

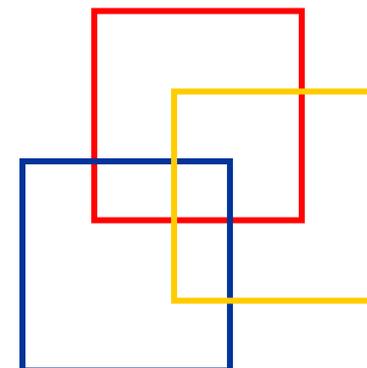


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Can low-income countries afford social protection?

Designing and Implementing Social
Transfer Programmes
22 July - 4 August 2007
Cape Town, South Africa

Krzysztof Hagemeyer
Social Security Department,
International Labour Office, Geneva



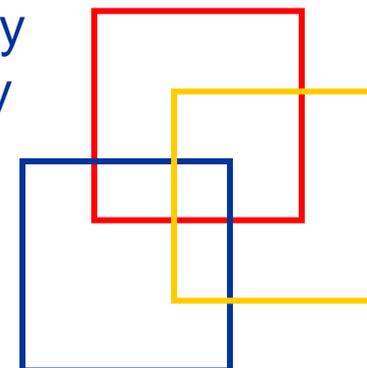


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Affordability of social protection

- **Topics:**

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

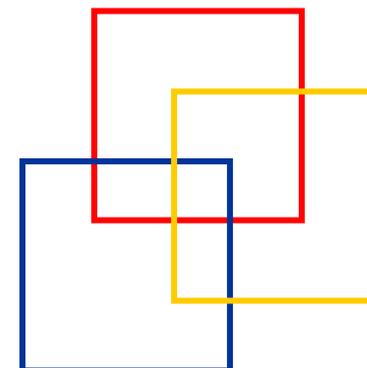




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Affordability of social protection

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

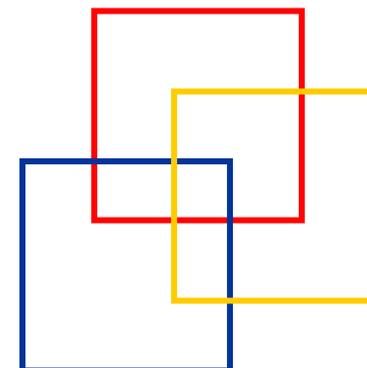




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How much social protection is affordable?

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

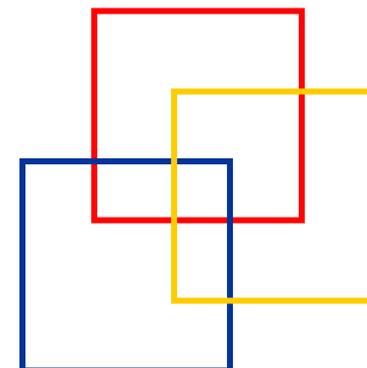




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How much social protection is affordable? (2)

- Countries at the same level of economic development differ significantly in how much they spend on social protection
- There is no apparent link between economic performance and the size of the national social protection system
- Size of social protection systems is shaped mainly by prevailing political attitudes towards redistribution
- Affordability is a function of the societal willingness to finance social transfers through taxes and contributions

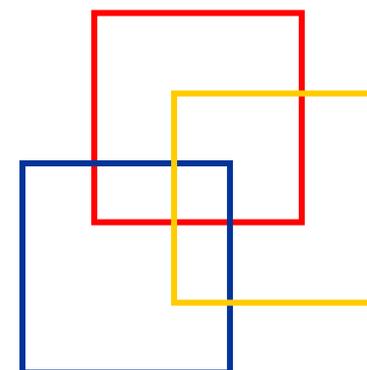
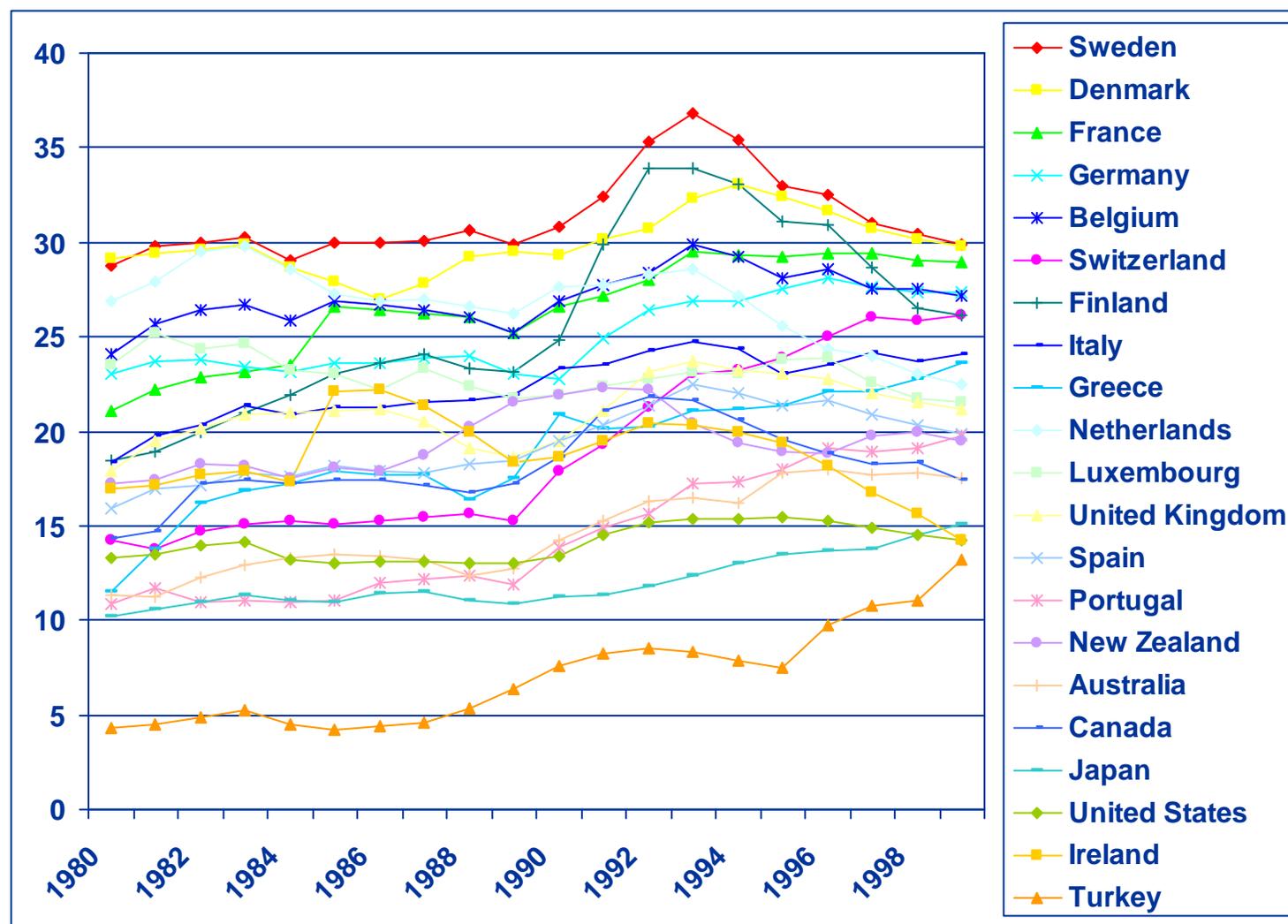




