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Social Protection and economic growth

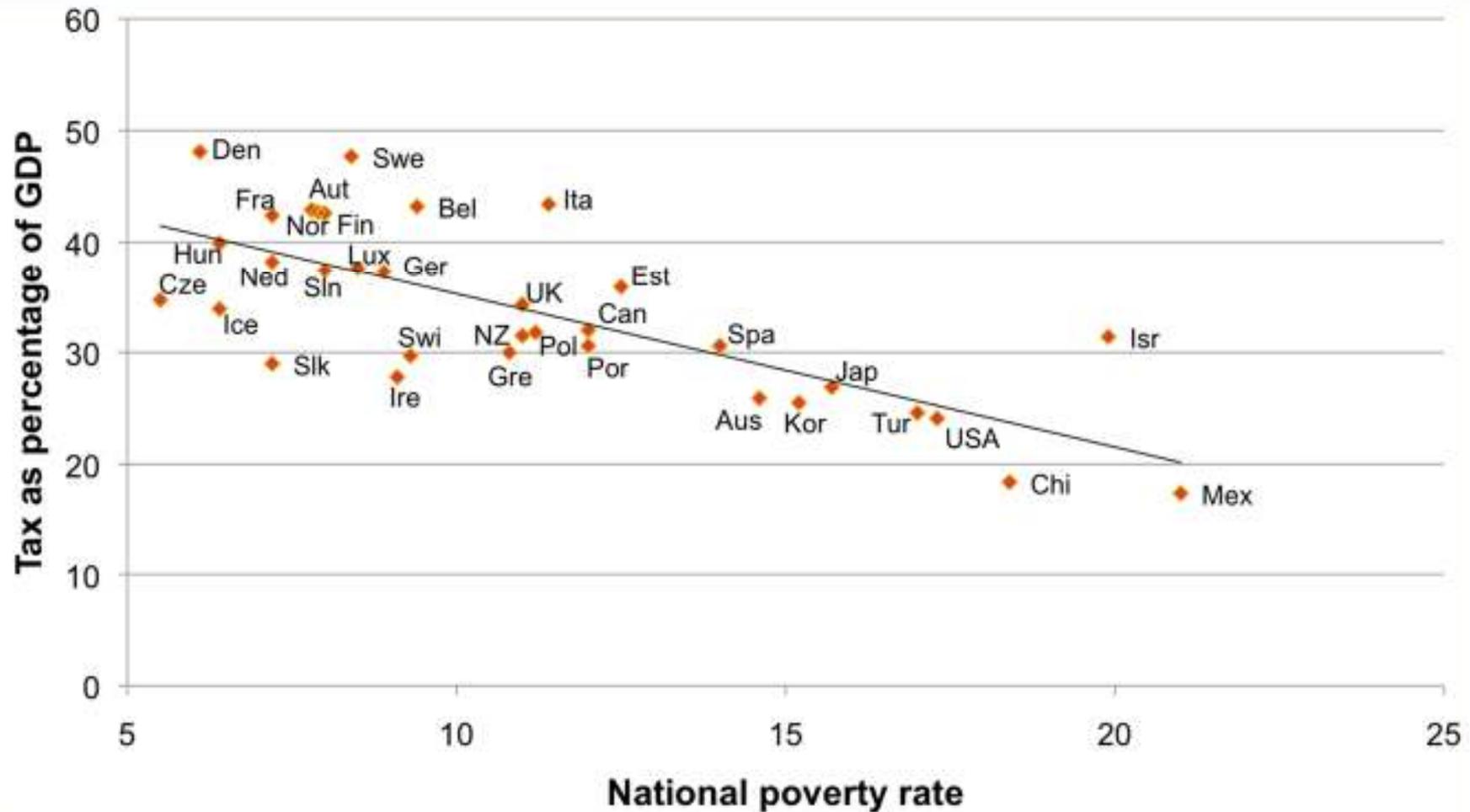
Stephen Kidd

Vientiane

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What do studies of developed countries tell us?



Pathways to Economic Growth

Household impacts:

- Build human capital
- Provide security for planning and investment and protect assets
- Help people deal with risk
- Enable people to access investment capital
- Provide women with access to labour markets

Community impacts:

- Local markets become more dynamic
- Construction of assets

National impacts:

- Increased consumption through redistribution
- Greater social cohesion and improved investment climate
- Enables structural reforms

Impacts on human development = higher quality workforce

- Families have higher incomes and can invest in their children: if poverty is tackled, human development outcomes of children are improved
 - Improved nutrition from better diets, enhancing cognitive development
 - Lao PDR has 40% of children stunted
 - Improved access to education and probable better performance
 - Reduction in child labour
- Ultimately, this will increase the quality of labour force in a country
 - South Africa: child grant brings reduced stunting and expected higher wages in adulthood (Aguero et al. 2006)

