

## *Chapter 3*

# **Towards a long-term perspective on social protection**

The previous chapters identified key emerging demographic, economic and environmental trends that will affect livelihoods in East Africa over the next 50 years. This chapter will demonstrate how social protection can help countries in the region adapt to these coming challenges at the same time as it supports the current efforts of governments to eradicate poverty, reduce vulnerability and promote the sustainable, inclusive and people-centred development envisaged by Agenda 2063. This chapter identifies ways in which the previous findings can be turned into policy directions that could foster the development of social protection systems able to address the many challenges that lie ahead. These policy directions are grouped into seven fundamental challenges for social protection planners.

## Seven grand challenges for social protection

The previous chapters present a number of emerging demographic, economic and environmental trends that will constrain development, threaten human well-being, and jeopardise the region's progress in eradicating poverty as well as its vision for social protection. Based on the findings of the previous two chapters, this chapter identifies seven grand challenges that confront governments in the six sample countries. In each case, social protection should be an integral part of the policy response. The challenges are as follows:

- Solve the last mile problem of reaching the extreme poor. In a context where population growth and inequality will act as brakes on poverty reduction, social assistance will be an essential means of accelerating the decline in poverty across the six countries. However, its impact is currently constrained by low coverage and poor targeting: as Agenda 2063 notes, social protection programmes in Africa currently cover less than 20% of the poorest quintile.
- Promote social insurance in a context of high informality. Social insurance arrangements enable individuals to protect themselves against the risk of falling into poverty. However, coverage is very low across Africa because most existing arrangements exclude informal and rural workers.
- Confront the employment challenge. A boom in the working-age population has the potential to transform the continent, but only if new entrants to the labour market can find productive employment.
- Adapt to rapid urbanisation. Coverage of social assistance programmes is lower in cities than in rural areas. With East Africa's cities set to continue their rapid growth over the next 50 years, urban poverty is set to increase and social protection needs to adapt to meet the challenge.
- Adapting to climate change and mitigating its effect. The effects of climate change are often felt most keenly by the poor and vulnerable; social protection can support these groups not only to recover from climate shocks but also to adapt to climate change and protect their homes and livelihoods.
- Harness a demographic dividend. Policies to accelerate the fertility decline and enhance productivity are essential if Africa is to harness the potential of its favourable demographic conditions.
- Increase financing for social protection. Agenda 2063 calls for spending on social protection to more than double. While this is essential for establishing sustainable social protection systems, it is important to avoid hurting the poor when exploring ways to generate these revenues.

The challenges outlined above are complex and interlinked. They also have different timeframes and require social protection policy makers to create solutions in collaboration with institutions outside the social sector. It is essential that social protection policy makers start considering the appropriate responses to these challenges today: social protection systems are in their infancy across the six countries and should be designed not only with current challenges in mind but also in such a way as to protect individuals and economies to the risks that lie ahead. Adopting a long-term perspective is also an important means of managing the trade-offs between the different challenges, given that the six countries will lack the resources to address them simultaneously.

The policy response to each of these challenges will require a combination of social assistance, social insurance and labour market policies. This combination is unlikely to be effective without a significant degree of integration between these pillars at an administrative, operational and institutional level. At the administrative level, different social protection schemes can share data and monitoring systems; at the operational level, social protection schemes often share enrolment and delivery systems; and at

the policy level, a single institution might be required to co-ordinate social protection activities across sectors and ministries. At the same time, social protection is increasingly shown to generate positive economic externalities; it is therefore important to link social protection systems to broader economic strategies to facilitate its role in promoting inclusive and pro-poor growth (European Commission, 2015).

### Box 3.1. Defining social protection

Social protection is subject to numerous different definitions which vary not only between individual countries but also between international organisations. The International Labour Organization defines social protection as “[t]he set of public measures that a society provides for its members to protect them against economic and social distress that would be caused by the absence or a substantial reduction of income from work as a result of various contingencies (sickness, maternity, employment injury, unemployment, invalidity, old age, and death of the breadwinner); the provision of health care; and the provision of benefits for families with children.”

Yet even this wide-ranging definition is not appropriate for every country; as the ILO acknowledges, “Differing cultures, values, traditions and institutional and political structures affect definitions of social protection as well as the choice of how protection should be provided” (Bonilla Garcia and Gruat, 2003). In the social protection strategies of the six countries studied here, the term is defined as follows:

- Ethiopia: A set of formal and informal interventions that aim to reduce social and economic risks, vulnerabilities and deprivations for all people and to facilitate equitable growth.
- Kenya: Policies and actions, including legislative measures, that enhance the capacity of and opportunities for the poor and vulnerable to improve and sustain their lives, livelihoods and welfare, enable income-earners and their dependents to maintain a reasonable level of income through decent work, and ensure access to affordable healthcare, social security, and social assistance (Republic of Kenya, 2011).
- Mozambique’s social protection law identifies three pillars: basic social security for citizens with no means (covering social transfers, health, education and economic inclusion), obligatory social security and complementary social security.
- Tanzania: Social protection describes traditional family and community support structures, and interventions by state and non-state actors that support individuals, households and communities to prevent, manage, and overcome the risks threatening their present and future security and well-being, and to embrace opportunities for their development and for social and economic progress.
- Uganda: Social protection refers to public and private interventions to address risks and vulnerabilities that expose individuals to income insecurity and social deprivation, leading to undignified lives (Republic of Uganda, 2015).
- Zambia: Social protection is a poverty-reduction strategy that promotes human development, social equity and human rights through policies and programmes that seek to promote the livelihoods and welfare of the poorest and those most vulnerable to risks and shocks.

Meeting the challenges identified in this report will require not only greater financial resources to be allocated to social protection but will also require significant enhancement of countries’ capacity to design, deliver, monitor and adapt social protection policies and programmes. Establishing a long-term strategy specifically for capacity development both at the individual and institutional level, for every sphere of government and among the broader social protection community should be a core focus of social protection planning.

The policies proposed in this chapter are of major importance to all aspects of society, not just the governments that might implement them. Involving social partners – not only organised labour and business but also civil society organisations – in reform processes is an essential means of ensuring that the interests of different components of society are heard, thereby promoting policy-making that is balanced and appropriate to the needs of the whole population (European Commission, 2016). Not only is this likely to lead to better policies but it is also important in terms of securing public support for reforms. Moreover, in a context where governments might lack the capacity to enforce policies, social partners can be a crucial ally in securing participation or compliance among their respective constituencies.

### **Solving the last mile problem of eliminating extreme poverty**

Africa's poverty rate has declined in the past 20 years but remains above 40%. At the current rate of progress, economic growth alone will take generations to reduce headcount poverty across the six countries; due to rapid population growth, the absolute number of poor households will show little decline and might even increase in some countries. Inequality acts as a brake on poverty reduction.

Agenda 2063 and SDG #1 both target the eradication of poverty yet the results of Chapter 2 indicate this is unlikely to occur for a long time. Accelerating the decline will require governments to find a solution to the last-mile problem: the challenge of reaching the extreme and chronic poor. These are the individuals and households who are not benefitting from growth in the broader economy because they are structurally excluded (for reasons of age, disability, place of residence or many other factors) from the major drivers of poverty reduction. Social assistance is the most feasible means of reaching these groups<sup>1</sup> but in the six sample countries such programmes are undermined by difficulties in targeting transfers.

Targeting errors fall into two categories: errors of exclusion (individuals whom the government considers to be in greatest need of transfers do not receive them) and errors of inclusion (individuals whose need for such programmes is not so great do receive transfers). The World Bank's ASPIRE database indicates the scale of the exclusion problem: according to the latest available data (shown in Table 3.1), coverage of social assistance in the six countries among the poorest quintile ranged from just 1% (Zambia in 2010) to 76% (Uganda in 2012). Table 3.1 and Figure 3.1 also reveal the level of inclusion errors in Kenya, Tanzania and Uganda. The proportion of total social assistance beneficiaries who were in the poorest quintile in Kenya and Tanzania was below 20%, while in all three countries the richest quintile captured more than half the benefits of social assistance.

At the same time, the ASPIRE database indicates that the level of spending is – in theory – less of a problem. Assuming perfect targeting, the level of expenditure on social assistance across the respective countries is sufficient to eradicate extreme poverty.<sup>2</sup> Moreover, if all benefits accruing to the top quintile had been reallocated to the poor, it would have been possible not only to grant benefits to all the poor but also to increase the average benefit size among the poor.

In practice, however, global experience indicates that perfect targeting is not possible.<sup>3</sup> While this phenomenon is often linked to imperfect design and implementation of social assistance programmes, it is also caused by imperfect information. It is often very difficult to understand who the poorest individuals are, how poor they are and where they reside. It is important that countries and development partners invest resources in improving statistical information (as is discussed later in this chapter) and administrative capacity.

However, there are limits to how effective this can be. Attempts to reduce inclusion errors typically increase the level of exclusion errors while efforts to reduce exclusion errors increase inclusion errors (Coady, Grosh and Hoddinott, 2004).

Table 3.1. Indicators of social assistance performance

Country	Year	Coverage	Beneficiary incidence
		Quintile 1 (%)	Quintile 1 (%)
Ethiopia	2010	16.2	-
Kenya	2005	34.4	13.4
Mozambique	2008	7.7	-
Tanzania	2010	13.4	16.5
Uganda	2012	76.1	42.3
Zambia	2010	1.0	-

Note: Coverage denotes the percentage of a given group that receives social assistance, while beneficiary incidence indicates how social assistance beneficiaries are distributed across income groups.

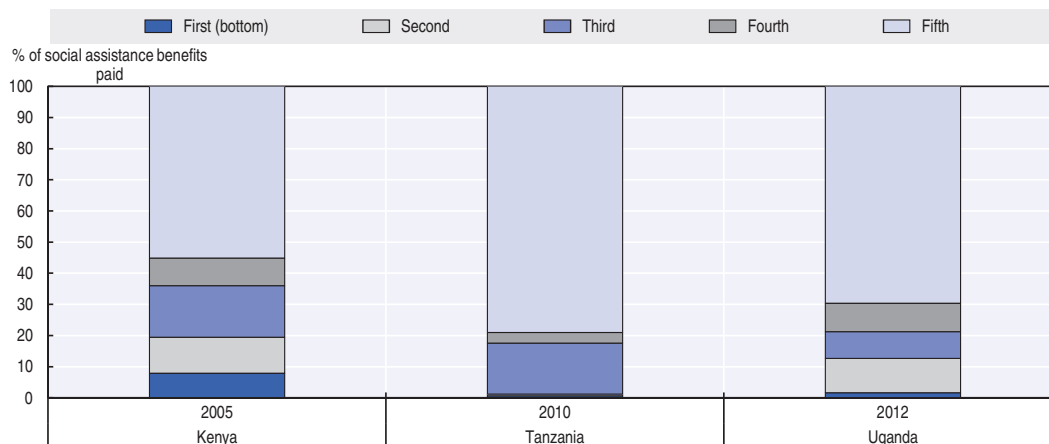
Source: World Bank (2017), ASPIRE (database).