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Social protection redistributes significant share of national incomes...

(Social protection expenditure as percentage of GDP; Source: OECD)

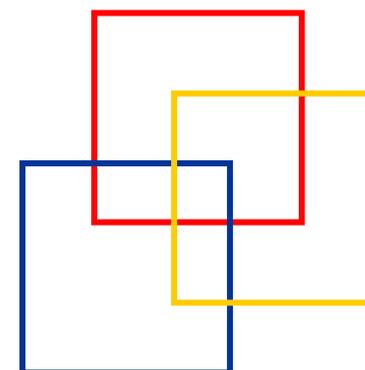
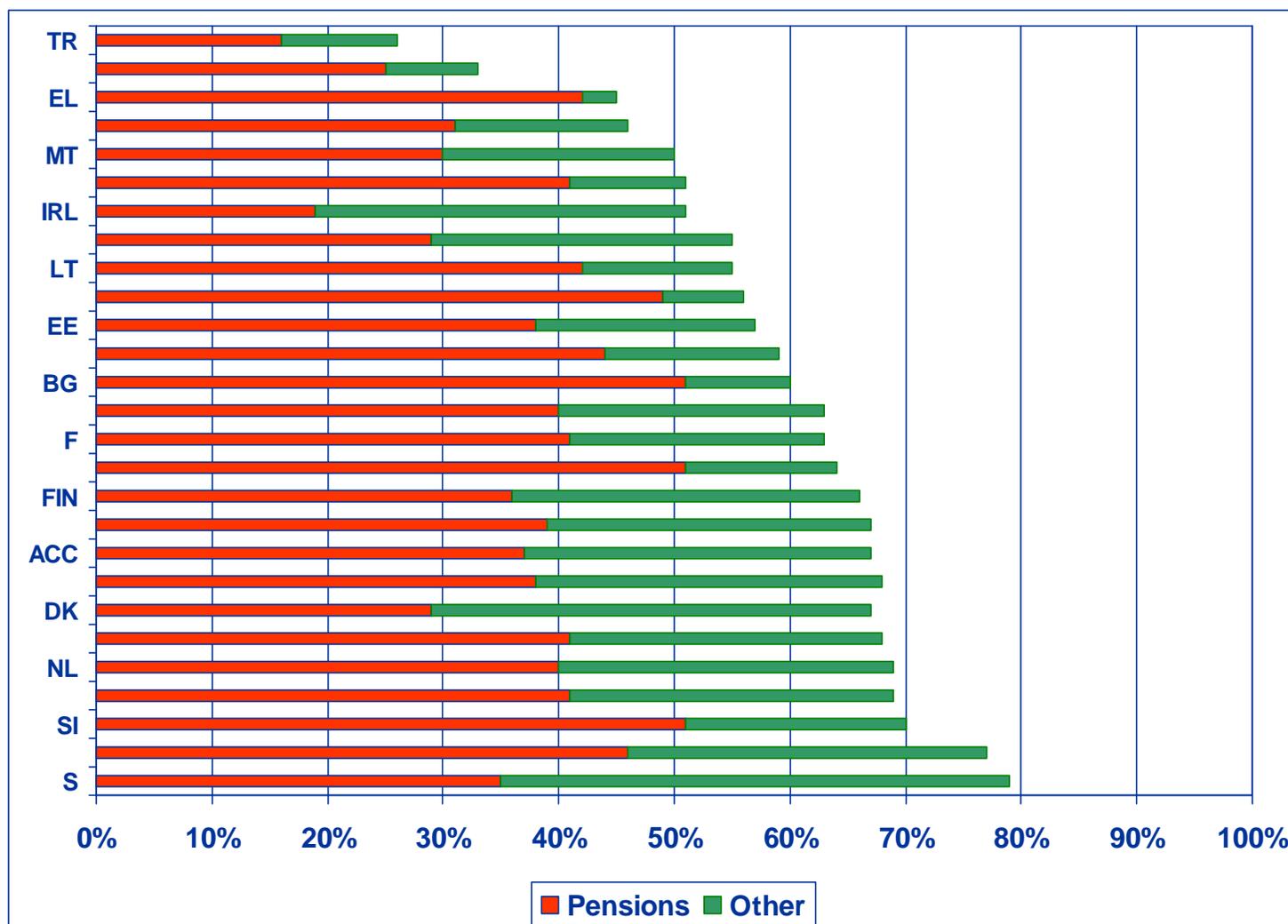




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...effectively preventing and alleviating poverty...

