

## **Social Protection for shared prosperity and inclusive growth**

**8 May; Session 2: 11:45 –12:30**

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### **Background**

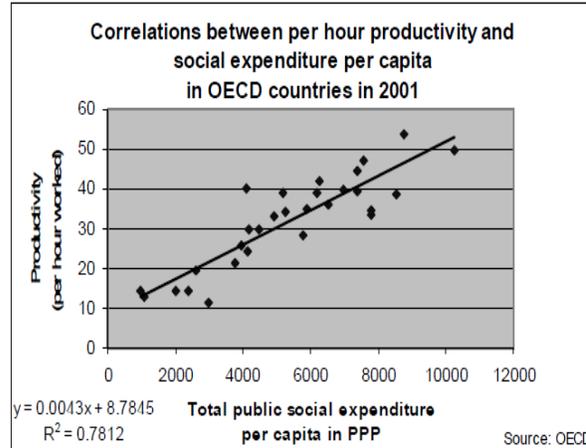
1. Economic growth, while necessary, needs to be inclusive and more equitable to reduce poverty and inequalities. To leave no one behind and reach the furthest behind first, development gains must reach the poorest of the poor and create more decent jobs for all.
2. While the centrality of employment and decent jobs to eradicate poverty is well recognized, employment growth has not been sufficient to absorb the growing labour force, particularly in those countries and regions with large youth populations. Moreover, there has been a divergence between productivity and wages growth, as well as growing employment insecurity in both developed and developing countries, pushing people, especially young people, and vulnerable and marginalized population into non-standard and precarious jobs.
3. Thus, policy discussion in recent years has focused on:
  - a. measures that have proven to be effective in achieving inclusive growth; i.e., strategies/policy framework that are necessary to achieve the twin goals of sustaining growth and meeting the social needs, including reduce poverty and inequalities, and addressing the specific needs of vulnerable groups and communities;
  - b. policies/strategies that are necessary to reduce inequalities and poverty at the same time; i.e., approaches/measures to achieve sustained eradication of extreme poverty while preventing disparities (relative deprivations) from rising;
  - c. policies/strategies to assist the working poor trapped in low-skill, low-productivity and low-wage jobs to escape poverty; i.e., measures needed to transform jobs in the informal economy into decent jobs.
4. In light of the above, the focus of this particular short paper is social protection for shared prosperity and inclusive growth.

### **Social protection stimulates pro-poor economic growth**

5. A growing body of empirical evidence demonstrates that social protection supports pro-poor growth. That is, policymakers do not necessarily face a trade-off pitting social protection against growth objectives. Instead, measures exist to build a virtuous circle of increased equity promoting growth, thus creating opportunities for supporting further improvements in equity.  
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6. For example, there are at least five pathways through which social protection measures promote 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.

7. As revealed in Figure 1a and 1b, there is a positive association between public social expenditure and economic growth in both developed and developing countries. The channels through which social protection can affect economic growth is summarized in Table 1.

**Figure 1a: Social protection & growth (OECD countries)**



**Figure 1.b: Social protection & growth (developing countries)**



Source: International Labour Office (2005): 294th Session, Committee on Employment and Social Policy

**Table 1: Social protection’s channels to economic growth**

Levels	Direct channels	Indirect channels
Micro (individual or household) level	<ul style="list-style-type: none"> <li>• prevent loss of productive capital (+)</li> <li>• accumulate productive assets (+)</li> <li>• increase innovation and risk taking in livelihoods of poor households (+)</li> <li>• impacts on labour force participation (+/-)</li> </ul>	<ul style="list-style-type: none"> <li>• increase investment in human capital (+)</li> </ul>
Meso (community or local regional) level	<ul style="list-style-type: none"> <li>• multiplier effects from increased local consumption and production (+)</li> <li>• accumulation of productive community assets (+)</li> <li>• labour market impacts including inflation effects on local wages (+/-)</li> </ul>	Not applicable
Macro (national) level	<ul style="list-style-type: none"> <li>• productivity (+)</li> <li>• stimulate aggregate demand (+)</li> <li>• changes in aggregate labour force participation (+/-)</li> </ul>	<ul style="list-style-type: none"> <li>• facilitate economic reforms (+)</li> <li>• enhance social cohesion and reduce inequality (+)</li> <li>• enhance human capital (+)</li> </ul>

