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Emerging issues: social protection

Note by the Secretariat

I. Introduction

1. In its resolution 2006/18 of 26 July 2006, the Economic and Social Council decided to include the item entitled "Emerging issues" in the programme of work of the Commission for Social Development. The Bureau of the forty-ninth session of the Commission, in consultation with the respective regional groups, decided that the theme for discussion under this agenda item would be social protection in the context of the global financial and economic crisis.

2. The present note, which has been prepared by the Secretariat to provide background information and facilitate the deliberations of the Commission, highlights the importance of social protection and its affordability, and discusses the impact of the crisis on social protection programmes. The note also proposes some questions for inclusion in the discussion.

II. The need for social protection

3. Social protection measures act as cushions for individuals and families against economic shocks and other life contingencies, and enhance their capacity to manage and overcome the challenges that affect their well-being. These measures are therefore essential to reducing vulnerability, preventing the deterioration of living conditions and facilitating livelihood regeneration. During economic crises, social protection systems perform an important role as social and economic stabilizers. They prevent students from dropping out of school and the rise in malnutrition and thereby help prevent deterioration of human and social capital.

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4. The process of globalization and the effects of international competition have brought increased economic insecurity and new forms of vulnerability as entire economies, and with them individuals, have had to adapt to often rapid national and global adjustment processes. The demand for labour has become increasingly volatile, and the number of atypical, temporary, part-time jobs (mostly in the informal sector) has grown. As the current crisis proves, social protection is increasingly needed in the context of economic insecurity.

5. Climate change poses multiple threats to economic growth, wider poverty reduction, and the achievement of the Millennium Development Goals. These threats arise from the increased frequency and severity of natural disasters, increased crop failures and food insecurity, deterioration of ecosystems and the related incidence of disease. The poor are likely to be hit hardest by climate change, while they have the least capacity to respond to its impact. There is a growing recognition of the potential role of social protection as a response to the multiple risks and short- and long-term shocks associated with climate change. It has been argued that social protection could become one of the priority sectors for adaptation in developing countries.[1]

6. Public social protection encompasses three main sets of measures: social insurance; social assistance, including universal tax-financed transfers; and protective labour-market regulations. Social insurance programmes, which are contribution-financed transfers of income in cash or in kind (that is to say, entitlements are conditional on the payment of contributions), provide protection against the financial consequences of unemployment, sickness, old age, disability, maternity and other life cycle and work-related contingencies. Social assistance consists of schemes that provide income transfers in cash or in kind to all those living in poverty or to selected groups within the population (often children and older persons). Labour and employment regulations ensure basic standards for decent and productive work.

7. Familial and other informal social protection mechanisms remain important in low-income countries, but their effectiveness is undermined by a weak resource base and by current trends in respect of urbanization and ageing, changes in family structure and insufficient protections in case of shocks that affect whole communities. At the same time, the reach of formal social protection systems is still limited in many low-income countries. The International Labour Organization (ILO) has estimated that only about 20 per cent of the working-age population and their families have access to comprehensive social protection systems.[2]

8. The development of social insurance programmes, in particular, has been uneven in developing countries. Where they do exist, unemployment benefits, old-age pensions and other benefits cover only certain categories of workers in the formal sector, leaving those in the informal economy with no protection at all. Only about 25 per cent of the labour force worldwide is contributing to or accruing pension rights and less than 20 per cent of older persons are covered.[3] In

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[1] See Nicholas Stern, "Key elements of a global deal on climate change" (London, London School of Economics and Political Science, 2008).

[2] International Labour Organization, *World Social Security Report 2010/11: Providing Coverage in Times of Crisis and Beyond* (Geneva, International Labour Office, 2010).