Due to the many challenges associated with means-testing benefits in low- and lower-middle income countries, poverty-reduction programmes increasingly rely on a range of proxy variables (such as household size or housing) as a means of identifying households in greatest need. This information is then inserted into a statistical model which weights the information and computes eligibility. Brown, Ravallion and van de Walle (2016) compare the theoretical performance of a widely-used proxy means test (PMT) against a universal basic income (UBI) in nine African countries, including Ethiopia, Tanzania and Uganda. They find that, given a social assistance budget equivalent to the poverty gap, the PMT performs only slightly better than the UBI in reducing poverty. Moreover, the complexity of the PMT methodology means that the targeting process for a given programme might lack transparency, which can be a source of discontent at a local level and undermine a programme's legitimacy (Kidd, Gelders and Bailey-Athias, 2017).

There is also an important political economy aspect to the debate around targeting. Devoting a significant amount of government resources to a programme which only benefits the poorest members of society is challenging, since they typically lack a political constituency. Moreover, such schemes risk being perceived as ill-deserved hand-outs that will encourage dependency and disincentivise participation in the labour force. On the other hand, the middle class might be more in favour of such programmes if they benefit from them as well.

In order to accelerate the decline in poverty, spending on social assistance across the six countries will need to increase irrespective of targeting errors. Improving the information base and administrative capacity of social assistance programmes will take time and money but is an important means of maximising the impact of spending of such interventions. Nonetheless, these efforts cannot hope to eliminate targeting errors completely. In order to eliminate extreme poverty the primary focus must be on reducing errors of exclusion even at the cost of increasing errors of inclusion in the short term. While this has major implications for the cost of such programmes, the combined longer-term effect of higher expenditure and reduced errors of exclusion would be a reduction in inequality, an effect which would be magnified if these transfers are increasingly financed through progressive domestic taxation.

Figure 3.1. Incidence of social assistance benefits across the sample countries



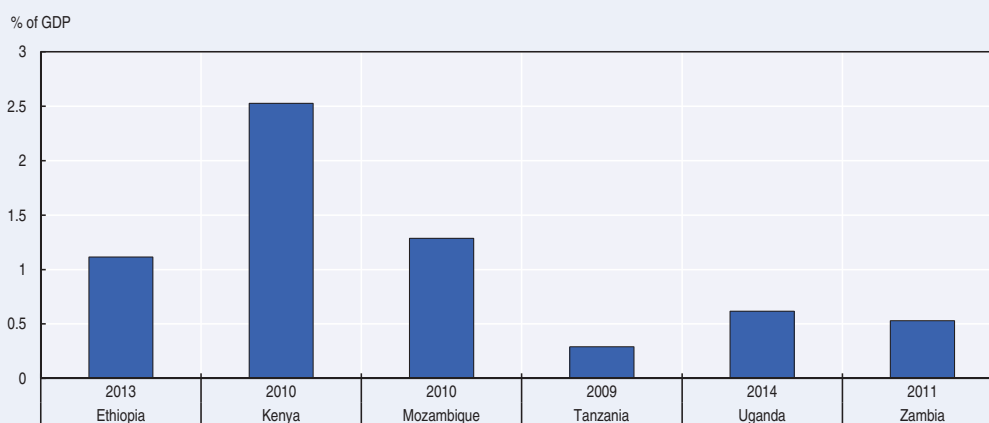
Source: World Bank (2017), ASPIRE (database).

### Box 3.2. Current social assistance spending

It is not possible to quantify the current level of social protection spending across the six countries on a comparable basis. Annex 3.A2 provides a methodology for doing so, which incorporates data from a variety of sources, including the World Bank's ASPIRE database. Figure 3.2 shows the level of spending on social assistance across the sample countries for different years according to the ASPIRE database.

There are major problems with this information, stemming from poor data on the functional classification of government expenditure in the six countries and variable methods for imputation even within some of the same sources at different points in time. There is also the obvious point that the data is in some cases very out of date: spending in Tanzania has increased with the expansion of TASAF since 2009, while expenditure on the PSNP alone accounts for 1.2% of GDP (del Ninno, Coll-Black and Fallavier, 2015), which means that the figure for Ethiopia is also understated.

Figure 3.2. Social assistance spending across the sample countries



Source: World Bank (2016a) ASPIRE (database).



**Box 3.2. Current social assistance spending (cont.)**

By comparison, South Africa spent some 3.1% of GDP on its social grants system in 2016/17 (Republic of South Africa, 2017), which accounts for the bulk of its social protection spending and covers 17.0 million people, just under a third of the population. Brazil's flagship Bolsa Familia programme costs 0.5% of GDP but spending on non-contributory rural pensions accounts for 2.0% of GDP, while expenditure on contributory pensions accounted for 11.3% of GDP in 2015 (Cuevas and Karpowicz, 2016).

Social insurance holds the key to sustainable declines in poverty. Poverty and vulnerability are dynamic: the determinants will change over time and shocks can strike different groups in different places at different moments. Beegle et al. (2016) show that in many African countries transient poverty is higher than chronic poverty and there is significant clustering of poor and non-poor around the poverty line. This underscores the need to promote social insurance programmes among the non-poor as a means of promoting sustainable declines in poverty. Such arrangements provide an alternative source of income to beneficiaries that materialises automatically in response to an income shock, thereby preventing them from falling into poverty and relying on social assistance. The value of these mechanisms extends beyond the individual level: social insurance programmes automatically mitigate the impact of economic downturns by supporting aggregate demand. In the wake of the global financial crisis, public social spending across OECD countries increased from 19% of GDP in 2007 to an average of 22% of GDP over the period 2009-2012 despite significant budget pressures over this timeframe (OECD, 2012).

### Enhancing social insurance coverage in a context of high informality

At the current rate of structural change, the overwhelming majority of the workforce across the six countries will remain in agricultural and informal employment, even 50 years from now. Moreover, the relative size of the elderly population will start to increase rapidly around 2040. Extremely low coverage of social insurance means that today's workforce is at risk of falling into poverty when they retire, if not before.

The population projections in Chapter 1 reveal that, while the elderly population was relatively small in 2015, it will experience rapid growth from around 2030 onwards across the sample countries. Higher life expectancy over the next 50 years will compound this growth: life expectancy at age 60 is expected to grow across the sample countries from an average of 17 years today to about 20 years in 2065. By expanding contributory rather than non-contributory pension arrangements, governments are released from the expense associated with supporting consumption among the elderly population. The sooner this is done, the better: workers need to contribute to social security arrangements for most of their careers in order to be sure of receiving an adequate income in old age.

The design and composition of social insurance arrangements, and particularly pension systems, varies across the six countries. However, they share the defining characteristic of very low coverage: only in Kenya is coverage estimated to exceed 10% of the working age population (Dorfman, 2015). Social protection strategies across the countries stress the need to increase coverage as fast as possible but they face a major challenge: their social insurance systems are mostly designed for individuals employed in the formal sector.

As Chapter 2 shows, the proportion of the workforce in formal employment is low today and is unlikely to increase significantly even over the long-term without a substantial

acceleration in the rate of structural transformation. Informality will remain the norm. Only in Kenya is the proportion of the workforce in wage employment projected to exceed 30% over the next 50 years.

There are many reasons for the tendency to limit coverage to formal wage employment, including government's role in mandating, administering or regulating such arrangements and the administrative challenge inherent to contributions that might be irregular – either in terms of their size or the frequency with which they are made. It is also the case that many households do not have sufficient income to contribute at the rate required. Given that workers in the informal sector tend to be the most vulnerable, the result is a situation where those who most need the protection offered by social insurance are least able to access it.

Kenya's Mbao pension fund is showing the way forward. Since its establishment in 2009 as a voluntary private pension plan regulated by the Retirement Benefit Authority (RBA) for the informal sector, it has experienced rapid growth. In December 2014, the Mbao Pension scheme had 66 228 members and represented 46% of total members in Kenya's individual pension plans, though it remains relatively small in terms of assets (Retirement Benefits Authority, 2015). The Mbao Pension plan runs in parallel to the National Social Security Fund (NSSF) and has extended eligibility to any Kenyan nationals aged over 18 since 2014 in order to expand its coverage of the informal sector. The Mbao pension makes extensive use of mobile phone technology to facilitate transactions and is highly flexible in allowing for irregular and fluctuating contributions. As the government acknowledges, “[T]o effectively respond to the needs of informal sector workers, the NSSF will need to adopt flexible voluntary savings schemes similar to the Mbao Pension Plan” (Republic of Kenya and World Bank, 2012).

Labour organisations in the informal sector can be an important channel for promoting social insurance. The rapid growth in the informal workforce has been associated with a decline in trade union membership in recent decades (Bonner and Spooner, 2011). However, this does not mean that workers have ceased to organise; rather, they do so through a more diverse set of associations and other structures which might lack the same bargaining power or political influence as formal trade unions but which nonetheless have considerable influence within a given sector (ILO, 2002). As a result, organised labour remains a valuable mechanism for promoting enrolment in social insurance arrangements, both private and public.

In Indonesia, for example, government ministries, labour organisations, business and civil society are represented on the National Social Security Council, which is overseeing the implementation of a new social security system. BPJS Ketenagakerjaan, the government agency which provides cover for occupational accidents, retirement savings and life insurance, is working with civil society organisations and employer associations to expand coverage of social insurance among the informal sector (Suryahadi et al., 2014, van Klaveren, Gregory and Schulten, 2015).

Another potential avenue for promoting access to social insurance is through formal enterprises such as farming companies that contract with large numbers of informal workers or producers along their value chain. These enterprises can act as “contribution aggregators” by deducting contributions from the payments they make to individuals, which the enterprises will deposit in appropriate social security arrangements on behalf



of the workers. The frequency and amount of these contributions would depend on an individual's capacity to contribute.

Aside from the administrative constraints on expanding coverage, overcoming the behavioural impediments to enrolment in social insurance schemes will require efforts to improve the overall effectiveness of the system. Convincing individuals to set aside a portion of their money in arrangements which might impose rules on the timing or frequency of withdrawals rather than rely on precautionary saving requires them to have confidence in the institution managing these contributions and, crucially, to see some additional value to this approach rather than an individualist strategy. A danger of mandating contributions in a context where individuals do not see the value of such arrangements (or cannot afford the prescribed contribution rates) is that it can incentivise people to engage in informal activities.

As the World Bank notes in its report on Pensions in Sub-Saharan Africa (Dorfman, 2015), and as the experience of social health insurance suggests (Box 3.3), subsidised or matching contributions from the government are likely to hold the key to unlocking individuals' willingness to save. Establishing an appropriate design for subsidised or matching contributions comes with important challenges, however. Governments will need to address equity concerns with the approach, since it entails a transfer from the government to a (large) group of people who are likely to have access to the labour market and are therefore less likely to be poor than individuals who are excluded. The experiences emerging from Latin America, which has taken a lead in promoting matching defined contribution (MDCs) (Durán-Valverde et al., 2013), are not (yet) convincing: Colombia, Mexico and Peru have all enacted MDCs but have failed to extend coverage beyond groups that were already contributing (Carranza, Melguizo and Tuesta, 2012).

### Box 3.3. How social health insurance expanded coverage

Many sub-Saharan African countries have traditionally organised public health coverage through government funding of public providers and by establishing an entitlement to everyone to use these public providers' services free of charge or for a low fee. However, in many (if not all) sub-Saharan countries, low investment in the public health sector and mostly non-existent incentives for quality and responsiveness have limited the availability and quality of public health services. This has led many individuals, even those with limited resources, to turn to private providers (where the quality of care can vary dramatically), which is associated with persistent financial barriers to accessing care and high levels of out-of-pocket expenditure.

