Getting to zero – coverage and financing of social protection in LDCs

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Development Initiatives exists to end extreme poverty by 2030

Development Initiatives

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Summary

Achieving eradication of poverty by 2030 will need sustained investments in social protection as well as education, health and agriculture. But current coverage of existing social protection in least developed countries (LDCs) is poor, costs are far from being met, and current levels of international finance are not sufficient.

Development Initiatives has produced a short briefing paper in advance of the 2015 Financing for Development negotiations in New York to provide evidence on the coverage and financing of this critical focus area for investments to end poverty and to inform decision making.

Key findings include:

- All countries in the world now have at least one example of a targeted social protection programme, but schemes aimed at the most vulnerable in LDCs are only reaching 20% of those living in extreme poverty (below US PPP$1.25 a day).
- Even where the extreme poor benefit from transfers, the level of transfer is much less than is needed to sustainably lift the poor out of extreme poverty. In sub-Saharan Africa the transfer is 10% of what is needed.
- The cost of providing the level of transfer needed to close the extreme poverty gap in LDCs is US$49 per person per year – taking into account start-up costs, administration costs and leakage. This compares with latest estimates of US$60 for education and US$86 for health Sustainable Development Goals.
- Current expenditure on all forms of social protection programmes is US$10 per person in LDCs. Even if LDCs increased their tax/GDP ratio to 20% and allocated 10% to targeted social protection programmes spending would only be US$16 per person, emphasising the importance of external assistance to support such programmes.
- Current donor funding on all forms of social-protection-related programmes in LDCs is $3.7 billion – an average of US$4 per person compared to US$33 per person external financing requirement.
- Current financing gap to achieve social protection coverage in LDCs at the scale that is needed to eliminate extreme poverty is 88% of the external finance required, leaving 12% funded. Recent estimates suggest the gap for education is 67% and for health is 50%.
- The increase in official development assistance (ODA) required to meet financing needs is equivalent to 0.1% of OECD GNI.

Growth alone cannot guarantee eradication of extreme poverty in the poorest countries or for the poorest sections of the population

In the past 25 years economic growth has been a key driver in the reduction of global poverty. It will continue to play an important role in future poverty reduction efforts. But poverty reduction will require both the growth to be pro-poor and the complementary interventions in education, health and nutrition to be successfully implemented. Growth by itself is unlikely to guarantee the elimination of poverty by 2030. This is especially true in the poorest and conflict-affected countries. Special targeted efforts will be needed for the poorest 20% of the population to realise benefits.[1]

Social protection has a direct role to play in poverty eradication, preventing impoverishment and sustaining escapes from poverty. It is also important as a complementary tool for the achievement of human development goals. Social protection already appears as a target under the Sustainable Development Goal to "end poverty in all its forms everywhere".[2] Examples of targeted programmes already being implemented include school feeding, public works and conditional cash transfers. Ethiopia's Productive Safety Nets Programme is a social protection intervention that combines public works, safety nets and other instruments. The financing of these programmes varies across countries. Some are based on beneficiary contributions (such as pension schemes offered under social security institutions), while others are tax financed. Donors and non-governmental organisations (NGOs) finance a considerable number of smaller 'short-term' programmes.

Politics, social justice and governance factors have key roles in determining what is decided and/or implemented. The decision as to whether to have social protection programmes, and if so in which form, is a profoundly political one. It is a decision that only countries themselves can make. The decision will reflect national values and domestic choices as to how economic growth and social equality goals can be made to be mutually reinforcing. But, given the importance of social protection, any country that wants to introduce such programmes should be able to do so. In some countries the poverty and vulnerability levels are so high that social protection will initially only be able to reach a small proportion of the population. In other countries there is scope for existing programmes to be designed and implemented so that they better address poverty eradication – going beyond safety nets.

