamics and dependencies of employment and labour markets

A sound macroeconomic framework is the basis for supporting growth and employment creation.

Macroeconomic policies can contribute to raising domestic productive activities and thus create new employment opportunities, but often need to be sustained by structural and institutional changes to be effective. While many developing countries have achieved macroeconomic stability in the recent past, leading to moderate or even fast economic growth, major challenges remain in facilitating a growth pattern that is more robust and pro-employment. Co-ordinated macroeconomic policies are key instruments for a structural anti-cyclical fiscal policy as recommended by the International Monetary Fund (IMF) and the OECD. They can help smooth out economic fluctuations and raise investors' confidence, but also contribute to growth and employment creation in periods of economic downturn. In many developing countries, monetary policies only include inflation targets. More attention could be given to growth and employment, without jeopardising macroeconomic stability. Moreover, in increasingly open economies, exchange rate policy is a powerful tool to influence the competitiveness of the domestic economy with all its consequences on employment.

The impact of growth on employment and poverty reduction varies considerably. Developing countries with similar rates of economic growth have experienced quite different levels of economic poverty reduction (Ravallion, 2004). While generally positive, its impact is often below expectations, often due to initial levels of inequality in incomes and assets. Economic growth without significant employment creation, *e.g.* based on minerals exploitation, is a phenomenon which leads to increasing inequalities in wealth and inevitably to increasing poverty. This is why POVNET promotes pro-poor growth and stresses the importance of both the pace and the pattern of growth. Poverty reduction through faster and more inclusive growth is the target we are trying to reach by increasing the participation of poor people in the labour market.

The evolving sectoral pattern of growth matters for poverty reduction. Over time, economic development is associated with a move from lower to higher productivity activities coupled with a move of the labour force from the primary to the secondary and tertiary sectors. Agriculture is a key sector as that is how most poor people in developing countries currently derive their incomes and sustain their livelihoods. In agriculture-based countries (mainly sub-Saharan Africa), it generates on average 29% of the gross domestic product (GDP) and employs 65% of the labour force (World Bank, 2008). But agriculture is also a complex sector; while productivity-intensive growth in agriculture significantly reduces the incidence of poverty, employment-intensive growth in low productivity agriculture actually increases it. It is increases in productivity in activities higher up the value chain, and employment-intensive growth in the secondary sector (manufacturing, construction and utilities) that substantially reduce the incidence of poverty, when they are accompanied by increases in agricultural productivity. For example, expansions in high labour-absorbing sectors such as manufacturing and tourism have benefitted poor people. The tertiary sector can offer expansions in high productivity employment when education levels are relatively high, such as in India or Latin America.

A conducive investment climate is essential to underpin development of the private sector and to mobilise more productive investment. Governments can improve their

investment climate by reducing the risks and costs (for example, through infrastructure investment and reducing excessive costs to comply with regulations) of investment, improving efficiency and encouraging innovation by removing imperfections in land, commodity and financial markets and developing the capacities of government institutions that regulate and monitor the performance of labour markets (such as occupational health and safety inspectorates).

Key areas for donors' attention include:

- Supporting the development and implementation of macroeconomic policies that lead to sustained pro-poor growth as well as policies and public interventions that improve the competitiveness of the private sector and create decent employment.
- Helping increase attention to employment outcomes in the design of sectoral policies including through *ex ante* analysis of sectors with high potential for employment and value addition (quality, quantity, specific group of workers, age, gender, specific geographic regions facing employment challenges).
- Supporting efforts to increase agricultural productivity and the development of rural enterprises, thus reaching many poor people.

Involving stakeholders in evidence-based policy making

The role of government, workers and employers

It is the responsibility of governments to facilitate provision of labour market institutions and a business environment that fosters productive and decent work.

Improving poor people's access to the labour market and decent employment requires concerted efforts by governments, civil society, trade unions and the private sector. Businesses can complement these efforts by adhering to corporate social responsibility (CSR) standards. To have the greatest impact on reducing poverty, all interventions aimed at labour market development, private sector-led growth and employment promotion need to take account of the constraints and opportunities in the informal economy and not just those found in the formal economy.

Effective policy development processes have to be forward looking and include planning of their implementation and the provision of means to monitor and evaluate them. Governments often develop policies or define laws relatively easily, but lack the right means and adequate human and institutional capacities to implement and enforce them.

Incentives are needed to develop a multi-stakeholder approach to support socially responsible employment practices, to regulate labour markets to extend basic worker rights and benefits to informal wage workers and to make governments more accountable.

Representatives of the private sector in both the formal and informal economies, social partners and communities, as well as women and youth, need to be involved in policy formulation processes and their implementation. Organisations that represent the interests of workers and employers need to enhance their capacity to engage in such political dialogue, create businesses and so improve employment outcomes. Poor people in particular, if included in the debates on labour market policies, stand to benefit from better representation and a voice in decision making.

It has been shown in South Africa that including professional and social partners in designing policies for vocational training resulted in a better response to the needs of the labour market. Such policies have to target the informal as well as the formal economy, women as well as men, and young people as well as adults, in order to have a wide impact. Organising workers around social protection can be a way of empowering them. A key objective is to better integrate employment creation and the social protection of informal workers into poverty reduction and other development strategies. In the formal economy, companies are expected to set an example and take responsibility in promoting good business practices and decent work according to legislation, but also going beyond as part of their corporate social responsibility.

Individual and institutional capacity development of governments, workers and business organisations is a vital contribution to a well-functioning labour market. Unions not only have to become a competent partner but also need to be granted access to a well-structured and functioning policy dialogue.

The importance of better statistics

Access to reliable, sex-disaggregated statistics is crucial for understanding the functioning and dynamics of both formal and informal labour markets and to support evidence-based policy making.

Detailed and up-to-date information on the structure and dynamics of the labour market is needed to underpin policy making, but also monitoring and evaluation. In developing countries, the labour market is often not well understood or standard concepts (e.g. “unemployment”) difficult to apply. Viable statistics, analyses and evaluations are needed to address the labour market effectively, to compile and understand the country-specific evidence and the potential constraints to finding adequate and adapted solutions that will reach poor people and address the specific constraints faced by youths, women and people with disabilities. To ensure transparency in policy making processes, the information emanating from such sources should be publically available.

Key areas for donors' attention include:

- Supporting participatory approaches for capacity development on employment policy design. Involvement of public sector, private sector, trade unions, Civil Society Organisations (CSOs) as well as groups facing specific barriers (e.g. youth, women, ethnic groups) including those in the informal economy.
- Promoting the development and access to national multi-stakeholder institutions for social dialogue on employment, social protection and pro-poor and pro-employment macro-economic policies: *i.e.* a tripartite approach.
- Providing support for the systematic and sustainable development, collection and treatment of national sex-disaggregated data related to the formal and informal labour markets, to enhance evidence-based policy making that draws on nationally owned information.

Employment in the formal and informal economies

Policy makers need to recognise the importance of the informal economy and help to improve productivity, working conditions and social protection in the informal economy while easing and encouraging formalisation.

Achieving a dynamic formal economy with decent employment conditions is undoubtedly a main goal of any government's economic strategy. It underpins the provision of services, including social protection, the implementation of rules and regulations and the collection of revenue by the government to fund the provision of public goods. However, in most developing countries, the informal economy is very large and the global persistence of poverty is connected to the size, durability and conditions in the informal economy. Informal employment is very high (Table 1) and even increasing worldwide (OECD, 2008) and, contrary to what had been expected, it does not necessarily decline as a country develops.

Table 1. Trends in employment in the informal economy

| Region | Informal economy employment as a percentage of non-agricultural employment | |
|---------------------|--|---------|
| | 1980-89 | 1990-99 |
| North Africa | 38.8 | 43.3 |
| Sub-Saharan African | 68.1 | 74.8 |
| Latin America | 52.3 | 56.9 |
| Asia | 53.0 | 63.0 |

Source: Charmes, 2000

By paying greater attention to the informal economy, donors can help developing country governments to unveil a large and unfilled potential to generate growth and reduce poverty. Governments can do this through policies that: (i) increase productivity and earnings in the informal economy, especially through a focus on skills development, (ii) reduce the risks to those working in the informal economy, and (iii) reduce barriers and provide better incentives to promoting and creating more productive and decent formal jobs.