Social health insurance (SHI) mechanisms exist as a means of harnessing the benefits of high-quality provision of health services in a cost-effective manner. However, comprehensive benefit packages are often limited to formal sector workers, meaning they face the same coverage constraints as other social insurance arrangements. In response, a number of countries have established mechanisms to increase coverage through approaches which combine contributory and tax-funded elements – as have already been implemented in Europe in response to the additional burden that ageing populations are placing on SHI systems.

**Box 3.3. How social health insurance expanded coverage (cont.)**

Ghana, for example, has established a National Health Insurance (NHI) mechanism to form the basis of a universal health system. A fixed portion of VAT revenues is allocated to the NHI through the so-called National Health Insurance Levy, which accounts for about 70% of total NHI revenues. Social security taxes provide an additional 23% while premiums account for just 5% (Lagomarsino et al., 2012; Blanchet et al., 2012). The poor and vulnerable are exempted from paying contributions. While the NHI is still maturing, it has already demonstrated that it can integrate those who cannot directly contribute while at the same time creating cross-subsidies from the direct contributions paid by those with greater capacity to pay.

Gabon has implemented a similar reform with earmarked and non-earmarked public funding mixed with contributions in order to extend coverage (Humphreys, 2013). Rwanda has taken a similar path (with a more decentralised structure) while Kenya is also moving in this direction (Lagomarsino et al., 2012; Mulupi, Kirigia and Chuma, 2013). An additional benefit of establishing SHI-style mechanisms (even when these are predominantly funded from general taxation) is that these arrangements separate purchaser and provider functions and thus establish better incentives to providers through strategic purchasing, which is currently an important issue for health reform in Mexico, for example (OECD, 2016a).

*Sources:* Humphreys (2013), “Gabon gets everyone under one social health insurance roof,”; Lagomarsino et al. (2012), “Moving towards universal health coverage: health insurance reforms in nine developing countries in Africa and Asia”; Blanchet et al. (2012), “The Effect of Ghana’s National Health Insurance Scheme on Health Care Utilisation”; Mulupi, Kirigia and Chuma (2013), “Community perceptions of health insurance and their preferred design features: implications for the design of universal health coverage reforms in Kenya,”; OECD (2016a), *OECD Reviews of Health Systems: Mexico 2016*.

There will be major limitations to building on existing pension arrangements in sub-Saharan Africa to expand coverage to the informal sector. At present, 32 countries in sub-Saharan Africa base their systems on defined benefit arrangements, where contributions are pooled and vesting (minimum contribution) periods usually apply; such arrangements are poorly suited to erratic contributions and early withdrawals that are likely to characterise a system that caters to the informal sector. Pre-funded individual savings accounts (otherwise known as defined contribution arrangements) are better able to provide this degree of flexibility.

However, for funded accounts to be viable at scale, capital markets across the region will need to develop in order to provide an appropriate range of investment instruments and generate returns on these savings. For the most part, the capital markets of sub-Saharan Africa are very poorly developed: South Africa accounted for 77% of the USD 1 trillion combined market capitalisation of African exchanges at the end of 2015. Funded savings accounts also require a regulatory framework for the financial sector that promotes transparent and cost-effective management of these accounts, to prevent high costs and to protect contributors against investment risks. Even in these circumstances, however, individuals bear the risk of poor market returns.

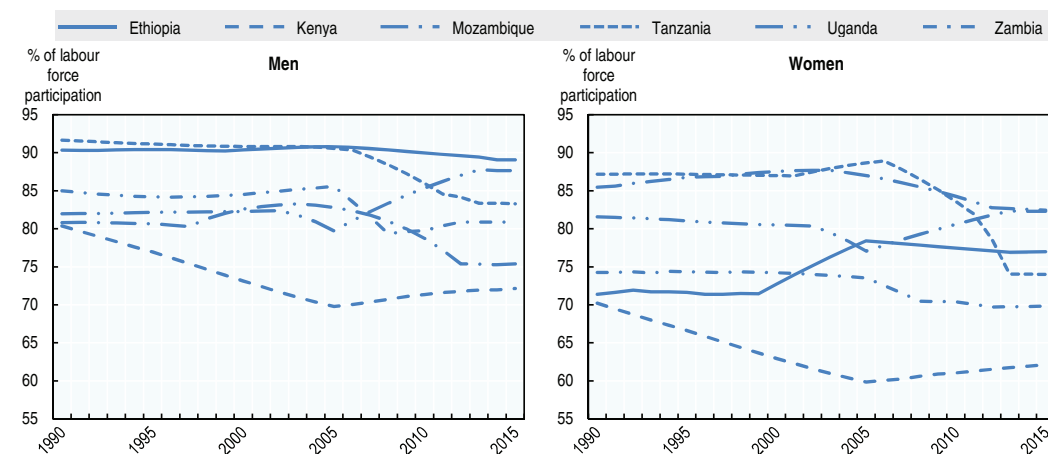
Defined contribution arrangements are also reliant on a functioning annuities market to provide an adequate income in retirement. Sub-Saharan Africa’s annuities market is poorly developed, in part because of the preponderance of national defined benefit arrangements (which pay a pension to contributors at retirement) and in part because a large proportion of employer funds pay contributors a once-off lump sum at retirement. If there is to be a large increase in coverage of funded individual accounts in the future, it

must be accompanied by an expansion of the annuities market. Where such arrangements exist in Africa, they are most often used by wealthier individuals who have a sufficient accumulation of savings to provide a substantial monthly benefit. There is little incentive for low-income groups to purchase an annuity because their accumulated savings are likely to be very low and the terms currently offered by annuity providers are geared to the profile of wealthier retirees, who are likely to live longer on average (Stewart, 2007).

Unfunded individual accounts – otherwise known as notional defined contribution (NDC) arrangements<sup>4</sup> – provide a possible alternative to funded schemes. NDC plans resemble traditional defined contribution arrangements in the sense that contributors accumulate an entitlement but differ from a funded system in two important respects: 1) the interest rate is set by government rules (NDC plans are public programmes), not by market returns, and 2) the accumulation is only notional, in the sense that the system is not fully funded and may be entirely based on a pay-as-you-go (PAYG) system. At retirement, the value of the worker's notional accumulation is converted into an annuity in a way that mimics actuarial principles: benefits over the worker's expected remaining lifetime are set equal in present value to the worker's notional accumulation, using the notional interest rate as the discount rate.

NDC arrangements do not require a large pool of savings, which means that the transition costs of switching from a defined benefit scheme are very low (though unfunded pension schemes imply a debt which must be borne by future generations). They also operate without the need for an annuity market. An NDC scheme might therefore be appropriate for a newly established pension arrangement in contexts where capital markets are not sufficiently developed. The notional interest rate is governed by a set of economic and demographic factors and thus represents an automatic safeguard of sustainability. NDC schemes are a relatively new innovation; to date they have been implemented in four OECD countries (Italy, Latvia, Poland and Sweden),<sup>5</sup> as well as in Russia, Azerbaijan and Kyrgyzstan.

Figure 3.3. Male and female labour force participation – proportion of population aged 15-64



Source: ILO (2015), *Key Indicators of the Labour Market*, 9th Edition.

Future social insurance arrangements must promote gender equity. Traditional social insurance arrangements often place women at a disadvantage. The gender pay gap that prevails in most countries, the lower labour force participation among women (Figure 3.3) and the greater likelihood that women will be engaged in domestic work or unpaid care

work are just a few of the reasons that limit the duration and value of their contributions to such schemes. Moreover, women are less likely to have access to assets and what wealth they do possess in retirement has to last longer than in the case of men due to women's relative longevity. Providing care credits for women whose pension contributions are interrupted as a result of childrearing has proven successful in improving pensions received by women in Chile. However, for women operating outside formal employment, non-contributory pensions are likely to remain an essential protection from poverty.

A final word of caution is required as countries across Africa look to scale up their social insurance schemes: the expansion of such arrangements in a context of high informality needs to be managed carefully to avoid generating a vicious circle whereby informality worsens and tax revenues decline. The experience of Latin America, where social security contributions account for almost the entire tax wedge between the cost of employment and a worker's take-home pay in many countries, shows how social security contributions create the same distortions as other labour taxes and thus have the same (potentially adverse) implications for employment and economic growth (OECD, CIAT and IDB, 2016). High contribution rates incentivise employers to hire informally, which not only leaves these workers reliant on state support in the event of loss of income but also reduces the resources available to the government to provide this support. In order to avoid such a situation, it is important to understand *ex ante* the behavioural responses of employers and employees to different contribution rates, as well as the capacity of workers at different income levels to contribute to social insurance arrangements.

### Public works programmes can help to meet the employment challenge

Chapter 2 illustrated how difficult it will be for labour markets across the six countries to absorb new entrants over the next 50 years. Public works programmes (PWP) will make a crucial contribution in meeting the employment challenge confronting East Africa. These arrangements, which use labour-intensive methods to provide public goods, are already being implemented in the region through Ethiopia's Productive Safety Net Programme (PSNP), the Tanzanian Social Action Fund (TASAF) and Rwanda's Vision 2020 Umurenge Programme. The experience of India's Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), which covers approximately 50 million households and operates at a cost of just 0.5% of GDP (McCartney and Roy, 2016), shows that such programmes can operate at far larger scale than they are at present. However, PWPs need to meet a number of key criteria if they are to avoid doing more harm than good in the long term.

First, policy makers must identify and prioritise the objectives of PWPs. PWPs can achieve a number of objectives: they can serve as a source of income support (social safety net), as a means of promoting productive employment (active labour market policy) or as a cost-effective means of delivering public goods in a constrained fiscal environment (Devereux, 2002). However, they cannot achieve all three simultaneously. A PWP that is intended as a social safety net is likely to target vulnerable members of the population and prioritise the provision of income, while one that acts as a labour-market programme will target working-age individuals and place greater emphasis on the type of work that is performed and on the skills that participants acquire. Policy makers must recognise how these different objectives interact within a given programme, prioritise between them and reflect these choices in its design and financing arrangements.

PWPs need to be targeted, rationed and linked to complementary initiatives to maximise their impact. It is neither financially feasible for PWPs to act as a perpetual source of employment for the same individual nor is it desirable from a labour-market perspective. To prevent PWPs from representing only a temporary (McCord, 2012) response to the challenges of poverty and joblessness, mechanisms must be included in the design of a programme to limit the duration of participation and to connect participants to complementary programmes that offer a sustainable livelihood or source of income.

The evidence presented in this report indicates that PWPs should be targeted primarily at young people, should prioritise the provision of training that is aligned to the demands of the labour market, and should link participants to livelihood initiatives. PWPs whose principal objective is to provide income support to vulnerable groups should over time give way to cash transfer schemes, which are a more straightforward and cost-effective means of doing so. The Fourth round of the PSNP (to be implemented between 2016 and 2020) distinguishes between participants in public works and beneficiaries with no labour capacity. Public works participants and direct support recipients comprise 83% and 17% of PSNP beneficiaries respectively (Republic of Ethiopia, 2016).

There must be co-ordination and clear allocation of roles between central and local government. A common challenge to scaling up public works programmes is how to manage the balance between national and regional spheres of government. It is very challenging for a centralised programme to identify what would constitute useful work at the local level (Box 3.4). A centralised programme also faces a huge administrative burden that encompasses not only the registering and payment of participants but also ensuring the smooth running and effective outputs of individual projects. As a result, local governments need to play an active role in the implementation of PWPs and therefore require the resources and capacity to do so. However, national governments need to co-ordinate the programme as a whole, oversee monitoring and evaluation and ensure adequate financing.

