Addressing the Myths:
The affordability of social protection

KEY MESSAGES

- A concern among some policy makers is that social protection can be expensive and unaffordable.
- Understanding if social protection is affordable requires understanding its impacts, its benefits, its costs and how it compares to alternatives.
- Common misconceptions in any of these areas can lead to the conclusion that a country cannot afford to build or expand social protection programmes.

THE CONCERN: SCALING UP SOCIAL PROTECTION IS NOT AFFORDABLE

The need to increase coverage of social protection is great: around 5 billion people – 73 per cent of the world's population – still live without adequate income security and/or access to social protection and about 870 million people in extreme poverty remain uncovered.[1] Given the proven impacts of social protection this lack of coverage can have very significant negative implications for child outcomes and development.[2]

However, concerns about the affordability of social protection programs – and the long run financial obligations they create, can present major challenges in expanding access to cash transfers and other social protection services.

This brief summarizes the major considerations and available evidence around the issue of affordability, and highlights some available financing options that countries have used in introducing and scaling up social protection programmes.

ASSESSING THE AFFORDABILITY OF SOCIAL PROTECTION

While the concept of affordability is intuitively understandable, making a decision on what is 'affordable' and what is not is more complex. While there is no universally agreed method to determine the affordability of a programme, it can be approached through building an understanding in the following areas.

i) A clear understanding of the benefits of a programme. For social protection this includes impacts on poverty and vulnerability, and broader effects on the economy. How much value decision makers give to these impacts is crucial.

ii) A clear understanding of the costs of programmes. Without a full understanding of programme costs, affordability can be misunderstood.

iii) A comparative understanding of the costs and benefits compared to other programmes can help build an understanding of if social protection is the most cost-effective way of achieving desired outcomes.

iv) An understanding of the fiscal space. What room is there for spending and where will resources come from?

Misunderstandings or misconceptions in any of these areas can lead to a misjudgement that social protection is not an affordable priority. Ideally, empirical evidence can be used to understand these areas and to allow clear objective judgements. In some areas this is possible, in others it can be more complex. Even where all the evidence is in place the final judgement is ultimately a political one: how does society value the benefits of the programmes compared to other options.

The benefits of social protection: from social justice to economies

Improving social justice through addressing child poverty and vulnerability

Evidence is growing quickly and globally on the broad impacts of social protection, and cash transfers in particular. Randomised control trials – the gold standard in impact evaluation – have shown its positive impacts on a wide range of outcomes from reducing food insecurity, poverty and vulnerability to specific child related outcomes such as schooling, health and nutrition among many others.[3]

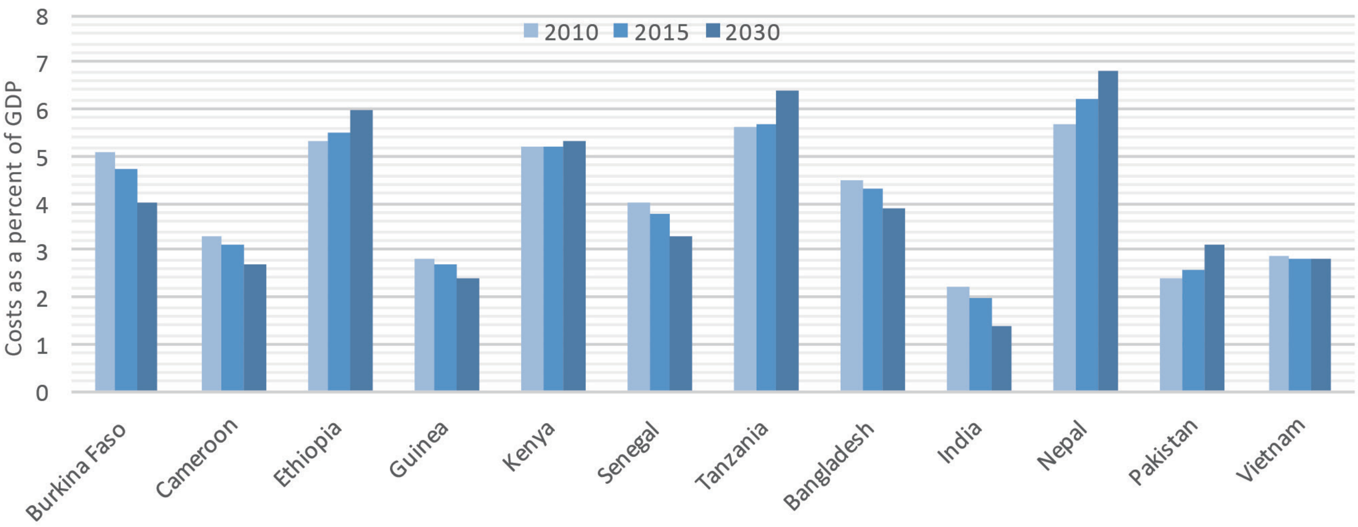
Despite this evidence, misconceptions on the benefits of social protection can remain in two areas. First, while this evidence is growing on paper, it may not be well known in practice where decision makers are not effectively exposed to it. Secondly, there are on-going misconceptions that while social protection may have positive impacts, it also has negative ones – such as creating dependency, and increasing fertility. Evidence has addressed these concerns,[4] but they are views that remain widely held.