[3] R. Holzmann, D. A. Robalino and N. Takayama, eds., *Closing the Coverage Gap: The Role of Social Pensions and other Retirement Income Transfers* (Washington, D.C., World Bank, 2009).

sub-Saharan Africa, only some middle-income countries such as Botswana, Mauritius, Namibia and South Africa and, more recently, Swaziland and Lesotho, have introduced social pension schemes at the national level and their coverage, except for those of Mauritius, is very low. On average, public expenditure on pensions represents less than 1 per cent of gross domestic product (GDP) in sub-Saharan Africa, as compared with over 10 per cent of GDP, on average, in developed countries.[4]

9. In contrast, social assistance aimed at alleviating poverty and preventing social exclusion has become a key component of social protection in developing countries where the incidence of labour-market informality is high and public service provision is limited. Programmes where cash transfers are conditional on education and other human capital investments, such as *Bolsa Família* in Brazil, *Oportunidades* in Mexico, and *Familias en Acción* in Colombia, as well as those where transfers are conditional on work, as under the National Employment Guarantee Act in India, and in the Productive Safety Net Programme in Ethiopia, first introduced locally, are now widespread and cover significant proportions of the population in several countries of Asia and Latin America. *Bolsa Família*, for instance, had about 50 million beneficiaries (11.1 million families) in 2009. Unconditional cash transfer initiatives, be they categorical, like the Child Support Grant, in South Africa; means-tested, like the Benazir Income Support Scheme in Pakistan; or universal, like the Kalomo Pilot Social Cash Transfer Scheme in Zambia, have also gained ground in the last two decades.

10. Many of these social assistance programmes increasingly support access to social services (health care and education) and income-generation opportunities. Therefore, the availability of such services, and their capacity to cope with increasing demand, are critical to the success of programmes in promoting social integration and reducing poverty. Some developing countries have made strong gains towards universal provision of health and education. This is the case for Costa Rica, Brazil and Botswana, which has one of the most developed social service systems in Africa. However, social service provision remains fragmented and exclusionary in a large number of countries.

11. In the main, countries that have successfully reduced income poverty and improved social conditions on a broad scale have developed comprehensive rights-based social protection policies covering a majority of the population. While the impact of social protection programmes varies according to their design and level of implementation, evidence from across the world, including from high-income countries, shows their potential to reduce poverty and inequality and stimulate economic growth. For countries at a given income level, higher levels of expenditure on social protection are correlated with lower poverty levels.[5] ILO estimates that non-pension cash transfers reduce the risk of falling into poverty by more than 20 per cent in most of the European Union region, and even by more than 50 per cent in countries such as Denmark, Finland, France, Hungary, the

[4] World Bank, Social Protection and Labour Sector, personal communication.

[5] Armando Barrientos, "Social protection and poverty reduction" (2008), background paper commissioned for United Nations Research Institute for Social Development, *Combating Poverty and Inequality: Structural Change, Social Policy and Politics* (United Nations publication, Sales No. E.10.III.Y.1).

Netherlands and Sweden.[6] It has also shown that the Gini coefficient declines significantly, even by more than 10 percentage points, in Belgium, the Czech Republic, Denmark and Sweden, as a result of such transfers.[7] The World Bank estimates that social protection could cut transient poverty by half, thus reducing the total poverty headcount by at least 5-10 per cent.[8] In Mexico, *Progresa* (now *Oportunidades*) may have led to a 36 per cent decline in poverty rates among its beneficiaries.[9] Brazil identifies the expansion of *Bolsa Família*, together with an increase in the minimum wage, as the reason for its having met the Millennium Development Goal target ahead of schedule.[10]

12. In developing countries, much of the existing evidence points to increases in labour-force participation and improvements in the productive capacity of beneficiaries of well-designed social protection schemes.[11] Insofar as they help poor men and women manage trade-offs between meeting their immediate needs and securing future livelihoods, social protection measures also encourage capital accumulation and investment, ease access to credit and help households manage risk. By promoting children's access to health care and school enrolment and attendance, social assistance programmes also help break the intergenerational transmission of poverty. Therefore, if properly designed and implemented, social protection programmes promote inclusive and equitable economic growth and stimulate demand.