(pre-transfer poverty risk reduced by social protection transfers; Source: OECD, EUROSTAT)

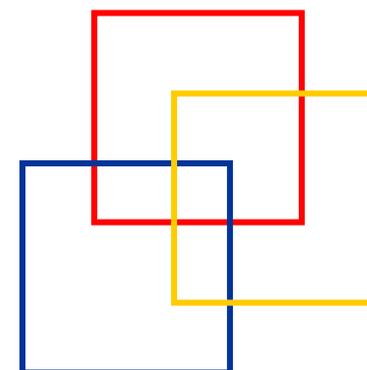
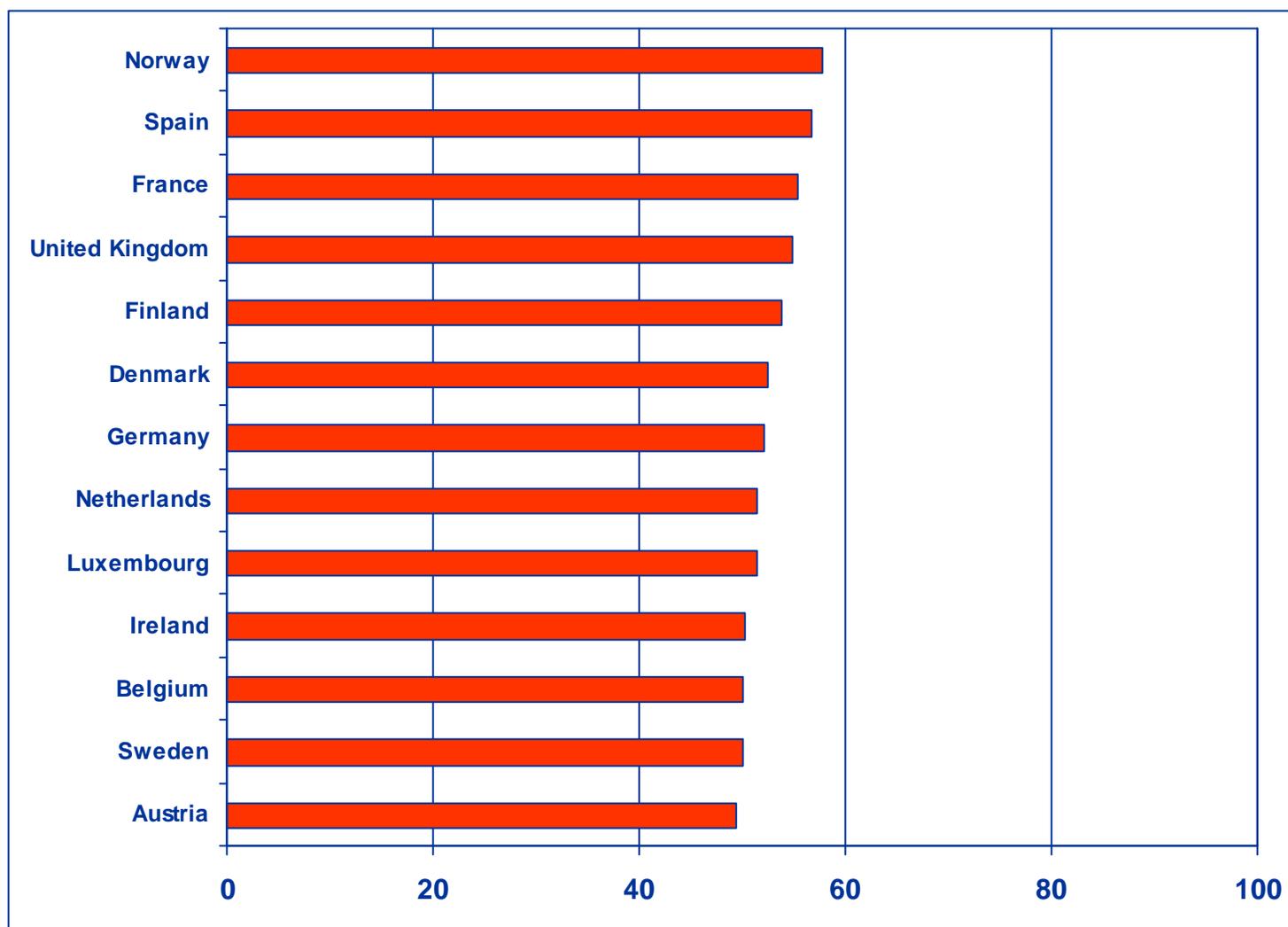




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...but requiring large portion of available public resources

(Social protection expenditure as percentage of general government expenditure; Source: EUROSTAT)

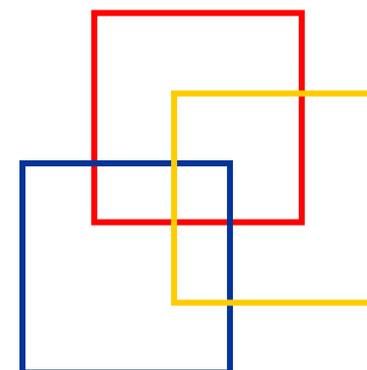
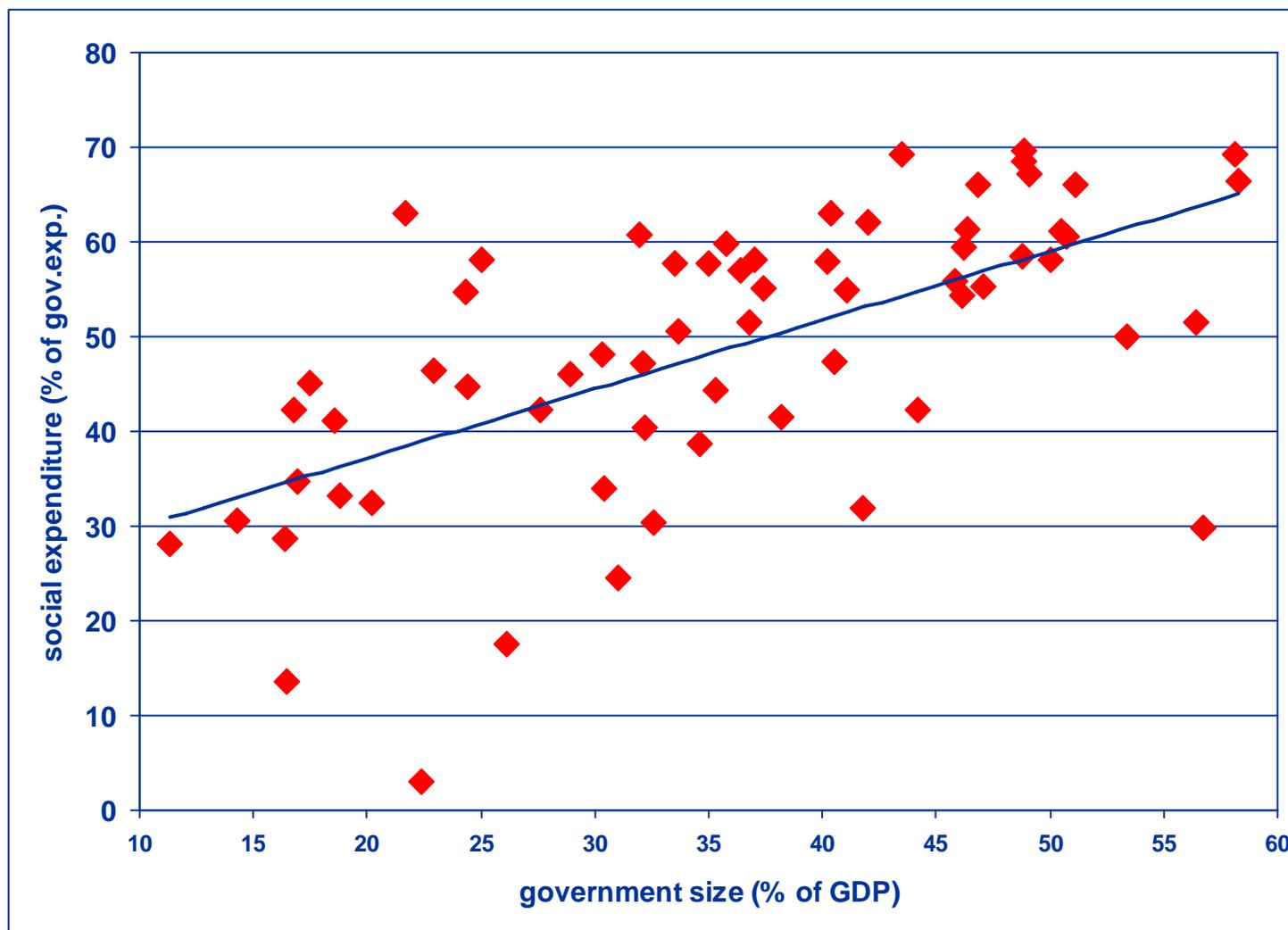