The increasing uptake of social protection demonstrates the interest and demand for this critical intervention. All countries in the world now have at least one example of targeted social protection aimed at the most vulnerable. Programmes are being successfully implemented in even the most challenging environments, such as in the aftermath of humanitarian emergencies. History suggests that in fifty years every country is likely to have much more comprehensive systems. But that may be too late for the millions of people living in extreme poverty now. We need to accelerate the process. If we want social protection programmes to have an impact by 2030 we need to accelerate the investments to lift people out of poverty, now.

Coverage of the extreme poor by existing targeted social protection programmes is very limited

Despite recent growth, the current coverage of the extreme poor in LDCs is very limited. As the World Bank report *State of Social Safety Nets 2014* shows, even the very well-known large-scale programme in Ethiopia only covers a quarter of those in extreme poverty.

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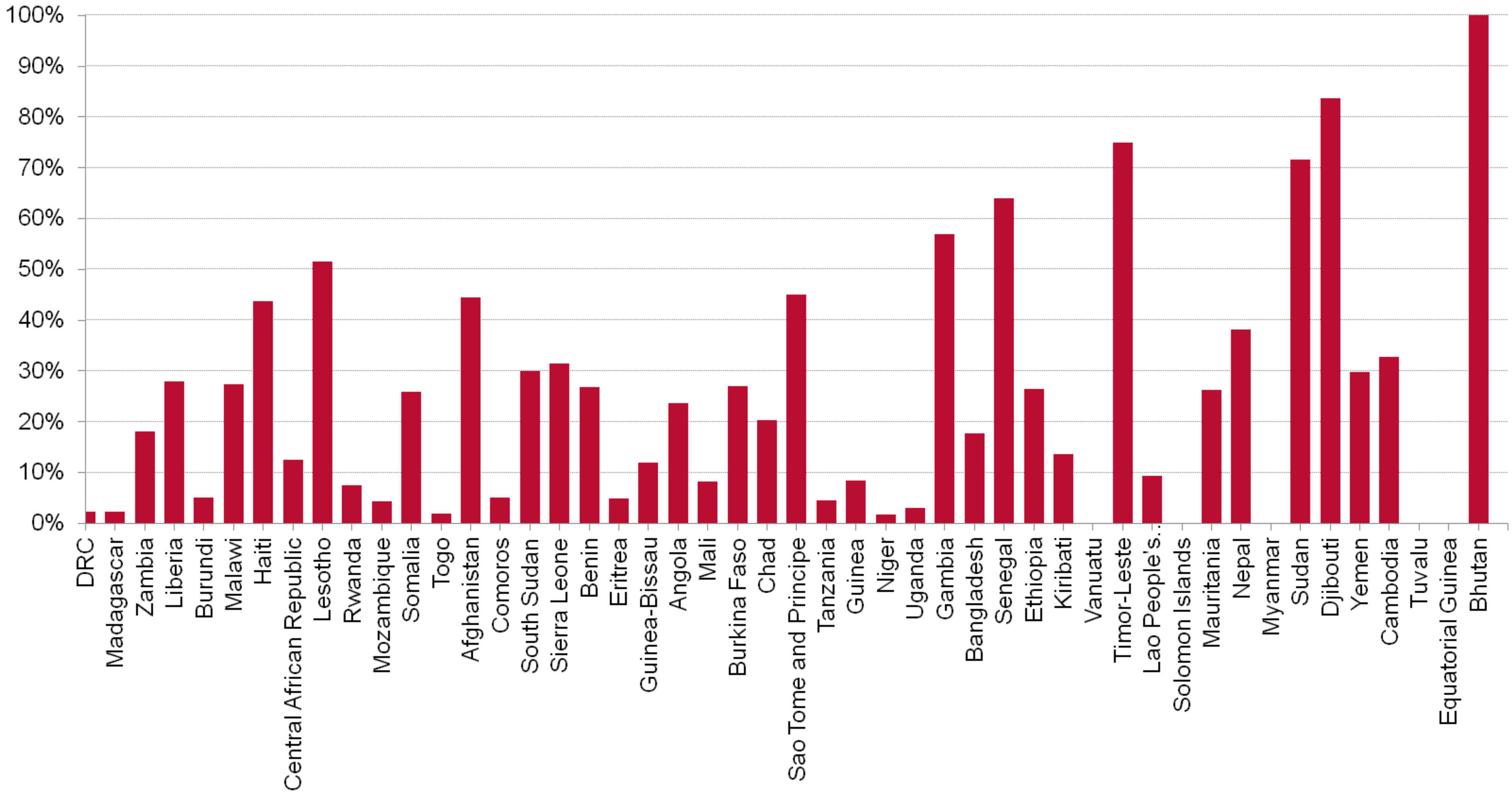
[1] Development Initiatives *Investments to End Poverty*. http://devinit.org/#!/post/investments-to-end-poverty