	<ul style="list-style-type: none"> <li>• increase capital markets through pension funds (+)</li> <li>• effects of taxation on savings/investment (-)</li> <li>• effects of government borrowing and inflation (-)</li> </ul>	<ul style="list-style-type: none"> <li>• impacts on fertility rates (+/-)</li> </ul>
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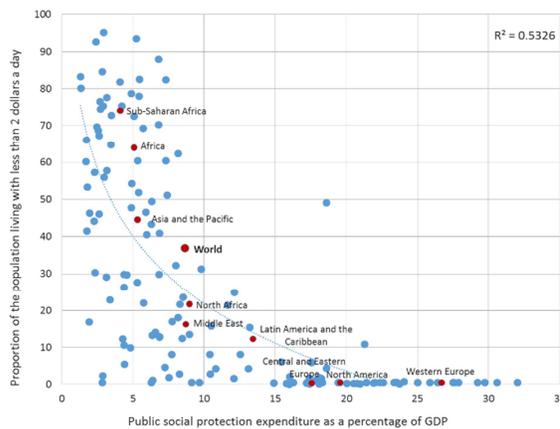
Source: Mathers, Nicholas and Rachel Slater (2014) *Social protection and growth: Research synthesis*, DFAT, Government of Australia

- At micro level, social protection can affect growth through four main channels: (i) preventing the loss of productive capital; (ii) accumulating productive assets and increasing access to labour markets; (iii) increasing innovation and risk taking; and (iv) increasing investment in human capital.
- At meso level, social protection can affect growth through multiplier effects on the local economy, investment in public productive assets and infrastructure, and alterations to the functioning of local labour markets.
- At macro level, social protection can impact on growth directly by increasing household productivity and employment, increasing aggregate demand, deepening capital markets, and through taxation and borrowing. It can do so indirectly by facilitating economic reforms, building human capital, contributing to social cohesion and influencing demographics.

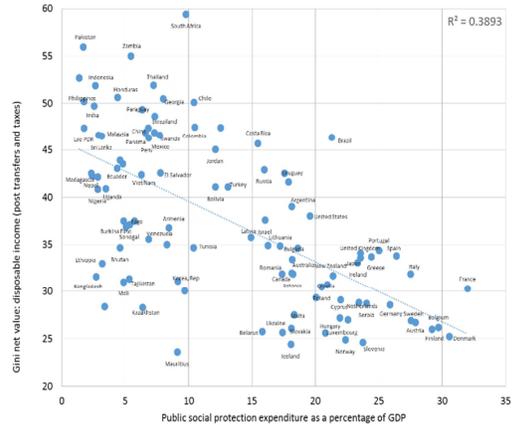
**Social protection reduces poverty and inequality**

- Social protection is a crucial instrument in addressing all forms of poverty and social exclusion. Generally, higher levels of public social protection expenditure are associated with lower levels of poverty and inequality (Figures 2a & 2b).

**Figure 2a: Social protection & poverty**



**Figure 2b: Social protection & inequality**



Note: vertical axis: Figure 2a - proportion of people; Figure 2b - Gini coefficient  
 Source: ILO (2014), World Social Protection Report 2014-2015

## **Social protection positively contributes to human development**

12. There is strong evidence of positive impacts of social protection on hunger and nutrition. For example, cash transfer programmes in Mexico, Malawi, and Colombia demonstrate reductions in the numbers of children with stunted growth, while children in South African households receiving a pension grow on average five centimetres taller than those in households without a pension.<sup>1</sup>
13. By reducing the health system's reliance on out-of-pocket payments and providing more financial risk protection, social protection can contribute to better and more equal health outcomes. A WHO cross-country study showed that reductions of health system's reliance on out-of-pocket payments and provision of financial risk protection have prevented families from falling into poverty.<sup>2</sup>
14. Additionally, by removing demand-side barriers to education, including the need for poor families to rely on children for income-earning and care work, social protection programmes, such as cash transfers, free tuition, free school feeding programmes and supply of free learning materials, have been shown to lead to higher school enrolment rates, fewer school drop-outs and less child labour.

## **Social protection promotes productive employment and decent jobs**

15. Social protection plays a major role in creating access to full and productive employment and decent work for all, including women and young people. Cash transfers, active labour market programmes, health insurance and family support policies, such as child-care and disability-care, have been shown to encourage labour market participation, especially of female.
16. For instance, in South Africa, labour market participation among those receiving cash transfers was 13–17% higher than in similar non-recipient households, with the greatest difference among women.<sup>3</sup> The Joven programme in Chile combines work experience, training and apprenticeships for young people who are structurally unemployed or at high social risk. This model has been replicated in other South American countries.<sup>4</sup>
17. In other countries, such as India and Uganda, cash transfers have been used to provide employment for local youth and poor people. Cash transfers can also provide critical resources for funding job search, supporting quality training and skills development, increasing access to credit and bolstering the resilience of agricultural smallholders in maintaining production.
18. Public employment programmes can also be linked to green jobs and environmental improvements, as for example in Brazil and the Philippines. A recent study from the United

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<sup>1</sup> Case, A. 2001. Does money protect health status? Evidence from South African pensions, NBER Working Paper No. 8495 (Cambridge, MA, National Bureau of Economic Research); Tirivayi, N.; Knowles, M.; Davis, B. 2013. The interaction between social protection and agriculture: A review of evidence (Rome, Food and Agriculture Organization); Yablonski, J.; O'Donnell, M. 2009. Lasting benefits: The role of cash transfers in tackling child mortality (London, Save the Children UK).