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Fiscal versus policy space: governments of the same size spend different portions of available public resources on social transfers

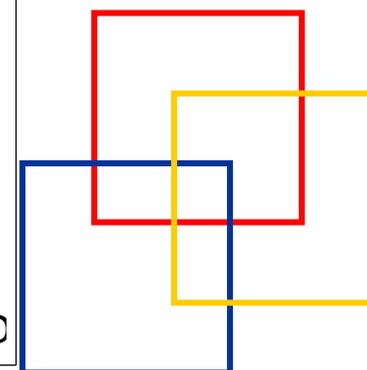
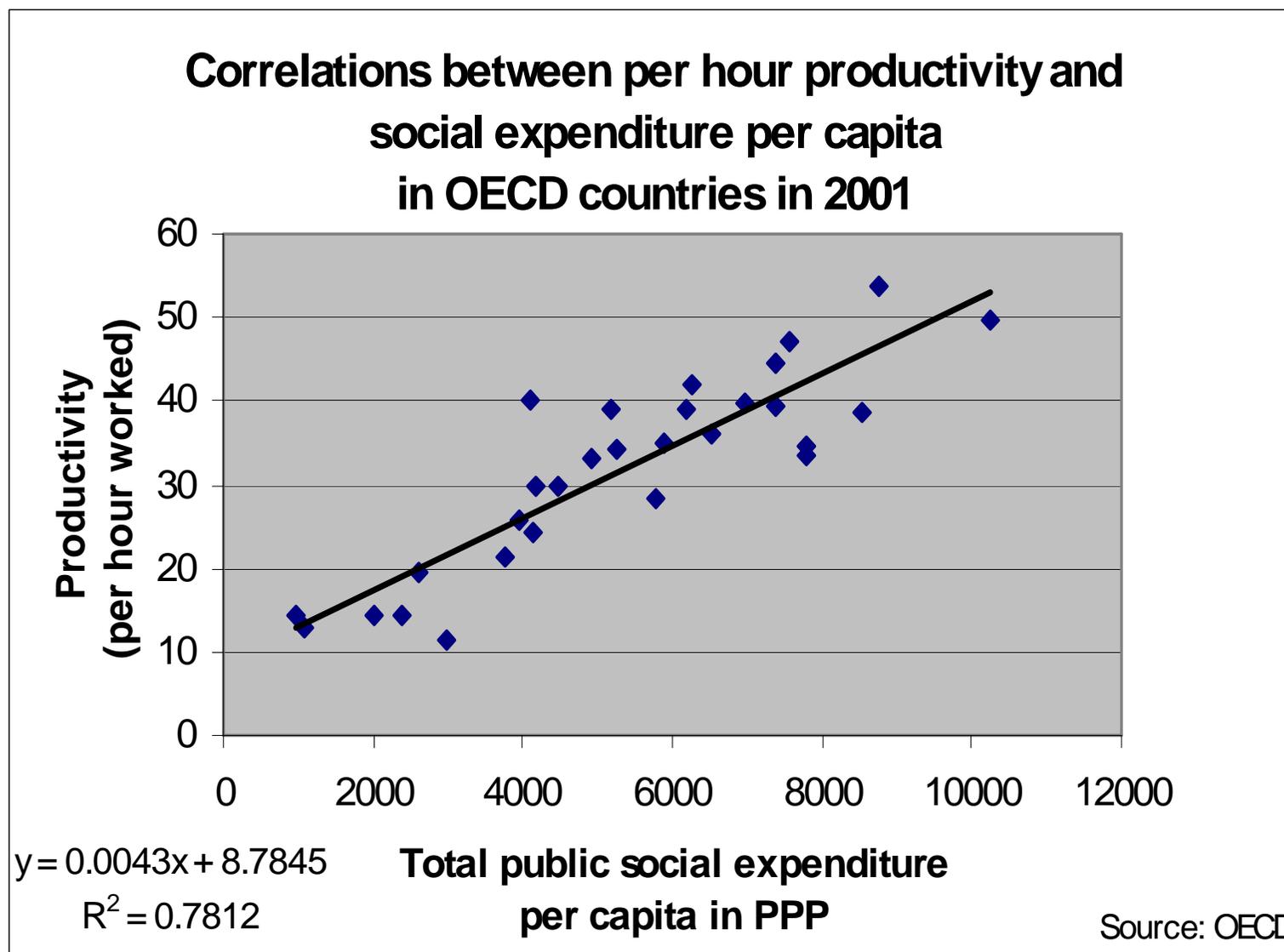
(Source: IMF Government Finance Statistics Database)