[2] SDG proposal of the Open Working Group on post-2015: Goal 1, Target 1.3 "implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable"

Figure 1: Current coverage of the extreme poor in LDCs is at most 20%

Estimated coverage of extreme poor by the five largest social safety net programmes. Countries ordered by poverty gap; largest on the left.



Source: DI estimated leakage rates applied to World Bank figures for total beneficiaries (The State of Social Safety Nets 2014).

Figure 1 shows the estimated coverage based on the World Bank report and making due allowance for leakage, i.e. the estimated proportion of non-poor unintentionally included in any programme. As the World Bank report includes potential double counting across different programmes, these figures are likely to be overestimates of coverage.

The estimated average[3] coverage for all LDCs is 20%. Only 10 of the 48 LDCs have coverage of more than 30%. Coverage is generally lower in the countries with larger poverty gaps (left side of the graph) and with larger populations. Even where the extreme poor benefit, the resources transferred are much smaller than those needed to sustainably lift the poor out of extreme poverty. The World Bank report notes that in sub-Saharan Africa the average transfer is 10% of that needed.[4]

Current domestic spending on social protection is very limited

DI has calculated the cost of providing the transfer needed to close the extreme poverty gap in each LDC,[5] incorporating country-specific leakage rates and costs of start-up and ongoing administration.[6] DI estimates the average cost in all LDCs at US$49 per person per year. This compares with latest UNESCO Education for All estimates of US$60 per person for universal education[7] and International Task Force on Health estimate of US$86 per person for universal health care.[8]

In their *World Social Protection Report 2014/2015* the ILO complied expenditure figures for most LDCs, as illustrated in Figure 2. These figures inevitably overstate what is being spent for the extreme poor given that they cover all social protection programmes and not just those targeted on the most vulnerable. For example, the largest element in most LDCs is non-contributory pensions, which only benefit those in formal employment. These beneficiaries are unlikely to be living in extreme poverty (although some of this pension may well be shared with poor family members). Despite this overstating, the ILO spending figure is still very low – on average just US$10 per person per year in LDCs.

There is potential for LDCs to increase both their revenues and share of spending on social protection. But DI calculations suggest that even if all LDCs increased their tax/GDP ratio to 20% (up from an estimated 17%) and allocated 10% to targeted social protection programmes (so total spend is 2% of GDP) this would only amount to an average US$16 per person per year. Given the average spending requirement is US$49 per person per year this implies the external financing requirement is US$33 per person per year.

Current aid for social protection is very limited

There is no agreed definition of 'social protection' aid flows. DI has therefore created a broad definition for the purpose of this research that includes all programmes that relate to social protection. DI recognises that this approach might overstate the total amount of resources currently spent on the extreme poor given that some of these programmes are not well targeted. The full set of programmes is shown in Figure 3. DI estimates that in 2013 donors spent approximately US$7.7 billion on programmes that relate to social protection. This is 80% of expenditure on education or health in 2013.