13. In order for social protection schemes to effectively stimulate labour-force participation, investment and economic growth, they must ensure that social transfers are regular and reliable; they should be combined with programmes that ensure the availability and quality of social services; and they should avoid the exclusion of groups that most require support. For instance, measures in place often fail to take into account the particular requirements of women and female-headed households. In this regard, forms of protection tied to employment status tend to place women at a disadvantage inasmuch as a large portion of women's economic activity is unpaid, and their participation in the labour market is more intermittent than men's.

14. Over the last three decades, social protection schemes have frequently given way to social safety nets, that is, targeted sets of non-contributory, often transitory transfers. Targeting focuses on eligibility and hence involves means-testing to determine who can be a beneficiary, which means that only a small group of the population qualifies for transfers at any given time, and only a proportion of that

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[6] *World Social Security Report 2010/11*, pp. 107-108 and figure 8.9.

[7] Ibid.

[8] World Bank, Social Protection Advisory Service, "The Contribution of Social Protection to the Millennium Development Goals" (Washington, D.C., 2003), p. 8.

[9] Rolf Künnemann and Ralf Leonhard, "A human rights view of social cash transfers for achieving the Millennium Development Goals" (Stuttgart, Germany, Brot für die Welt, 2008).

[10] *Objetivos de Desenvolvimento do Milenio: Relatório Nacional De Acompanhamento* (Brasília, Instituto de Pesquisa Economica Aplicada e Secretaria de Planejamento e Investimentos, 2007), p. 26.

[11] For a review of the impact of social protection on economic growth, see: Organization for Economic Cooperation and Development, "Promoting pro-poor growth: employment and social protection" (Paris, 2009); and A. Barrientos and J. Scott, *Social Transfers and Growth: A Review*, Brooks World Poverty Institute Working Paper, No. 52 (Manchester, United Kingdom, 2008).

group actually receive a benefit. The effectiveness and legitimacy of targeting specific groups have been questioned. Targeting requires strong administrative capacity and can lead to significant errors of inclusion and exclusion and under-coverage, especially where informality and poverty are widespread. Moreover, since poverty is not a condition particular to a fixed group of individuals, but rather one that everyone at risk may experience at some point, focusing attention on a specific group of individuals ignores the dynamic nature of poverty, unemployment and other life cycle and work-related circumstances. A social safety net approach usually does not focus on the prevention of poverty through investments in the resilience of people living at or near the poverty line. The World Health Organization (WHO), for example, estimates that about 100 million vulnerable people fall into poverty annually owing to the need to finance the cost of health care. This could be avoided if vulnerability was reduced by universal health protection schemes (like the Universal Healthcare Coverage Scheme available in Thailand since 2002).

15. Initially, ensuring that all persons are protected against risks may require special targeted measures designed, as a matter of priority, to reach the most vulnerable. However, the right to social security calls for a progressive move towards universal social protection so as to ensure the basic well-being of all individuals — those experiencing hardship and those at risk of experiencing it — regardless of where they work and live, and of the state of the economy.

III. Social protection and the financial and economic crisis

16. The social consequences of economic crises have been most severe in countries where social protection systems were weakest. At the onset of the current financial and economic crisis, many developing countries made efforts to address its social consequences despite increasing fiscal constraints. In a study of 35 countries, the United Nations Development Programme (UNDP) observed that Governments spent 25 per cent of fiscal stimulus package funds, on average, on discretionary social protection schemes aimed at stimulating employment generation, supporting access to education and health services and providing affordable housing.[12]

17. Some developing countries, especially in Asia and Latin America and the Caribbean, were able to adopt mitigation measures and increase social spending because they had maintained a solid financial footing during the period of economic expansion that preceded the crisis, avoiding large current-account deficits and improving debt ratios. In addition, earlier economic crises had led to the recognition that creating employment, supporting workers through effective income replacement schemes in case of unemployment or underemployment, and improving access to social services are necessary for maintaining or restoring aggregate demand and essential in moving towards a more sustained, sustainable and inclusive path of economic growth.