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No trade-off between productivity and growth:

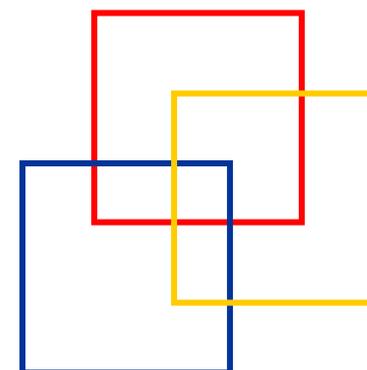
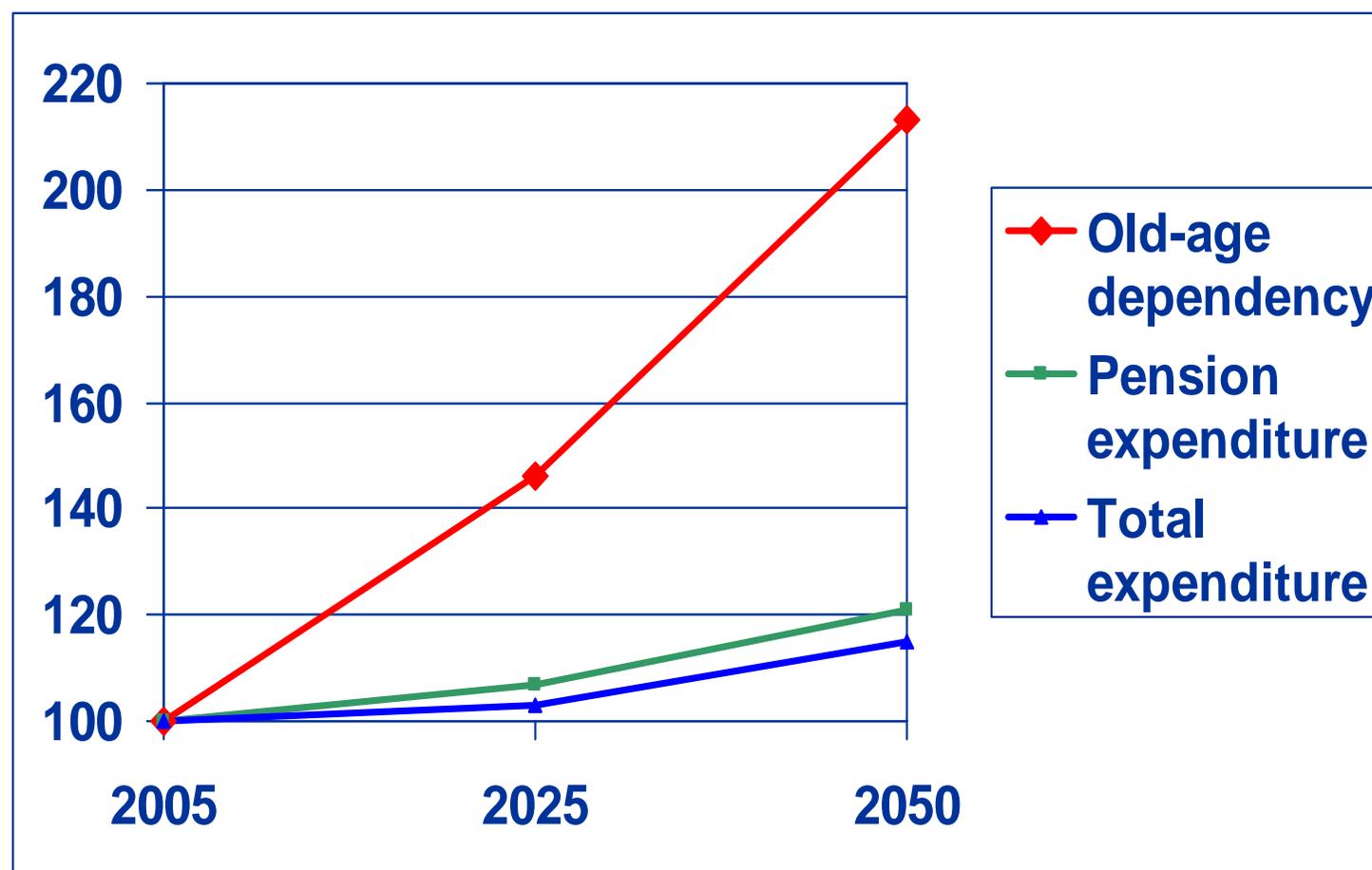




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Ageing and other risks manageable:

(old-age demographic dependency and projections of social protection expenditure in proportion to GDP; EU25, 2005=100, Source: European Commission 2006)



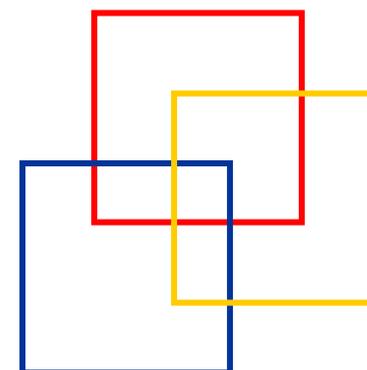


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Social security is not a social cost but an affordable investment in:

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

It is an investment in people and states

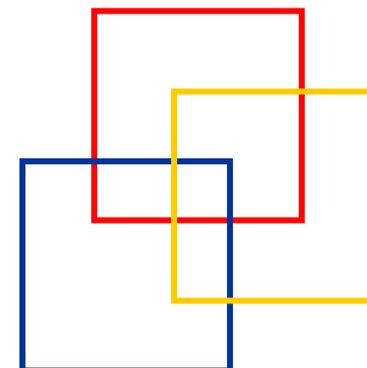




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Can low income countries afford to have social security?