Greater investment by families in productive activities

- **People have greater certainty in their lives and are more able to invest in productive activities**
 - **Ethiopia:** 15% of PSNP beneficiaries used transfers to invest in farming; 8% purchased livestock
 - **Paraguay:** Tekopora beneficiaries invested 45-50% more in agriculture
 - **Zambia:** Kalomo scheme led to an 8.5% percentage point increase in ownership of goats, four times more households engaging in investments and a doubling of amounts invested
 - **Mexico:** 14% of transfers in *Oportunidades* invested in farm animals, land and micro-enterprises
 - **Mozambique:** money used as working capital for petty trading and micro-enterprises
 - **Bolivia:** pension recipients invested in agriculture and food consumption increased by twice the size of transfer

People more willing to take risks: Invest in more profitable activities

- **India:** recipients of Maharashtra employment guarantee scheme invested in higher return crops which gave a greater profit

Recipients more likely to access jobs

- **South Africa:** households receiving transfers had higher employment rates (by 8-15%): and higher rates of job searching.
 - More able to travel to work because can afford bus fares, or buy better clothes for work
- **Brazil:** labour market participation rate 2.6 percentage points higher for beneficiary households
 - 4.3% higher for women
- **South Africa:** People are more able to migrate, often because grandparents receive pensions and can care for children left behind
- **India:** Employment Guarantee Scheme has led to an increase in wage rates in private sector

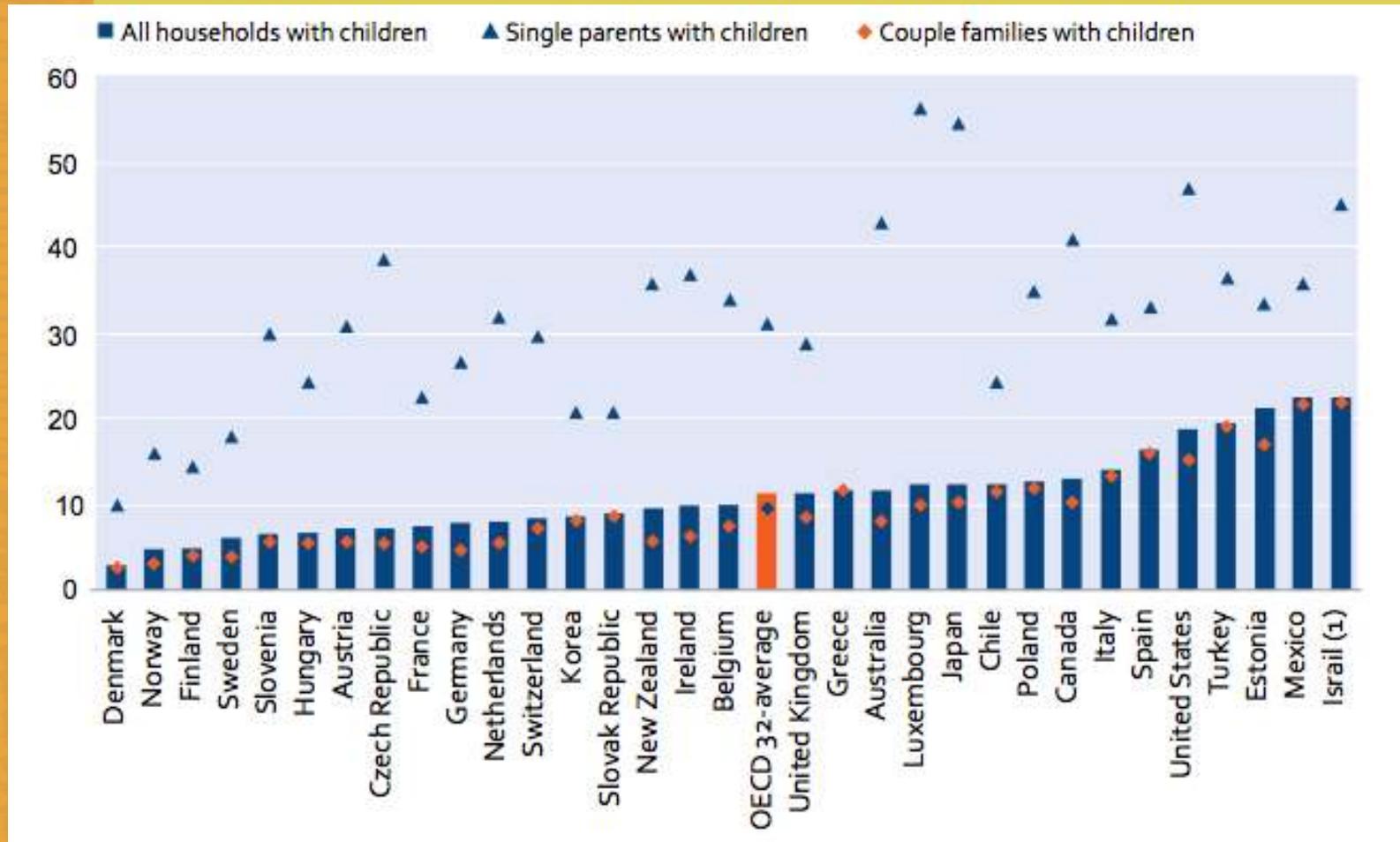
Easier to access investment capital including credit