Traditionally, measures related to informality and informal employment have aimed at their formalisation. Often, formalisation policies have had more negative connotations and have taken the form of stressing the illegality of certain informal activities, thus making it more difficult for informal economic actors to carry out their activities. In many countries, the costs of formalising become prohibitive and encourage employers to continue to operate in the informal economy. By pushing already vulnerable groups of people into even more difficult situations, badly designed formalisation policies can contribute to increased poverty and vulnerability rather than to poverty reduction.

Instead, governments should address the drivers for informality, particularly:

Exclusion: a low capacity of the formal private and public sectors to accommodate rapid labour force growth, resulting in a mismatch between demand and supply of labour.

Entry barriers: unreasonable regulations, costly/hostile legal environments and increased use of subcontracting can make entry into a formalised labour market difficult or impossible.

Exploitation: changes in formal labour regulations or their implementation can increase informal units and the number of workers in informal businesses.

Exit: informalisation of once-formal jobs as a strategy to lower costs and deal with competition.

The informal economy is structured very diversely and can only be described in a country-specific context. Governments and donors therefore have to plan their interventions based on sound knowledge of how the informal economy actually works.

Key areas for donors' attention include:

- Increasing the voice of informal workers and businesses in decision-making processes with special attention to women and youth (e.g. through representation of informal workers in employers' and workers' organisation, the role of the CSOs).
- Assisting micro enterprise development and self-employment in urban and rural areas by improving working conditions and productivity through access to financial resources, business development, skills development programmes and basic infrastructure.
- Supporting labour market reforms and promoting legal approaches (including enforcement and/or incentive measures) to formalise informal businesses and work arrangements of wage workers (e.g. domestic workers or informal workers of formal enterprises).

Increasing the employability of poor people

A rapid pace and a more inclusive pattern of growth will increase employment opportunities for poor people. But, to take advantage of these opportunities, poor women and men need to increase their ability to participate productively in the growth process so as to benefit more from it. A skilled labour force and an ability to move flexibly between jobs and types of occupation are key attributes of a dynamic labour market. A shortage of skilled labour can severely influence prospects for sustainable growth. Barriers to access and to the movement of the labour force across occupations, sectors and regions can prevent them from benefiting from increased employment opportunities. Social protection enhances the productivity and participation of poor people in the labour market by reducing their livelihood risks.

Vocational training

The productivity and employability of poor people can be significantly increased with well-tailored and recognised (certificated) vocational training, especially for workers in the informal economy.

A primary asset and resource of poor people is labour. Improving and extending vocational training to develop appropriate skills is crucial to facilitating transitions to more productive jobs and therefore improves the employability of the work force.

Many existing vocational training systems need to be reformed. They are generally inadequate in size, concentrated on the formal economy, not very effective and not very relevant to the needs of the labour markets in poor countries. They need to be truly demand driven by the private sector. By focusing on the formal economy only, technical and vocational education and skills development systems fail to address the needs of the full labour market. Introducing recognised professional certificates allows individuals to prove their skills. Attempts to restructure technical vocational education, apprenticeships and training systems remain small-scale. Vocational training thus needs to be scaled up and has to become a part of an overall employment and education policy.

Vocational training needs to build on basic education systems. Only about 60% of students who enter basic education in sub-Saharan Africa actually complete it (UNESCO). Basic education and life skills development is vital for supporting the economic development process because it improves agricultural productivity and can facilitate the transition of workers from agricultural jobs to work in the secondary or tertiary sectors.

Helping employment seekers become entrepreneurs who create jobs (for example through self-employment, micro-enterprise creators) can be a neglected path to entering the labour market. An employment and education policy should therefore include entrepreneurship training. Together with mechanisms that provide start-up capital, businesses can be created in a sound economic context.

Key areas for donors' attention include:

- Providing advice and support with a view to making vocational training cost-effective and demand-driven, gender neutral, decentralised and involving the private sector and labour market organisations with innovative approaches, such as through public-private partnerships.
- Supporting cost-effective policies that facilitate the upgrading of training in the informal economy, including apprenticeships.
- Promoting the setting-up of vocational training in the informal economy and nation-wide recognised certificates.

Social protection and empowerment

Social protection and empowerment increases the access of poor people to the labour market and the productivity of workers and thus helps to break the vicious circle of poverty.

The productive potential of poor people can be unlocked through active social protection mechanisms. Poor people generally adopt risk coping strategies to adapt to frequent or continuing economic stress. When under economic stress, poor people may respond by consuming less, taking their children out of school, reducing expenditures on health care or selling their productive assets. The provision of social protection can break this vicious circle of poverty by easing risk coping strategies, while empowering poor people to better access productive employment opportunities and giving them an important incentive for formalisation. It also helps them take the decisions and make the adjustments to put them on more sustainable paths out of poverty.

Access to social protection is often related to work in the formal economy. Workers in the informal economy, where 70% to 95% of the labour force in developing countries (including agriculture) is employed (ILO, 2002), are therefore excluded from contributory schemes and may not be able to afford private insurance or get access to community-based schemes. But the creation of separate social protection institutions and systems for the informal economy are not needed. Instead, the formal social security administrations need to adapt and expand to include informal workers. Risk pooling among larger populations will ultimately increase the sustainability of these systems for all. In addition, countries with substantial and long-standing social protection programmes know that their effectiveness has not been just risk management, or response to crises, but rather a long-term investment – with high rates of return – in a productive economy and society. Progress towards sustainable social protection measures thus requires the inclusion of informal workers in formal social protection institutions.

Social cash transfers can effectively promote engagement in labour markets and there is evidence to suggest that they need not create work disincentives (Posel *et al.*, 2006) or give rise to moral hazard issues. Studies from South Africa shows that working age adults in poor households that receive a social pension are more likely to look for work and more likely to find employment than comparable adults in households that do not receive a social pension. Productive safety nets provided through public work programmes can

temporarily ease economic stress from unemployment and facilitate access to the labour market.

Key areas for donors' attention include:

- Providing advice on how to design and fund safety net programmes.
- Supporting and developing capacity in national ministries of labour and social affairs, which have the responsibility for national social protection strategy development – as well as in the social security administrations that manage the pension, health insurance and other social security schemes.
- Providing financial support or subsidising through other means contributions by the self-employed and informal sector workers to pension, health insurance and other social security schemes.

International migration

More coherent policies for the promotion of development through migration should be pursued by means of stronger partnerships between origin and destination countries -- with special attention to brain-drain and circular-migration issues.

Policies toward international migration, employment and investment in developing countries must be more coherent, given the many interactions between those phenomena. But more coherent policies require a much better understanding of the links and impacts between mobility, jobs and development. However, empirical evidence does exist and this suggests that the labour markets in sending countries adjust to emigration in different ways, depending on the scale and type of migration and the country's general socio-economic condition. As in many other areas, grasping the variety and complexity of these relationships requires the collection of more data and the development of appropriate analytical tools.

The effects of migration on employment have many facets. For example, the migration of low-skilled workers might result in rising wages or, in areas with high rates of emigration and an oversupply of labour, a relaxation of local labour market pressures. For some, overseas work experience might provide opportunities to improve skills and acquire further knowledge while others, whose qualifications are not adequately recognised in their receiving country, may see their skills diminish while abroad.

The promotion of “circular migration” can be an effective response to brain drain, which often deprives developing countries of their human capital and has serious consequences on the delivery of key services, *e.g.* education or health care. This can take the form of re-entry visas for migrants on renewable short-term contracts, portable pensions and other social benefits. “Ethical recruitment” practices and measures to improve working conditions, infrastructure and career opportunities for high-skilled personnel in developing countries should parallel/accompany the acquisition of professionals from sectors exposed to brain drain. On-the-job training and skill acquisition schemes affecting migrants' employability and knowledge transfer can also support circular migration. Diaspora networks play an important role in reducing the costs

of brain drain by fostering co-operation and the conveyance of knowledge and skills as well as collective and business investment.