18. While these discretionary measures are relevant to addressing short-term needs, most of them leave their beneficiaries just as vulnerable to future shocks. Stronger and permanent social protection systems, when in place, play a much larger

[12] Y. Zhang, N. Thelen and A. Rao, "Social protection in fiscal stimulus packages: some evidence", United Nations Development Programme/Office of Development Studies Working Paper (New York, United Nations Development Programme, March 2010).

role in reducing the prevalence of poverty, since they provide basic income security at all times, thereby enhancing the capacity of men and women to manage and overcome shocks and reduce their vulnerability. Investments in building and expanding social protection systems across Latin America and the Caribbean since 2000, for instance, have cushioned the fallout from the crisis in the region, helping households to cope with and compensate for the contraction.[13] However, the ability of many other developing countries to expand social protection has been constrained by a lack of existing mechanisms on which to build. Few of the measures announced by these countries suggest that the crisis is being utilized as an opportunity to review the inadequacy of social protection systems and establish the basic building blocks of a social security system.

19. In addition, if discretionary measures put in place at the onset of the crisis are withdrawn before broad-based recovery in economic and employment growth, their primary beneficiaries may very well fall back into joblessness and poverty. Governments in a number of European countries have already moved from fiscal stimulus to austerity and have reduced social spending, cut jobs and increased taxes, as rising public debt has generated political and financial stress. The austerity budget in Ireland, for instance, includes cuts of nearly 15 per cent of the social welfare budget, elimination of 24,750 jobs in public services and reductions in child benefits, the minimum wage and pensions.[14] In Greece, such measures include pay cuts for public sector employees, tax increases, pension cuts and an increase in the age of retirement of public sector employees.[15] Spain has committed to reducing public spending by 7.9 per cent in 2011; Germany is reducing federal spending by 4.3 per cent between 2010 and 2011; and Italy is implementing a 10 per cent budget cut for 2011 and 2012.[16] The fiscal consolidation plans announced so far in developed countries are expected to have a negative impact on GDP growth in 2011 and 2012, and will therefore put the recovery process in jeopardy. The International Monetary Fund (IMF) finds that cutting the budget deficit by 1 per cent GDP typically reduces GDP by about 0.5 per cent within two years, raises the unemployment rate by 0.3 percentage points and reduces domestic demand.[17]

20. A move towards fiscal tightening is also under way in some developing countries. Even where the social protection budget is maintained in relative terms, expenditure may decline in absolute terms if total public budgets shrink. A study of 126 countries concludes that real public expenditure will contract in about one quarter of these countries in 2010-2011, with the countries in the Middle East and North Africa being hardest hit.[18] Two thirds of the countries surveyed in another

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[13] For further analysis, see “*Did Latin America learn to shield its poor from economic shocks?*”, LAC Poverty and Labour Brief (World Bank, October 2010).

[14] Liz Alderman, “Ireland unveils austerity plan to help secure bailout”, *New York Times*, 24 November 2010.

[15] Thomas L. Friedman, “Greece’s newest odyssey”, *New York Times*, 11 May 2010.

[16] David Cutler, “Factbox: austerity measures around the euro zone”, *Reuters*, 7 December 2010. Available from http://www.reuters.com/article/idUSTRE6B64O220101207.

[17] International Monetary Fund, *World Economic Outlook: Recovery, Risk and Rebalancing* (Washington, D.C., October 2010).

[18] I. Ortiz and others, “Prioritizing expenditures for a recovery for all: a rapid review of public expenditures in 126 countries”, UNICEF, Social and Economic Policy Working Paper (New York, October 2010).

study have cut budget allocations to one or more pro-poor sectors, with social protection and education projected destined to suffer the most.[19]

21. Even maintaining expenditure on social protection at pre-crisis levels may not be sufficient because it is likely that, as a consequence of the crisis, more people are in need of social protection and are using public rather than private social services. A study of six developing countries — Bolivia (Plurinational State of), Ecuador, Kyrgyzstan, Nicaragua, the Philippines and Uzbekistan — suggests that, in face of the setbacks caused by the crisis, the Governments of Ecuador, Nicaragua and the Philippines would need to increase social spending by 1.0-1.5 per cent of GDP per year between 2010 and 2015 in order to meet the targets of the Millennium Development Goals on education, health and basic services by 2015. In the cases of Bolivia (Plurinational State of) and Kyrgyzstan, the additional cost of achieving these Millennium Development Goals, compared with the cost in the pre-crisis scenario, would be 0.7 per cent and 0.5 per cent of GDP per year, respectively.[20] This is in addition to the expenditures required prior to the crisis to build a basic set of social transfers in those countries.