#### **Box 3.4. Useful work – a core concept of the PSNP and TASAF**

Ethiopia and Tanzania are already incorporating large-scale public works programmes into their social protection systems. The Productive Safety Net Programme (PSNP) in Ethiopia and the Productive Social Safety Net component of TASAF combine targeted cash transfers with public works programmes that employ poor participants to provide assets to their broader community during the agricultural lean season. Both programmes are in the process of expanding and evolving: the PSNP now benefits close to 8 million individuals (or close to 8% of the population) and the Ethiopian government is in the process of designing an urban variant, while TASAF is significantly expanding into a greater number of districts after a successful pilot.

The rapid expansion of the PSNP and TASAF are testament to the strength and scalability of the model; it is very likely that other countries in Africa and elsewhere will follow the model in response to their own employment challenges. While adaptation to local contexts is necessary, a key aspect of the public works components of the PSNP and TASAF that must be retained is their emphasis on generating assets that enhance communities' economic potential or boost their resilience to climate-related and other shocks that might threaten their livelihoods.



**Box 3.4. Useful work – a core concept of the PSNP and TASAF (cont.)**

This focus on “useful work” is important for countering a typical criticism of PWP, namely that the work they perform does not have any real value and the costs associated with any such work are therefore a waste of money. The principal criticism levelled at the MGNREGS is that the assets generated through the scheme are of very low quality. Ensuring that the work performed by such programmes will be of value to the community and will not fall into disrepair once a project is completed requires that the community is involved with the process to select the project, that the type of project aligns not only to the skill level of participants but also to the type of tools and equipment at their disposal, and that a maintenance plan is established before the project ends.

If PWPs can create assets of sufficient quality, they should be linked to broader development strategies such as public infrastructure plans, agriculture policies, urban development or industrial policy. There is clear scope for mutually beneficial outcomes: PWPs support these plans through the provision of relatively low-cost labour while the ministries responsible for implementing these plans support the success of the PWPs by providing relevant technical expertise. This model allows for considerable diversification in the types of projects performed by public works programmes, as South Africa’s Expanded Public Works Programme (EPWP) is already showing (Box 3.5).

**Box 3.5. The value of diversification in South Africa’s Expanded Public Works Programme**

Since its establishment in 2004, the EPWP has broadened its scope from focusing predominantly on infrastructure to environmental projects (such as safeguarding water supplies and waste management) and social services, including home and community-based care, school-feeding and early childhood development. The EPWP also supports the work of non-government organisations (often working in the social sector) by subsidising their employment costs.

The provision of social services has clear multiplier effects for poor communities: they not only provide work to unemployed people (typically women), but this work also provides services that might otherwise be unavailable to the communities. Moreover, moving the burden of care from the household to the community level is an important means of empowering women who currently devote the majority of their time to caring for household members to pursue economic activities.

This diversification of activities means that unlike other large-scale public works programmes the EPWP has a strong urban footprint and can provide work all year round. They can also be an answer to infrastructure issues and service delivery challenges in rapidly growing urban centres.

The design of large-scale PWPs should minimise distortions of the labour market. Analysis of MGNREGS has demonstrated how large-scale public employment programmes affect wages and labour supply in the “formal” economy in areas where they are implemented, though this effect is partly mitigated by the fact the scheme is only implemented during the agricultural lean season (Varshney, Goel and Meenakshi, 2014). If rolled out at a sufficiently large scale, PWPs might distort the overall productivity of a country’s economy by employing a significant proportion of the labour force in work that is chosen by government and is not necessarily optimal for the development of the economy



or for the individuals themselves in terms of their acquisition of skills. The Community Work Programme in South Africa, a public employment programme that provides work to participants all year round, seeks to limit this impact by rationing employment to two days a week, freeing up time for participants to seek employment in the formal labour market.

Large-scale PWPs risk undermining the rights and conditions of workers in the “formal” economy if public agencies use these schemes as a low-cost substitute to the private-sector contractors they would ordinarily use. Close co-operation between government and labour organisations is important to avoid such a situation. PWPs must be made equally accessible to women as to men, for example by designating tasks that women can be reasonably expected to perform and through the provision of childcare facilities at worksites. It is also important to provide participants with access to social insurance arrangements, as is done in by South Africa’s EPWP, whose participants contribute to the unemployment insurance fund and are enrolled in a workers compensation scheme.

### **Rapid urbanisation calls for innovation in social protection delivery**

Urban social protection programmes are poorly developed but demand for such programmes will grow across the sample countries. World Bank data show that social assistance programmes globally cover 15.4% of poor households,<sup>6</sup> versus 25.1% in rural areas. While the rate of monetary poverty might be lower in cities than in rural areas, general levels of deprivation between the two areas can be similar in magnitude, as discussed in Chapter 1. A recent study by the OECD shows that inequality of income and other wellbeing indicators is a particular problem in urban areas (OECD, 2016b). East Africa’s rapid urbanisation – its urban population will increase by a multiple of four by 2050 – will require social protection planners to rethink their strategies and redesign their programmes. Ethiopia is leading the way in terms of adapting social protection to urban areas with the expected launch of the Urban Productive Safety Net Programme in 2017 (Box 3.6).

As Chapter 1 notes, there is a major information deficit concerning the nature, extent and dynamics of urban poverty, especially in slums. Designing and implementing an appropriate social protection arrangement in these circumstances is extremely challenging. In general terms, urban areas are associated with higher individual mobility than rural areas, as well as greater fluctuations in income, both of which make it harder to target or even reach beneficiaries; promoting equitable access under such conditions is likely to push up administrative costs. The cost of living in urban areas also tends to be higher, particularly in terms of food, housing and transport. This requires adjustments to benefit levels relative to schemes in rural areas, placing further upwards pressure on the cost of urban programmes.

The high levels of multi-dimensional poverty in urban areas relative to monetary poverty indicates that social protection programmes might need to prioritise access to basic and social services over income support. However, such services need to exist and be accessible in the first place. Chapter 1 notes that most of the growth in urban areas will take place in towns and cities that are presently no more than villages or small towns, meaning they lack infrastructure, administrative capacity and adequate financial resources to provide public services.

The use of PWPs to support provision of infrastructure and services can be an important means of reconciling the imperatives of poverty alleviation and the provision of services. Enlisting local communities to provide care for children and other vulnerable household members has great potential as a means of overcoming the information and resource constraints faced by local administrations.

### Box 3.6. Extending social protection to urban areas: Ethiopia's forthcoming Urban PSNP

In 2017, Ethiopia is expected to launch the Urban PSNP in a number of cities across the country. Although details of the programme have not yet been finalised, its design is likely to differ in a number of important ways from the existing PSNP. The Urban PSNP will be part of what the World Bank refers to as a “first generation” of urban social protection programmes around the world (Gentilini, 2015). There is considerable variation between these, but their common objective is to alleviate poverty and mitigate inequality, while at the same time connecting individuals to services, enhancing human capital and promoting economic activity. As their cities continue to grow, the other countries in this sample will need to follow the lessons learned from this first generation and adapt them to their own contexts.

Source: Gentilini (2015), “Entering the City: Emerging Evidence and Practices with Safety Nets in Urban Areas”.

## Placing social protection at the fore of climate-change adaptation strategies

Social protection is emerging as a key instrument in adapting to the unpredictable and varied threat to livelihoods posed by climate change. As discussed in Chapter 1, climate change will have a significant impact on the East African region. However, the precise nature of this impact will not be predictable in terms of its timing, location or severity. Where rising temperatures and higher sea levels will lead to gradual changes in rural productivity and therefore require a longer-term adaptation strategy, droughts and cyclones take a rapid toll and require a quicker response. Social protection interventions have long been an important part of the policy response to disasters, but they need to be part of a mitigation strategy through instruments that are as broad and diverse as the nature of the threat itself.

Social protection can support climate change adaptation, helping individuals to diversify their livelihoods and communities to “climate-proof” their land and infrastructure in response to climate-related threats. The PSNP and TASAF have both integrated climate change mitigation into their design: both programmes prioritise public works projects that enhance communities’ resilience to climate change as part of a long-term strategy to increase agricultural productivity. Enhancing resilience *ex ante* reduces the need for reactive measures. Emergency aid can be expensive, slow to arrive and unable to reach the places most in need. Evacuation is also expensive, not only for public authorities but also for the households forced to abandon their land and possessions.

An important part of the *ex ante* response is to link social protection programmes to early warning systems for food security (del Ninno, Coll-Black and Fallavier, 2016; Devereux, 2003). Kenya’s Hunger Safety Net Programme (HSNP), which operates in food-insecure arid and semi-arid regions in the north of the country, has demonstrated the potential for linking social protection programmes not only to respond to a climate shock but also to anticipate one. Confronted by drought conditions in 2015, the programme was able to scale up rapidly by an additional 100 000 households because it has already registered and provided bank accounts to people who lived in areas covered by the scheme but were not yet eligible for benefits. Moreover, the HSNP was able to make a special transfer to 200 000 households in anticipation of a drought occurring later in the same year (Hallegatte et al., 2017).

In its 2016 report on the impact of climate change on poverty, the World Bank echoes Agenda 2063 in recognising the central role that microinsurance can play in allowing low-income individuals to protect themselves against the impact of climate change (World Bank, 2015a). East Africa is making important progress in this regard: in 2016, the governments of both Kenya and Ethiopia launched national programmes enabling small-scale farmers to insure themselves against weather-related shocks (World Bank, 2016b; Ethiopian News Agency, 2016). In the same year, the Ugandan government also launched a programme to subsidise farmers' insurance premiums (Batte, 2016).

Although rural households are likely to bear the brunt of climate change in East Africa, the phenomenon will have direct consequences for urban populations as well. With rural-to-urban migration likely to intensify in response to acute climate shocks, pressure on urban labour markets and demand for urban social protection programmes will also rise. At the same time, weather-related shocks can have a major adverse impact on food security, pushing up prices and reducing its availability. Urban social protection programmes will need to incorporate scalability and responsiveness to such challenges into their design.

### **Securing a demographic dividend by empowering women and providing for children and the elderly**

The fertility decline has stalled across the six countries, implying that population growth will continue at its present level. This would be disastrous for the countries' attempts to reduce poverty and promote development. The potential for a demographic dividend would disappear, especially in a context where a large proportion of the workforce is likely to be engaged in low-productivity work.

Social protection has a key role to play in empowering women and there exists overwhelming evidence that women's empowerment – both in terms of resources and agency – is associated with lower levels of fertility. Empowerment not only means women staying longer in school and increasing their labour force participation, but it also means women being more involved in household decision-making. The impact of policies to empower women can be rapid and significant: Ferré (2009) shows that an additional year of female schooling in Kenya is associated with a 10% reduction in the fertility rate.

A perception exists that targeting cash transfers at the mothers of young children incentivises them to have more children. Recent evidence from Kenya and Zambia shows the contrary to be true. An evaluation of Kenya's Cash Transfer for Orphans and Vulnerable Children by Handa et al. (2015) shows that receipt of the transfer reduced the likelihood of pregnancy among 12-24 year olds by five percentage points (or 34%). Meanwhile, Palermo et al. (2016) demonstrate that the Zambian Child Grant was associated with a lower likelihood of pregnancy among young women. Both transfers were unconditional.