Remittances will contribute more to job creation if policies help create stronger incentives to save and invest in migrants' countries of origin - including, notably, in community-development projects and small-scale labour-intensive business. Migrants abroad often remit savings to their families at home. Families generally use these for consumption and for investments in education, health and better housing. Policies could seek to create incentives to use more of the remittances for productive investments. Expanded access to money transfer institutions, a reduction in transaction fees and improved safety of money transfers should also be promoted. Remittances can counterbalance the deficiency of local insurance systems and function as social safety nets. Remittances are however likely to fall drastically in times of recession and increase unemployment in destination countries.

Considering the manifold links between migration and employment, migration policy has to be coherent (and complementary) with policy fields of education and vocational training, the labour market and private sector development, social development/security; all of which should be aware of the situation of potential migrants.

Key areas for donors' attention include:

- Promote greater analysis and understanding of the impacts of migration on employment and investment.
- Increase the opportunities and reduce the challenges of migration sending and migration receiving countries by helping to promote partnerships between countries, especially regarding the reduction of brain drain effects and the promotion of circular migration.
- Supporting efforts to create a more conducive environment for remittances that are profitably invested, saved or used.

Focus on youth, women and vulnerable groups

Special attention to women, young people and other groups facing specific barriers in the labour market improves their access to the labour market, enhances social cohesion and promotes more sustainable growth.

Sustainable development is built on social cohesion as well as sound economic management. Policies for high economic growth need to be accompanied by social, employment and other policies to ensure that poor people share the benefits of growth. Women, young people and people with disabilities can be disadvantaged and may need special measures to help them access the labour market better.

Youth

The integration of youth in the labour market should be promoted by adjusting existing employment policies accompanied by more targeted interventions.

The failure of the formal economy to generate sufficient employment opportunities for young people raises the spectre of social disaffection, rising crime and political instability. Developing country populations are becoming increasingly younger and about one third of the youth is unemployed or part of the working poor. In sub-Saharan Africa, 65% of the population is below 25 years of age. There is an urgent need to target youth employment.

Young people face particular barriers and biases concerning their employability, access to and participation in economic growth. A growing number of qualified young people are trying to integrate into the labour market but are often unable to do so. While higher and more sustained rates of economic growth will help, not enough jobs are being generated for young people and not enough young people have the necessary education and skills required by the increasing demand for skilled labour. As a result, growing numbers of young people are unemployed or part of the working poor, thus raising the spectre of social disaffection, rising crime and political instability. It also adds to the vicious circle of intergenerational poverty transfer.

There is no “magic bullet” to increasing youth employment, but a combination of approaches should have a mutually reinforcing impact. While there is little hard evidence on cost effectiveness, there is evidence that all approaches (*e.g.* specific skills training, multiple service interventions, such as job placements, or wage subsidies, and promotion of entrepreneurship) have similar impact potential. The potential to strengthen youth employment can be increased by combining various approaches in an integrated manner (*e.g.* vocational training, apprenticeships, job sharing, work experience schemes, etc.) to exploit their synergies. Also, when designing vocational training policies, it is important to differentiate between the specific backgrounds of life-skills and the amount and quality of primary, secondary and tertiary education. However, while labour-intensive public works programmes can have their merits, their long-term impact on educated youth is not necessarily significant. More attention is also needed on employment creation in new sectors that are particularly attractive for youth [*e.g.* information and communications technology (ICT) and the environment].

Key areas for donors’ attention include:

- Advocating inclusion of youth employment considerations within support for public investment programmes (in particular infrastructure and construction) and support the creation of incentives for enterprises to hire more young people.
- Voices of the youth: Supporting existing labour policies, but adjusted to specific youth needs, or through targeted interventions in a specific environment.
- Supporting youth, where they face special barriers, for example by linking increased entrepreneurship of the youth with access to financial services, incubators and start up support.

Women

Achieving women's economic empowerment and gender equality in the labour market requires targeted action and makes economic sense for the whole of society.

We still have not achieved anything near gender equality, in spite of decades of discussions, conferences, and political agreements on gender equality. Women (estimated to make up 60% of the working poor) face particular barriers and biases concerning employment, assets, access and participation in economic growth. Promoting the employment of women makes sound economic, social and political sense, and is all the more important in economic downturns which impact even more severely on women. In terms of economic empowerment, women currently face three major challenges:

1. The gender gap in employment: Women are less likely to have a (paid) job than men. An increased awareness is needed for women of their constitutional and legal rights, and on the importance of girls' access to primary and secondary school enrolment and attendance.
2. Women's jobs are more likely to be concentrated in the informal economy and in low value-added activities. Efforts are thus needed to increase women's representation in higher value-added sectors, including by making the formal economy more accessible and attractive for women.
3. Women are more likely to be in low-wage jobs with poor working conditions or in unpaid work in the family and community (*e.g.* care of children and elderly and sick people). There is thus a need to reduce women's decent work deficit through labour market policies and legislation, involving public and private employers and trade unions.

Key areas for donors' attention include:

- Targeting more interventions at women, including addressing and benchmarking gender equality in regulatory reforms, access to finance, access to other business services, entrepreneurship and start up through incubators and activities in which women can and do get productive and decent work.
- Supporting women's organisations that promote women's economic empowerment (entrepreneurs, labour rights, voice), but also sensitisation of men and society to create awareness and understanding of the need of specifically targeting women.
- Promoting greater awareness of the double burden women face: unpaid reproductive, personal family work and productive paid work. Programmes should help reduce unpaid work and translate women's labour into paid work, and their paid work into higher, more secure incomes.
- Expanding the basis for gender-sensitive policy formulation through greater collection of data disaggregated by sex and indicators that measure processes which either lead to diminishing barriers to gender equality (*e.g.* law on land entitlement excluding women) or measure processes which lead to growing opportunities to promote women's empowerment (equity measures, involvement of women in decision-making).

Employment in situations of fragility

More, more productive and decent jobs in fragile situations contribute to stability, economic recovery and growth.

Employment issues are very relevant for “fragile states”, where about one-third of the world’s poorest people live. In addition, employment and welfare strategies that focus on reducing inequalities and on increasing access to (public and private) productive resources and services reduce the likelihood of conflict and enhance the legitimacy of government. This helps respond to the challenge in fragile states of restoring the confidence of people in their governments, rebuilding sustainable livelihoods and repairing the damage done as a result of conflict, neglect and abuse of power.

Short-term employment creation is an essential component of post-conflict strategies, alongside longer-term investment in creating the conditions for the private sector to flourish. Where young people have no employment or access to productive resources, they are more likely to be recruited into armed militias or criminal activity. Short-term employment creation through labour-intensive public works, micro-finance programmes or public-private partnerships to provide basic services is therefore a key response in the transition from humanitarian assistance towards structural development. Focusing on youth and women is particularly important in fragile situations as they are more at risk than in other countries.

Employment generation depends on the emergence of a flourishing private sector. But reviving and redesigning an economy after conflict, including reviving the private sector, is a complex task that has received insufficient attention from policy makers. Consequently, governments and donors need to engage in more of a dialogue with the private sector (both formal and informal) in order to promote economic growth and employment.

Key areas for donors’ attention include:

- Giving higher priority to employment and social protection as operational areas of post-conflict assistance.
- Supporting governments in fragile states to design and implement employment policies that promote equal opportunities and welfare systems that allow marginalised groups to benefit from economic growth, linking government and the private sector.
- In post-conflict situations, ensuring that there is a smooth transition from humanitarian assistance to structural economic development by creating short-term employment which is conducive to economic recovery, focusing also on women and youth. At the same time, steps need to be taken to create an enabling environment for structural economic growth and equal access to productive resources and employment.

Conclusion

Achievement of the MDGs will require donors to give greater attention to employment outcomes in their policy dialogue with developing country governments. This relates not only to dialogue on promoting economic growth but also discussions about a range of related sectors including education, rural development and governance. More productive work and decent employment is not only an objective in “good performers”, it may also be the key to promoting a more inclusive and sustainable development path in post-conflict situations.

To date, many efforts related to employment have focused on the formal economy, on the understanding that poor people, who are predominantly operating in the informal economy, will have the skills to take up new opportunities that arise. We now know that such a strategy is likely to have limited impact because poor people need to have their skills up-graded, because greater attention needs to be paid to the dynamics and realities within the informal economy and because women and youth face specific barriers when trying to access the labour market and so need special measures to help them overcome these barriers.

