Economic Policy Research Institute

The Investment Case for Social Protection

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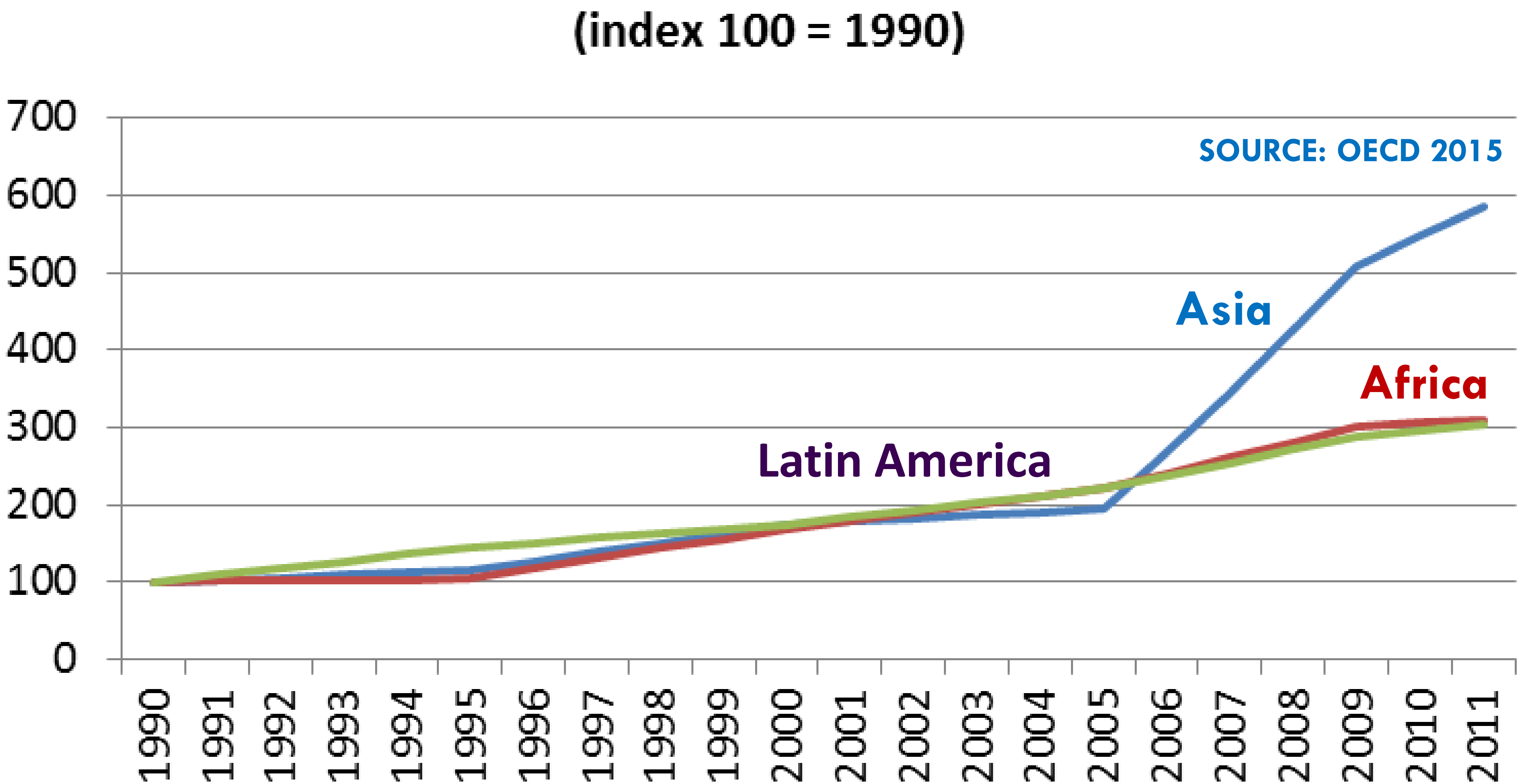
Exercise: the Human Map

- **Two questions:**
- **(1) "Social protection benefits should be targeted to the poorest" — or — "Social protection should be delivered to everyone" ???**
- **(2) "The big risk is that the government's provision of social protection will create dependency—working people given cash transfers may become lazy — or — "Social protection enables people to better develop to achieve their full potential" ???**
-

Overview

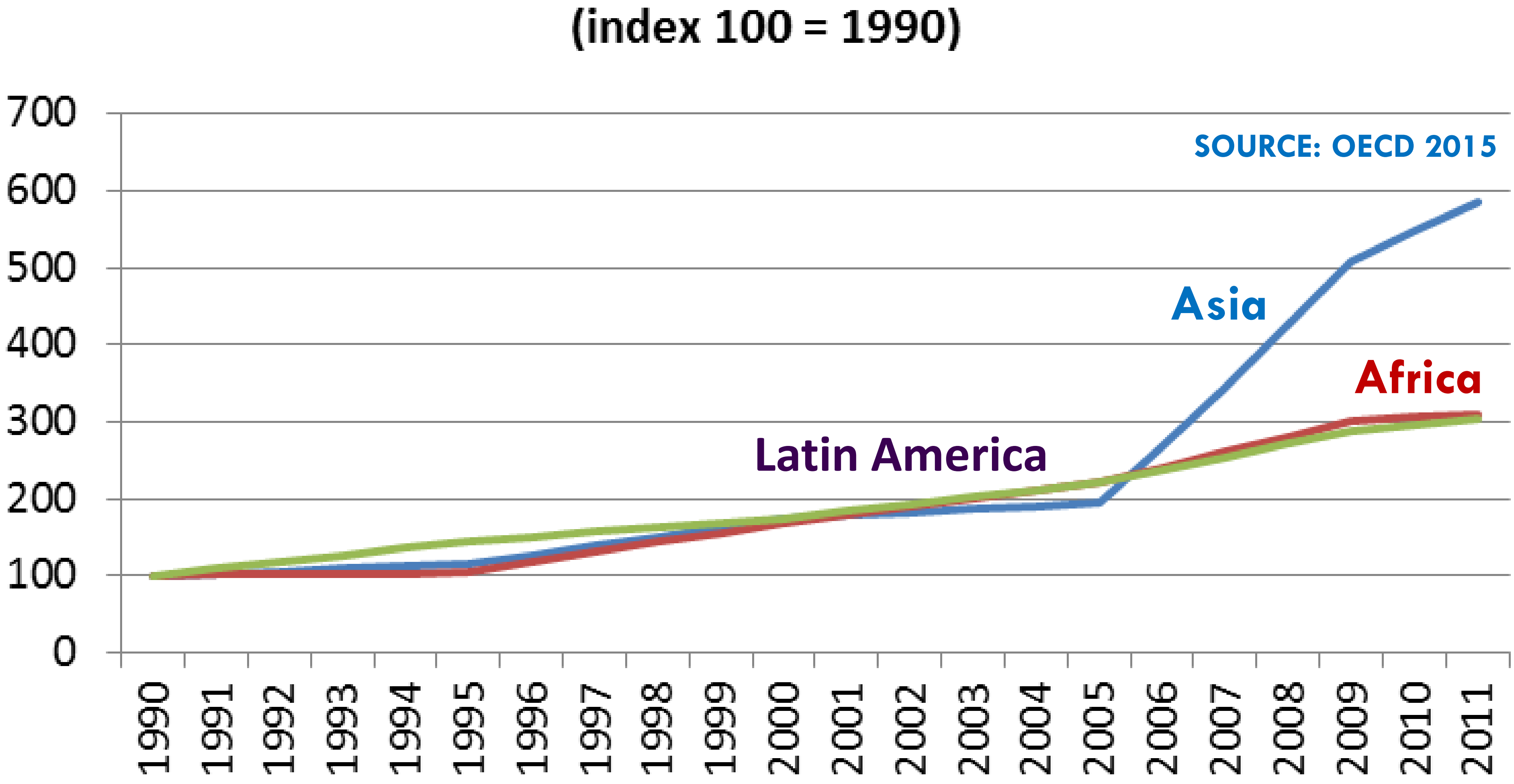
- **Two global drivers of social protection's growth:**
  - **Demographics**
  - **Changing drivers of economic growth**
- **How? Life cycle approaches implemented as a coordinated system that builds bridges across Ministries and enables developmental synergies to multiply impacts across a range of sectors.**
- **Social protection helps deliver 14 of the 17 Sustainable Development Goals (SDGs)**

Social protection is the fastest growing policy sector

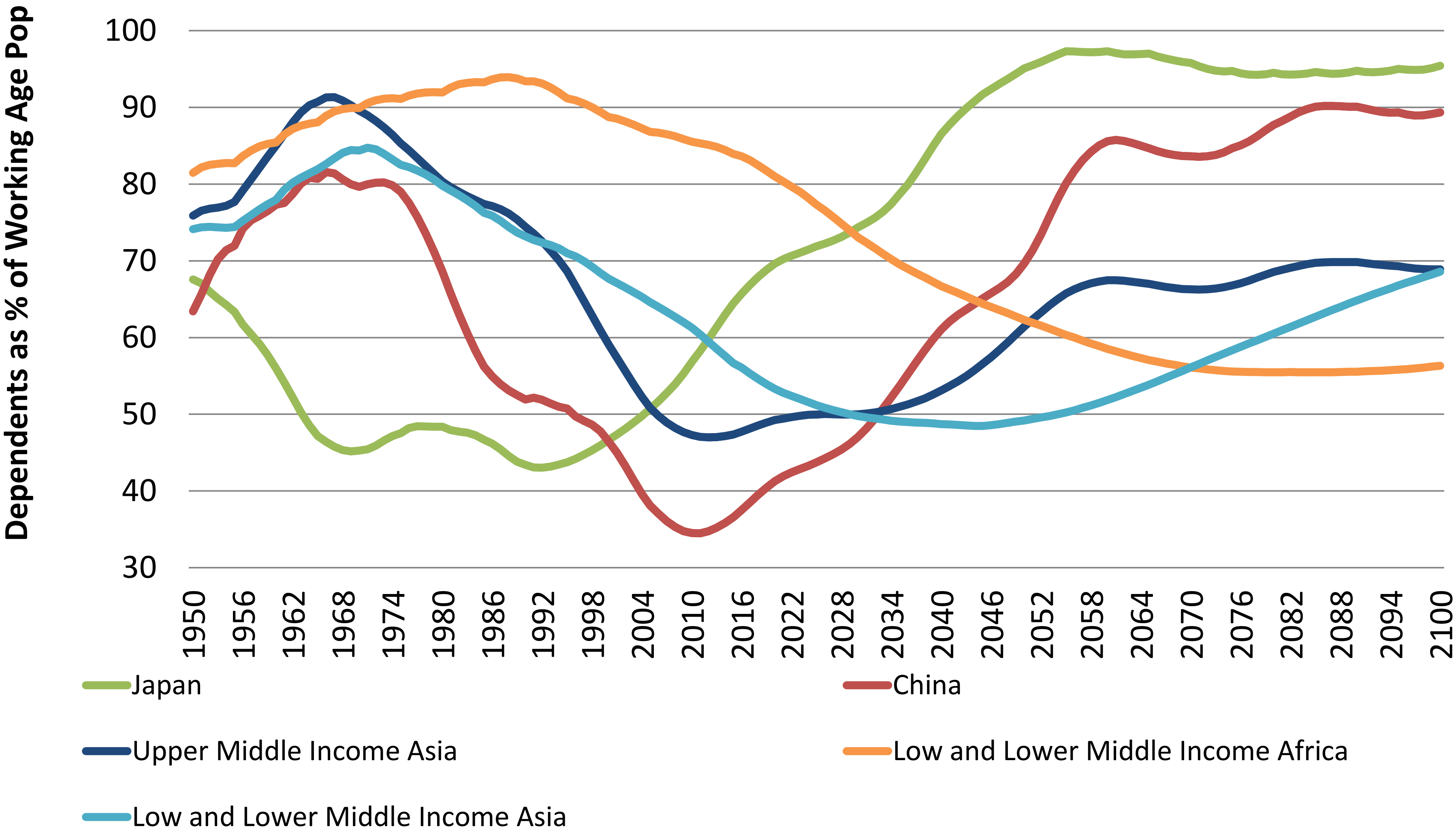


Social protection is the fastest growing policy sector

Why is Asia investing in social protection twice as fast as the rest of the world?