There are various channels through which receipt of the grants in Kenya and Zambia might have affected fertility decisions among young women. A global survey of cash transfer programmes by the Overseas Development Institute shows how such interventions have been associated with higher school attendance and improved learning outcomes among girls, lower rates of female child employment, higher labour force participation among adult women, and an increase in asset ownership, savings and investment (Bastagli et al., 2016). Receipt of a cash transfer is also associated with lower levels of female abuse and a positive impact on women's choices regarding fertility, marriage and engagement in sexual activity. FAO (2015) highlights how social protection can empower women in rural areas but emphasises the importance of linking beneficiaries to complementary livelihoods initiatives and services to maximise the potential impact.

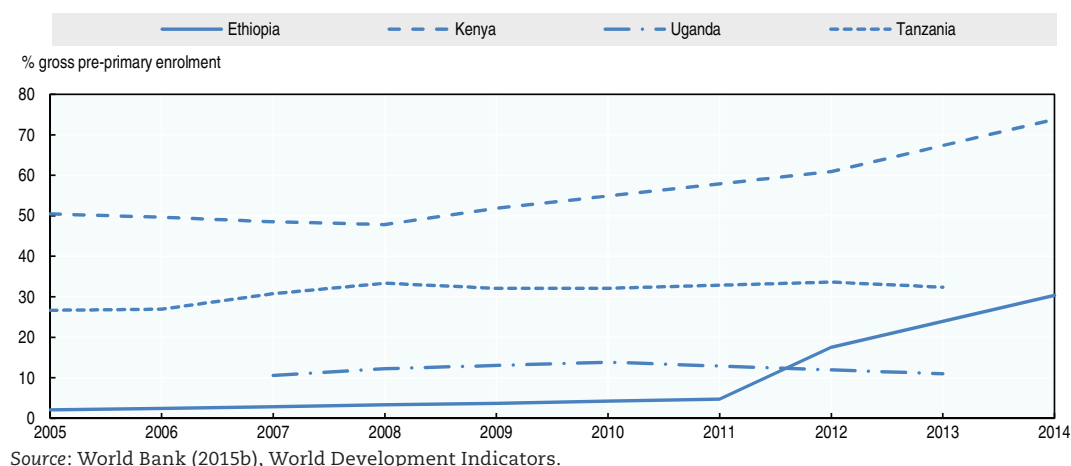
Improving women's access to health services, and to family planning clinics in particular, is perhaps the most direct mechanism for reducing fertility. As a result, family planning services should be included in basic health packages available at no cost to all citizens, as happens through Ethiopia's Health Extension Programme, which has significantly increased access to health services among low-income households (UNICEF, 2016). The design of these facilities matters: if a clinic distinguishes between family planning services and maternal and child health services, for example, the stigma attached to contraception in a given society might deter women from using the former.

Social protection interventions that are not aimed at women can also cause significant reductions in fertility. It has been found in a wide variety of contexts that the provision of pensions has contributed to declines in fertility because these instruments weaken the motivation for parents to have children to provide a means of support when they get old. Holmqvist (2010) found that the effect holds in South Africa, Mauritius, Seychelles, Namibia, Botswana, Lesotho and Swaziland, all of which have implemented non-contributory social pension schemes with coverage in excess of 80% of the eligible population. The provision of old age pensions in South Africa has been found to promote school attendance among children in the same household as the pension recipient, meaning this grant has an impact similar to the country's Child Support Grant (Budlender and Woolard, 2006). This underlines the importance of adopting a lifecycle approach to the provision of social protection, whereby an intervention principally designed for one point in the life cycle can also address risks identified at another.

An individual's productivity is (to a great extent) determined long before they start work. Social protection has been shown to promote human capital development by enhancing enrolment in school but there is scope for productive investment even before children reach that age. Cognitive development during the pre-school years has been shown to have a greater impact than education and training at a later age (Carneiro and Heckman, 2003). Investment in early childhood development (ECD) can promote cognitive development among the youngest age cohorts and thus promote productivity in later life. At the individual level, such schemes are a means of breaking the inter-generational transmission of poverty and promoting social mobility; at the aggregate level, these gains will enhance productivity across the economy. Although evidence on the impact of ECD interventions in developing countries is scarce, Gertler et al. (2014) demonstrated that the average incomes of individuals who benefited from an ECD scheme in Jamaica during the 1980s were 25% higher than those of a control group 20 years later.

There are many dimensions to ECD, which encompass health, nutrition, education and access to basic services and which involve both formal and informal facilities as well as the home (Britto et al., 2017). These different interventions need to be integrated within a coherent policy framework under the purview of social protection. Looking specifically at one component of ECD – pre-primary enrolment – we see this is significantly lower than gross primary enrolment for the four countries for which data is available (Figure 3.4). In Kenya, enrolment grew strongly between 2005 and 2014 from a base that was already significantly higher than in the other countries. Enrolment is also rising in Ethiopia, while a flatter trend is identified in Tanzania and Uganda, the other two countries for which data is available. Kenya has enjoyed great success in promoting pre-school services since independence in 1963 through the Harambee initiative, a partnership between the government, families and communities (World Bank, 2008).

Figure 3.4. Pre-primary school gross enrolment ratio, 2005-14



As noted in Chapter 2, domestic savings across the six countries do not match the amount needed for investment, forcing them to rely on external capital flows. This situation might change as the dependency ratio falls: a higher proportion of producers relative to consumers is likely to increase the level of savings at an economy-wide level, an effect reinforced by the impact of rising life expectancies on income-smoothing behaviour. This increase in savings can promote investment in physical capital and thus facilitate capital widening and deepening. This is not only an important means of harnessing the potential of large working-age population but also acts as a pre-emptive mechanism for mitigating less favourable demographic conditions associated with population ageing: when the labour force shrinks relative to the number of old-age dependants, productivity per worker must increase to maintain the same level of output. These two effects are sometimes referred to as the first and second demographic dividend.

Poverty acts as a major brake on savings, resulting in a strong correlation at a national level between income per capita and the savings rate. So too does a lack of financial inclusion. Social protection can play a dual role in promoting savings. First, it can reduce poverty. Secondly, it can incentivise saving by providing a publicly administered savings vehicle (typically, a pension fund) which compels people to save and which overcomes challenges related to financial inclusion. Domestic investment might increase as a result, though a positive relationship between pensions, savings and investment is not guaranteed: many countries in Latin America have established funded individual account arrangements but only in Chile and Peru have there been clear benefits in terms of increased national savings or capital market development.

#### Box 3.7. How South Korea crafted and captured a demographic dividend

In East Asia, the fertility decline was accompanied by rapid economic growth and strong advances in human development indicators between 1960 and 1990. However, it was not until 1997 that the possibility of an explicit link between the region's economic performance and the changes to the countries' age structure was explored. Bloom and Williamson's paper *Demographic Transitions and Economic Miracles in Emerging Asia* (1997) calculated that between a third and a half of overall growth in the region's GDP per capita between 1965 and 1990 could be attributed to population dynamics.



**Box 3.7. How South Korea crafted and captured a demographic dividend (cont.)**

South Korea is considered a prime example of how to manufacture a demographic dividend and exploit its potential through interventions in family planning, public health and education. In just over 50 years, between 1960 and 2014, South Korea moved from being a low- to a high-income country: its GDP per capita rose from USD 156 to USD 27 221 in real 2014 terms. Meanwhile, it adopted an industrial development strategy which lent extensive government support to manufacturing companies that proved their viability in the global market, thereby actively promoting the process of structural change.

South Korea's population policies helped the country attain a rapid decline in fertility and mortality rates shortly after the war. South Korea had implemented family planning as a population control method between the 1960s and the 1990s, which has caused the TFR to fall by five and produced a large reversal in population growth during the 2000s. Since 1984, South Korea's TFR has been under 2.0 and the relative size of the elderly population (aged 65 years and over) has steadily increased since the 1970s (UN DESA, 2015). By 1983, the country had attained a replacement level fertility rate; as of 2012, it was 1.21, the lowest in the world.

South Korea achieved universal health insurance in 12 years. Starting in 1963, legislation helped open health-insurance access to the populace. At first, health insurance was administered on a voluntary basis. The first mandate for health insurance came in 1977 but only for the employees of large companies and their dependents. Subsequently, the government mandated health insurance access for government employees and private school teachers, and by 1989, health insurance had been extended to the entire population, with co-payment. Universal coverage was rapidly achieved by limiting the range of benefits covered by the National Health Insurance (NHI), although coverage has broadened over time, and by fixing medical prices at low levels (Jones, 2010).

What is today one of the best systems of education in the world developed rapidly. Following the war, the government centralised control of education and passed a number of reforms that aimed to develop a literate and skilled electorate. Widespread illiteracy was eliminated by the mid-60s and as of 2013, 92.4% of the cohort completes upper secondary education – among the highest in the OECD. South Korea's education policy is aligned to its broader innovation policy, which has been a key growth driver over the last 30 years. The country's strategic approach to science, technology, and innovation has required and, through tailored education policies, created a highly-skilled workforce. Korea's vision for a knowledge-based economy is highly dependent on its education policies and technology investments in basic science R&D.

Bloom and Williamson's identification of a "demographic gift" in East Asia has created an expectation that countries that are lagging the region in terms of the fertility transition can achieve comparable success through policies similar to those adopted in East Asia. While there are important lessons to derive from the East Asian example, it is unrealistic to assume that the experience can be automatically replicated in a different place and time.

*Note:* Definitions of East Africa for the purposes of discussing the region's economic transformation are often guided by the World Bank's report "The East Asian Miracle: Economic Growth and Public Policy" (1993). The included countries are typically classified as South-East Asian within East Asia and created a separate sub-group comprising eight "High-Performing Asian Economies" (HPAEs): Hong Kong, Singapore, South Korea and Taiwan (the four "Tigers"), Japan, Indonesia, Malaysia and Thailand.

*Sources:* Bloom and Williamson (1997), "Demographic Transitions and Economic Miracles in Emerging Asia"; Jones (2010), "Health-care Reform in Korea"; UN DESA (2015), *World Population Prospects: The 2015 Revision*; World Bank (2015c), *Ethiopia Poverty Assessment 2014*, Report No. AUS6744.



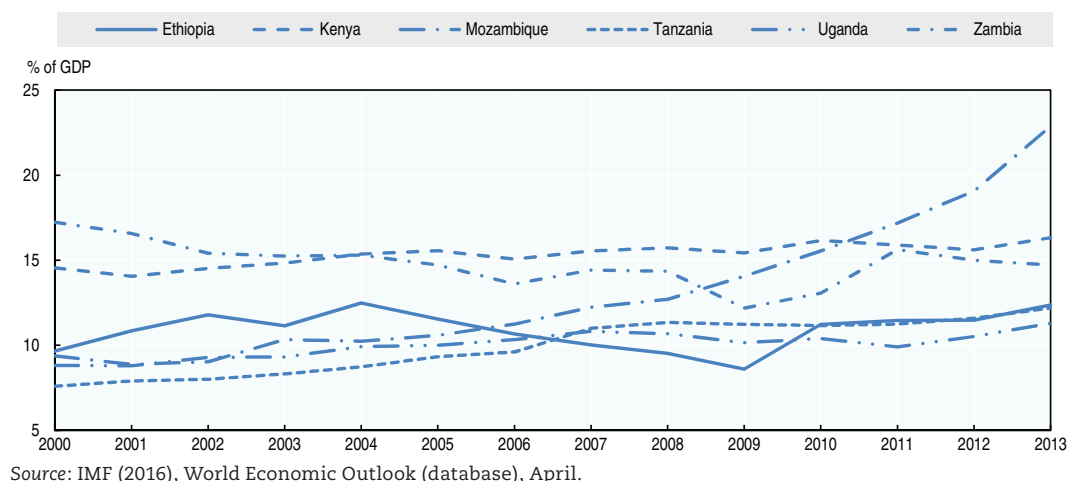
## Expanding the social protection budget without hurting the poor

The economies of the six countries studied here have performed strongly in the recent past, increasing the resources available for social protection. Nonetheless, governments across the six sample countries need to raise a much higher level of taxes as a proportion of GDP to address the multiple challenges they face.