22. Lessons emerging from developed countries and their crisis response show that social protection helped many men, women and their families cope with the recession, especially where systems were already in place and could be quickly extended. A basic social protection floor could bring these benefits to millions more. Targeting public employment programmes to depressed areas can be effective where schemes are well designed and targeted. Countries with experience of such employment guarantee schemes were best placed to broaden them in the crisis.[21]

IV. The affordability of social protection

23. While the structure of social protection systems should vary depending on specific country contexts and institutions, ILO has provided some broad guidance on the primary building blocks of a comprehensive social security system. A basic social protection floor, in countries lacking one, should comprise a basic set of essential context-appropriate social transfers and access to essential services, including health care, education and adequate nutrition. In low-income, agrarian economies, priority should be given to support for smallholder agriculture. Establishment of this basic set of transfers qua social protection floor is affordable, even in the poorest countries, if implemented progressively. In essence, affordability is largely a matter of political will.

24. In April 2009, the United Nations System Chief Executives Board for Coordination (CEB) endorsed the Social Protection Floor Initiative as one of its nine system-wide Joint Crisis Initiatives for confronting the crisis. The Social Protection Floor Initiative promotes a coherent vision of national social protection as a key component of national development strategies and seeks to support countries in

[19] K. Kyrili and M. Martin, *The Impact of the Global Economic Crisis on the Budgets of Low-Income Countries*, a research report for Oxfam International (Oxford, Oxfam GB, July 2010).

[20] *World Economic Situation and Prospects 2011: Global Outlook* (United Nations publication, pre-release), box I.3. Available from http://www.un.org/esa/policy/wess/wesp.html (accessed on 9 November 2010).

[21] See the report of the Secretary-General entitled “Recovering from the crisis: A Global Jobs Pact” (E/2010/64), box 2.

identifying and closing crucial protection gaps. While alleviating the social impacts of the crisis is one of the objectives of the Social Protection Floor, its role is not transitory, as it aims to provide a rights-based systemic "insurance" against poverty for all residents at all times.

25. A series of studies conducted by ILO in 12 countries of Asia and sub-Saharan Africa show that the initial gross annual cost of a basic social protection package would be between 2.2 and 5.7 per cent of GDP in 2010.[22] Individual elements appear more affordable: the cost of providing basic child benefits would be below 3 per cent of GDP in a large majority of the countries studied; the cost of social assistance, including a 100-day employment scheme for the poor, would be well below 1 per cent of GDP; the cost of universal access to essential health care would range from an estimated 1.5 of GDP in the Asian countries studied to 5.5 of GDP in Burkina Faso. The relative cost of old-age and disability pensions would increase only moderately by 2030 despite the ageing process. These costs are less significant if the potential consequences of not investing in social protection are factored in. Recent research in Latin America and the Caribbean suggests that additional domestic revenues from economic growth and a small expansion of the tax burden could cover the cost of a universal social protection floor by 2014, or earlier, in all but four countries — Bolivia (Plurinational State of), Guatemala, Honduras and Nicaragua — which would require international aid.[23]

26. A critical factor which is often missing in successful social protection programmes is sustainable funding. The Global Jobs Pact adopted by the International Labour Conference in 2009 and endorsed by the United Nations System Chief Executives Board for Coordination urges "the international community to provide development assistance, including budgetary support, to build up a social protection floor on a national basis".[24] In its resolution 2010/12 of 22 July 2010, entitled "Promoting social integration", the Economic and Social Council, pursuant to the recommendation of the Commission for Social Development at its forty-eighth session (E/2010/26, chap. I.A), urged Governments to develop systems of social protection and to extend or broaden those systems' coverage of social security and support for labour-market participation.