Asia and Africa have reaped demographic dividends– but rising dependency ratios create important challenges that threaten economic stagnation, middle-income traps and falling living standards.



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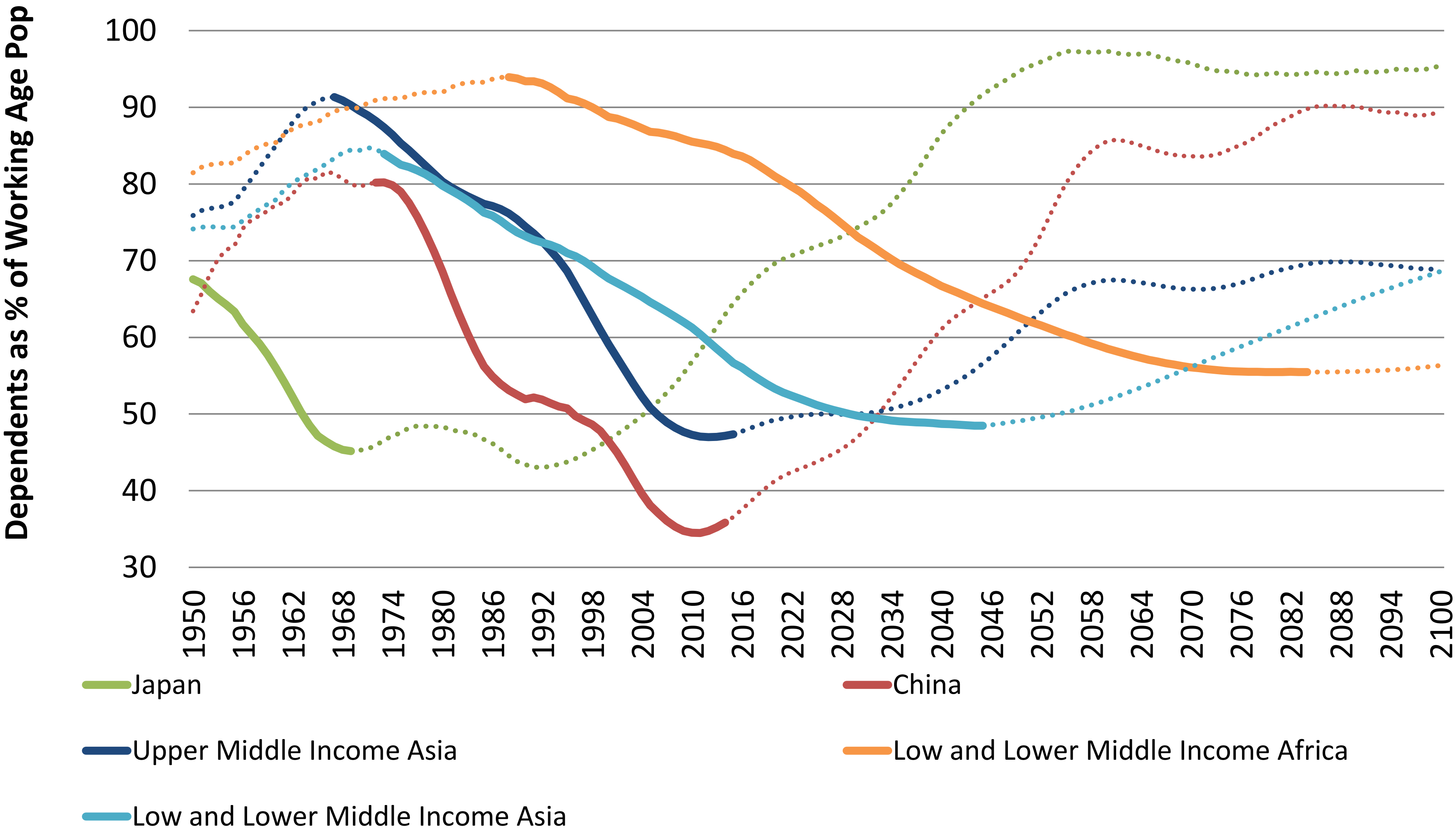

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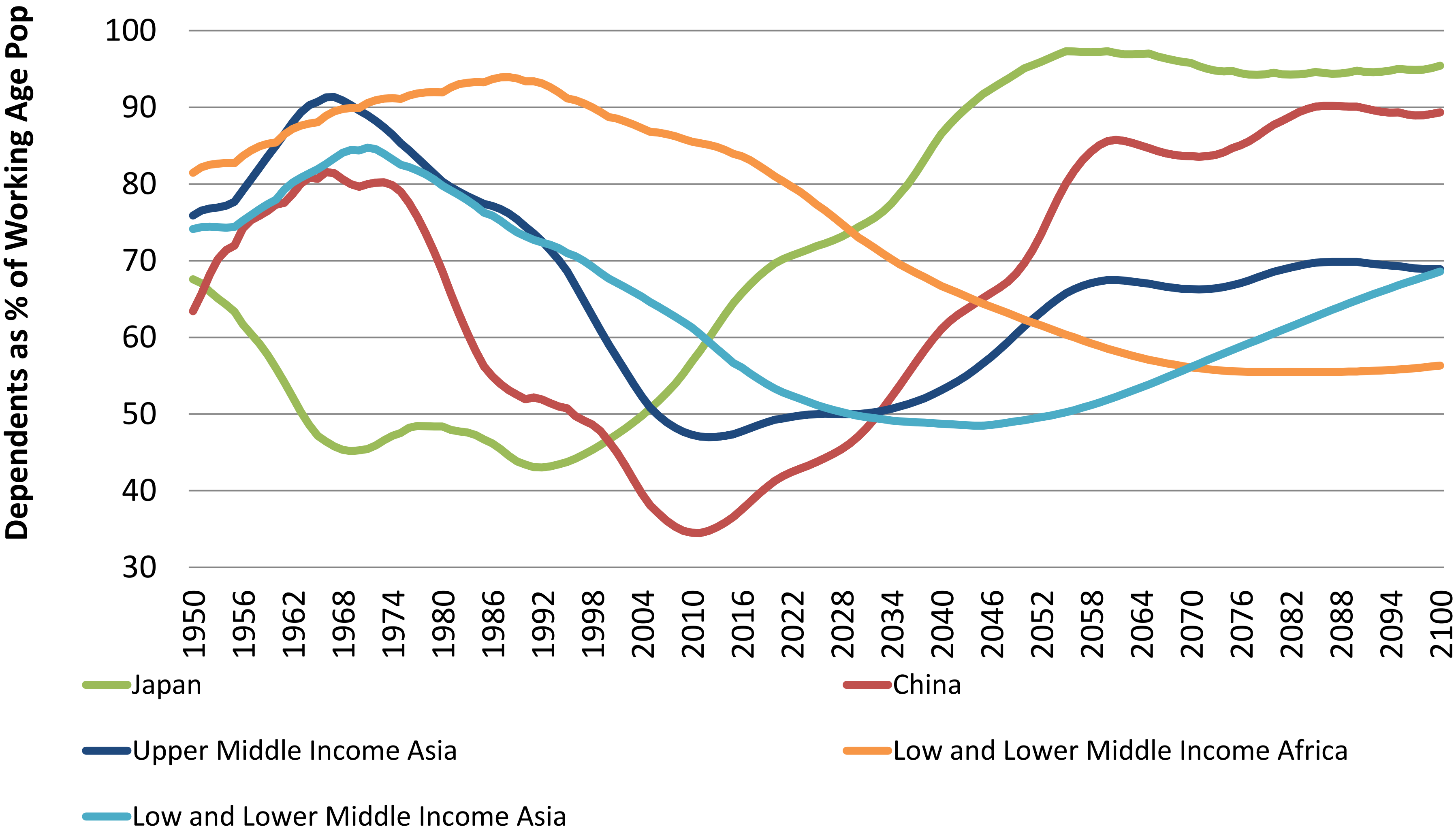

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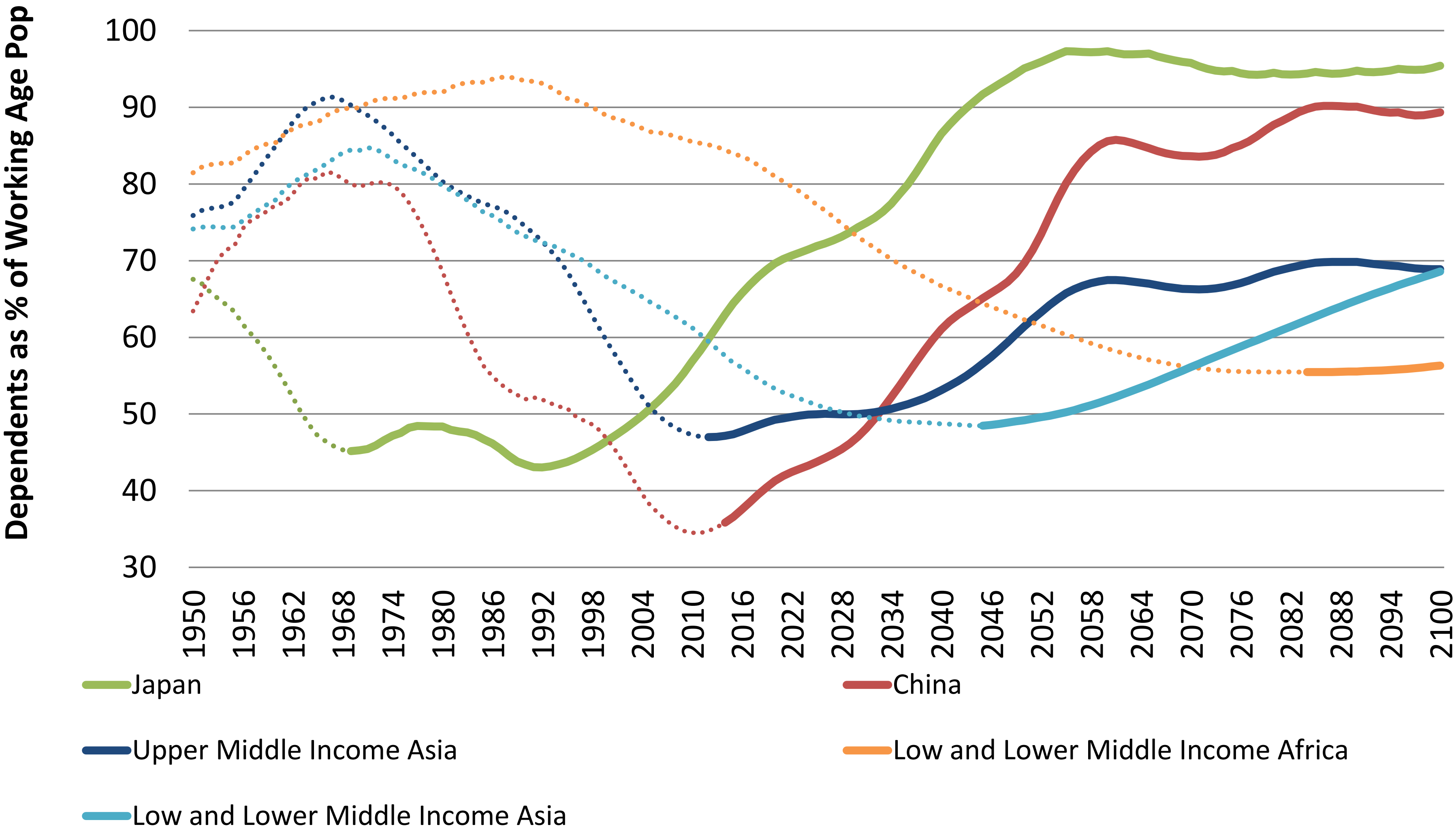


Social protection – why invest?