Economic benefits of social protection

In many contexts economic growth is prioritised in government decision making as a means of increasing prosperity and addressing poverty through creating employment. Social protection programmes are not designed to stimulate economic growth, but evidence shows there are positive synergies:

> *Household productivity:* Emerging evidence suggests that small but reliable flows of transfer income have helped poor households accumulate productive assets; obtain access to credit on better terms; and in some cases to diversify into higher risk, higher return activities.[5]
>
> *Economy wide:* As well as improving household productivity, social protection builds human capital through improving human development, particularly for children, and so has medium and long term impacts on economies. Recent studies also highlight the potential of social protection to stimulate aggregate demand in an economy by

Figure 1: Costs for a basic social protection package for select countries in Africa and Asia



Source: ILO (2008)

providing counter-cyclical spending during economic downturns. These research studies suggest that countries with effective social protection systems better responded to the recent global financial crisis and that social protection measures were as effective at saving jobs as were other ad hoc stimulus packages.[6]

The collective evidence on productivity and growth shows that while social protection is not intended to compete with investments such as infrastructure in its economic impacts, it should be understood as an important productive investment, including where macro considerations such as economic growth are prominent priorities. This is underscored by the growing role of social protection as an integral element of sustainable growth strategies in many higher and middle income countries as they move through the stages of economic development.

Understanding the costs of cash transfer programmes[7]

As much as the benefits of social protection programmes may not be fully appreciated, assumptions around how much they cost can be exaggerated. Cost estimates range widely depending on the type of programmes and their reach. ILO for instance performed simulations for low income countries to indicate the resources required to provide some basic programs. Applying a cost simulation tool for a sample of Sub Saharan African countries, it was estimated that a universal child benefit scheme would cost between 1.7% and 3.4 % of GDP, an employment guarantee scheme covering 10% of the working age population would cost 0.4% and 0.7% of the GDP and an universal old age scheme would be around 0.7-1.3% of GDP.[8] In comparison, in most low and middle income countries the average government expenditure on education and health is around 4% to 5% of GDP in 2014.[9]

In an effort to further estimate the possibilities for scaled-up spending on social protection, the ILO has also costed a relatively comprehensive basic package of social protection measures for seven countries in Africa and five in Asia. Figure 1 shows the cost estimates for a basic social protection package[10] in a few countries. While the cost of single program is between 1-4% of the GDP, the estimated cost of the package ranges from 2.2 percent of GDP in India to 5.7 percent in Nepal, with little change projected over time.[11]

How do social protection programmes compare to other options

A crucial question for decision makers in determining policy options is to understand if there are more efficient (or cheaper) ways of achieving their objectives. However, these types of analysis are complex, requiring clear information on costs and benefits of multiple programmes, and as such are not commonly carried out.