27. Currently, social assistance programmes are strongly dependent on international aid, especially in low-income countries of sub-Saharan Africa. Although aid can help put social protection programmes in place, the recipient countries must secure the fiscal space necessary to guarantee the long-term sustainability of a social protection floor. While fiscal space has increased in the last 10 years in a majority of developing countries, including many in sub-Saharan Africa, still more can be done to mobilize domestic resources and optimize public spending.

28. Social protection programmes have been implemented in countries at different levels of development. Nepal, for instance, is currently expanding the scope of its

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[22] International Labour Organization, *Extending Social Security to All: A Guide through Challenges and Options* (Geneva, International Labour Organization, 2010).

[23] Economic Commission for Latin America and the Caribbean, *Social Panorama of Latin America 2010* (United Nations publication).

[24] International Labour Organization, *Recovering from the Crisis: A Global Jobs Pact — adopted by the International Labour Conference at its Ninety-Eighth Session, Geneva, 19 June 2009* (Geneva, International Labour Office, 2009), para. 22 (9). Available from http://www.ilo.org (accessed 9 November 2010).

universal pension scheme, aiming to reduce the retirement age in due course from 75 to 65.[25] Countries at similar income levels exercise a substantial degree of discretion regarding public expenditure, as well as the share of public resources allocated to social expenditure: Brazil and Mexico, both middle-income countries, spend 13.2 per cent and 3.5 per cent of GDP, respectively, on social protection. Expenditure on social protection represents 10.5 per cent of GDP in Mongolia and 1.9 per cent of GDP in Indonesia.[26] The level of social expenditure, it seems, is more the result of a policy choice than a reflection of availability of resources or affordability.

V. Social protection and social integration

29. Universal access to basic social protection and to social services, especially health and education, is necessary in order to break the intergenerational cycle of poverty, reduce social and economic inequalities and promote inclusive and equitable economic growth. However, social protection will have a limited impact on poverty and vulnerability if it is not complemented by broader interventions that address access to resources and their redistribution. Measures ensuring access to land, credit and other productive resources, access to housing, fair inheritance rights, full legal capacity and access to justice by poor women and men, are critical for poverty eradication.

30. The participation of all members of society in social, economic and political life is important in order to ensure that Governments respond to social needs, including those of the poor. However, discrimination against individuals and social groups has precluded or limited their participation. Creating an enabling environment for the involvement of low-income groups in decision-making processes, in particular, and taking public action against discrimination are important steps towards balancing the inequitable distribution of power, promoting participation and thus advancing the social development agenda.

31 Building support for social integration programmes also requires building political coalitions that set and carry out policy, creating institutionally sustainable structures of governance and implementation, and enforcing rules governing their use. Well-tailored social protection programmes also call for sound information on, for instance, levels, duration and severity of income poverty and other dimensions of deprivation. Strengthening statistical capacity to produce and disseminate reliable data, especially in poorer countries, is essential to improving the formulation and evaluation of social protection programmes.

VI. Suggested discussion points

32. The Commission for Social Development may wish to consider the following questions as a means of guiding the discussion on this emerging issue:

[25] *Extending Social Security to All*.

[26] United Nations Research Institute for Social Development, *Combating Poverty and Inequality.: Structural Change, Social Policy and Politics* (United Nations publication, 2010, Sales No. E.10.III.Y.1).

- Based on national experiences, what are the main challenges to extending social protection? What have countries done to overcome them?
- What successful measures have countries undertaken to mobilize the financial resources needed to implement or expand social protection programmes?
- What national or international actions are needed to promote formal social protection in developing countries?
- How can labour-market initiatives and social policies, including social protection programmes, reduce poverty and inequality and thus help foster a more sustained, inclusive and equitable economic growth?