In the past year, leading medical research journals have done something that they rarely do…

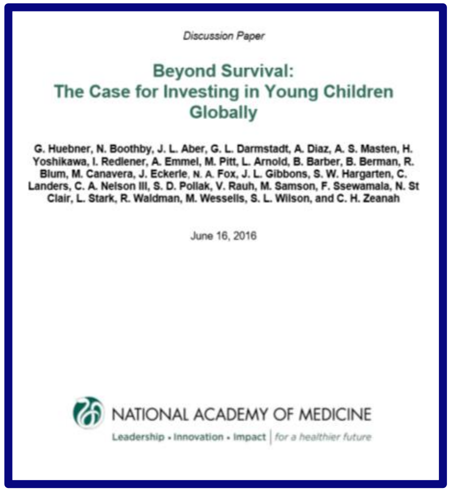

THE LANCET

October, 2016 www.thelancet.com

Advancing Early Childhood Development: from Science to Scale

An Executive Summary for *The Lancet*'s Series

"Young children's healthy development depends on nurturing care—care which ensures health, nutrition, responsive caregiving, safety and security, and early learning."


Discussion Paper

Beyond Survival: The Case for Investing in Young Children Globally

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June 16, 2016

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WILEY

PsyCh Journal

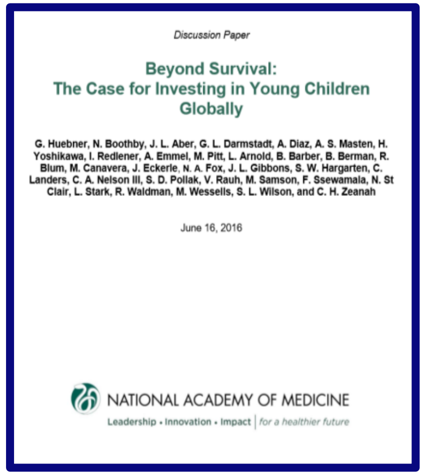
INSTITUTE OF PSYCHOLOGY
Chinese Academy of Sciences


BMJ Global Health

Cognitive capital, equity and child-sensitive social protection in Asia and the Pacific

Michael Samson, Gaspar Fajth, Daphne François

Social protection – why invest?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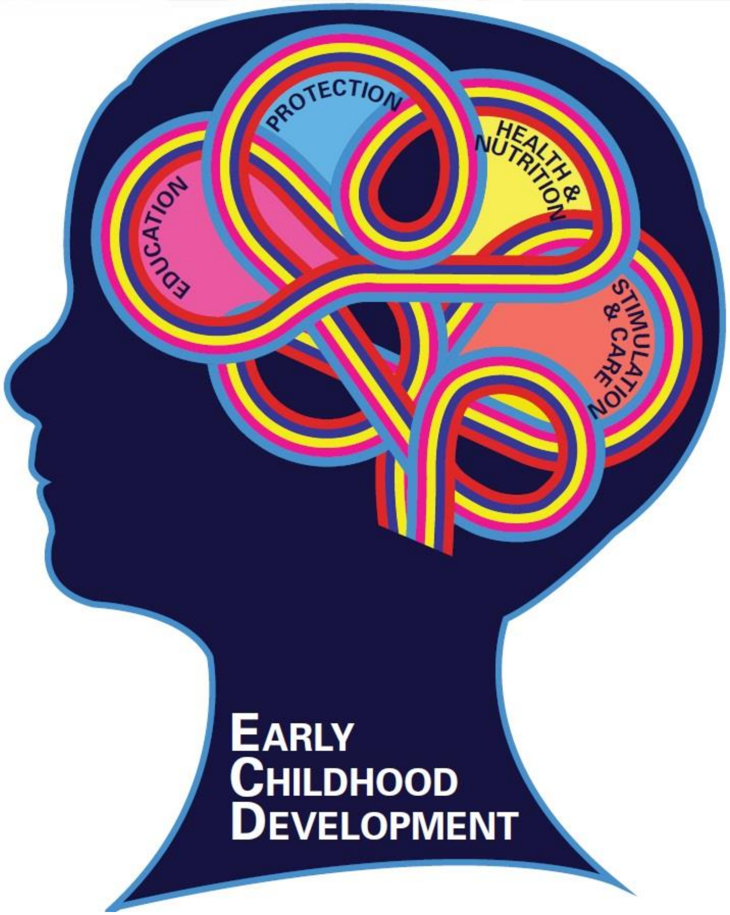
Cognitive capital, equity and child-sensitive social protection in Asia and the Pacific

…they weighed in on ***global economic policy***

"Investing in social protection, certainly when child-sensitive, is the most productive pathway to long-term economic prosperity."

The evidence highlights a key finding: ***"These investments generate extra-ordinary rates of return – socially and economically – along complex pathways."***

Early childhood investments integrate health, education, nutrition, simulation and protection



- Good **nutrition** to feed and nourish the brain during the sensitive periods of development.
- **Stimulation** and enrichment to spark neural connections to increase the brain's capacity and function.
- **Safety and protection** to buffer against toxic stress.

SOURCE: Pia Britto (UNICEF 2017)

Cognitive capital

Represents

- Intellectual skills
- Socio-emotional and executive function skills

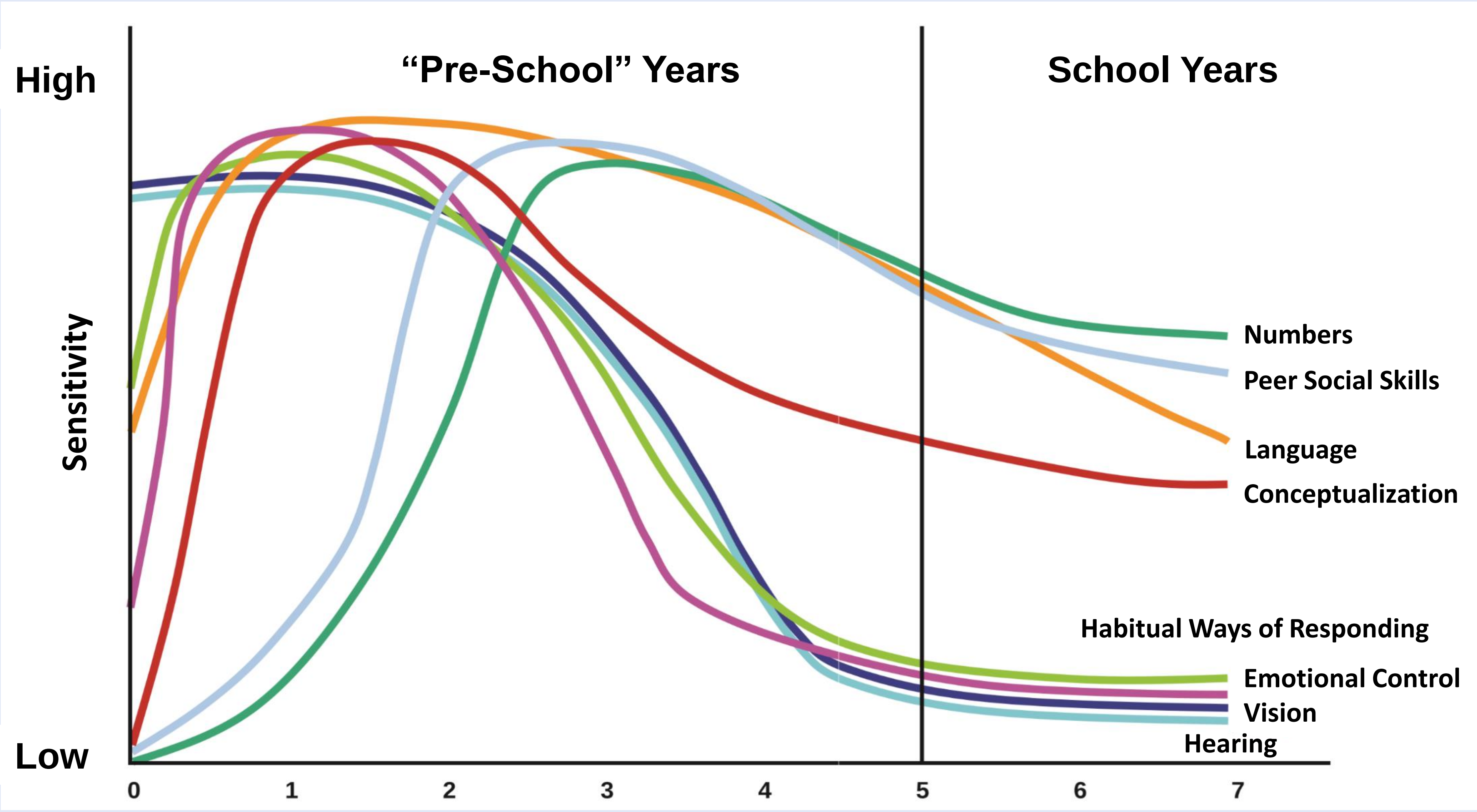
which jointly

- enable creativity, flexibility, and ability to work collaboratively.

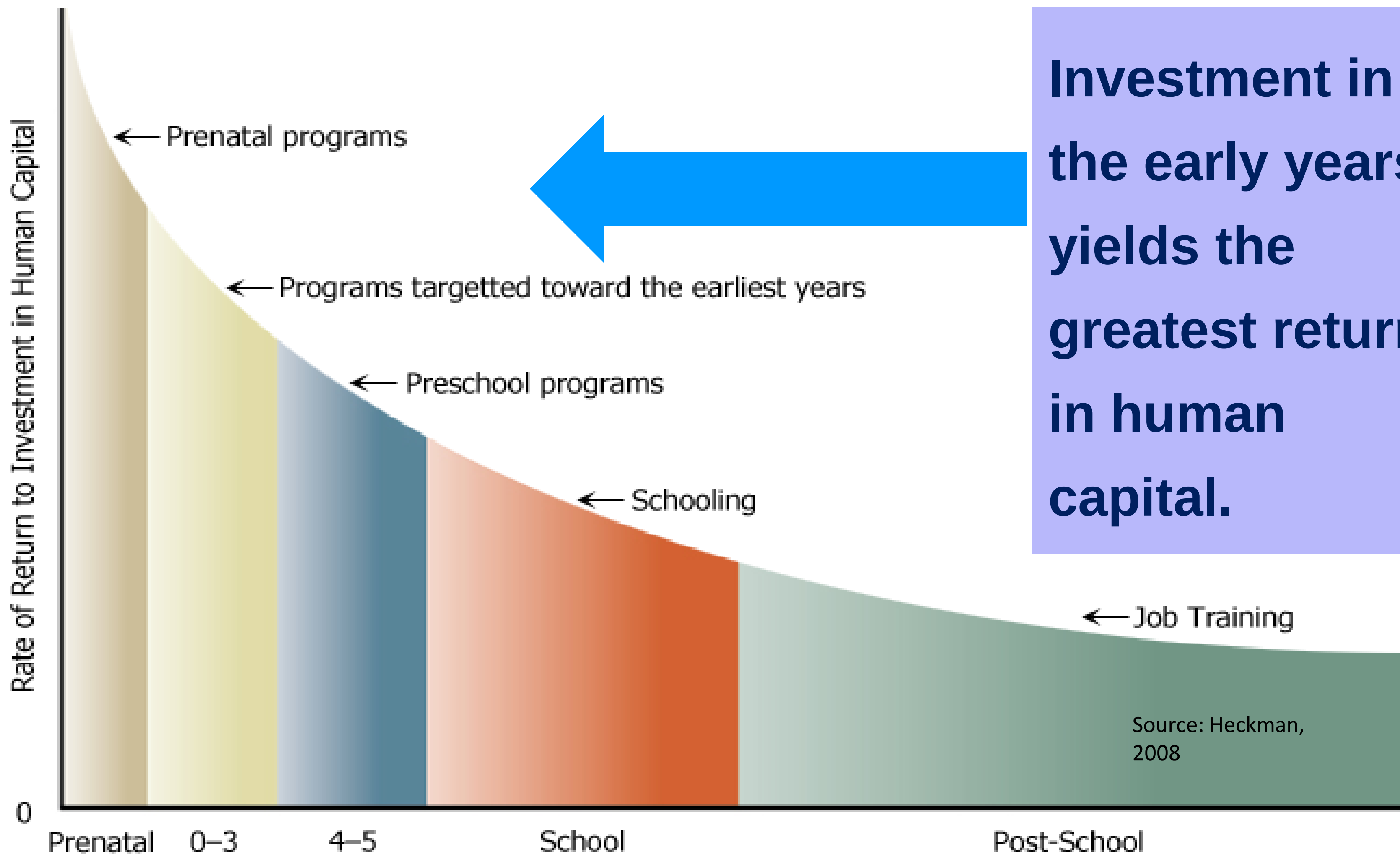
It mostly develops in the antenatal period

and in early childhood.