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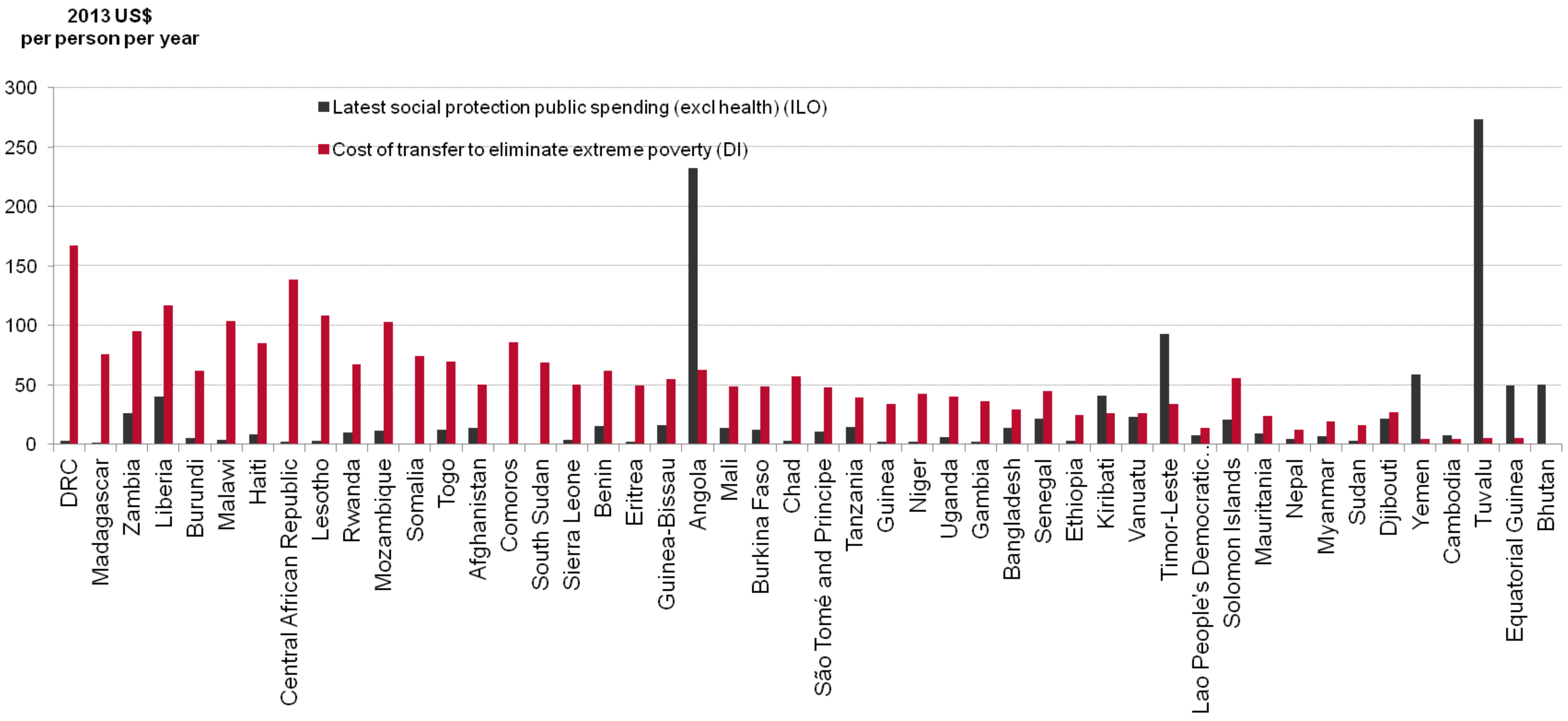
[3] In this report average refers to median to avoid outliers unduly distorting the picture.
[4] World Bank (2014) State of Social Safety Nets
[5] On average this is 42 cents a day in US $ Purchasing Power Parity terms.
[6] This calculation is similar to, but builds on, previous approaches, e.g. Chandy & Gertz 2011 [*Poverty in numbers: the changing state of global poverty from 2005 to 2015*, Brookings] Kharas & Rogerson 2012 [*Horizon 2025 – creative destruction in the aid industry*, ODI] and Greenhill, Carter, Manuel & Hoy ODI 2015 forthcoming [*Financing the future*, ODI]. It also draws on ODI poverty estimates for some of the few countries not covered by World Bank.
[7] UNESCO Education for All Global Monitoring Report Policy Paper 18 *Pricing the right to education* (2015). Cost includes pre-primary, primary and lower secondary education for the 45 LDCs that are low income or lower middle income countries.
[8] As updated by the Centre on Global Health Security Working Group on Health Financing, Chatham House (2014).