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

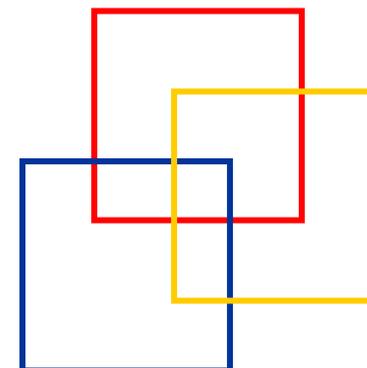




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Footnote: benefit assumptions for calculations

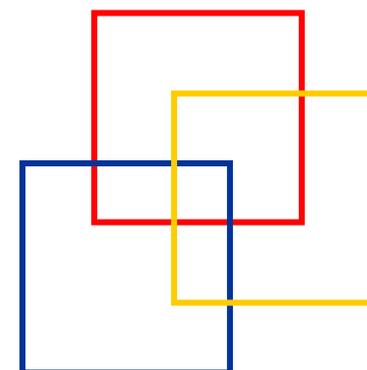
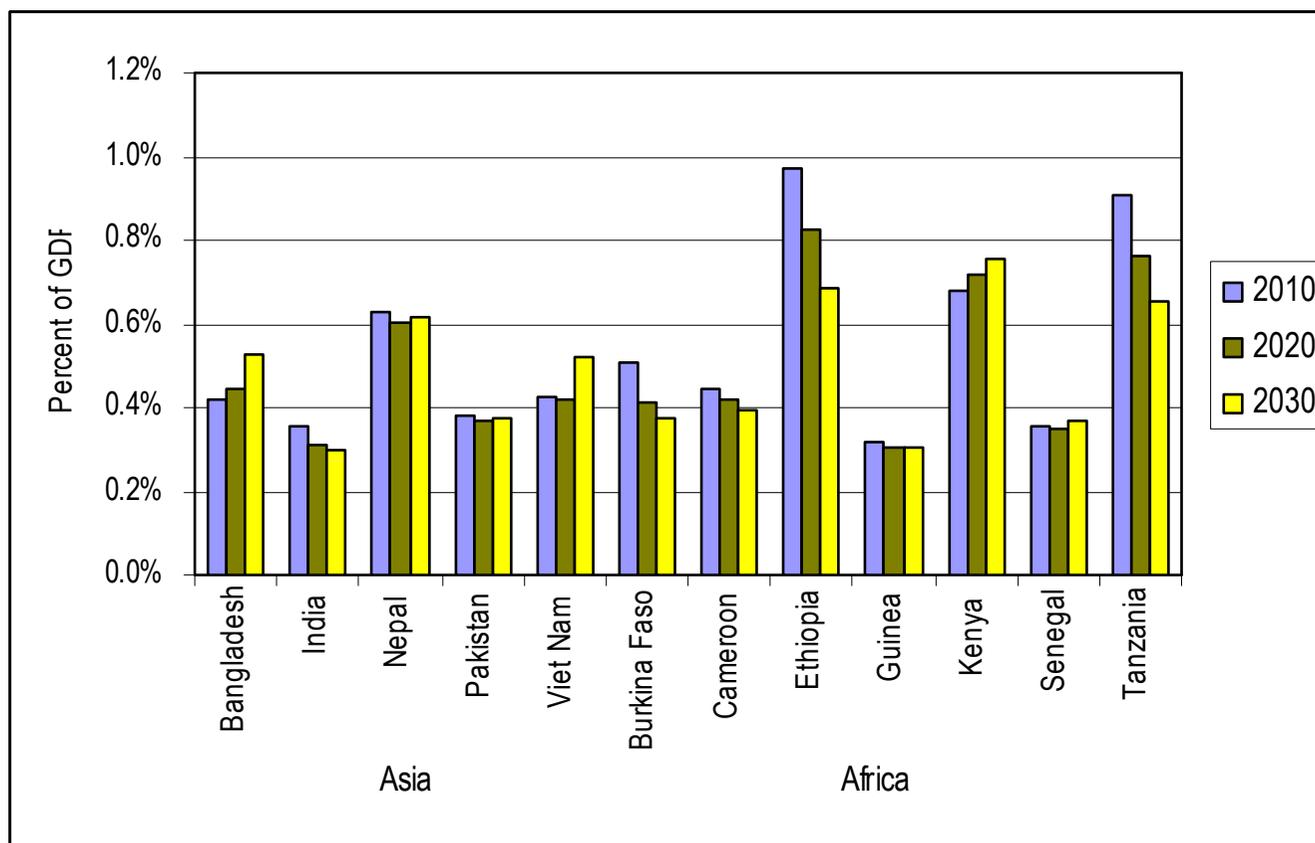
- Basic old age and invalidity pensions:
 - Senegal/Tanzania: Benefit of 70% of food poverty line
 - African and Asian countries: Benefit of \$0.5 PPP per day
- Child benefits:
 - Senegal/Tanzania: Benefit of 35% of food poverty line (half a pension), paid to all children in school age (7-14) and orphans also below 7
 - Benefit of \$0.25 PPP per day (half of pension), paid to all children up to the age of 14
- Administration cost: 15% of benefit expenditure for universal cash benefits
- Essential health care: Annual per capita costs based on the Commission on Macroeconomics and Health estimates of US\$ 34 by 2007 and US\$ 38 by 2015
- Basic education: Based on UNESCO country average unit costs; reaching universal access by 2015