Social protection provides the most flexible and effective early childhood investment, building the cognitive capital that enables children to reach their full potential while building the assets that today drive the wealth of nations.



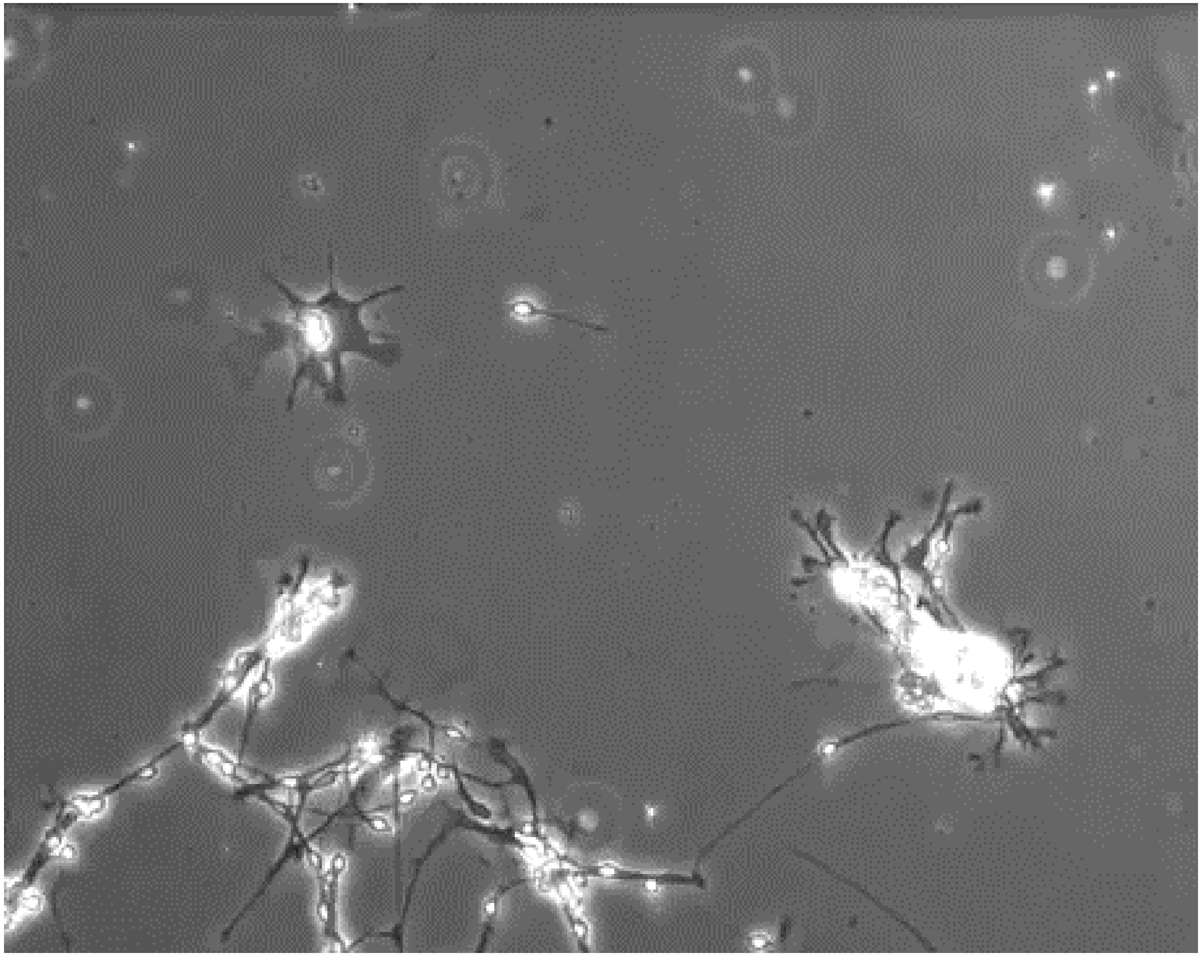
Pre-natal and early childhood investments in cognitive capital generate the highest returns



Investment in the early years yields the greatest return in human capital.

Source: http://heckmanequation.org/content/resource/heckman-curve

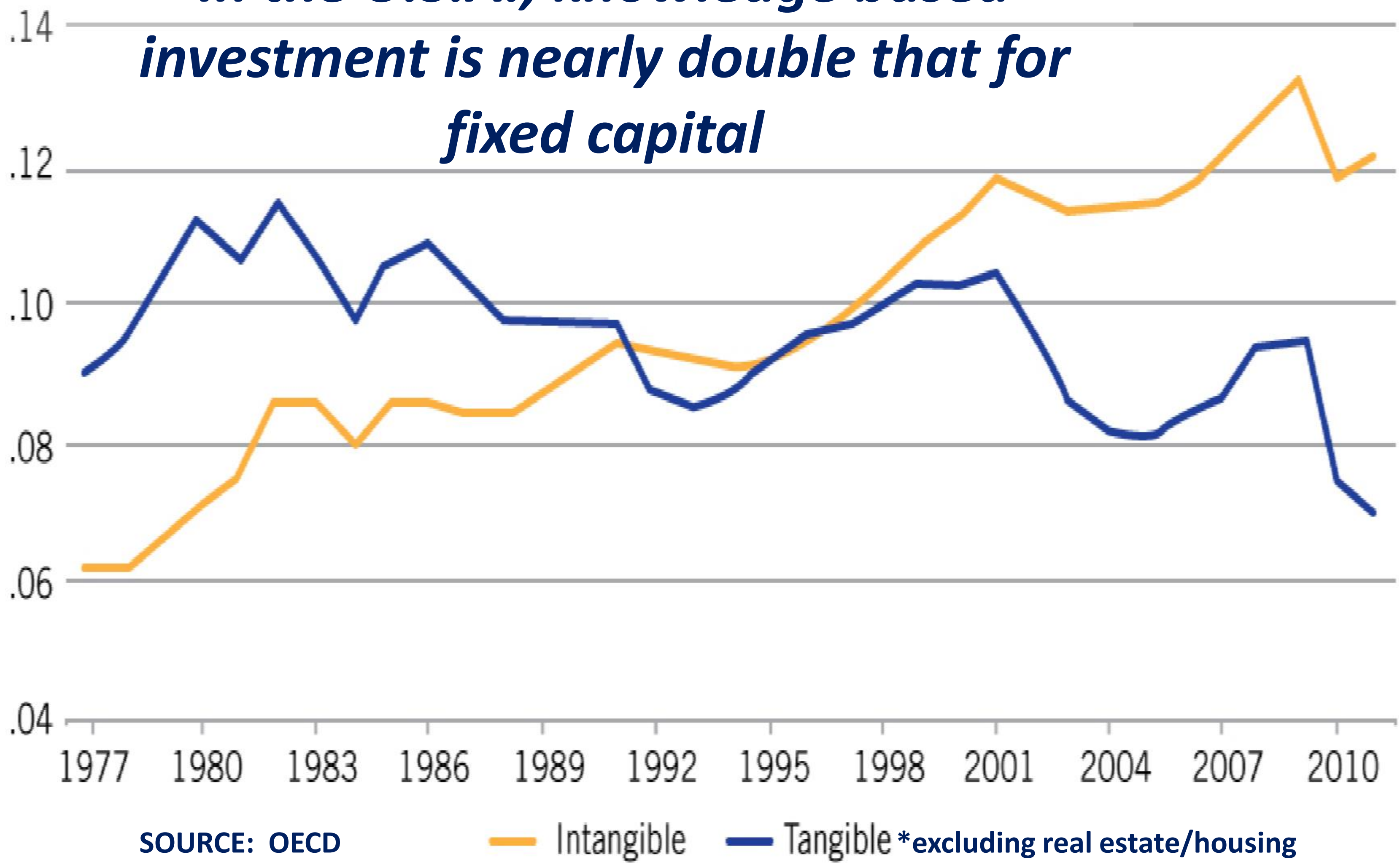
How does social protection change the capacities of our children?



Cognitive Capital drives Global Knowledge-Based Investments which are surpassing increasingly volatile Fixed Capital investments

In the U.S.A., knowledge based investment is nearly double that for fixed capital

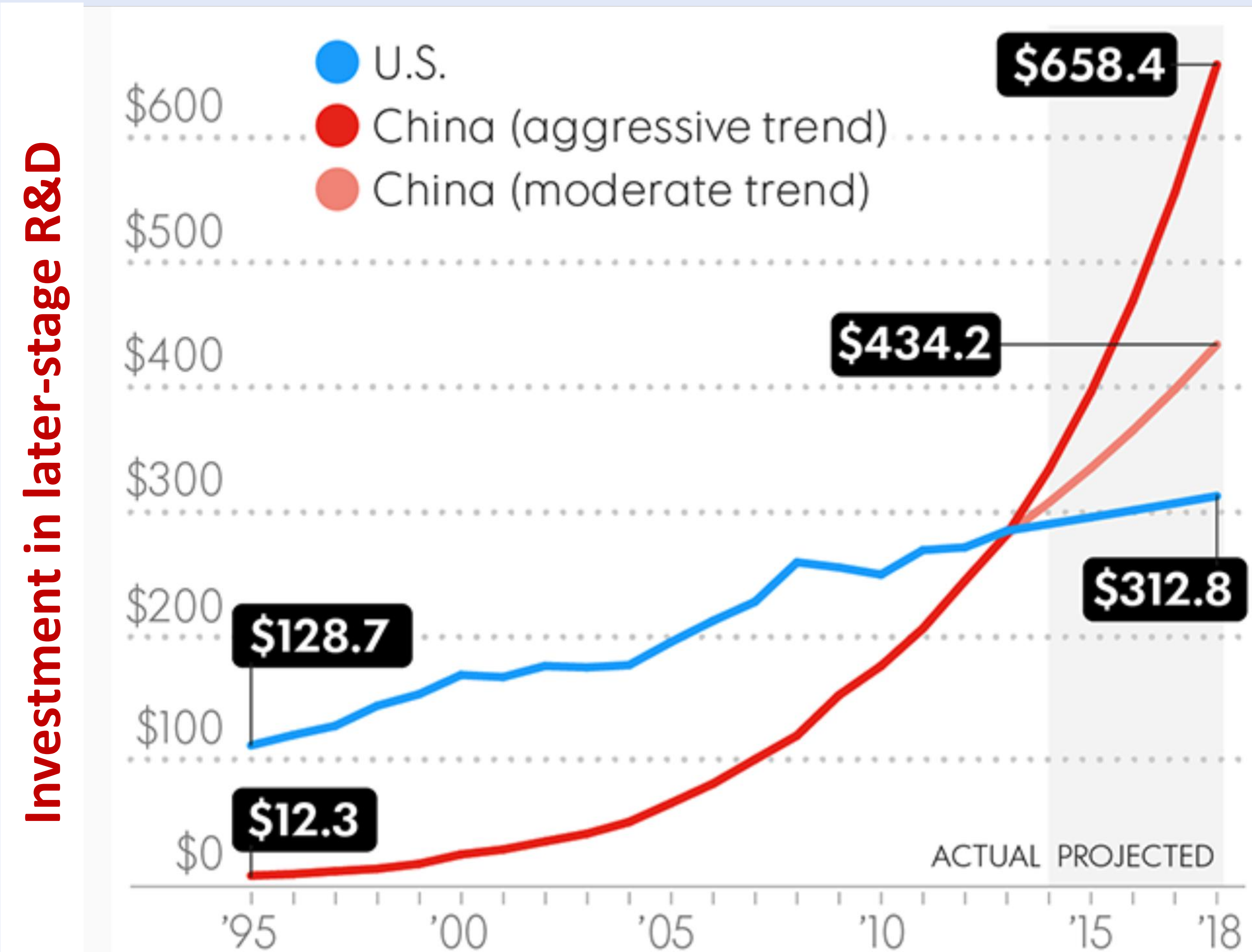
Investment by American private companies in tangible* and intangible assets 1977-2011 (ratio to GDP)