Figure 2: Current spend in LDCs is at most 20% of the US$49 per person that is needed

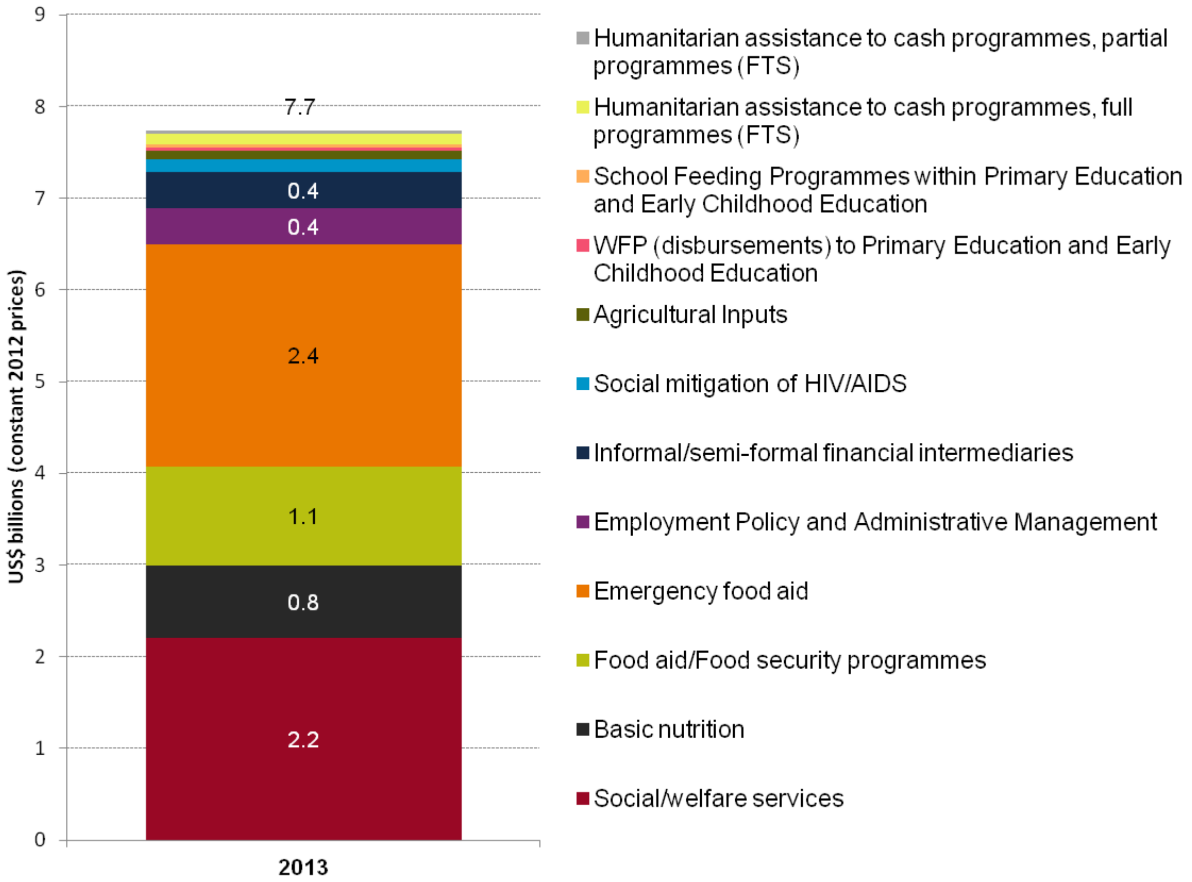
DI estimated cost of transfer needed to eliminate extreme poverty compared with International Labour Organization (ILO)'s estimate of current total spend on social protection (excluding health). Costs in US$ per person per year. Countries ordered by poverty gap; largest on the left.