The most straightforward approach is cost-effectiveness analysis which compares the impact of programmes on a particular outcome, such as poverty depth or school attendance. A number of studies have addressed the cost-effectiveness of social protection, finding consistently positive outcomes:

- An evaluation of Mexico's Programa Nacional de Educación, Salud y Alimentación (PROGRESA) assessed its cost-effectiveness in increasing enrolment rates compared to an extensive expansion of the school system. The evaluation found the cash transfer program to be substantially more cost-effective than supply-side expansions.[12]

- In Guatemala, the cost-effectiveness of reducing the poverty gap was estimated for a range of different programmes. Using household survey data, results showed school feeding to be one of the most cost-effective options. Proving, for example, five times more cost effective than electricity subsidies.[13]

- A cost-effectiveness assessment in Ethiopia comparing the Productive Safety Net Programme (PSNP) to an emergency humanitarian programme in meeting longer-term food security objectives found the social protection programme to be significantly more cost-effective. The PSNP cost of US$34 per capita annually and not only arrested this decline for client households but had begun to reverse it.[14] The humanitarian programme cost US$ 180 per capita annually and did not prevent a steady decline in livelihoods.

- A study in Burkina Faso, Cameroon and Ghana assessed the cost effectiveness of cash transfers targeted to the poorest households compared to the broader approach of food subsidies in responding to the 2008 economic crisis. The study looked at impacts on monetary poverty, caloric poverty ('hunger'), school participation, child labour and access to health services. While results varied across countries, in all cases that the targeted cash transfer was more cost effective.[15]

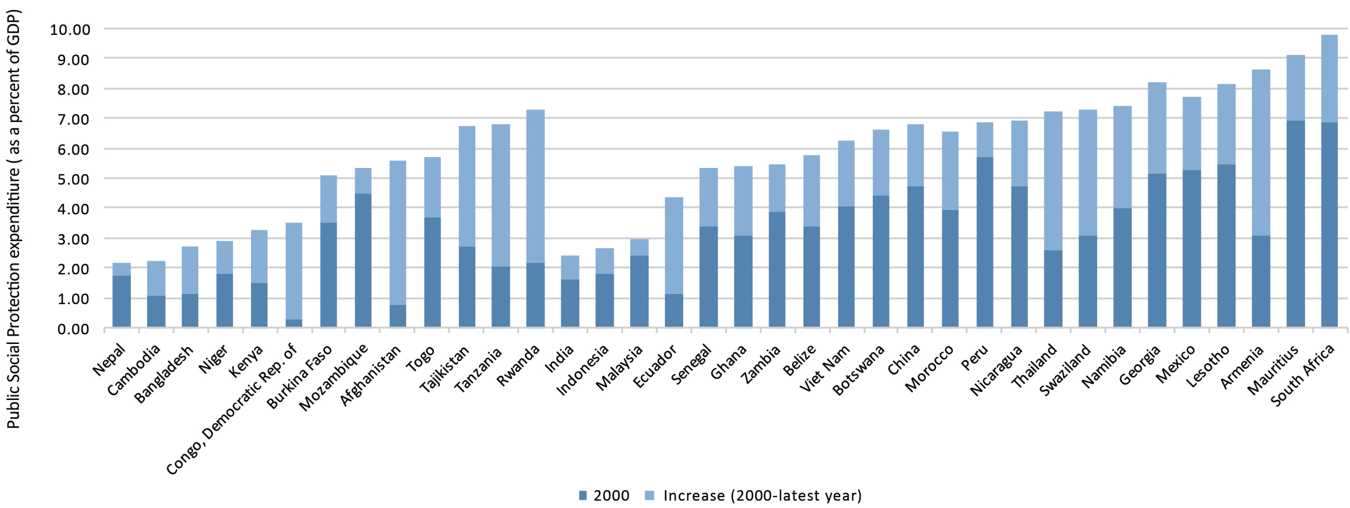
While these studies show the cost-effectiveness of social protection programmes they suffer from a significant drawback in not capturing the full benefits of social protection: they are designed to look at impacts in one outcome, **while social protection programmes are proven to have impacts across multiple areas.** While these broad impacts naturally makes social protection more cost effective, methodologically demonstrating these impacts is extremely difficult.