SOURCE: OECD

*excluding real estate/housing

Investment in Cognitive Capital has enabled China to surpass U.S.A. in spending on later-stage R&D, a key Engine of Growth (and is projected to be up to twice as much as the U.S.A by 2018)



SOURCE: Boston Consulting Group (2017)

Perceptions of social protection

"Social assistance should be provided to poor households "in kind" (direct transfers of food or other necessities) to minimize the risk that households misuse the cash."

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A: strongly agree

B: agree

C: somewhat agree

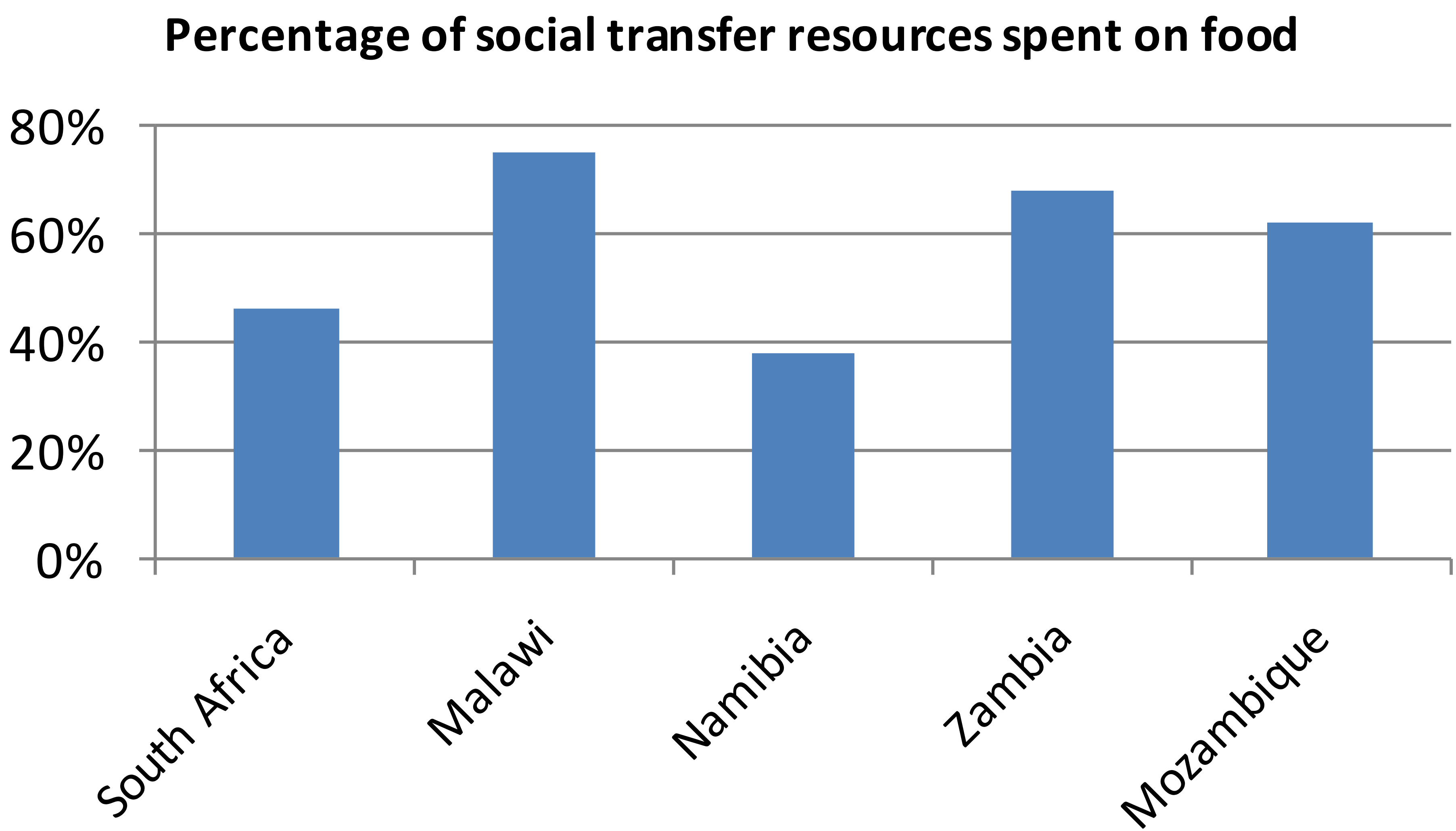
D: somewhat disagree

E: disagree

F: strongly disagree

A B C D E F

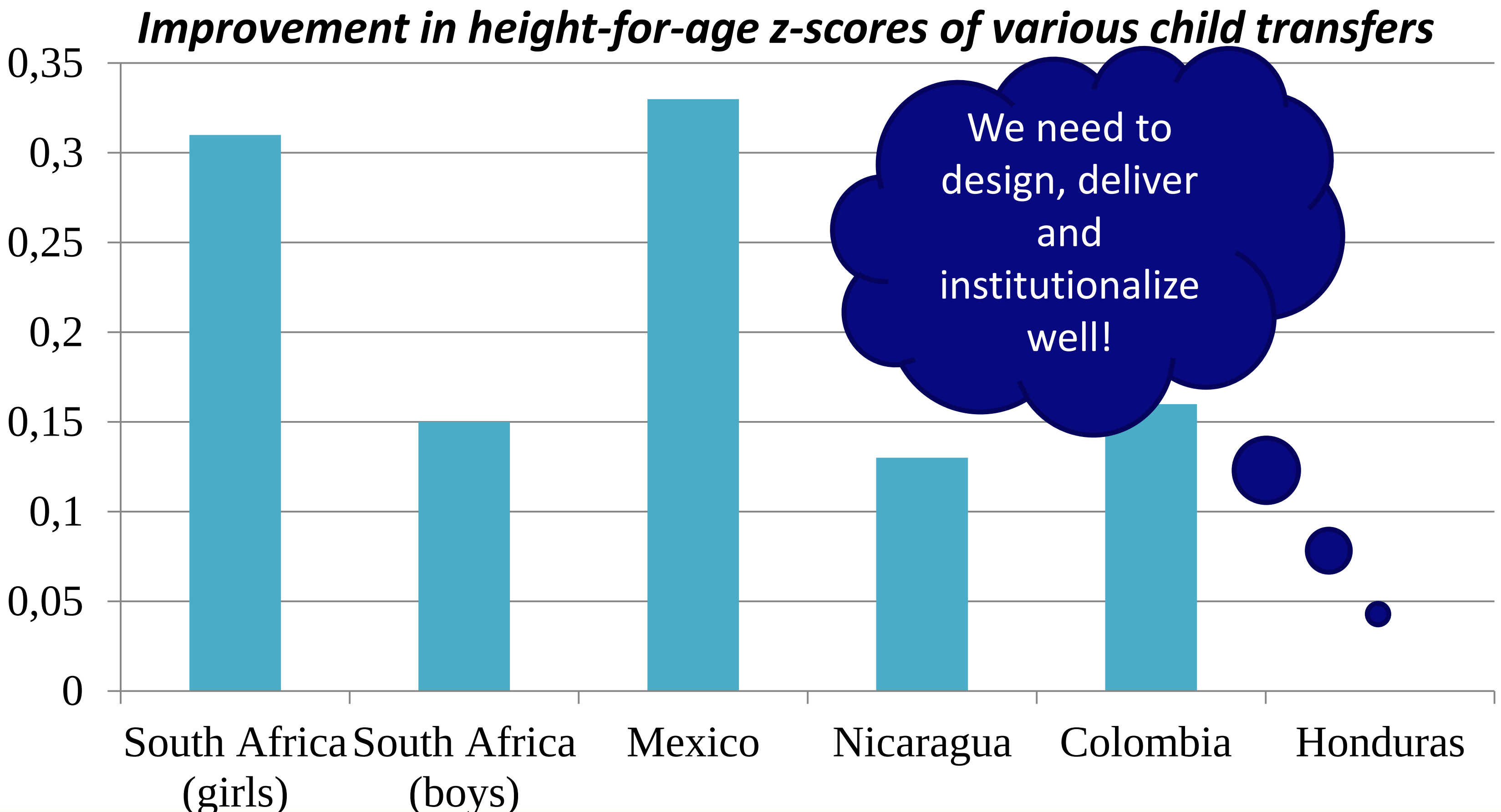
Most social cash transfers buy mainly food



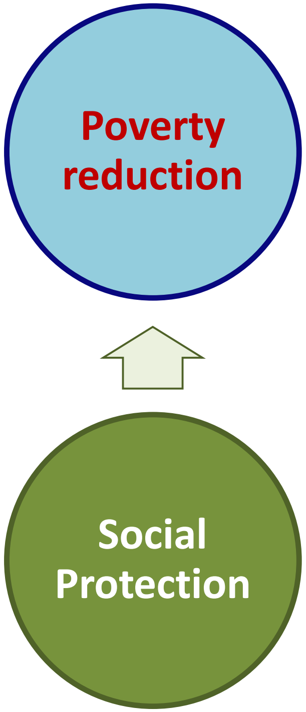
SOURCE: EPRI (2004), IFPRI (2008), Vincent and Cull (2009)

Building human capital

BY SUPPORTING HEALTHY DEVELOPMENT OF CHILDREN THROUGH CASH TRANSFERS…



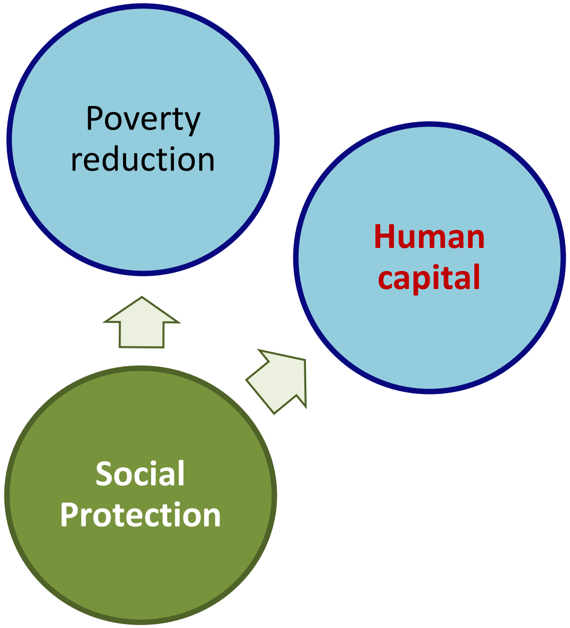
Multi-dimensional impacts of social protection