The objective for donors should remain to increase the number of decent jobs in the formal economy. However, in parallel, efforts should expand to promote entrepreneurship, to build up capacity for public-private dialogue and policy implementation and to increase productivity in the informal economy, including in rural areas, while helping informal firms move along the continuum towards a greater degree of formality.

Notes

- 1 Decent work as defined by the ILO covers fundamental principles and rights at work and international labour standards; employment and income opportunities; social protection and social security; and social dialogue and tripartism.

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Social Protection, Poverty Reduction and Pro-Poor Growth*

Key Policy Messages

- Social protection is an essential investment that contributes to economic growth and makes growth more pro-poor while directly reducing poverty.
- Social protection can be affordable, including for low-income countries, and efficiently tackles poverty.
- Donors can play a critical role in supporting national social protection initiatives, particularly through capacity building and predictable funding aimed at leveraging sustainable government finance in the longer-term.

Why social protection?

Long a vital tool for industrialised countries, social protection is increasingly recognised as an essential instrument for poverty reduction in low and middle-income nations. The DAC Guidelines on Poverty Reduction (OECD, 2001) recognise that high growth rates are necessary but not sufficient to effectively tackle poverty and vulnerability, emphasising the importance of the sustainability, composition and equitable quality of economic growth. An emerging evidence base in developing countries is documenting the role of social protection in tackling poverty, supporting economic growth and enhancing the effectiveness of growth strategies for poverty reduction. Poverty reduction depends on sustained and broad based growth, which in turn requires complementary initiatives that share economic benefits and promote better developmental outcomes for poor and excluded groups. Past experience also demonstrates the critical importance of protecting the poorest in an economic downturn. There are different and often mutually reinforcing dimensions to social protection, *e.g.* rights promotion, human development, economic growth, democracy and security. United Nations Research Institute for Social Development (UNRISD) identifies universal social protection and equity as the central goal of social policy (UNRISD, 2006; Wiman *et al.*, 2007).

Social protection refers to policies and actions which enhance the capacity of poor and vulnerable groups to escape from poverty, and better manage risks and shocks. It

* This Policy Guidance Note and its supporting background papers are published as *Promoting Pro-Poor Growth: Social Protection*, (2009) OECD, Paris.

encompasses the instruments that tackle chronic and shock-induced poverty and vulnerability (Sabates-Wheeler and Haddad, 2005). Social protection can help promote empowerment and security by improving risk management, facilitating higher return investments by poor people. It supports human capital development, expanding the capabilities of poor and vulnerable individuals and helping to break the inter-generational transmission of poverty.

National governments and donors increasingly recognise the value of social protection initiatives in ensuring progress towards the Millennium Development Goals. Social protection not only tackles income poverty but also provides effective support for broader developmental objectives, including better nutrition, health and education outcomes. In countries where the main recipients of interventions are women, social protection measures can promote empowerment and more balanced gender relations. Social protection programmes are increasingly targeted to those affected by HIV and AIDS, including orphans and vulnerable children.

Social protection interventions offer promising avenues for operationalising the Paris Declaration on Aid Effectiveness (OECD, 2005) in ways that promotes pro-poor growth and country-led national and regional development strategies. Multiple stakeholders including government, donors and civil society organisations play vital complementary roles in delivering social protection to reach the poorest people. In fragile states and humanitarian situations, social protection can enable people to deal more effectively with risk and vulnerability. It can contribute to social cohesion in a manner that strengthens the ‘contract’ between citizens and the State, and promotes social inclusion, integration and greater accountability. By contributing to nation-building and social solidarity, it can provide a foundation for political and social stability necessary for economic growth. Social protection is an investment in pro-poor growth that can be affordable, including for low-income countries.

In the current economic climate, it is increasingly recognised that social protection can offer a powerful tool for governments and donors to strengthen their responses to emerging global challenges and aggregate shocks, including recent food, fuel and economic crises. Such shocks and crises impact most severely on those least able to cope with them. Social protection not only helps poor and vulnerable groups cope better, but also facilitates adjustments to mitigate or limit their impacts on livelihoods. Other threats are HIV and AIDS and climate change. In many developing countries HIV and AIDS is eroding customary social protection mechanisms while increasing care burdens, prompting governments to implement and expand social protection responses that strengthen traditional networks. Climate change increases livelihood risks, particularly in agriculture, and threatens health security through changing disease patterns. Increasingly governments and donors are responding to these shocks and trends by scaling up cash transfers that can restore livelihoods and food security while safeguarding developmental outcomes.

Through the work of its Network on Poverty Reduction (POVNET), the OECD’s Development Assistance Committee (DAC) has developed this policy guidance for donors in order to support and improve the effectiveness of donor support for social protection. This guidance note provides the background on why social protection should become a central theme in development agendas, and provides an overview on how to deliver social protection more effectively to achieve different policy objectives. This guidance is based on recent evidence from developing countries and lessons from good

practice, distilled into a series of supporting good practice notes and policy briefings on the following topics: (i) social transfers and growth in poor countries, (ii) social protection and vulnerability across the life-cycle, (iii) social protection and empowerment in the context of HIV and AIDS, (iv) health and social protection, (v) social cash transfers, (vi) gender and social protection, (vii) the informal economy, social protection and empowerment, (viii) social protection in fragile states, (ix) affordability of social protection, and (ix) climate change, disaster risk reduction and social protection.

This policy guidance has conceptual and practical links to DAC POVNET policy work during 2009-10 on Empowerment. Social protection is an instrument that can promote greater empowerment, which in turn better enables citizens to claim their human rights, including their social protection entitlements as well as the broad-ranging opportunities to participate fully in social, political and economic life.

What is social protection?

Different agencies and institutions define social protection in varying ways - reflecting different objectives and approaches. Social protection encompasses “a sub-set of public actions, carried out by the state or privately, that address risk, vulnerability and chronic poverty” (DFID, 2005). The DAC describes social protection as those public actions that “enhance the capacity of poor people to participate in, contribute to and benefit from economic, social and political life of their communities and societies” (OECD, 2007). Some definitions focus on the objectives, while others emphasise key instruments. Generally, objectives include tackling poverty, risk and vulnerability. It is generally recognised however, that a consensus definition would help contribute to policy and data harmonisation, particularly on measuring bilateral expenditure.

Table 2. Components of social protection

| Public actions | Private actions |
|-----------------------|---------------------|
| Social transfers | Remittances |
| Social insurance | Private insurance |
| Minimum standards | Voluntary standards |
| Social services | Private services |
| Other public policies | ... |

Table 2 illustrates the public and private initiatives that may constitute the building blocks of social protection systems. While the essential elements vary significantly across different social protection frameworks, social assistance, social insurance and minimum labour standards are some of the most commonly included categories of instruments by agencies such as the International Labour Organisation (ILO). Social assistance (including non-contributory social transfers in both cash and in kind) is increasingly popular public initiatives that tackle extreme poverty while strengthening private

responses. Social insurance mechanisms can help correct market failures and more effectively broaden access to include the poor. Governments also legislate minimum labour standards in the workplace (and more broadly) to reduce imbalances in economic power. Private sector employers sometimes adopt voluntary standards that offer even greater social protection.

Broader definitions of social protection may include social and private services, primarily those that build human capital, such as education, health, sanitation, and community development. In addition, some frameworks consider an even wider range of public policies - including macroeconomic policies - as components of social protection. Social protection is often embedded within a broader social policy framework, which encompasses the wider range of interventions that help to include and integrate the poor and vulnerable into society. A recent example of this approach is the 2008 Africa Union Social Policy Framework.

In the face of multiple crises, social transfers in cash or kind can help address social risk and reduce poor households' economic vulnerability. Social cash transfers (Samson, 2009) are emerging in many developing countries as a key social protection instrument for tackling poverty and vulnerability. Social cash transfers can be defined as regular non-contributory payments of money provided by government or non-governmental organisations to individuals or households, with the objective of decreasing chronic or shock-induced poverty. These may include pensions, child support grants, disability allowances and safety nets. Increasing evidence suggests that social cash transfers can contribute to pro-poor growth in the longer-term by providing an effective risk management tool, supporting human capital development and empowering poor households to lift themselves out of poverty (Scott, 2009). Non-contributory social protection instruments are the most important types of interventions for supporting vulnerable workers in the informal sector.