Agenda 2063 states that spending on social protection across Africa needs to rise from its present average of 2% of GDP to 5% of GDP. IMF data (Figure 3.5) illustrates the implications of such an increase. With the exception of Mozambique, the sample countries generate tax revenues within a range of 10% of GDP (Uganda) to 16% of GDP (Kenya): an increase in spending on social protection that was financed by taxation alone would require revenues to increase as a percentage of GDP by between 19% and 33%.

Such a step change in revenue generation will take time and huge political will to achieve. In the short- to medium-term, financing strategies for social protection need to combine improvements to the tax system with reforms on the expenditure side that maximise the impact of existing social protection or pro-poor spending. This section identifies possible reforms to the tax system and expenditure in turn.

Figure 3.5. Tax revenue as a percentage of GDP, 2000-13



## Improving the tax system

Developing a social protection system requires sources of financing that are sustainable over a long time horizon. This requirement limits the extent to which two important sources of income for many African countries – Official Development Assistance (ODA) and natural resource revenues – can provide a significant portion of the revenue mix over the long term. Flagship social protection schemes across the six countries (including PSNP, TASAF and the Social Cash Transfer in Zambia) rely on ODA (in the form of grants and concessional lending) for a considerable proportion of their financing. However, donor support is volatile and can be expected to decline as per capita incomes increase in the six countries. The governments of Ethiopia and Tanzania are already promoting increased domestic financing for PSNP and TASAF respectively. It is in the interests of donors and recipients alike to manage the tapering of external assistance through a clear long-term strategy.

Natural resources across East Africa are thought to be abundant, though exploration has so far been limited. Tax revenues in developing countries with substantial natural resources tend to be higher than for countries at the same income level that lack such resources. However, this does not necessarily place them at an advantage in terms of financing social protection programmes: fluctuations in commodity prices and the finite nature of such resources limits their capacity to provide the reliable and sustainable revenue flows on which social programmes depend.

Governments' ability to raise taxes on companies and individuals will be essential to reaching the 5% target. However, the projections in Chapter 2 underscore the challenge that lies ahead in this regard. The persistence of agricultural and informal employment as the mainstays of the labour market even 50 years from now will make it harder to generate revenues through direct taxation in the form of personal income tax (PIT) or corporate income tax (CIT) – instruments that can be aimed at those who can most easily bear the burden of taxation.

As a result, governments continue to rely on indirect taxes, such as value added tax on consumption (which accounts for about 25% of tax revenues in developing countries) and excise duties, the burden of which falls on all consumers (IMF, 2011). With Chapter 2 also demonstrating that a significant proportion of the individuals and households will remain poor and vulnerable for some time to come, increasing taxes on consumption risks pushing people (further) into poverty. Recent evidence for developing countries confirms that fiscal policy reduces inequality but can often increase poverty (Lustig, 2016).

As governments look to scale up their revenues – and particularly if they are looking to do so in order to finance a social protection policy – the question of “how” a specific instrument raises revenues is as important as “how much” it raises. To rely on a regressive tax to finance a progressive policy is to risk offsetting the benefits of this policy by impoverishing the intended beneficiaries and widening inequality. Understanding the dynamics of different tax instruments requires detailed analysis.

While VAT can be regressive in low-income countries (Peralta-Alva et al., 2017), Lustig (2016) shows this is often not the case. Meanwhile, a PIT with non-graduating marginal rates or no exemption for low earners might not be progressive at all. If the former is a more effective means of raising revenue for a social protection intervention then the additional cost to a poor consumer will be justified, provided that the intervention is sufficiently generous and well targeted to offset this cost.

Fiscal incidence analysis (Box 3.8) is an essential means of understanding who bears the burden from the different instruments upon which domestic resource mobilisation depends. It also shows the overall impact on poverty and demonstrates the extent to which individuals along the income distribution are either net payers or net beneficiaries from a system of taxes and transfers. The importance of simultaneously examining both the spending and the revenue side of the fiscal framework requires social policy makers to be more involved in discussions around tax – traditionally the sole purview of Finance Ministries – than they typically are today.

Across the six countries, indirect taxes contribute a much larger proportion of total tax revenues than direct taxes on income and profits (PIT or CIT). Increasing revenues from PIT and CIT holds the key to domestic resource mobilisation but there are major challenges to doing so. In the case of PIT, high levels of informality and self-employment in developing countries impose significant constraints on enforcement.

Attempts to increase CIT not only encounter problems with enforcement among domestic enterprises operating in the informal sector but also confront sophisticated tax avoidance strategies adopted by multinational corporations, which exploit loopholes

in the international tax system to significantly reduce their obligations in countries where they are active. Crivelli, Mooij and Keen (2015) calculate that these practices cost developing countries 1.3% of GDP, which is higher than the losses incurred by OECD countries (1.0% of GDP), represents a greater proportion of total tax revenues raised and exceeds the average expenditure on social assistance across the six countries. An objective of the Base Erosion and Profit Shifting (BEPS) initiative, an international effort led by the OECD and G20, is to enhance developing countries' ability to levy CIT from multinational companies (OECD, 2015).

#### Box 3.8. Fiscal incidence analysis in Ethiopia, Tanzania and Uganda

The Commitment to Equity Institute (CEQI) has developed a methodology for analysing the combined impact of taxes and social spending on a country's income distribution and poverty level in an internationally comparable manner. The methodology reconciles survey data with administrative and national accounts data for a given year. It includes social protection schemes and monetises in-kind benefits from public health and education services. Among the 23 countries where CEQI has applied this methodology, three are in this sample: Ethiopia, Tanzania and Uganda (World Bank, 2015c; Younger et al., 2016; Jellema et al., 2016).

For Ethiopia (based on data from 2011), this analysis showed that the PSNP reduced poverty by 2% but that the design of the tax system (in particular the PIT for low-income earners and agricultural taxes) partly offset these gains. In 2016, the Ethiopian government raised the minimum monthly earnings threshold for PIT from 150 Birr (USD 6.63) to 585 Birr and adjusted the tax schedule at other income levels in order to reduce the tax burden on the poor and make the tax more progressive.

For Tanzania (using 2011/12 data), taxes (both direct and indirect) are shown to be progressive but the low coverage of cash transfers meant that even the extreme poor were "net payers" to the fiscus and the overall effect of taxes and transfers was to increase poverty. In-kind health and education benefits more than offset this effect, such that the overall fiscal impact was to reduce poverty by 3.3 percentage points.

In Uganda (using 2012/13 data), social spending (and the fiscal system as a whole) is shown to be too small to make a significant impact on either poverty or inequality. The absence of a large cash transfer scheme and high coverage of indirect taxes result in poor households being net payers to the fiscal system.

As countries look to scale up their social protection systems, this kind of analysis provides valuable evidence as to which programmes are most effective in reducing poverty and inequality and which taxes (including social insurance arrangements) impose the least burden on the poor. However, the methodology cannot be used to model the impact of a specific tax or spending reform because it does not capture the general equilibrium effects of such a measure.

Sources: World Bank (2015c), *Ethiopia Poverty Assessment 2014*, Report No. AUS6744; Jellema et al. (2016) "The Impact of Taxes, Transfers, and Subsidies on Inequality and Poverty in Uganda"; Younger et al. (2016), "Fiscal incidence in Tanzania," *African Development Review* 28(3), pp. 264–276.

Developing countries globally are failing to maximise the potential of taxes from immovable property as a means of financing urban services. Bahl, Martinez-Vazquez and Youngman (2010) calculate that revenues from immovable property taxes in developing countries equated to 0.6% of GDP in the 2000s versus 2.1% of GDP in OECD countries over the same period. In East Africa, immovable property taxes are especially underdeveloped and have been very unpopular historically (Fjeldstad, Chambas and Brun, 2014), though Mozambique and Rwanda are currently undertaking reforms to improve their impact (Kopanyi, 2015).

The benefits of increasing these taxes in a context of rapid urbanisation would be considerable, especially in terms of financing social and basic services. Moreover, these taxes are equitable and promote accountability at the local government sphere, since the link between tax payments and benefits received is much more visible than at the national sphere. However, important constraints exist to levying these taxes in developing countries, including the maturity of property markets, a lack of information regarding property prices and weak administrative capacity within local government. Moreover, without a significant degree of fiscal decentralisation, the incentive for local governments to implement property taxes is significantly diminished (Bahl, Martinez-Vazquez and Youngman, 2010).

Enhancing the tax system by improving revenue generation and increasing administrative capacity is vital for financing social protection. However, the benefits are not solely financial. For example, contributory social insurance arrangements can achieve efficiency gains by piggy-backing on the tax system in order to collect pension and unemployment insurance contributions. Indeed, it is difficult to establish social insurance arrangements without a certain level of tax administration capacity and without a significant degree of compliance.

However, the benefits are not just one-way: a tax increase to a specific social intervention – as when Ghana linked a VAT increase to an expansion of health insurance and the Philippines raised sin taxes for the same purpose – has been an important means of securing popular support for tax increases. Tax morale and compliance will typically improve if populations believe their taxes are being spent in a responsible and fair manner.

There is a strong case for international development partners to substantially increase support for countries to develop their tax administration capacity. Expenditure on such projects accounted for just over 0.1% of total ODA in 2010 but the associated returns can exceed those generated by many other, better-resourced interventions (IMF, OECD, UN and WBG, 2016).

### **Maximising the impact of existing social protection or pro-poor spending**

The six countries studied in this report subsidise food, fuel and electricity through a variety of mechanisms. The rationale for these subsidies is often that they safeguard the ability of poor households to access essential goods. However, these subsidies are widely found to be regressive: according to the IMF, 45% of the value of fuel subsidies in sub-Saharan Africa accrues to the wealthiest consumption quintile, while only 10% of households in the lowest two quintiles in the region even have access to electricity and thus benefit from the subsidised prices (Alleyne and Hussain, 2013). The World Bank (2008) found there to be substantial leakage of food subsidies to higher-income groups, since these households also consume the subsidised staples, and in larger absolute quantities.

Replacing or eliminating these subsidies would free up significant resources for governments to spend on social protection programmes aimed directly at supporting the consumption of poor households. Table 3.2 shows the scale of the potential savings generated by eliminating energy subsidies across the six countries, which range from 1.5% of GDP in Uganda to 8.3% of GDP in Zambia. Increasing expenditure on social protection by equivalent amounts in the respective countries would not only achieve major gains in terms of reducing poverty and inequality<sup>7</sup> but would also lead to broader efficiency gains, in particular in terms of incentivising electricity producers to enhance their distribution networks (Alleyne and Hussain, 2013). Eliminating fuel subsidies might also yield environmental benefits by reducing emissions.

Removing subsidies is often very challenging in political terms. Examining the removal of fuel subsidies in Ghana, Indonesia and Iran, Lindebjerg, Peng and Yeboah (2015) find that such reforms can generate a “triple win” (improved social distribution, fiscal savings and reduced emissions) but this is not guaranteed: subsidy reductions need to be carried out through a gradual and clearly-communicated process that emphasises the social benefits of the reform.

