Can low-income countries afford social protection?

Designing and Implementing Social Transfer Programmes
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Affordability of social protection

- **Topics:**
  - Overview of the costs of existing social protection transfers in different countries and their role in the development
  - Presentation of the methodology and results of the ILO studies on the costs of a hypothetical basic social protection package in selected Asian and African countries
  - Discussing concept of affordability in the context of current and potential fiscal space, political will and international solidarity
  - Discussing the need to harmonize financial sustainability with adequacy of benefits provided in order to make any social programme viable.
Affordability of social protection

- **Key points:**
  - Main reasons for differences in expenditure on social protection transfers in different countries at different stages of development
  - Affordability of social protection in developing countries
  - Links between
    - affordability in terms of costs
    - adequacy in terms of impact and
    - viability of any social protection programme
How much social protection is affordable?

- OECD countries spend between 10 and 30% of GDP on social protection.
- Usually these countries spend between one third and half of total public expenditure on social protection.
- In countries younger demographically and less developed it is basic education and health which dominates public social expenditure.
- In ageing OECD countries pension expenditure dominates and health follows.
How much social protection is affordable? (2)

- Countries at the same level of economic development differ significantly in how much they spend on social protection.
- There is no apparent link between economic performance and the size of the national social protection system.
- Size of social protection systems is shaped mainly by prevailing political attitudes towards redistribution.
- Affordability is a function of the societal willingness to finance social transfers through taxes and contributions.
Social protection redistributes significant share of national incomes…
(Social protection expenditure as percentage of GDP; Source: OECD)
...effectively preventing and alleviating poverty...

(pre-transfer poverty risk reduced by social protection transfers; Source: OECD, EUROSTAT)
...but requiring large portion of available public resources
(Social protection expenditure as percentage of general government expenditure; Source: EUROSTAT)
Fiscal versus policy space: governments of the same size spend different portions of available public resources on social transfers
(Source: IMF Government Finance Statistics Database)
No trade-off between productivity and growth:

Correlations between per hour productivity and social expenditure per capita in OECD countries in 2001

\[ y = 0.0043x + 8.7845 \]
\[ R^2 = 0.7812 \]

Source: OECD
Ageing and other risks manageable:
(old-age demographic dependency and projections of social protection expenditure in proportion to GDP; EU25, 2005=100, Source: European Commission 2006)
Social security is not a social cost but an affordable investment in:

- prevention/reduction of poverty and vulnerability
- quality of work and life
- social cohesion and peace
- nation building
- global security

It is an investment in people and states
Can low income countries afford to have social security?

- ILO costing studies on basic social protection package in low-income countries
  - Seven countries in Africa (Pal et al. 2005)
  - Five countries in Asia (Mizunoya et al. 2006)
- Different scenarios based on alternative assumptions
- Projections over next 30 years
Footnote: benefit assumptions for calculations

- **Basic old age and invalidity pensions:**
  - Senegal/Tanzania: Benefit of 70% of food poverty line
  - African and Asian countries: Benefit of $0.5 PPP per day

- **Child benefits:**
  - Senegal/Tanzania: Benefit of 35% of food poverty line (half a pension), paid to all children in school age (7-14) and orphans also below 7
  - Benefit of $0.25 PPP per day (half of pension), paid to all children up to the age of 14

- **Administration cost:** 15% of benefit expenditure for universal cash benefits

- **Essential health care:** Annual per capita costs based on the Commission on Macroeconomics and Health estimates of US$ 34 by 2007 and US$ 38 by 2015

- **Basic education:** Based on UNESCO country average unit costs; reaching universal access by 2015
Cost of universal basic old age and disability pension (benefit = $0.5 per day)
Cost of universal basic old age and disability pension (benefit = 30% of GDP per capita)
Cost of universal child benefit for all children aged 0-14 (benefit = $0.25 per day)
Cost of universal benefit for orphans aged 0-14 only (benefit = 0.15 % of GDP)
Cost of essential health care based on CMH unit cost estimates
Total cost of basic social protection package

Percent of GDP

Asia

Africa

Bangladesh
India
Nepal
Pakistan
Viet Nam
Burkina Faso
Cameroon
Ethiopia
Guinea
Kenya
Senegal
Tanzania

2010
2020
2030
Share of total costs possible to be covered by domestic financing (share of budgets allocated to social protection kept constant at current level)
Share of total costs possible to be covered by domestic financing (share of budgets allocated to basic social protection increases to 20%)
Can low income countries afford not to have social security?

- There is ample evidence that the investment in health care, education and properly designed cash transfers have positive economic and social effects in countries at any stage of development.
- There is also already plenty of evidence what social groups are vulnerable and what are their needs and priorities.
- The choice of policy instruments to meet these needs and priorities is also well known (various cash transfers as well as mechanism assuring affordable access to health care and education).
- Various simulations show impact these instruments would have on reducing poverty and vulnerability.
Assessing potential impact and costs of universal social pensions in Senegal and Tanzania:

Poverty rates before and after pensions (food poverty line)
Assessing potential impact and costs of universal social pensions in Senegal and Tanzania:

Poverty gap before and after pensions (food poverty line)
African countries:
Effective social pensions - in principle - affordable now

*estimated 2005 benefit expenditure on old-age/disability pension (% of GDP)*
...and in the future

*projected benefit expenditure on old-age/disability pension as % of GDP*
Assessing potential impact and costs of cash transfers in Senegal and Tanzania:

Poverty rates before and after cash transfers

![Graph showing poverty rates in Senegal and Tanzania before and after cash transfers](image-url)
Assessing potential impact and costs of cash transfers in Senegal and Tanzania:

Poverty gap before and after cash transfers
Assessing potential impact and costs of cash transfers in Senegal and Tanzania:

Cost of benefit package as percentage of GDP
Affordability study (base scenario): estimated 2005 benefit expenditure on old-age/disability pension and child benefit (% of GDP)

In all demographically young countries child benefits are currently more costly than benefits for elderly
Affordability study (base scenario: 2005-2035 projected benefit expenditure on old-age/disability pension and child benefit (% of GDP)

But, in principle, both would be fiscally affordable now and in the future.
Affordability study (base scenario): 2005 - 2035 projected benefit expenditure on old-age / disability pension and child benefit (% of total government revenue)

However, in some countries there would be a need for temporary additional external financing to close the gap.
Conclusions

- Social security not only desirable, effective tool of poverty reduction but also the affordable one
- Eventually however, affordability depends on presence of the political will to reallocate available domestic and donor resources
- Coordinated forward looking national social protection policy strategies should sequence implementation of various social programmes and policy instruments
- Capacity should be build in coordinating government agencies, line ministries and then at the local level in the areas like:
  - Social protection development, analysis and design
  - Administration of social protection programmes