Social health protection also promotes greater equity through instruments that aim to remove financial barriers that prevent people from accessing health services as well as protecting people from the impoverishing effects of medical expenditures. Social health insurance mechanisms better enable "risk-sharing and risk-pooling of financial resources within a society, thereby increasing the amount of prepayment and reducing the reliance on out-of-pocket payments" (Hormansdörfer, 2009).

In fragile state contexts and in tackling the challenges of climate change and disaster risk reduction, there is an even greater need for flexibility in the design of different types of social protection instruments, such as weather-related insurance, near cash transfers (*e.g.* vouchers and food stamps) and asset transfers (Davis, Oswald and Mitchell, 2009).

Reducing poverty and vulnerability

The DAC-POVNET focuses on the multiple dimensions of poverty, with vulnerability as one of the critical aspects (OECD, 2001). Vulnerability reflects a poor person's exposure to shocks (or "hazards") that threaten well-being, above and beyond her or his ability to cope and manage the downside risk. A person with few capabilities or resources might be very vulnerable even in the face of only moderate risk, whereas a well-resourced individual might face substantial risks without significant vulnerability.

Key concepts on Social Protection

- Hazards are possible events that can adversely affect people's welfare.
- Risk is the probability or likelihood that a hazard will occur.
- Shock refers to the impact on people of the occurrence of a hazard.
- Vulnerability is a measurement of exposure to those shocks for which people have little ability to manage the resulting negative impacts.

Source : Sabates-Wheeler and Haddad (2005); Krech (2007)

Risk and vulnerability contribute to poverty and failing growth. Shocks such as natural disasters, economic recession, HIV and AIDS, military conflict and personal tragedies can destroy people's livelihoods and disrupt the provision of nutrition, education and healthcare that children need in order to avoid a lifetime of chronic poverty (Krech *et al.*, 2007; Voipio, 2007; Samson, 2007; Orero *et al.*, 2006). In addition, it is not just the direct impact of the shocks that undermine the well-being of poor and vulnerable people. The possibility of shocks creates risk - and poor men and women must acquire coping mechanisms in order to survive. Without effective social protection, the poorest people often develop negative survival strategies that perpetuate poverty. For example, the poorest households where the primary breadwinner is affected by HIV and AIDS are most likely to resort to non-reversible coping strategies including the sale of land or livestock or withdrawal of children from school. In order to reduce their vulnerability to unmanageable risks poor households often engage in low productivity and low profitability economic activities, only because they are also less risky than high productivity/profitability alternatives. For example, poor farmers may adopt safer but lower yielding crop varieties, helping prevent a slide into absolute destitution but also foreclosing promising opportunities to break free from poverty (Krech *et al.*, 2007; Voipio, 2007; Samson, 2007; Dercon, 2005a; Dercon *et al.*, 2005b). As a result, vulnerability to poverty is a major brake on human and economic development. In particular, lack of reliable risk management mechanisms is a major barrier to contributions by the poor to the growth process.

Vulnerability is a cause, symptom and constituent part of chronic poverty (Prowse, 2003). Risks and shocks can decapitalise the poor, and trap them in impoverished positions from which they are unable to escape (Carter *et al.*, 2004). Risk can increase the persistence of poverty and even create poverty traps (Dercon, 2004). In developing countries, sickness is one of the most frequent causes of poverty. In turn, poverty is one of the greatest health risks.

Tackling risks and vulnerability

Managing poverty and vulnerability is essential for pro-poor growth, especially in societies where the majority of people are poor. Social protection is not only a cost; it is an investment that societies cannot afford not to make. The economic and social return to social protection is very high – not just in terms of social policy and equality, but also in

growth and multidimensional poverty reduction. Social protection helps poor people to maintain and accumulate assets and adapt to changing circumstances. In particular, the resulting reductions in risk help to stimulate growth by encouraging people to engage in higher risk/higher profit activities. Risk reduction and management also enable people to avoid falling back on coping strategies that can irreversibly impoverish themselves. Participation of millions of poor people in the growth process as active agents is good for them and good for the national economy and social protection measures promote this objective.

Social protection is an essential investment that makes growth more pro-poor.

Pro-poor growth enhances the ability of poor women and men to participate in, contribute to and benefit from growth. Pro-poor growth also expands the capacity of the state to provide tax financed services and transfers, including social protection (Voipio, 2006; van Ginneken, 2005; OECD, 2004).

Social protection – pathways towards pro-poor growth

An emerging evidence base demonstrates that social protection supports pro-poor growth. Policymakers do not necessarily face a trade-off pitting social protection against growth objectives - but rather have the opportunity to build a virtuous circle of increased equity promoting growth, thus supporting further improvements in equity. There are at least five pathways through which social protection promotes pro-poor growth. Most of these operate by increasing overall economic efficiency - through better policies and strategies, improved resource allocation, and by more effectively taking advantage of economic capacity. The pathways can be grouped into the following five categories: (a) human capital investment, (b) risk management, (c) empowerment and livelihoods, (d) pro-poor macro-economic strategy and (e) social cohesion and nation-building.

Human capital investment

Social protection increases access to public services and investment in human capital, particularly health and education, helping to raise productivity and supporting the participation of the poor in labour markets. Studies in South Africa and Latin America repeatedly document significant improvements in health and education outcomes, particularly in response to both conditional and unconditional cash transfer programmes and social health initiatives (Adato, 2007; Samson *et al.*, 2006a; Samson *et al.*, 2004). Child benefits (particularly cash transfers) and school assistance packages improve school attendance, and education constitutes the single most effective HIV-prevention asset (OECD, 2009e). Social cash transfers piloted in countries with high HIV prevalence (Zambia and Malawi) successfully reduced poverty in HIV and AIDS-affected households (UNICEF ESARO, 2007; Schubert *et al.*, 2007). The Child Support Grant in South Africa promotes livelihoods, improves nutrition and facilitates access to education (Aguero *et al.*, 2006; Samson *et al.*, 2004; Samson, 2007). Social protection can prevent some of the worst consequences of poverty - the transmission of lifelong poverty to children.

Social protection directly improves the health status of people, which in turn contributes to promoting economic growth (Sachs, 2002; Gyimah-Brempong and Wilson, 2004; Bloom *et al.*, 2004). A ten percent increase in life expectancy adds an

estimated 0.3 - 0.4 percentage point to the annual growth rates in *per capita* incomes (WHO, 2001). These human capital outcomes provide the basis for long-term pro-poor growth.

Risk management

Social protection enables poor people to protect themselves and their assets against shocks, enabling them to defend their long term income generating potential as well as make further investments. Droughts in Ethiopia have significantly reduced household earning power as long as 15 years later (Dercon, 2004). Social protection enables households to resist desperate measures and reduce future vulnerability. The risk associated with impoverishing health expenditures in rural China has adversely affected work migration and school enrolment decisions of households (Jalan and Ravallion, 2001). Social health protection prevents impoverishment due to catastrophic health expenditures, consequently protecting productive assets (Hormansdörfer, 2009). Farmers are less likely to sell the livestock on which their future prosperity depends if adequate cash transfers protect their immediate subsistence. Farmers protected by the Employment Guarantee Scheme in Maharashtra, India, invest in higher yielding varieties than farmers in neighbouring states. Improved risk management supports long-term pro-poor growth.

Empowerment and livelihoods

Social protection programmes combat discrimination and unlock economic potential. In Bangladesh, Brazil and South Africa, transfers provided to women have a positive impact on school attendance especially for girls (Samson *et al.*, 2004; 2006b). Increasing resources in the hands of women improves women's empowerment and child survival, nutritional status and school attendance. (UNICEF, 2007). "When women are healthy, educated and free to avail of life's opportunities, children also thrive. In households where women are key decision makers, the proportion of resources devoted to children is far greater than in those in which women have a less decisive role. (HelpAge International, 2006) Consequently, who controls cash transfers at household level is crucial in terms of AIDS and poverty mitigation, child survival and empowerment of both women and children." (Nolan, 2009).