Poverty reduction

- Main aim of social protection
- Protects people from shocks and directly supports well-being
- Impacts as great as 50% reduction in some countries

Multi-dimensional impacts of social protection

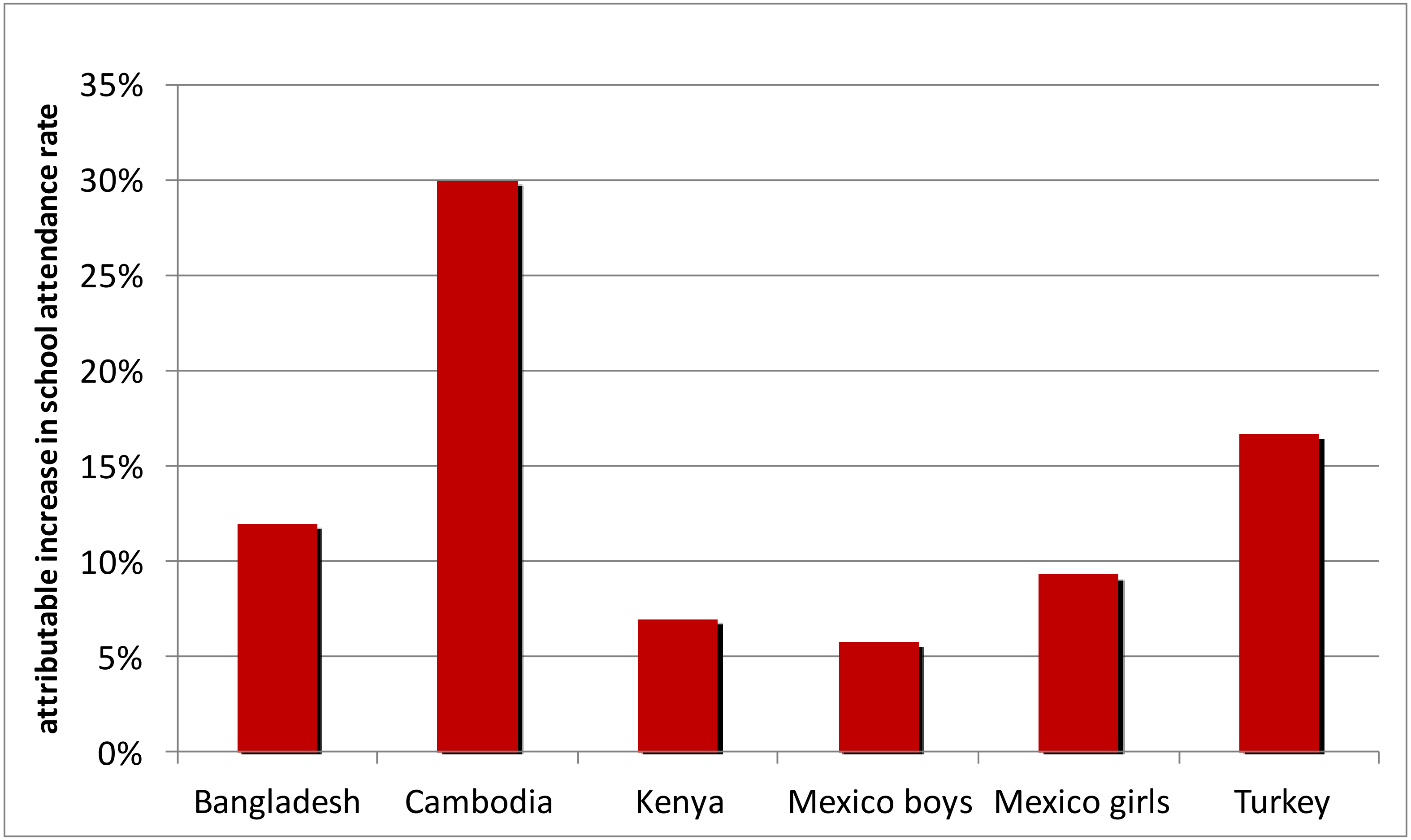


Human capital development

- Most documented secondary goal
- Shown to improve nutrition, education, and health outcomes
- For both, conditional and unconditional social protection programmes

Building human capital

…THEREBY ENABLING CHILDREN TO EXPLOIT OPPORTUNITIES.



Perceptions of social protection

"When households receive social assistance, they are more likely to become dependent on government benefits and less likely to want to work or try to engage in self-supporting livelihoods."

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A: strongly agree

B: agree

C: somewhat agree

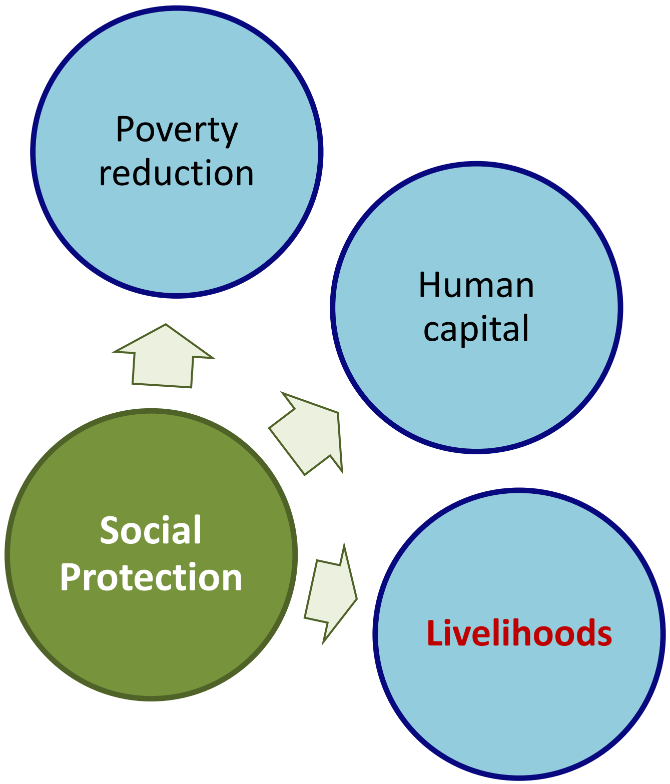
D: somewhat disagree

E: disagree

F: strongly disagree

A B C D E F

Multi-dimensional impacts of social protection



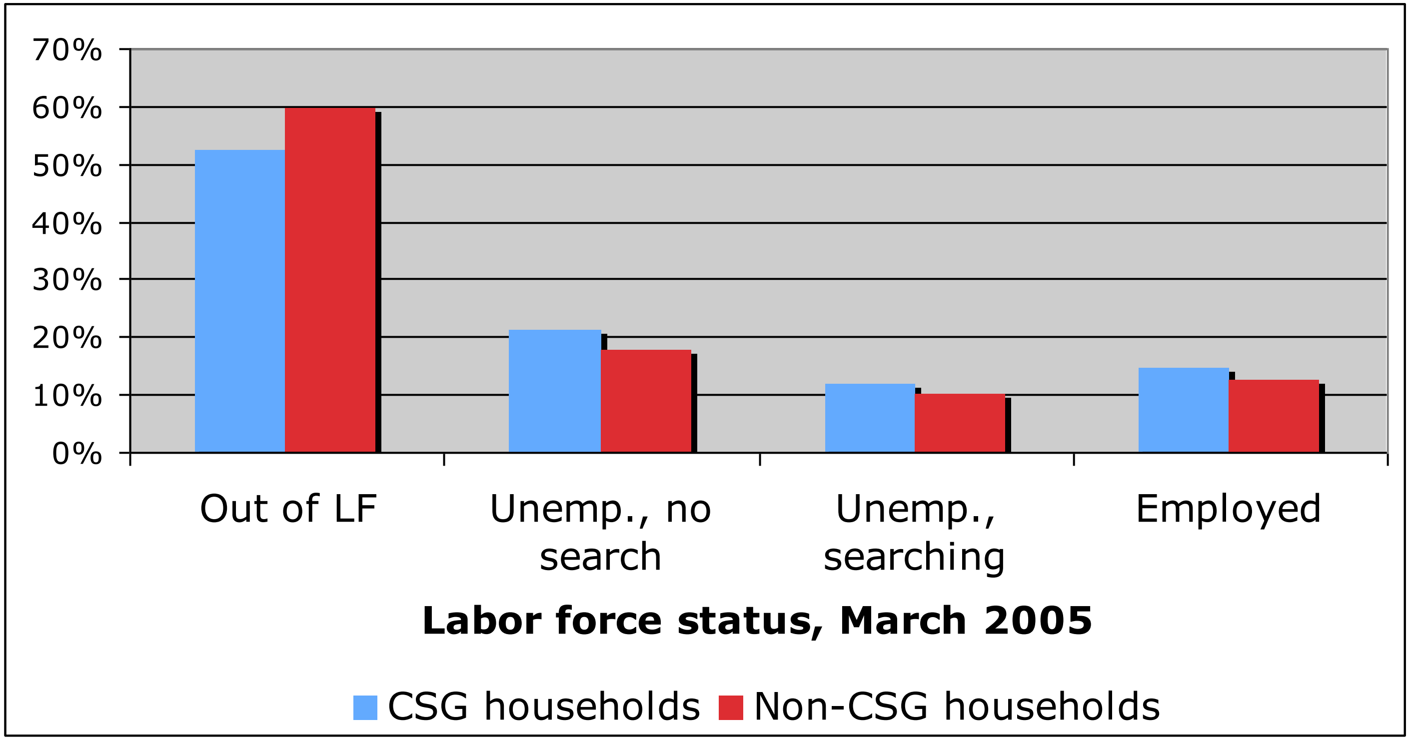
Livelihoods

- A secondary impact
- Small but significant improvements in many countries
- People use social protection benefits to support enterprises and labour market participation

Supporting livelihoods development

SOUTH AFRICA

Labour force participation rates of CSG and non-CSG households



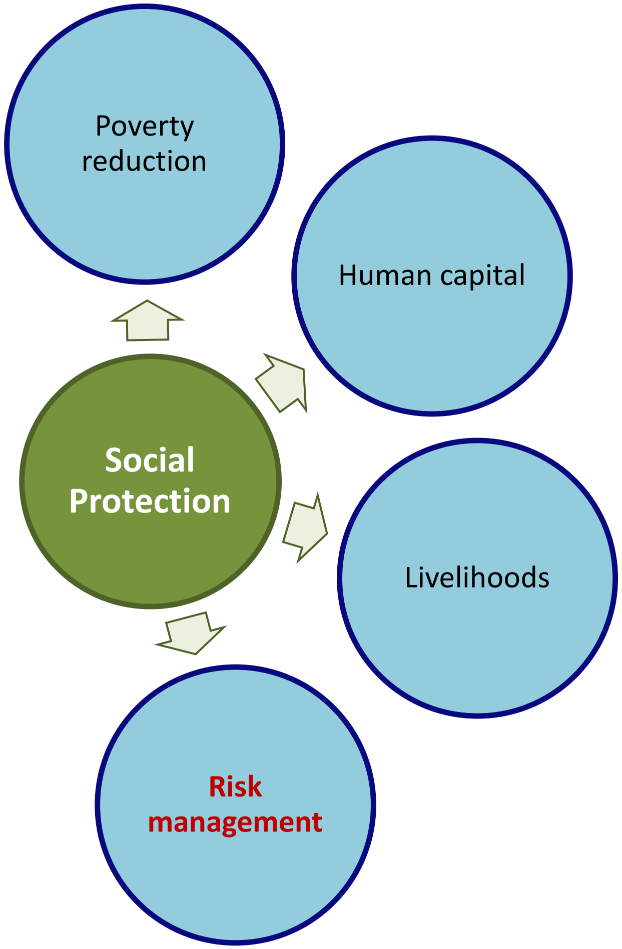
CSG = Child Support Grant (monthly cash transfer to poor households with children).