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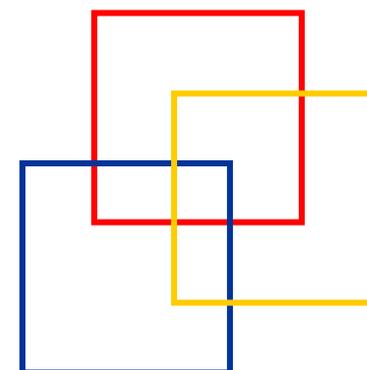
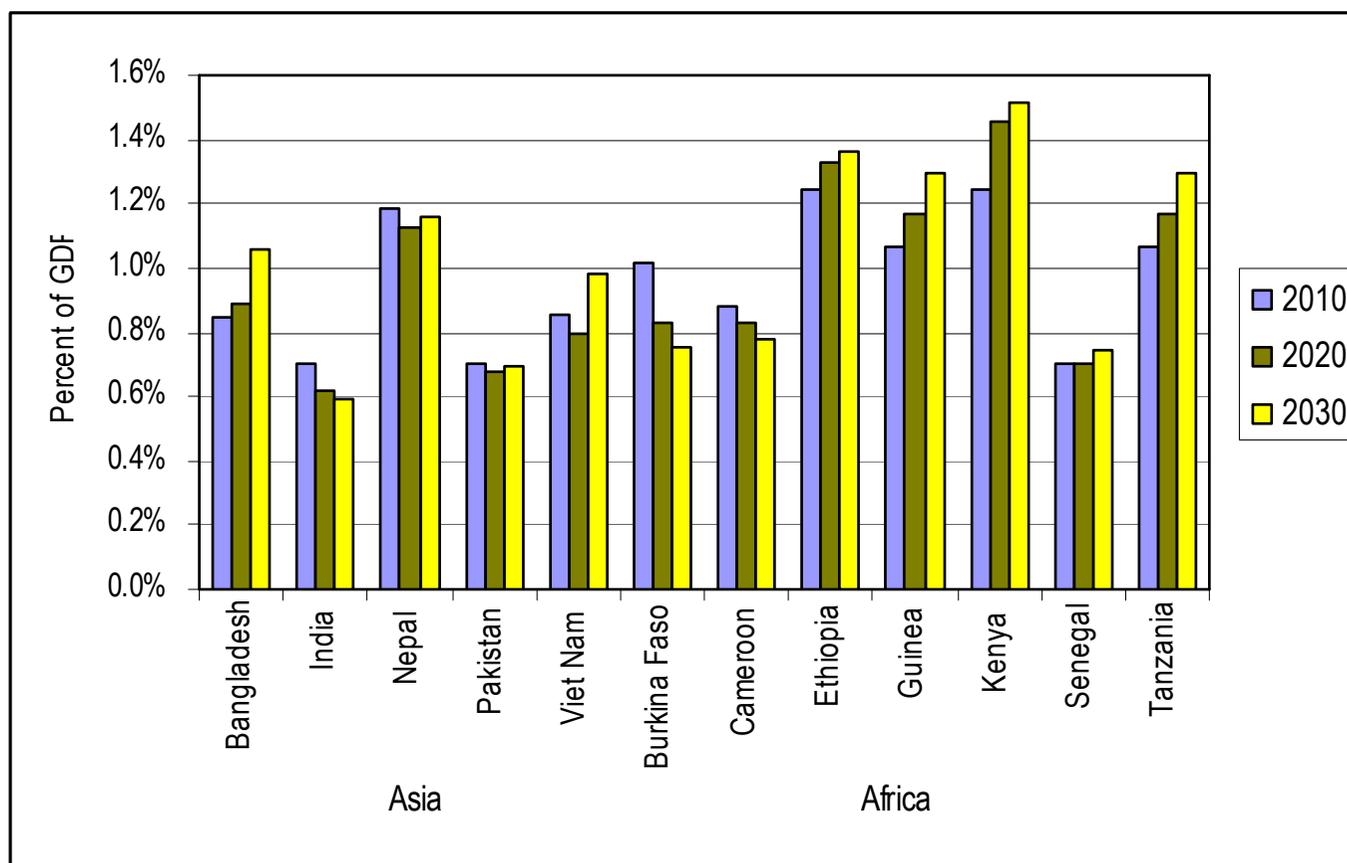
Cost of universal basic old age and disability pension (benefit = \$0.5 per day)





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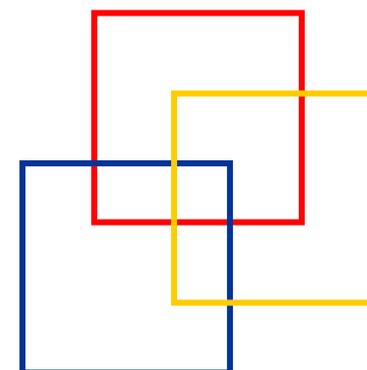
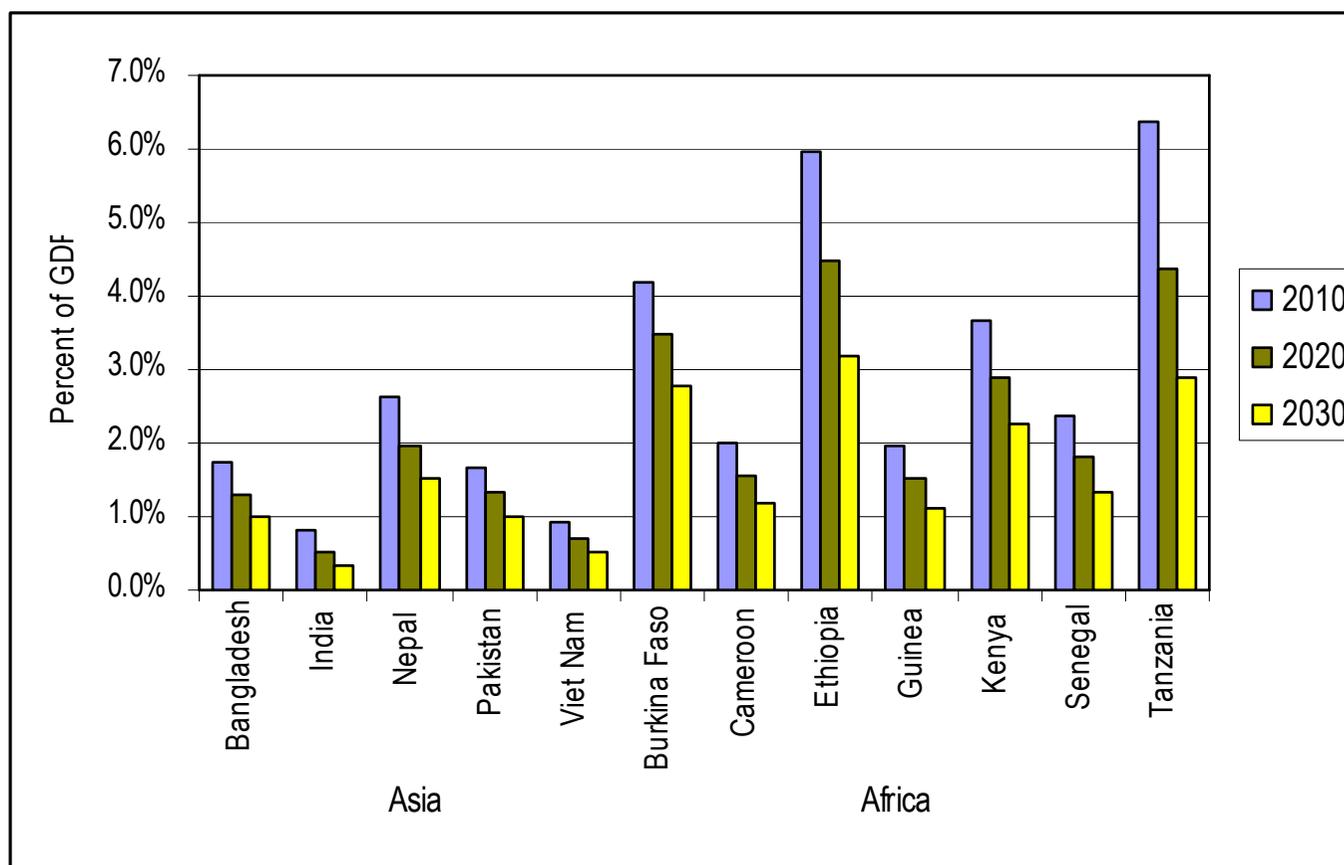
Cost of universal basic old age and disability pension (benefit = 30% of GDP per capita)