Social protection supports the participation of the poor in labour markets, contributing to broader employment and empowerment objectives. Job search is often expensive and risky. In South Africa, workers in households receiving social transfers put more effort into finding work than those in comparable households not receiving these grants – and they are more successful in finding employment as a result. The impact of cash transfers on women's labour market activity is about twice as great as that for men (Samson *et al.*, 2004; Samson and Williams, 2007). Social health protection increases labour productivity by improving people's health status and replacing inefficient risk-coping mechanisms, which in turn promotes employment and economic growth (Hormansdörfer, 2009). There is a need to better understand how more effective social protection for workers in the informal economy might promote access to sustainable decent employment (Lund, 2007).

An emerging evidence base is demonstrating how social protection interventions support employment and entrepreneurial activities. Participants in Zambia's cash pilot

scheme use a significant proportion of the benefits to hire labour, for example in order to cultivate the land around their homes and consequently multiply the value of the social transfers while creating employment for local youth (Tembo *et al.*, 2008). Mexico's *Oportunidades* (formerly *Progresa*) social transfer programme is associated with local economy impacts that improve consumption, asset accumulation and employment broadly within communities—for both programme participants and non-participants (Barrientos and Sabates-Wheeler, 2006). Participants in *Oportunidades* invest a portion of their social transfers in productive assets and are more likely to engage in entrepreneurial activities, improving their potential for sustainable self-sufficiency. (Gertler *et al.*, 2005). Evidence of well-designed social protection programmes show they minimise the potential for moral hazard. Combining social protection and labour market policies can produce a virtuous circle: social protection measures help to increase the employability of the poor and labour markets that work better for the poor increase poor people's participation and remuneration. Evidence shows that social protection promotes development, not dependency.

Social protection directly expands the assets and capabilities of poor people, improving their well-being and economic activity more broadly. Social protection enables poor and vulnerable women and men to mobilise resources and to better harness public institutions to facilitate their more equitable inclusion in the society and economy. (World Bank, 2002). Informal workers in South Africa have been able to organise around social protection - with mixed results, but demonstrating the potential to build empowerment among workers even in the informal economy (Lund, 2007).

Social protection promotes empowerment and growth by improving the negotiating power of workers, smallholder farmers and micro-entrepreneurs in the market place. Workers who have a better fallback position (provided by social protection) can search for a job that takes more effective advantage of their capabilities, rather than accepting the first job that becomes available. This raises labour market efficiency - by better matching workers to positions that harness greater productivity and pay higher wages, thereby reducing underemployment. Small-scale producers with access to social protection benefits are less compelled to sell produce at a loss in order to survive - such as at harvest times when temporary gluts in food markets might severely depress prices. Participants in one of Malawi's social transfer programmes were empowered by the resources to invest in their own farms during the planting season rather than rely on casual employment for their immediate survival (Cromwell and Harnett, 2000). Social protection enables the poor to engage with the market system on a more equal footing, improving its efficiency and legitimacy.

Pro-poor macroeconomic strategy

Social protection can generate gains for those groups who might otherwise be disadvantaged by specific elements of a pro-poor growth strategy, providing a balancing function that can enlist stakeholder support for the reforms necessary to sustain long-term growth. Labour unions in Nepal, for example, have identified effective social protection as a prerequisite for necessary labour market reforms, the combination of which would enhance both equity and growth. Cash transfer initiatives have compensated the poor for reduced price subsidies in Mexico and Indonesia. Bolivia established a social pension scheme with the proceeds from the privatisation of public enterprises. (Birdsall and

Nellis, 2002). Social protection generally increases the positive impact of growth on poverty reduction.

Social protection stimulates demand for local goods and services, promoting short-term growth outcomes. In Zambia 80% of the social transfers are spent on locally purchased goods, supporting enterprises in rural areas. In South Africa the redistribution of spending power from upper to lower income groups shifts the composition of national expenditure from imports to local goods, increasing savings (by improving the trade balance) and supporting economic growth (Samson *et al.*, 2004). A social account matrix analysis of the Dowa Emergency Cash Transfer (DECT) programme in Malawi found multiplier impacts from the payments broadening benefits to the entire community (Davies and Davis, 2007; Davies *et al.*, 2007; Davies, 2007). In Namibia, the dependable spending power created by social pensions supports the development of local markets and revitalises local economic activity (Cichon and Knop, 2003). However, the macro-economic impact for any given country will depend on the patterns of demand across income groups and the manner in which social transfers are financed.

Social cohesion and nation-building

Social protection helps create an effective and secure state, promoting growth by building social cohesion and a sense of citizenship as well as reducing conflict (Samson *et al.*, 2002; Bourguignon *et al.*, 2004; DFID, 2005). The social pension in Mauritius for example contributed to the social cohesion necessary to support the transition from a vulnerable mono-crop economy with high poverty rates into a high growth country with the lowest poverty rates in Africa (Roy and Arvind, 2001). Likewise, Botswana's social pension provides the government's most effective mechanism for tackling poverty and supporting the social stability that encourages the high investment rates required to drive Africa's fastest growing economy over the past three decades. A safe and predictable environment is essential to encourage individuals, including foreign investors, to work and invest.

How to deliver social protection

The state has the primary role in providing a framework for delivering social protection, and this reinforces a social contract that legitimises and strengthens the state.

The public nature of social protection interventions contributes to state-building objectives by strengthening the state-citizen contract and fostering social cohesion. In fragile states, social protection can help strengthen the legitimacy of the state by allowing it to re-shoulder responsibilities for ensuring the basic survival of its citizens and so contribute to reduced political fragility (Harvey, 2009). In Nepal, social protection is on the agenda to help consolidate the peace process as the first stage of state-building. Cash transfers provide a visible and immediate peace dividend that flexibly reaches the poorest people, providing them with the stake in the economy that supports social and political cohesion while offsetting the costs of necessary economic reforms. However, there is a need to be pragmatic about working with a range of actors. In many countries the state establishes a framework to enable the effective engagement of non-state actors -

particularly the private sector and non-governmental organisations - to deliver essential social protection interventions. Partnerships with the private sector and civil society in Kenya, for example, are expanding the government's capacity to deliver while improving accountability.

Social protection can be affordable, even for low-income countries, and efficiently tackles poverty.

Financing is one the major challenges for delivering social protection systems, particularly in low-income countries. The actual spending on social protection systems varies significantly across countries. Political will, resource availability and policy prioritisation influence the amount spent on the associated initiatives. Affordability is largely a matter of political prioritisation - which depends on the political will to make the necessary trade-offs (Hagemejer and Behrendt, 2009).

Recent evidence shows that even low-income countries can afford at least basic packages of social protection (Hagemejer and Behrendt, 2009). The ILO has conducted a costing exercise that quantifies the costs of a basic package of social protection under a number of alternative scenarios (Hagemejer and Behrendt, 2009). The baseline scenario includes a modest universal social pension, grants for people with disabilities and child benefits. The ILO has documented the affordability of this package even for low income countries (Pal *et al.*, 2005; van Ginneken, 2005). Costs can be kept manageable by starting with a limited programme and scaling up as impact is demonstrated and available resources expand. Overall, analysis of broader affordability dimensions and fiscal space for social protection in low-income countries needs to be strengthened, including assessment of current spending on social protection and existing financing sources.

Different financing mechanisms should ideally complement each other, *e.g.* micro-health insurance can serve poor and informal workers, but the poorest of the poor usually require tax-financed social health approaches.

Social protection should be rights-based and focus on empowerment and addressing social inequalities across the life-cycle.

A rights-based and transformative approach to social protection reinforces empowerment by ensuring that vulnerable groups have the capacity to benefit from and contribute to growth and participate fully in society. In many countries the main beneficiaries are women, which contributes to reducing gender disparities and promoting empowerment and better human development outcomes for girls (Thakur, Arnold and Johnson, 2009). Rights based approaches to social protection that address social inequalities reinforce commitments to non-discrimination and support humanitarian efforts in fragile states (Harvey, 2009).

An integrated package of social protection instruments developed to reflect the various types of vulnerabilities at different age-related and other stages of life can contribute significantly to breaking the intergenerational transmission of poverty (Baldwin, Orero *et al.*, 2006). National strategies should adopt a "life-cycle approach" from planning through implementation which identifies opportunities at different stages of life, generating cascading outcomes as subsequent interventions reinforce the impacts from earlier social protection initiatives. Strategies that address

vulnerability across the lifecycle and aim to break the intergenerational transmission of poverty can maximise social protection's transformative potential (Walker, 2009).