- **South Africa:** pensioners more able to access credit
- **Brazil:** pensioners could present pension card and received loans from banks, leading to significant investment in productive activities
- **Bangladesh:** 90% of families on Vulnerable Group Development program accessed micro-finance
- Increasing number of programs designed to enable families to access a bank account, giving greater access to banking services.

Protect assets during crises: Enable people to recover more quickly

- **Without social protection providing a minimum income floor, in crises families will sell their assets;**
 - Following crisis, it will be more difficult to return to former levels of productivity
- **Zimbabwe:** in the absence of social protection, assets are 46% lower due to shocks.
- **Ethiopia:** 60% of families avoided selling assets to buy food during drought
- **Brazil:** *Bolsa Familia* enabled families to diversify their income portfolio thereby providing increasing protect

Developed countries: child care enables women to access work



Developing countries: grandmothers with pensions provide childcare

Pathways supporting employment and growth can be complex

- Mamzoli is an elderly widow in Eastern Cape region of South Africa, in receipt of old age pension
 - Supports a daughter and six grandchildren
- When she received her pension, it enabled her eldest son – Simpiwe – to send a smaller remittance from the city
- He could then work less hours and finish school; he obtained a better job
- He now has been able to support education of his siblings who also have better jobs
- Provided Mamzoli with a gas-powered fridge and she now sells meat and alcohol and has increased income

So what about dependency?

- Key question is about how do we best help people access work
- Evidence is that many poor people access work more effectively if have some support
 - In developed countries, often a high proportion of the active labour force also receives social protection
- There is more investment in productive activities
- They do not become dependent: they become more able to live off own income generation
- Need to avoid forms of targeting that encourage people to remain poor
- Ultimately, this will generate more tax that will help finance transfers

Local markets become more dynamic

- Social transfers inject large sums of cash into communities, resulting in increased spending
 - **Laos:** AusAID will provide transfers of around A\$360,000 in each district per year
- People can buy services off others: older people often employ younger people (e.g. to help with farming)
- **Namibia:** in many communities, shops only exist because of pension income
- **Mexico:** significant increase in assets among non-beneficiaries, compared to communities outside *Oportunidades*
- **Malawi:** multiplier effects are between 2.02 and 2.79
- **Mexico:** in PROCAMPO, multiplier was between 1.5 and 2.6

Workfare programs can provide community assets

- Well-designed workfare programs could help communities build assets
- However, little evidence that assets are maintained
- Caution because:
 - Transfers may not be efficient – in Bangladesh, for each \$1 transferred, incomes increased only by \$0.30
 - Some evidence that workfare programs can harm child nutrition
 - **India:** assets built often on land of richer people rather than directly helping the poor
- Need to differentiate between public works programs and workfare

National impacts: greater consumption

- Effective taxation and social policy can redistribute from rich who may invest overseas to the poor who will purchase locally
 - **South Africa:** poor families spend transfers on goods produced domestically
- Can be significant level of increased consumption
 - **Thailand:** pension made universal as a means of increasing consumption during fiscal crisis
 - **China:** one objective of pension is to reduce savings for old age and stimulate consumption
 - **Australia:** sent all households a cheque in fiscal crisis asking them to spend money
 - **USA:** 2009 stimulus package – extension of unemployment benefits and expansion of food stamp program had same multiplier impacts as investment in infrastructure

Build social cohesion and reduce social conflict

- **Greater social cohesion:**
 - **Mauritius:** investment in universal pension enabled country to overcome racial divisions and move from mono-crop economy
 - **Botswana:** universal pension supports social stability and encourages high investment
 - **South Korea:** in Asian economic crisis, introduced social protection program to reduce protests
 - **China:** introduced Minimum Living Standards scheme to support privatisation of state-owned enterprises
 - **Bolivia:** pension introduced to facilitate privatisation of state-owned oil industries
- **Ultimately can lead to an improved investment climate**

Conclusion

- Main aim of social protection is to reduce poverty and increase living standards of families
- However, indirectly social protection can contribute to economic growth
- Therefore, they should not be seen only as a cost to the state but as an investment
- Importantly, can reduce high levels of inequality which is recognised as limiting economic growth
- And, social protection shares the benefits of economic growth with the most vulnerable members of society