<sup>2</sup> Xu, K.; Evans, D.; Kawabata, K. 2003. "Household catastrophic health expenditure: A multi-country analysis", in *The Lancet*, Vol. 362, No. 9378, pp. 111–17.

<sup>3</sup> Economic Policy Research Institute. 2004. The social and economic impact of South Africa's social security system (Cape Town, South Africa Department of Social Development).

<sup>4</sup> World Bank. 2003. The contribution of social protection to the Millennium Development Goals (Washington, DC)

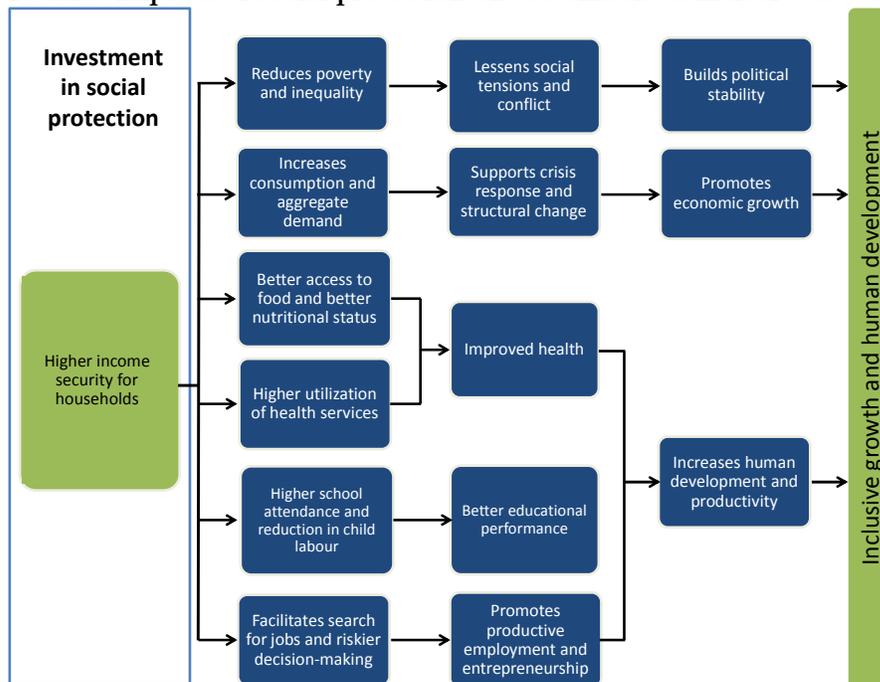
States indicates that giving food assistance to the children of poor families increases their average annual earnings in the long run by as much as US\$3,000, and their average number of hours of work by 150 annually.<sup>5</sup>

19. Many countries in Asia, Africa and Latin America have developed ways of coordinating social protection measures with labour market policies and services, thereby strengthening opportunities for the unemployed to return to the market. For example, the rate of economic activity of adult participants in a number of the Latin American cash transfer programmes, and beneficiaries of similar schemes in South Africa, increased by boosting their employability through simple investments in and access to training and employment services. They were able to look for work more effectively with the costs of job search reduced through the modest cash transfers received by families.

**Concluding remarks: social protection advances sustainable and inclusive development**

20. Thus, universal social protection advances progress in a host of SDGs, by reducing poverty and inequalities; promoting decent work and inclusive growth; and improving health and education outcomes. These cross-cutting developmental impacts are illustrated in an expansive and growing body of literature. The various channels through which social protection can contribute positively to sustainable and inclusive development is shown in the flow chart below.

**Positive impacts of social protection on sustainable & inclusive development**



21. Universal social protection is key for socio-economic recovery, inclusive growth and human development, an essential component of the Agenda 2030 for sustainable development goals.

<sup>5</sup> CBPP (Center on Budget and Policy Priorities). 2014. “Today’s safety net cuts poverty nearly in half, provides health care to millions, and has long-term benefits for children”, in Chart book: The war on poverty at 50 (Washington, DC).