Unequal power relations within society may foster state institutions that fail to provide the poor with equal protection and benefits. A rights-based approach to social protection reinforces empowerment by ensuring the poor have the basic capacities necessary to benefit from and contribute to economic growth, as well as to participate fully in society. Empowering civil society institutions is a way to strengthen the voice of the poor and motivate governments to introduce social protection mechanisms and make state institutions more accountable for providing fair protection and benefits.

Effective social protection systems require long-term planning, strategy and political commitment entrenched in the legislative and/or constitutional frameworks of the country.

Long-term political commitment and good governance is essential if social protection systems are to be effective in tackling vulnerability and exclusion across the life cycle in a sustainable way. Successful social protection initiatives often depend on committed political champions at the highest level.

Building the required political will and commitment poses challenges in developing countries that have little experience with social protection. Empowering civil society institutions such as organisations of women, workers, farmers or small businesses can magnify the voice of poor people and motivate policy development and reforms. Civil society mobilisation provided a critical force supporting the tripling of social protection spending in South Africa over 2001-2007 (Samson *et al.*, 2007). Appropriate choices of interventions can also elicit increased political support. More universal benefit programmes can ally the middle classes with poor women and men and generate the necessary political support. Small pilots combined with effective monitoring and evaluation can also generate the necessary evidence base policy makers and voters need to justify their political support for integrated national programmes. More transparent and evidence-based policy processes which include expanded social dialogue and more local participation can make the state more accountable to poor women and men.

Design and implementation must reflect the social and policy context of the country.

There is no general blueprint for successful social protection interventions. Effective social protection policy must be rooted in a society's specific context, taking into account factors such as poverty dynamics, demographic characteristics, the prevailing economic situation, the structure of the labour market, the degree of urbanisation, and cultural values and societal consensus (Hormansdörfer, 2009). Design features that work well in one country or region may not be appropriate in another situation. Success depends even more critically on how well the systems are implemented, which in turn depends substantially on a country's administrative capacity.

To promote sustainability and effectiveness, it is important to design and implement programmes that can adjust flexibly to demographic and economic change and other shocks and stresses. For example, there is an increasing need to improve understanding about the role of social protection for addressing poor people's vulnerability in the

context of economic recession, volatile global food and fuel prices and climate change. (Davies, Oswald and Mitchell, 2009). Flexible design features better enable adaptation both to unexpected shocks and changing poverty dynamics as well as unanticipated or misunderstood country characteristics. In particular, the design of appropriate formal interventions must pay particular attention to the role of informal institutions, in order to strengthen social protection rather than undermine traditional mechanisms.

Effective social protection requires a comprehensive mix of instruments that appropriately addresses coverage and targeting.

One of the key challenges and determinants of success of social protection programmes is the effective distribution of social benefits, which requires a comprehensive set of instruments that appropriately addresses coverage and targeting.

A comprehensive mix of social protection instruments is necessary to effectively address vulnerability across the life-cycle. A core group of instruments provides support at critical stages of the life-cycle, including child support grants, social pensions and transfers for people with disabilities. A second set of interventions is vital for breaking the inter-generational transmission of poverty, particularly through human capital development. While these instruments can overlap with the first group, they also include fee waivers, social health insurance and social services. A third set of interventions aims to prevent vulnerable households from sinking further into poverty when encountering shocks linked to life-cycle changes. The instruments include unemployment insurance and other contributory schemes, public works as well as some of the measures in the first two groups (Walker, 2009).

Much of the research on the impact of social protection has focused on clients, but much less is known about those who remain excluded. These may include the most vulnerable, who are often geographically or socially isolated, such as those in remote areas or children without caregivers (Walker, 2009). Certain types of instruments may exclude the poorest by design. Conditional programmes may exclude those who live in remote areas that have no access to the services necessary for compliance with programme requirements (Samson, 2009). Micro health insurance can serve poor and informal workers, but the poorest of the poor usually require tax-financed social health approaches. Different financing mechanisms need to complement each other to provide the broadest possible coverage (Hormansdörfer, 2009).

Targeting is the means of identifying which members of society should receive a particular benefit or good, such as a social transfer (for example, a child support grant or a social pension). For example, transfers can be targeted on the basis of geography, gender, age, disability, household size or other likely indicators of poverty. Untargeted transfers may be delivered through the market (for example, subsidies) or as unconditional transfers. The choice of targeting system has an impact on the degree to which poverty and inequality (for example, gender inequality) is reduced in a country and to what extent resources are spent efficiently and cost effectively.

Targeted programmes have the effect of limiting the number of clients and reducing costs, but can also receive less political support because they are more likely to be seen as a subsidy for the few rather than a social investment which will benefit the many (Walker, 2009). Universal programmes are more likely to be seen as an entitlement with the benefits being felt across different sectors of society, with the consequence that they

are less vulnerable to the political changes or economic shocks which could lead to the erosion of means tested programmes targeted at a politically excluded minority (Cornia and Steward, 1993)¹. Vulnerability targeted programmes are more prone to corruption than universally targeted programmes where the eligibility criteria (*e.g.* age) is clearer and more easily verifiable than in a means-tested programme (Walker, 2009).

In very poor countries, where information on clients is of limited reliability and coverage, and administrative capacity to implement often complex targeting mechanisms can be constrained, the challenges of targeting are particularly significant. Errors in targeting can undermine the effectiveness, credibility and increase the cost of social protection programmes. Better understanding is required on the potential benefits of targeting (for example, universal child benefits and universal social pensions) which, when compared to poverty, community or geographical targeting, may be less costly to administer, more politically acceptable and more effective in reaching very poor men and women.

At the same time, decision-making on the various targeting options is often influenced by complex political and technical factors. More broadly based benefit programmes can ally the middle classes with the poor. They are more likely to be seen as an entitlement with benefits being felt across different sectors of society, with the consequence that they are less vulnerable to political changes or economic shocks. However, in some countries, targeting has become a political selling point, demonstrating to taxpayers that the programme is cost-effective.

Targeting mechanisms aim to minimise the cost of programmes by focusing social protection resources on the poorest households, but sometimes targeting backfires. In a World Bank study on targeting, over 25% of the programmes measured had regressive outcomes - a universal approach would have distributed a greater proportion of benefits to the poor. (Coady *et al.*, 2004). In addition, targeting imposes costs on the government and programme participants. The most direct costs are administrative - the bureaucratic costs of assessing the means of programme applicants, and re-assessing participants on an ongoing basis. Added to this government cost are the private costs that applicants incur while applying for benefits - time and transportation costs travelling to the respective government offices, queuing, and the fees (and sometimes bribes) required for the necessary documentation.² The World Bank study found evidence that implementation issues were more important determinants of successful outcomes than design factors.³

The evidence base on appropriate targeting approaches continues to evolve, and effective design elements depend critically on a country's social and policy context. Low government capacity, high poverty rates and large informal sectors tend to indicate more universal or at least approaches with categories - since the costs of heavy targeting will likely be high and the benefits low. Political factors are often important in the decision to target. Mobilising robust evidence can support appropriate design and implementation.

Likewise, governments and donors increasingly recognise the importance of evidence for informing key design questions such as the decision to condition social transfers on compliance with behavioural requirements - such as requiring programme participants to ensure children in the household attend school or receive immunisations. While a rich collection of evaluation studies document the powerful impact of social transfer programmes that require these conditionalities (often termed "conditional cash transfer" programmes), little evidence demonstrates that the conditionalities themselves - and the associated penalties - have any impact on the observed positive

outcomes. (World Bank, 2006). Since conditionalities can be expensive and potentially undermine the social protection objectives, it is vital to build a better evidence base that focuses sharply on the central questions about conditional cash transfer programmes.

Cash transfers have a significant AIDS mitigation impact and may be advocated and supported in the context of their ability to remove barriers to health and education access, while preventing adoption of non-reversible coping mechanisms among the most vulnerable households affected by HIV and AIDS (Nolan, 2009).

In fragile states, social protection instruments have been frequently limited to humanitarian aid. These countries frequently require the full range of potential interventions, and in fact more imaginative alternatives. In Zimbabwe, for example, a diverse toolkit of instruments that provides social protection, livelihoods support and food security has proven very successful (Samson and MacQuene, 2006).

Institutional capacity and co-ordination are important for effective delivery of social protection.