Table 3.2. Fiscal savings after energy subsidy elimination

	Post-tax subsidies as a percentage of GDP					Estimated total fiscal savings (USD billion)	Savings per capita (USD)
	Petroleum	Coal	Natural gas	Electricity	Total		
Ethiopia	2.0	0.1	0.0	1.1	3.2	1.63	18.38
Kenya	1.3	0.1	0.0	0.3	1.7	0.95	22.78
Mozambique	0.6	0.0	0.5	5.9	7.0	1.10	42.63
Tanzania	1.2	0.0	0.3	2.1	3.7	1.37	29.60
Uganda		0.0	0.0	1.5	1.5	0.38	10.52
Zambia	0.4	0.2	0.0	7.7	8.3	2.19	150.35

Source: IMF (2015), How large are global energy subsidies? (database), [imf.org/external/pubs/ft/survey/so/2015/NEW070215A.htm](http://imf.org/external/pubs/ft/survey/so/2015/NEW070215A.htm)

Humanitarian assistance and social protection are still widely viewed as discrete instruments. However, in regions that are vulnerable to extreme climatic conditions, there is a strong argument for bridging the gap between the two. As del Ninno et al. (2016) note, “Humanitarian assistance will remain an appropriate short-term response to emergencies, but in many countries it is provided year after year in the same areas and to the same recipients, suggesting it is being used as a long-term instrument to address chronic poverty”. Social protection programmes represent a far more effective response in this regard, not only in terms of improving the outcomes for people living in those areas on a sustainable basis but also making more efficient use of funds.

Cabot Venton et al. (2012) demonstrate how the implementation of different mechanisms to enhance resilience to climate-related shocks in Kenya and Ethiopia would have proven more cost-effective than relying on humanitarian assistance, while del Ninno et al. (2016) demonstrate the affordability of scalable social protection programmes relative to humanitarian assistance across a number of countries. It is important to note, however, that budgeting for a scalable programme poses a challenge for public finance management, since it is not possible to predict *ex ante* when additional funds will be required or in what quantity (World Bank, 2015c; OECD, 2016c).

A third area where there is significant scope for reprioritisation of funds within the social protection spending envelope is pension arrangements for civil servants. As the World Bank notes, “Civil service pension spending in Africa may not appear high relative to other countries but it is extraordinarily high when we consider the number of people receiving pensions” (Schwarz and Abels, 2016). Expenditure per capita on such schemes is also notably high relative to other national social protection programmes: Tanzania, for example, spends 1.6% of GDP on its civil service pension scheme. About three quarters of civil service schemes across Africa are defined benefit arrangements run on a pay-as-you-go basis; in most cases, expenditures are financed by current employees and the government (the former through salary contributions, the latter through general tax revenues).

Civil service pension arrangements in the region typically offer higher accrual rates and earlier retirement ages than national schemes in their respective countries, and they are also more generous than equivalent schemes in OECD countries. Compounding



this generosity is the fact that the age profile of civil service schemes is typically older than that of the country as a whole, meaning that population ageing is affecting these arrangements before it affects the wider population. This combination of generous benefits and rising dependency ratios is driving up expenditure at a rapid rate; with the government funding these benefits from general revenue, the cost of these entitlements is borne by the population as a whole and will absorb an ever-higher proportion of public spending.

The design of civil service schemes differs between the six sample countries. Mozambique, Tanzania and Uganda operate unfunded stand-alone schemes, while Ethiopia and Zambia have integrated civil servants into the public pension arrangements for the private sector and Kenya recently established a fully funded defined contribution arrangement for civil servants. Even if a reform process is under way, the legacy costs of old arrangements are extensive: entitlements for civil servants under the previous dispensation need to be honoured and the transition from an unfunded to a funded scheme imposes a significant debt on the government's balance sheet related to these entitlements.<sup>8</sup>

These legacy costs can be a convenient excuse not to enact policies that are likely to be unpopular with the constituency responsible for enacting them. However, with every year that passes, the long-term burden that civil service schemes represent magnifies; an urgent first step in the reform process is to quantify this liability through regular actuarial studies.

### A final word on the need for better data

Social protection systems cannot function effectively without accurate and up-to-date information or systems that use this information. In sub-Saharan Africa, low statistics capacity has been a major challenge to understanding the dynamics of poverty and the impact of public policy in reducing poverty. As Beegle et al. (2016) note: "Problems with the availability, comparability, and quality of data, combined with different approaches and methods to correct for these shortcomings, are at the centre of the divergent views regarding the direction and magnitude of poverty reduction in Africa over the past two decades". Sub-Saharan Africa scored 60% in the World Bank's Bulletin Board on Statistical Capacity indicator in 2016, which is below the average of low-income countries (World Bank, 2015d). Of the six sample countries, Kenya and Zambia were below the regional average in 2016 while the other four countries were above this benchmark.

The first step in designing a social protection system is to understand the population it is intended to serve. Civil registration agencies are responsible for collecting a population's vital statistics - including births, deaths, marriages and adoptions - which can have immediate implications for the social protection system. This information is also important for keeping track of broader demographic trends such as population growth and life expectancy. At the same time, civil registration is necessary to ensure recognition of individuals' legal identity and a formal record of events such as births and deaths which might entitle them to essential services or social protection programmes. A study by the UN Statistics Division (UN DESA, 2016) showed civil-registration capacity to be generally weak across the six countries, with Kenya and Mozambique the better performers and Ethiopia and Zambia the weakest. In practical terms, this means that Ethiopia and Zambia rely on population censuses and sample data to generate basic vital statistics.

As Beegle et al. (2016) note, there has been a rapid increase in the number of household surveys conducted across Africa since the 1980s, which has generated data on a large



number of indicators, including health, human development and subjective wellbeing. However, consumption surveys – which are essential for measuring monetary poverty – have not kept pace. This imposes a significant constraint on efforts to improve the effectiveness of social protection policies: consumption information is needed to assist with targeting interventions and to gauge their effectiveness. Household surveys which include specific social protection modules are obviously invaluable in this regard.

In order to establish a coherent social protection system, administrative data on individual social protection programmes needs to be combined within a single registry.<sup>9</sup> This information should cover the identity and quantity of beneficiaries in different schemes, disaggregated to the greatest extent possible by age, gender, region and other relevant information. It should also include the value of benefits received by programme and at an aggregate level, as well as broader performance information.

This is an area where there has been significant progress among the sample countries. In 2016, Kenya rolled out the Kenyan Single Registry (KSR), which is linked to the national registration database. It including information on beneficiaries of five social protection programmes including: the Old Age Grant, Disability Benefit, Orphans and Vulnerable Children's Cash Transfer, Hunger Safety Net programme, and World Food Programme's Cash for Assets scheme. Other countries might not be far behind: Zambia is currently in the process of designing and developing its Single Registry and information management system, to be hosted in the Ministry of Community Development, Mother and Child Health (World Bank, 2014).

Tanzania has constructed a Socio-Economic Database, which can potentially act as a bridge towards a single registry, but must improve the quality of its civil registration system in order to have accurate base-line records and population and welfare statistics. Tanzania also plans to consolidate a list of current beneficiaries of TASAF into a Unified Registry of Beneficiaries (UN Tanzania, n.d.). Mozambique is developing a management information system and plans to roll out a Single Registry as part of its National Development Strategy 2015-2035 (ILO, UNICEF and WFP, 2015).

Monitoring and evaluation are essential to improve social protection programmes and to establish social protection systems. Policy makers need up-to-date and reliable information on programmes' performance to ensure that their policy objectives are fulfilled and to better understand any potential weaknesses. Monitoring and evaluation are integral to the implementation of the social protection policy in Kenya, where a National Integrated Monitoring and Evaluation System (NIMES) includes specific indicators for social protection programmes. Overall however, such evidence remains sparse in sub-Saharan Africa, in particular in comparison with Latin America (Barrientos and Villa, 2013).

## Notes

1. Annex 3.A1 provides an inventory and brief description of the major social assistance schemes in the six sample countries.
2. Annex 3.A2 describes the variation in different expenditure estimates by different agencies and proposes a “median” expenditure figure which is used for the calculations in this paragraph.
3. See, for example: Sudhanshu Handa et al. (2012), “Targeting effectiveness of Social Cash Transfer Programs in Three Africa Countries”; Slater R. and J. Farrington (2009), “Targeting of Social Transfers: A review for DFID”, ODI Overseas Development Institute; Kakwani N. and H.H. Son (2006), “Evaluating Targeting Efficiency of Government Programmes: International Comparisons”, *UN DESA Working Paper No. 13*.
4. Please see Williamson and Williams (2003), “The notional defined contribution model: an assessment of the strengths and limitations of a new approach to the provision of old age security” and “Parallel Lines: NDC Pensions and the Direction of Pension Reform” in *Developed Countries Nonfinancial Defined Contribution Pension Schemes in a Changing Pension World*. June 2012, 85-125 for a fuller description of the main issues around NDC arrangements.
5. For an assessment of their performance, please see Chłóń-Domińczak, A., D. Franco and E. Palmer (2012), “The First Wave of NDC Reforms: The Experiences of Italy, Latvia, Poland, and Sweden”, in *Nonfinancial Defined Contribution Pension Schemes in a Changing Pension World*, pp. 31-84, World Bank, [http://dx.doi.org/10.1596/9780821388488\\_CH02](http://dx.doi.org/10.1596/9780821388488_CH02).
6. Poverty refers to USD 1.25 (PPP 2005) poverty line.
7. For a hypothetical impact analysis of eliminating subsidies and replacing them with a cash transfer scheme in Tanzania, see Younger, S. (2016), “The Impact Of Reforming Energy Subsidies, Cash Transfers, And Taxes On Inequality And Poverty In Ghana And Tanzania”, *CEQ Working Paper*, No. 55, [commitmenttoequity.org/publications\\_files/Comparative/CEQ\\_WP55\\_Younger\\_Nov23\\_2016.pdf](http://commitmenttoequity.org/publications_files/Comparative/CEQ_WP55_Younger_Nov23_2016.pdf).
8. For more information, the World Bank publication *Reducing Old Age and Economic Vulnerabilities Why Uganda should Improve its Pension System* (2014) summarises the hypothetical cost of transitioning from an unfunded to a funded arrangement.
9. Not to be confused with a social registry. Please see Development Pathways (2016), “Single Registries and Social Registries: clarifying the terminological confusion”, for an excellent explanation of the distinction, accessible here: [developmentpathways.co.uk/resources/single-registries-social-registries-clarifying-terminological-confusion](http://developmentpathways.co.uk/resources/single-registries-social-registries-clarifying-terminological-confusion).