Centre for Social Protection

Positive economic growth impacts: Agriculture and rural development

- Mexico (Progresa/ Oportunidades):
  * 12% of cash transfers are invested in micro-enterprises and farming, generating 18% average rate of return.
- Paraguay (conditional cash transfer programme):
  * participants invested 45–50% more in agriculture.
- Ethiopia (PSNP):
  * 15% of participants invested some cash transfers in farming,
  * 8% of participants purchased livestock.
- Zambia (Kalomo Social Cash Transfer scheme):
  * households owning goats increased from 8.5% to 41.7%.
- Malawi (Dowa Emergency Cash Transfers):
  * regional economic multiplier = 2.1.

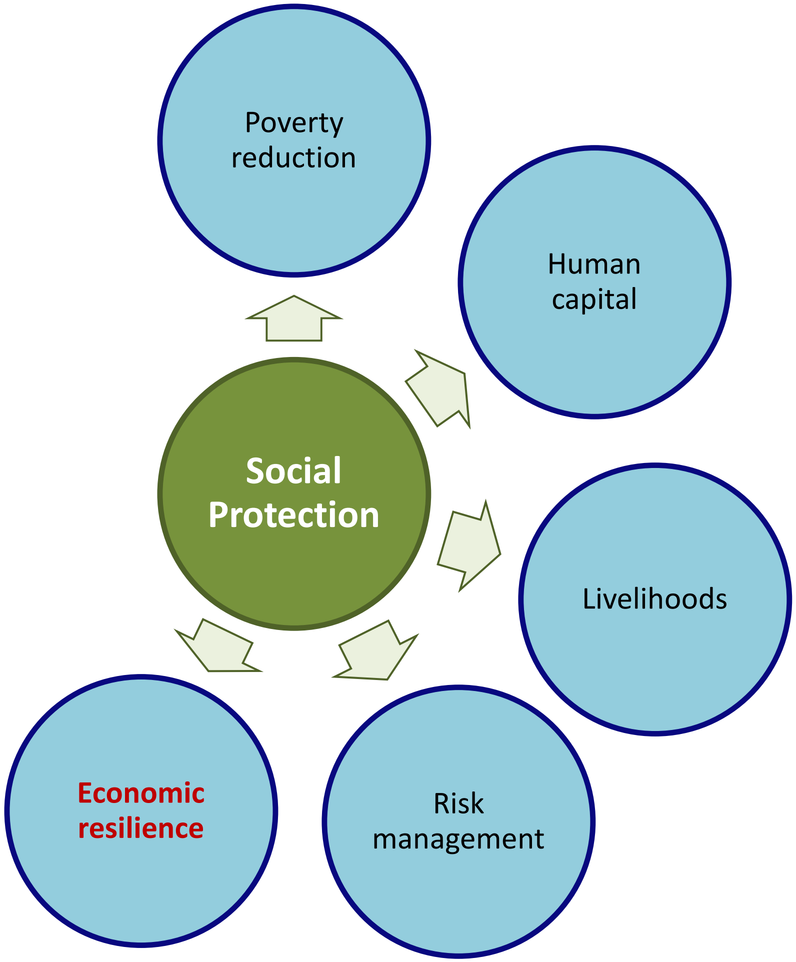
Multi-dimensional impacts of social protection



Risk management

- Subtle but powerful impact
- Protects people from shocks and directly supports well-being
- Prevents further decline into poverty
- Protects assets and promotes productive risk-taking

Multi-dimensional impacts of social protection

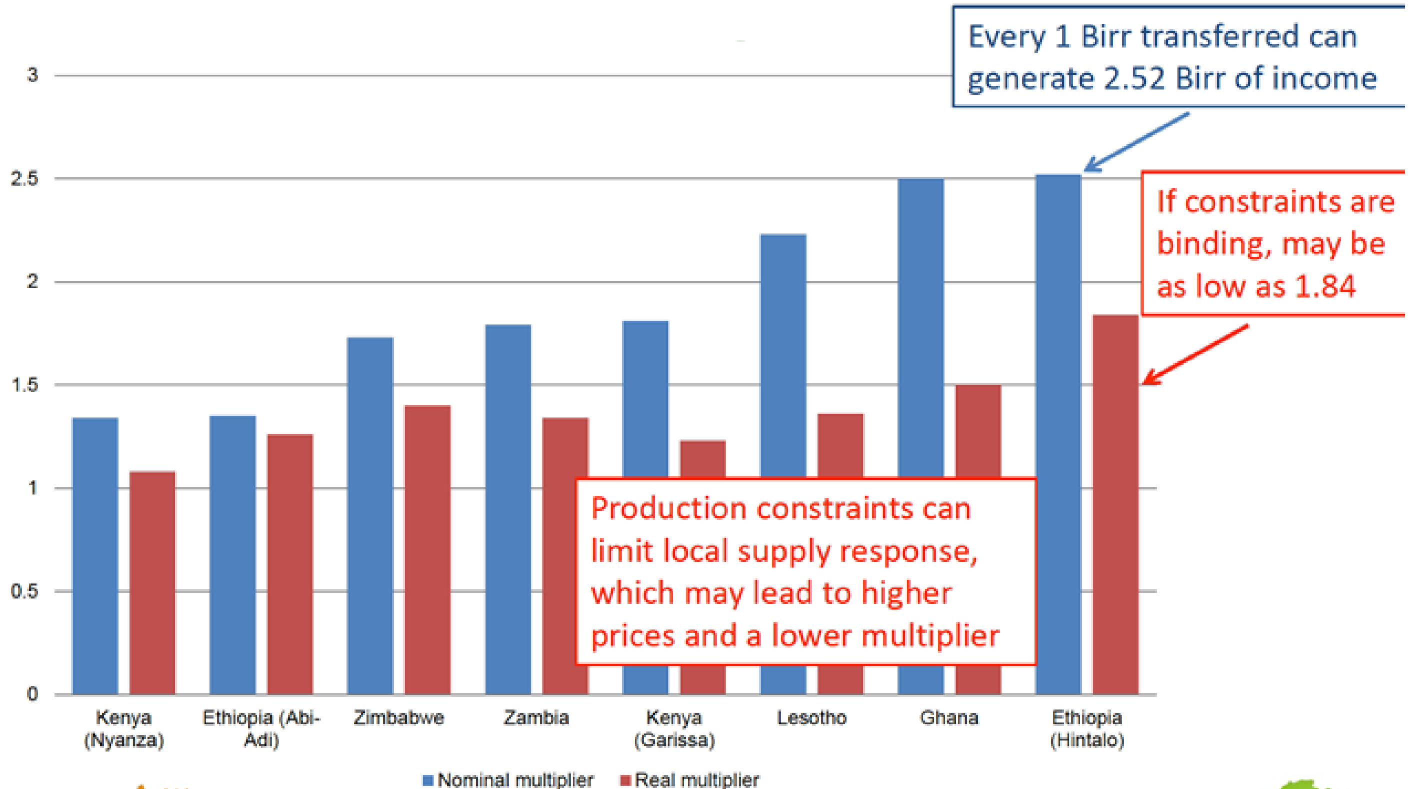


Economic resilience

- Enables economy to better withstand external shocks
- Provides an automatic stabiliser for economy
- Provides efficient economic stimulus

Stimulating economic growth

AT LOCAL LEVEL…



EPRI

Households invest in livelihood activities—though impact varies by country

	Zambia (CGP)	Malawi (2007/8)	Kenya	Lesotho	Ghana
Agricultural inputs	+++		- - -	++	+++
Agricultural tools	+++	++	NS	NS	NS
Agricultural production	+++		NS	++	NS
Home production of food	NS	+++	+++		NS
Livestock ownership	+++	+++	Small	++	NS
Non farm enterprise (NFE)	+++	NS	+FHH	NS	NS

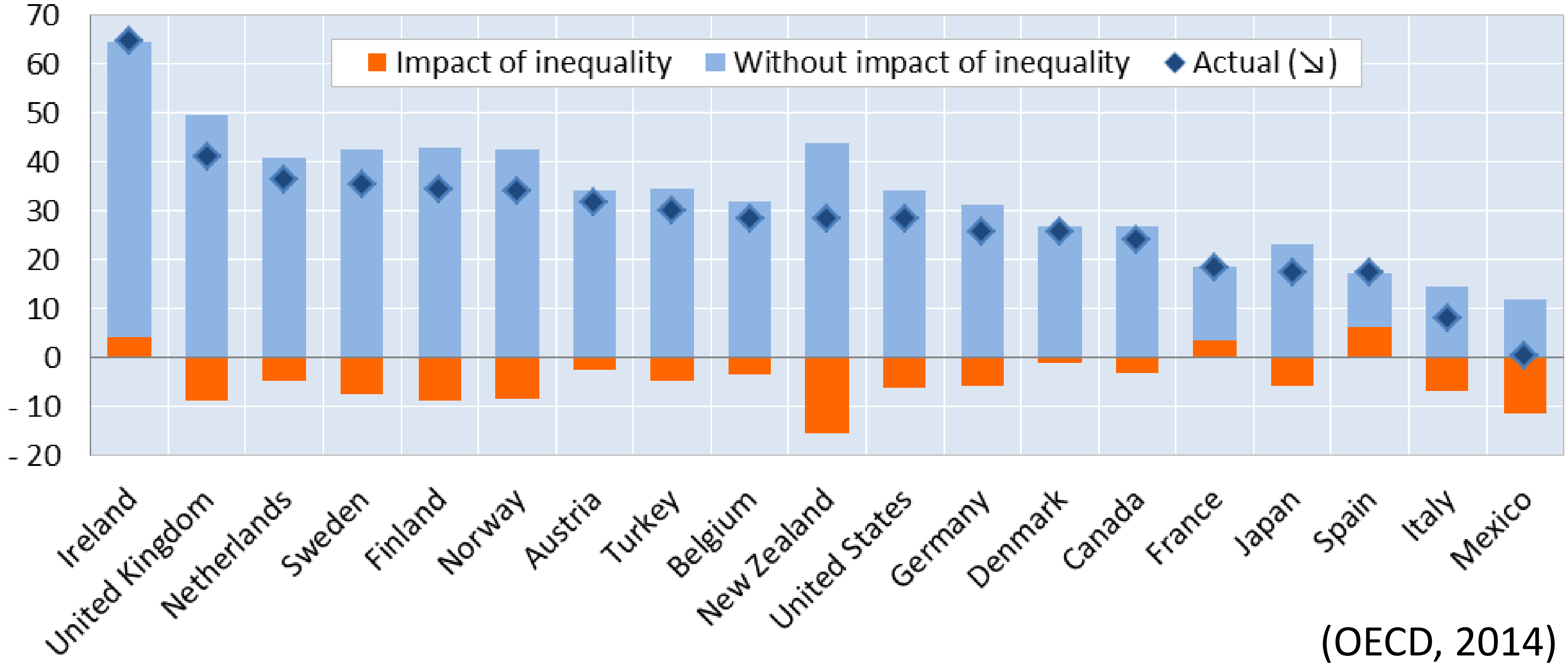
Stronger impact

Mixed impact

Less impact

Stimulating economic growth

...AND AT NATIONAL LEVEL!



(OECD, 2014)

Perceptions of social protection

"There is a trade-off between equity and growth: for exampling, investing in social protection to achieve equity reduces resources for economic infrastructure, which costs the nation economic growth."