The effective delivery of social protection requires a focus on building institutional capacity in terms of planning, coordination and the actual delivery of cash, food, inputs and other goods or services to people. In many developing countries social protection represents a new set of interventions, and few governments have developed extensive delivery capacity for implementing these types of programmes. Limited capacity and institutional co-ordination constrains successful implementation and achievement of impacts at all levels. Investments in building up delivery capacity not only support the implementation of social protection but also other complementary services delivered by these agencies. Given the long lead times required for effective training programmes, the long term need for capacity building should be addressed during any pilot phase. Building capacity improves aid absorption and the effectiveness of development partner resources. Continued support for national capacity building will likely yield substantial returns in terms of promoting long-term sustainability.

Social protection interventions are not magic bullets for poverty eradication but typically generate their impacts by improving the effectiveness of investments in complementary institutions. For example, social protection initiatives can improve poor people's access to health and education, and link them to complementary programmes, resulting in improved human development outcomes - but only if the necessary clinics, schools and other institutions can supply the services demanded. Social protection initiatives in Latin America, Africa and Asia have documented improved health outcomes, increased school attendance rates, reduced hunger and expanded livelihoods and employment (Samson *et al.*, 2007). These impacts, however, depend as much on the complementary institutional framework as on the interventions themselves. A conditional cash transfer programme in Honduras, for example, failed to produce expected human capital outcomes - largely because the programme neglected to invest in the necessary schools and other institutions (Samson *et al.*, 2006b; Adato and Bassett, 2008). Brazil multiplies the impact of its successful *Bolsa Familia* cash transfer programme through a comprehensive and integrated system of complementary programmes which link poor households to developmental institutions.

South-South learning and exchange between middle-income and low-income countries as well as regional bodies provides an innovative approach to capacity building

for partner governments. A recent African Union meeting called for a network of African experts to share knowledge and experience across the continent and serve as a resource for countries who are beginning to implement social protection initiatives.⁴ Donors are supporting study tours linking Africa, Asian and Latin America and South-South training courses that have effectively built capacity and contributed to inter-regional sharing of national lessons of experience.⁵ Given the long term nature of social protection requirements in developing countries, investments in the building of national and local capacity are likely to generate very high returns.

A co-ordinated strategic framework is essential for national approaches to succeed. Co-ordination improves cost-effectiveness by improving the economies of scale of administrative systems and ensuring appropriate allocations of resources. Countries without co-ordinated approaches suffer from inefficient over-coverage in some areas and sectors while suffering high rates of social protection exclusion in others. Good administrative institutions with well-developed capacity and appropriate management information systems at both national and local levels are essential for effective co-ordination. Further strengthening of civil registration systems is important to help facilitate people's access to social protection benefits as well as health and education systems on a citizenship, rights and entitlements basis (Nolan, 2009).

One less successful approach for social protection for informal workers has been to create special schemes and programmes, outside of mainstream institutions. A sustainable approach should mainstream interventions for informal workers into existing institutional structures (Lund, 2007).

Investments in monitoring and evaluation systems and evidence generation are critical.

Effective and credible monitoring and evaluation (M&E) systems are essential for demonstrating programme impact, developing a global evidence base, communicating operational lessons, and building the foundation of support that fosters long-term sustainability. As social protection interventions are relatively recent innovations, many governments and stakeholders in developing countries are just beginning to develop an understanding of what works in particular social and policy contexts. M&E can mobilise essential learning and evidence to link programme performance to ongoing improvements that are best adapted to a country's specific situation. Independent and credible M&E systems help to fill the evidence gaps that otherwise undermine appropriate design and effective implementation.

Positive evaluations can help mobilise political support and expand the resources available for scaling up scope and coverage. M&E can identify problems and propose solutions, and inform the evidence for wider learning. The public good nature of effective M&E and its useful role in managing fiduciary risk provide fertile opportunities for donors to support these types of interventions.

The global evidence base on social protection has improved significantly over the past decade. Countries adopting new interventions can benefit from a rapidly expanding global learning curve and opportunities for South-South learning. Nevertheless, important gaps remain. While persuasive evidence exists regarding impacts in terms of reducing poverty and promoting social outcomes, more convincing evidence is required on the direct links between social protection and economic growth - particularly in the context of

low-income countries. Operationally, better evidence on appropriate targeting, payment mechanisms, institutional arrangements and the role and design of any conditionalities will improve programme design and delivery.

Governments and donors must pay particular attention to fiduciary risks in order to protect programme success and ensure sustainability.

Social protection interventions require appropriate fiduciary risk management controls to ensure effective resource allocation and continued public support. A number of countries have engineered systems to promote transparency and minimise fraud and corruption. Good practices exist and should be promoted. Brazil's "single registry" of programme participants has become a global role model. Kenya is piloting an innovative approach that establishes independent service providers for key components of the programme, ensuring checks and balances. Donors can play a key role in capacity building to share these lessons of international experience on mutual accountability.

Donors' support and co-ordination plays an essential role in supporting national social protection initiatives.

Donors have an important role in supporting and participating in the development of national social protection frameworks. This will involve supporting the capacity of government and civil society to develop social protection policies and to plan, finance, deliver and monitor the programmes to implement them. It will also involve moving away from delivering social protection through donor specific financing and delivery mechanisms towards funding national programmes through joint financing instruments.

Donors can play a key role in providing technical assistance and bridging funds to support progress towards the establishment of nationally financed sustainable social protection strategies. Developing country governments often require predictable, long-term and harmonised funding commitments from donors in order to assume the domestic political risk of guaranteeing reliable social protection programmes. DFID's recent ten-year commitment to Kenya's social protection strategy provides an example of donor support for a long-term national programme. The Productive Safety Nets Programme in Ethiopia is another example of moving more cost-effectively from annual relief appeals to multi-annual, multi-donor and predictable financing. The importance of more predictable, harmonised and longer-term funding is particularly apparent in fragile states. (Harvey, 2009).

Donors should harmonise and align their support with national development frameworks and emerging national social protection strategies, in accordance with the Paris Declaration on Aid Effectiveness. Donor coherence is critical for developing evidence-based policies and strengthening capacity to meet key design and implementation challenges (including fiduciary risk management, payment systems, graduation and linkages with complementary policies, sustainability, financing). Donors can help inform policy options by supporting more in-depth research on the design and implementation of appropriate social protection policies and programmes in different contexts. Pilots can help serve this objective, but donors should aim to integrate this support with strengthening national social protection frameworks.

Notes

- 1 They found that a switch from a universal to a targeted approach in 8 schemes led to a reduction in the real value of the subsidy over time.
- 2 Prospective workers in the Maharashtra Employment Guarantee Scheme sometimes need to provide cash payments for obtaining and filling in appropriate forms, submitting them to the correct officials and enlisting the attention of the social services committee (Pellisery, 2005).
- 3 “80% of the variability in targeting performance was due to differences within targeting methods and only 20% due to differences across methods.” (Coady, Grosh and Hoddinott, 2004, p. 84).
- 4 “Dakar resolution on social protection”, African Union meeting organised by HelpAge, June 2008.
- 5 For example, DFID has supported Brazilian technical assistance to African countries, developing country study tours to Southern Africa and Brazil and several global training programmes situated in developing countries. GTZ and other donors support important capacity building initiatives in developing countries.

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Promoting Pro-Poor Growth

EMPLOYMENT AND SOCIAL PROTECTION

Employment and social protection have not received enough attention in public policy making. Promoting employment as the main route out of poverty, and supporting social protection systems that help poor women and men better deal with the trade-offs between immediate needs and building future livelihoods, are critical elements of policies to make economic growth more pro-poor, i.e. to increase the impact of growth on poverty reduction. These strategies are all the more important today in the context of the global recession and its impacts on developing countries. The combination of measures in these areas is particularly attractive, for example when measures to improve the employability of poor people are combined with measures that help them better tackle vulnerability to result in more successful participation in the labour market.

This report by the DAC Network on Poverty Reduction (POVNET) shows how aid can be more effective in reducing poverty by paying greater attention to employment outcomes and by engaging in partnership with developing countries to provide the financial and technical support to their nascent social protection systems. Such measures will not only help promote the poverty reduction MDG, but are equally important components of strategies to lead developing countries out of the recession.

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