Source: DI estimates based on World Bank Povcal data and ILO World Social Protection report 2014/2015.

Figure 3: Official development assistance (ODA) spent on all programmes relating to social protection in all countries was US$7.7 billion in 2013

DI estimate of gross disbursements, all donors (excluding $0.7 billion on technical cooperation).



Source: DI analysis of Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) Creditor Reporting System (CRS) 2013.

As Figure 3 shows, using DI's broad definition the largest element is emergency feeding, followed by social welfare programmes. The other major elements are food aid and basic nutrition. This definition also includes a wide range of smaller elements that collectively amount to around US$1 billion including support for employment policy, micro credit, social mitigation of HIV/AIDS, agricultural inputs, school feeding programmes recorded under other headings, and cash transfers in humanitarian assistance.

Current shortfall on social protection is much greater than for other sectors

Using DI's broad definition, aid for all programmes relating to social protection amounts to US$3.7 billion in LDCs, equivalent on average to US$4.1 per person per year. This is just 12% of the external financing requirement of US$33 per person, leaving 88% unfunded. By comparison the Sustainable Development Solutions Network Leadership Council report recently estimated the education target to be 67% unfunded and the health target to be 50% unfunded.[9] UNESCO figures imply education is 54% unfunded in the poorest countries.[10]

[9] *Key elements of a successful Addis Ababa Accord on Financing for Sustainable Development*, Working paper prepared by the Leadership Council of Sustainable Development Solutions Network (SDSN), 19 March 2015

[10] External financing gap for low income countries is estimated at US$10.6 billion compared with aid to all education sectors (including post-secondary education) of US$4.9 billion, UNESCO (2015).

The shortfall on external financing for social protection amounts to US$33 billion per year. While some non-LDCs also have a shortfall, the total for these countries is just US$3 billion per year. LDCs account for 92% of the total global shortfall.

If the shortfall were fully covered, spending on targeted social protection programmes would be US$49 per person per year (13 cents per person per day). As noted before, this would be less than the UNESCO Education for All target and 60% of the International Task Force on Health target. It would also be much less in relative terms than in OECD countries, where social protection expenditures are more than the combined spend on education and health.

Conclusions

DI has produced this short briefing paper in advance of the 2015 Financing for Development negotiations in New York to provide evidence on this critical focus area for investments to end poverty in LDCs. It brings together and adds to new data on coverage, costs and expenditures to inform decision making on financing for social protection. DI has deliberately taken the most generous/optimistic estimates of current spending and financing so as not to overstate the gap. DI hopes that this will encourage ambitious commitments on financing for social protection. Such investments may be essential if the goal of ending extreme poverty by 2030 is to be achieved.

Conclusions are:

- The extreme poor are inadequately covered by existing social protection programmes – especially in countries where the poverty gap is the greatest.
- Most LDCs cannot afford to improve current coverage by the scale needed, even if we make ambitious assumptions as to how much they could spend and how much tax they could raise.
- The current level of external finance is inadequate to meet financing needs, even if generous assumptions are made about what external assistance is currently directed towards social protection (i.e. include categories that have only tangential relation to social protection and are not directly targeted at benefiting the extreme poor).
- While social protection needs to be done in conjunction with spending on education and health, the external financing shortfall for social protection in LDCs is much greater than for either of these sectors.
- The increase in ODA required to meet financing needs is equivalent to 0.1% of OECD GNI. Growth in LDCs may reduce demand in aggregate lowering this total figure, but growth won't be evenly distributed so international assistance needs to be increasingly targeted where needs and gaps will be greatest.
- This required increase in international assistance can be met within existing ODA targets and arguably should be the first call on increased ODA given the priority attached to eradicating extreme poverty.
- Such an increase would still leave LDCs spending no more on social protection than either the health or education targets and relatively much less than OECD countries.

Contact:
Cordelia Lonsdale, Engagement Advisor

E: cordelia.lonsdale@devinit.org www.devinit.org