One approach (cost benefit analysis) combined all the benefits into one comparable scale (usually a monetary scale[16]), which can both allow the full benefits of programmes to be compared as well provide a 'rate of return' to show whether and by how much programme investments are recouped.[17] However, despite the benefits of the approach, the methodological complexity of meaningfully monetizing benefits are extreme, and as such evidence using this approach is extremely limited.[18]

One study in Nigeria undertook a cost-benefit assessment of the child development grant. While it did not compare the grant to other programmes, it monetised programme benefits ranging from immediate consumption effects, welfare impacts from reduced mortality and morbidity, to household productivity gains both in the short and long term. It found a rate of return of 2.18, implying benefits were more than double the costs, strongly supporting the value for money of the programme.[19]

Overall, the evidence comparing the cost-effectiveness of social protection to other programmes is positive, but limited by methodological challenges. Where hard quantitative evidence is not available, decision makers looking at overall outcomes rather than specific sectors (such as in Ministries of Finance) may be convinced by the fundamental logic of

Figure 2: Public social protection expenditure in low and middle income countries between 2000 and latest available year



SOURCE: ILO 2014

programmes such as cash transfers which are designed to reach large numbers of the population with direct support and minimal overheads, and achieve a range of proven social and human developmental outcomes.

Finding the fiscal space for social protection

While 'pilot' social protection programmes may initially be supported by donors in some countries, building and growing sustainable national programmes requires governments to either shift existing budget allocations or increase the available fiscal space.

Shifting resources is not easy, not least as social protection is less established than other sectors that often have clear existing claims on government budgets.[20] Building an understanding of the comparative value of social protection, as outlined in this brief, is an important foundation for supporting governments in making these difficult allocation decisions.

An alternative or complement to reallocating budgets, is to increase the total fiscal space available. A paper analysing the set of financing options that governments can consider in assessing fiscal space shows funding can be found in most contexts including: raising international development assistance, raising domestic tax revenues, shifting public expenditure from less effective programs; drawing resources from innovative sources that include oil reserves, fiscal reserves, restructuring debt, using fiscal and central bank foreign exchange reserves amongst others.[21] The methods and tools to engage with governments in these budget processes are not specific to social protection programmes and are beyond the scope of this Brief.[22]

In practice, creating new budget lines, shifting resources and creating fiscal space can take time even where evidence is clear. Many countries start by keeping costs manageable with a limited programme and scaling up over time as the programme proves its effectiveness. Mexico's Opportunidades, for example, started in rural areas and only expanded to urban areas after five years; and South Africa's Child Support Grant was initially given only to households with children under 7 and over a course of 10 years there have been modifications made to the age limit and now it has been extended to reach children under 18.[23]

Overall, perhaps the best evidence that fiscal space is available for social protection lies in the number of governments that are increasing the domestic resourcing of social protection programmes. Figure 2 highlights that in most low income and middle income countries, there has been an increase in social protection expenditure since 2000 including 4-5 percentage point increases in lower income countries such as Tanzania and Rwanda.

CONCLUSION

The affordability of social protection can be broken down into understanding the benefits of social protection programmes, their costs, if the programmes are the most cost-effective way of achieving national goals, and the availability of fiscal space.

The benefits of social protection are now well proven, including impacts across many sectors and benefits to economies. Similarly, the costs of social protection programmes are also well established, and while varying depending on type of programmes this may range from 1 to 4% of GDP, lower than many other social sectors.

The evidence comparing the cost effectiveness of social protection to other programmes on the other hand is quite limited. Ironically, it is the broad based impacts of social protection that make it so cost effective that also makes it so difficult methodologically to compare to other that are more singularly targeted. Unsurprisingly, the evidence available does show social protection programmes to be excellent value for money. Ultimately, the decision to build or expand social protection programmes requires finding space in the national budget. Analysis shows that fiscal space can be found in most and perhaps all contexts once the case that social protection is impactful and cost effective is made.

The decision is ultimately one of national priorities and national focus. The growth of nationally funded social protection programmes across income levels is testament to the fact that across a range of country contexts, it is increasingly being seen as an essential pillar to national development.

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