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### Annex 3.A1. Social assistance programmes and beneficiaries in the six countries

#### Ethiopia [Population: 99.5 million]

Pilot Social Cash Transfer Tigray: 3,767 households or 6,716 beneficiaries [2014]

Food Assistance under the Joint Emergency Operation: 2 500 000 [2013]

School feeding: 669 394 [2013]

Productive Safety Net Programme IV: 7 997 218 [2015]

#### Kenya [Population: 46.1 million]

Cash transfer for Orphans and Vulnerable Children; 1 265 000 [2015]

General Relief Food Distribution: 635 000 [2015]

Regular School Meals Programme: 791 000 [2015]

Food or Cash for Assets: 702 000 [2015]

#### Mozambique [Population 28.0 million]

Food Subsidy Programme: 291 604 [2013]

Direct Social Assistance: 125 000 [2013]

School Feeding: 427 000 [2011]

Social Productivity Programme: 10 000 [2014]

School fee waiver for secondary schools: 5 900 000 [2010]\*

#### Tanzania [Population: 53.5 million]

Tanzanian Social Action Fund – Conditional Cash Transfer: 967 934 individuals [2014]

Most Vulnerable Children Programme: 570 000 [2010]

Food for Education: 1 275 000 [2011]

Food for Assets Creation: 58 202 [2010]

National Agricultural Input Voucher Scheme 1 800 000 [2012]

#### Uganda [Population 39.0 million]

Senior Citizens Grant: 113 000 [2014]

Protracted Relief and Recovery Operations: 352 495 [2013]

School Feeding Programme in Karamoja: 112 511 [2013]

Northern Uganda Social Action Fund II: 98 677 households involved in income-generating activities [2016]

Inclusive Education for Girls Project: 1 182 [2013]

#### Zambia [Population: 16.2 million]

Social Cash Transfer Scheme: 171 000 [2015]

Orphans and Vulnerable Children: 204 251 [2013]

School Feeding Programme: 850 000 [2012]

C-SAFE Project: 22 412 [2012]

### Description of social assistance programmes

#### Unconditional and conditional cash transfers and non-contributory social pensions

##### Ethiopia

##### The Productive Safety Net Programme

*Targeted unconditional and conditional cash transfer*

The combination of cash and food transfers is based on season and need, with food given primarily in the lean season between June and August. Vulnerable households receive six months of assistance annually to protect them from acute food insecurity. Additionally, food and cash assistance are extended by an additional three months under its Risk Financing Mechanism during periods when food insecure people are affected by unpredicted shocks. Able-bodied members of PSNP households must participate in productive activities that will build more resilient livelihoods, such as rehabilitating land and water resources and developing community infrastructure, including rural road rehabilitation and building schools and clinics.

### **Kenya**

#### Cash transfers for Orphans and Vulnerable Children

##### *Targeted unconditional cash transfer*

The OVC programme provides cash transfers to eligible households. All supported households are subject to a proxy means test, are not allowed to receive funds from other programmes and must contain at least one orphan or vulnerable child under 18.

#### Older Persons Cash Transfer (OPCT)

The Older Persons Cash Transfer is a national programme that provides cash transfers to elderly persons. Although the 2010 Constitution defines the elderly as those aged 60 and over, the OPCT targets persons of age 65 or more who meet additional criteria, such as belonging to a poor and vulnerable household, non-enrolment in any other Cash Transfer programme, and other criteria. As of FY 2015/16, OPCT is estimated to cover 203 011 households, with a transfer amount of KES 2 000 per household per month delivered every two months.

### **Mozambique**

#### Food subsidy programme

##### *Targeted unconditional cash transfer*

For people who are temporarily or permanently unable to work and unable to satisfy their subsistence needs. Eligibility is determined by proxy and direct means tests and health status.

#### Direct Social Support Programme

##### *Targeted unconditional cash transfer*

This programme addresses situations that require immediate intervention. It is for people in absolute poverty. Support is mainly through transfers in kind (food and clothing), aid for housing and payment of school fees.

#### Minimum Income for School Attendance

The programme provides a monthly cash transfer to poor households with children of school age.

### **Tanzania**

#### Tanzanian Mainland Social Fund: Community-based Conditional Cash Transfer

Conditional cash transfer programmes provide grants to poor and vulnerable families, provided the families undertake specific actions, usually investments in human capital, such as keeping children at school or taking them to health centres on a regular basis.

TASAF uses a combination of four elements to identify beneficiaries:

- Selection of districts, wards and villages and allocation of resources to them
- Community identification of extremely poor and vulnerable households
- A proxy means test
- A community validation test to confirm the results of community identification and the proxy means test

**Uganda****SAGE***Unconditional cash transfer*

The Expanding Social Protection programme implements the Social Assistance Grants for Empowerment (SAGE) pilot scheme, which aims to generate evidence on the impact and feasibility of delivering small but regular and reliable direct income support to poor and vulnerable households and comprises a Senior Citizen Grant (SCG) for people aged 65 years and above and a vulnerability-targeted Vulnerable Family Grant.

**Zambia****Public Welfare Assistance Scheme***Unconditional cash transfer*

Offers social assistance to the most vulnerable to meet basic needs, which can include food, shelter, education, health and warm clothing. Communities help identify beneficiaries, prioritise needs and allocate resources. Beneficiaries usually include orphans and vulnerable children and households affected by HIV/AIDS.

**Zambia Social Protection Expansion Programme***Unconditional cash transfer*

This programme aims to improve the lives of the extremely poor and vulnerable by providing regular social cash transfers.

**Public works, workfare and direct job creation****Ethiopia****The Productive Safety Net Programme****Kenya****Public works programmes**

These are aimed at curbing Kenya's youth unemployment problem. They provide temporary employment and aim to increase youth employability through the development of labour intensive works, social services, and creation of private sector internships and training.

**Mozambique****Social Development through Work programme**

This is a transitional programme aimed at poor people able to work, integrating them in economic activity. The recipient works for eighteen months in a public or private institution and the programme contributes toward wages.

**Food for work programme**

This programme offers food for work in disaster stricken areas

**Tanzania****Tanzanian Social Action Fund Public Works Programme**

Targeting is based on:

- Poverty ranking noting in particular the illiteracy and children school dropout levels, the percentage of poor female headed households and the lack of job opportunities.
- Shocks like seasonal droughts and crop failures (food shortages) and other disasters.

- Intra-District/Island criteria focusing on communities that are: (a) Inaccessible by existing infrastructure (b) Located in remote areas (c) Persistently short of food. (d) Lack access to cash income.

### **Uganda**

There are a number of programmes with public works components concentrated in northern Uganda. These programmes include the Northern Uganda Social Action Fund, the Karamoja Livelihoods Improvement Programme and the Agricultural Livelihoods Recovery Programme. The objectives of the public works programmes include the creation of community assets, the provision of food items to households affected by famine and the transfer of cash transfer to poor households with labour capacity.

### **Zambia**

#### Work for food programme

This has operated in various areas, including peri-urban areas, and it aims to promote the development of the poor through participatory and community based public works. Beneficiaries are the extreme poor but able-bodied whose family members had lost jobs, or were victims of natural disasters, or were women and orphans.

### **Other forms of social assistance**

#### **All countries**

School feeding schemes

### **Ethiopia**

#### *Health Sector Development Programme*

Health services are provided free or at a subsidised cost to the poor. A study conducted in 2009/10 based on 2007/08 data found that out-of-pocket payments constitute 37% of the total health expenditure.

### **Kenya**

#### *Health*

The private sector share of total health expenditure decreased from a high of 54% in 2001/02 (of which 44.8% constituted out of pocket expenditure) to 37% in 2009/10 (of which 24% constituted OOP expenditure). This decrease in OOP was primarily driven by increases in government and donor resources.

### **Mozambique**

#### *Public health expenditure*

The health system is composed of public/private for profit and non-profit private sector, the public sector being the main provider however with a network covering only about 60% of the population.

#### *Targeted subsidy*

Bread

### **Tanzania**

#### *Targeted subsidies*

National Agricultural Input Voucher Scheme (NAIVS)

### **Zambia**

#### *Targeted subsidies*

Maize

### Annex 3.A2. Variation in different expenditure estimates of social protection programmes

The publicly available information on the subject creates a confusing record. Table 3.A2.1 presents data on public social protection excluding health benefits in kind as a percentage of GDP from the ILO's Social Protection database and in the case of Kenya, a later observation reported in the ILO's World Social Protection Report 2014/15. There are implausibly large year to year fluctuations even within a particular source (for instance, the IMF Government Finance Statistics, or the ILO Social Security Data Base) in Ethiopia, Kenya and Mozambique.

Table 3.A2.1. Public social protection expenditure excluding health benefits in kind, as a percentage of GDP

Country	Year	% of GDP	Source of information
Ethiopia	2005	2.1	International Monetary Fund (Government Finances Statistics)
Ethiopia	2008	0.5	ILO Social Security Inquiry database
Ethiopia	2010	0.6	International Monetary Fund (Government Finances Statistics)
Kenya	2005	1.0	International Monetary Fund (Government Finances Statistics)
Kenya	2008	1.7	International Monetary Fund (Government Finances Statistics)
Kenya	2009	1.9	International Monetary Fund (Government Finances Statistics)
Kenya	2010	1.3	International Monetary Fund (Government Finances Statistics)
Kenya	2011	1.0	International Monetary Fund (Government Finances Statistics)
Kenya	2013	0.9	World Social Protection Report 2014/15
Mozambique	2005	0.4	ILO Social Security Inquiry database
Mozambique	2007	0.8	Government
Mozambique	2010	2.0	ILO Social Security Inquiry database
Tanzania	2005	1.4	ILO Social Security Inquiry database
Tanzania	2007	1.8	ILO Social Security Inquiry database
Tanzania	2008	1.8	ILO Social Security Inquiry database
Tanzania	2010	2.3	ILO Social Security Inquiry database
Uganda	2005	1.2	International Monetary Fund (Government Finances Statistics)
Uganda	2007	0.9	International Monetary Fund (Government Finances Statistics)
Uganda	2008	1.1	International Monetary Fund (Government Finances Statistics)
Uganda	2010	1.5	International Monetary Fund (Government Finances Statistics)
Uganda	2011	1.2	International Monetary Fund (Government Finances Statistics)
Zambia	2007	1.7	ILO Social Security Inquiry database
Zambia	2010	1.8	ILO Social Security Inquiry database
Zambia	2011	1.8	ILO Social Security Inquiry database

The situation becomes even more confused when data from the World Bank's State of Social Safety Nets Report 2015 is added into the mix (Table 3.A2.2).



The situation undoubtedly arises from poor data on the functional classification of government expenditure in the six countries and variable methods for imputation even within some of the same sources at different points in time. There is no published informational basis on which the discrepancies can be accounted for.

**Table 3.A2.2. Social safety net expenditure**

Per cent of GDP

Country	Year	% of GDP
Ethiopia	2013	1.1
Kenya	2014	2.7
Mozambique	2010	1.3
Tanzania	2009	0.3
Uganda	2014	1.0
Zambia	2011	0.5

Source: Honorati, M., U. Gentilini, and R.G. Yemtsov (2015), *State of Social Safety Nets 2015*, World Bank, Washington, DC, [documents.worldbank.org/curated/en/415491467994645020/The-state-of-social-safety-nets-2015](https://documents.worldbank.org/curated/en/415491467994645020/The-state-of-social-safety-nets-2015).

This creates a major problem in determining the degree of social assistance effort in each country. The following decisions were made:

Ethiopia	The World Bank estimate of 1.1%
Kenya	The mean of all the observations: 1.5%
Mozambique	The World Bank estimate of 1.3%
Tanzania	The mean of all the observations: 1.5%
Uganda	The mean of all the observations: 1.1%
Zambia	The mid-point between the World Bank estimate and the most recent ILO estimate: 1.2%



**From:**

## **Social Protection in East Africa** Harnessing the Future

**Access the complete publication at:**

<https://doi.org/10.1787/9789264274228-en>

### **Please cite this chapter as:**

OECD (2017), “Towards a long-term perspective on social protection”, in *Social Protection in East Africa: Harnessing the Future*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264274228-7-en>

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