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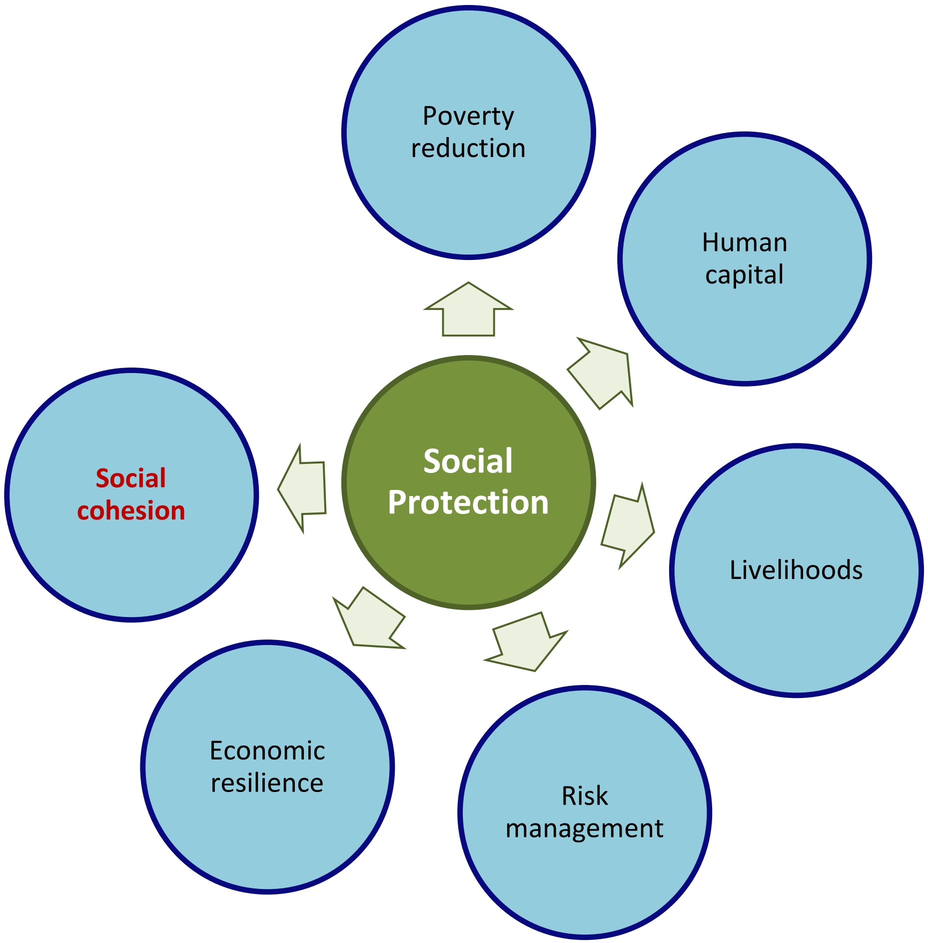
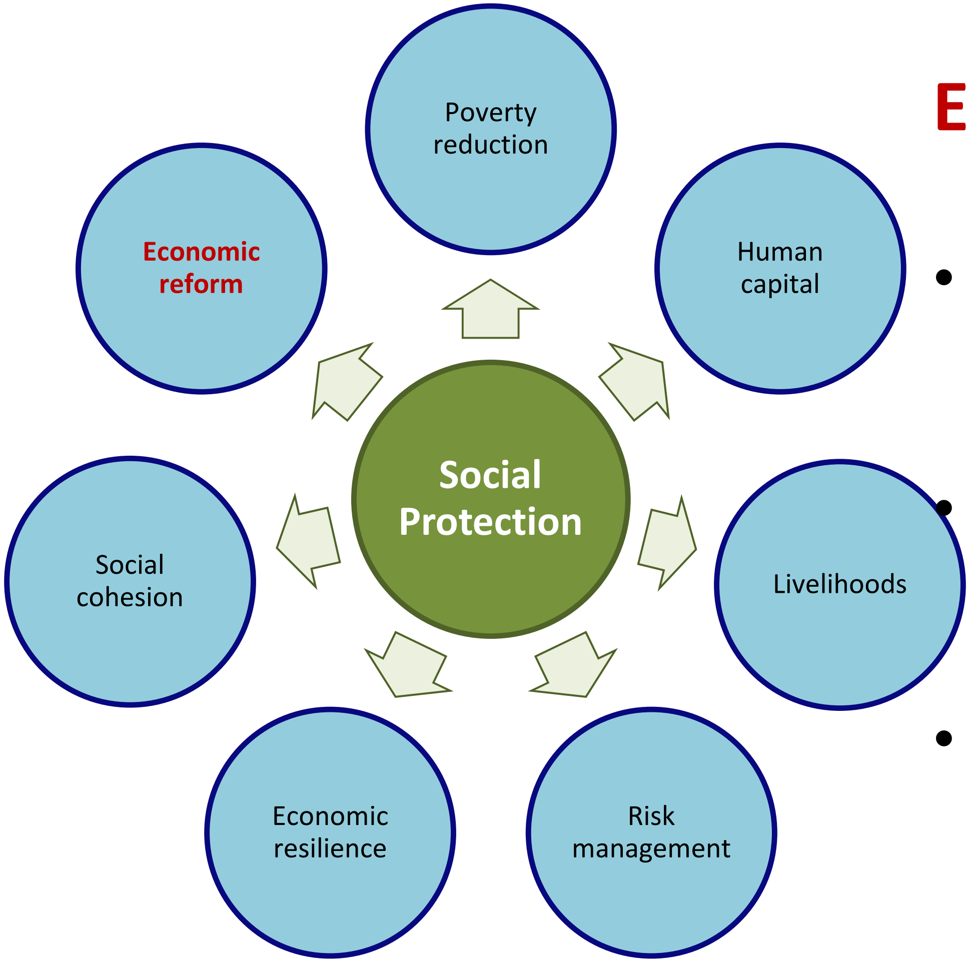
Multi-dimensional impacts of social protection



Social cohesion

- Social protection as one of the most concrete and valued forms of government delivery
- Inclusion in the productive sector strengthens willingness to pay
- Resulting social cohesion promotes private investment

Multi-dimensional impacts of social protection



Economic reform

- Social protection distributes benefits of economic growth
- Renders any economic reform programme more pro-poor
- Increases likelihood of reform successes

Facilitating economic reform

USING SOCIAL PROTECTION TO BUILD SUPPORT FOR ECONOMIC REFORM

- Ghana and Egypt previously spent over 5 per cent of their GDP on ***regressive energy subsidies***

- Trying to abolish them in 1990s led to massive protests, and reversal of reform

- Both countries recently successfully initiated economic reform, directing cost savings to ***pro-poor social protection programmes***

Facilitating economic reform

- A half-century ago had a poverty profile similar to any African country.
- Today, ***lowest poverty rates*** on the continent and some of the ***highest growth rates*** over the past several decades.
- ***Social protection*** enabled a restructuring of the economy onto an export-led high growth path.

Social protection reinforces social cohesion, facilitating economic reforms that promote pro-poor growth

WP/01/116

IMF Working Paper

Who can explain
the Mauritian Miracle?

Meade, Romer, Sachs, or Rodrik?

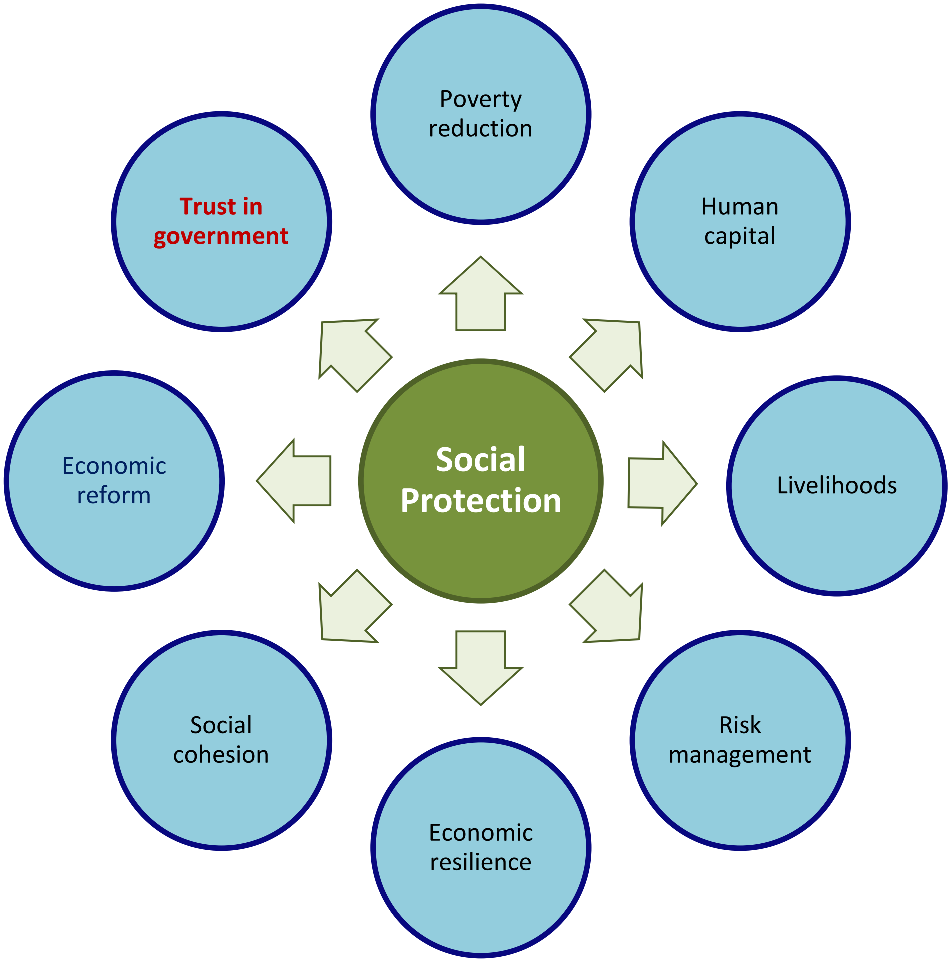
Arvind Subramanian and Devesh Roy

INTERNATIONAL MONETARY FUND

Mauritius

- **A half-century ago had a poverty profile similar to the world's poorest countries**
- **Today, one of the lowest poverty rates in the developing world, and some of the highest growth rates over the past several decades**
- **Social protection enabled a restructuring of the economy onto an export-led high growth path**

Multi-dimensional impacts of social protection



Build trust in government

- Social protection improves trust in local government, especially in democratically elected officials
- First point of contact between a government and its citizen
- Strengthens bond between state and people

Consistent positive impacts on subjective well-being of main respondent

Ghana LEAP	16pp increase in proportion reporting ‘yes’ to “Are you happy with your life?”
Malawi SCT	**16% increase in Quality of Life scale**
Kenya CT-OVC*	6% increase in Quality of Life score
Zambia CGP	45pp increase in proportion who believe ‘they are better off than 12 months ago’
Zambia MCG	40pp increase in proportion who believe ‘they are better off than 12 months ago’
ZIM HSCT	12% in life satisfaction scale

All impact estimates use ‘difference in differences’ between treatment and comparison group except those with *

If we want to achieve the SDGs..

Child benefits and other cash tranfer programmes

Tackle poverty and inequality	Goals 1, 10
Strengthen food security	Goal 2
Improve health and cognitive development	Goals 3, 9
Strengthen education outcomes	Goal 4
Promote gender equality	Goal 5
Household-level environmental management	Goals 6, 13
Strengthen social inclusion and cohesion	Goals 11, 16
Decent and productive work; inclusive growth	Goal 8
Improve macroeconomic resilience	Goal 12
Opportunities for development partnerships	Goal 17

The limitations of social protection programmes

Importance of appropriate design and effective implementation

Limits of impact without integrated approaches

Challenges in the face of structural problems

Supply side of social services
Poor regulatory environment
Lack of consumer protection

Challenges of elevated expectations

Key takeaways

1.
- Social protection's main impacts are to effectively **reduce poverty and inequality** (SDGs 1 and 10).

2.
- But social protection also generates a wide range of developmental impacts—in terms of human capital development, household well-being and social risk management (SDGs 2-9). Thus, **social protection is a key tool strengthening sustainable development.**

3.
- Developmental impacts promote **pro-poor and inclusive economic growth**, which is reinforced by social protection's impacts on economic resilience, social cohesion and other mechanisms to promote inclusive economic growth.

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