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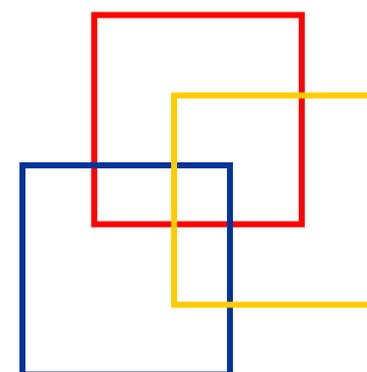
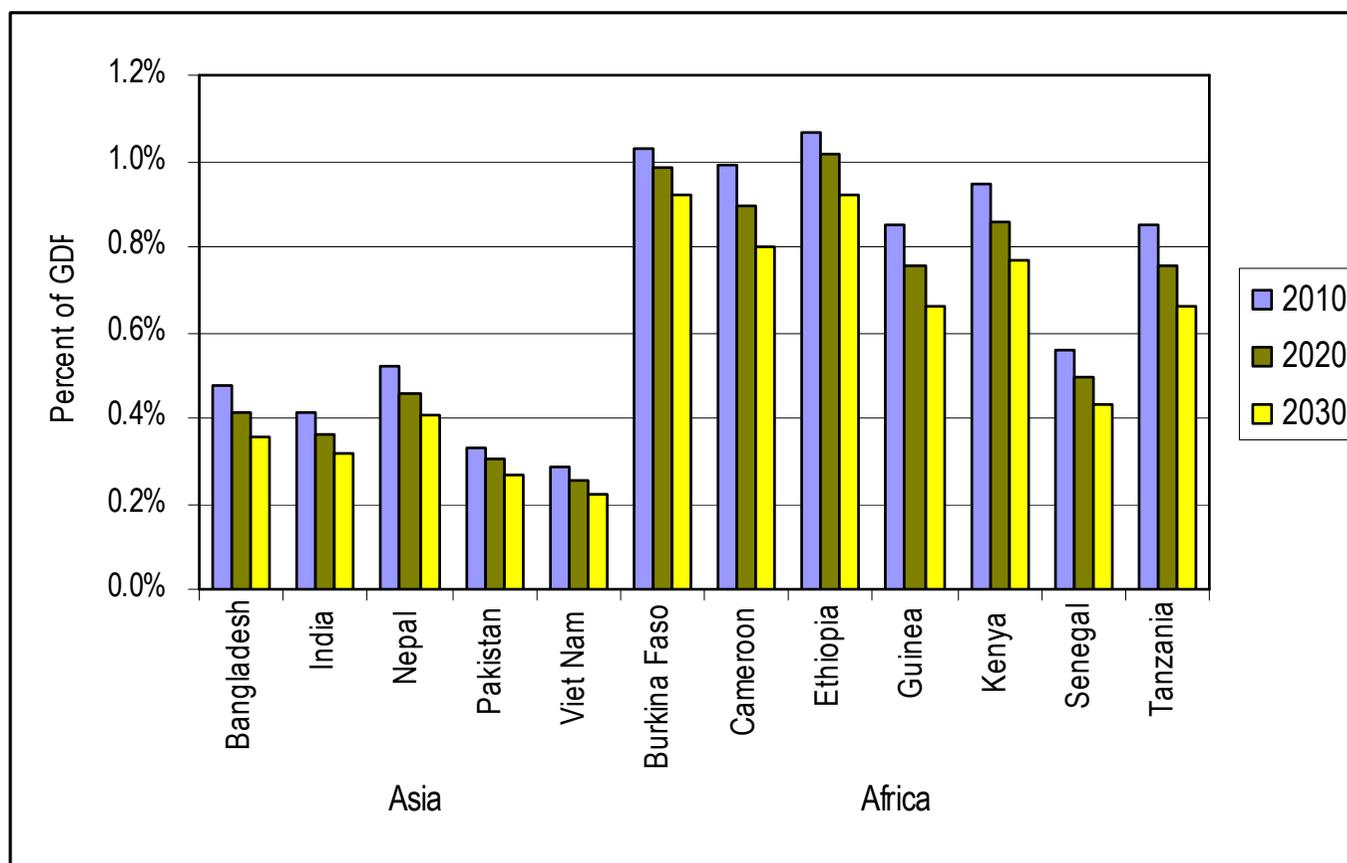
Cost of universal child benefit for all children aged 0-14 (benefit = \$0.25 per day)





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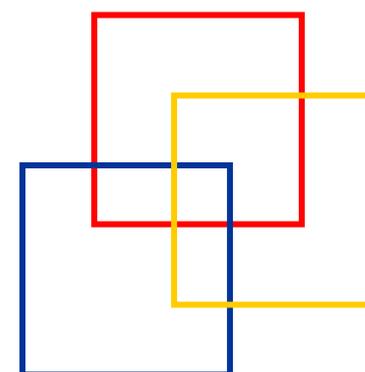
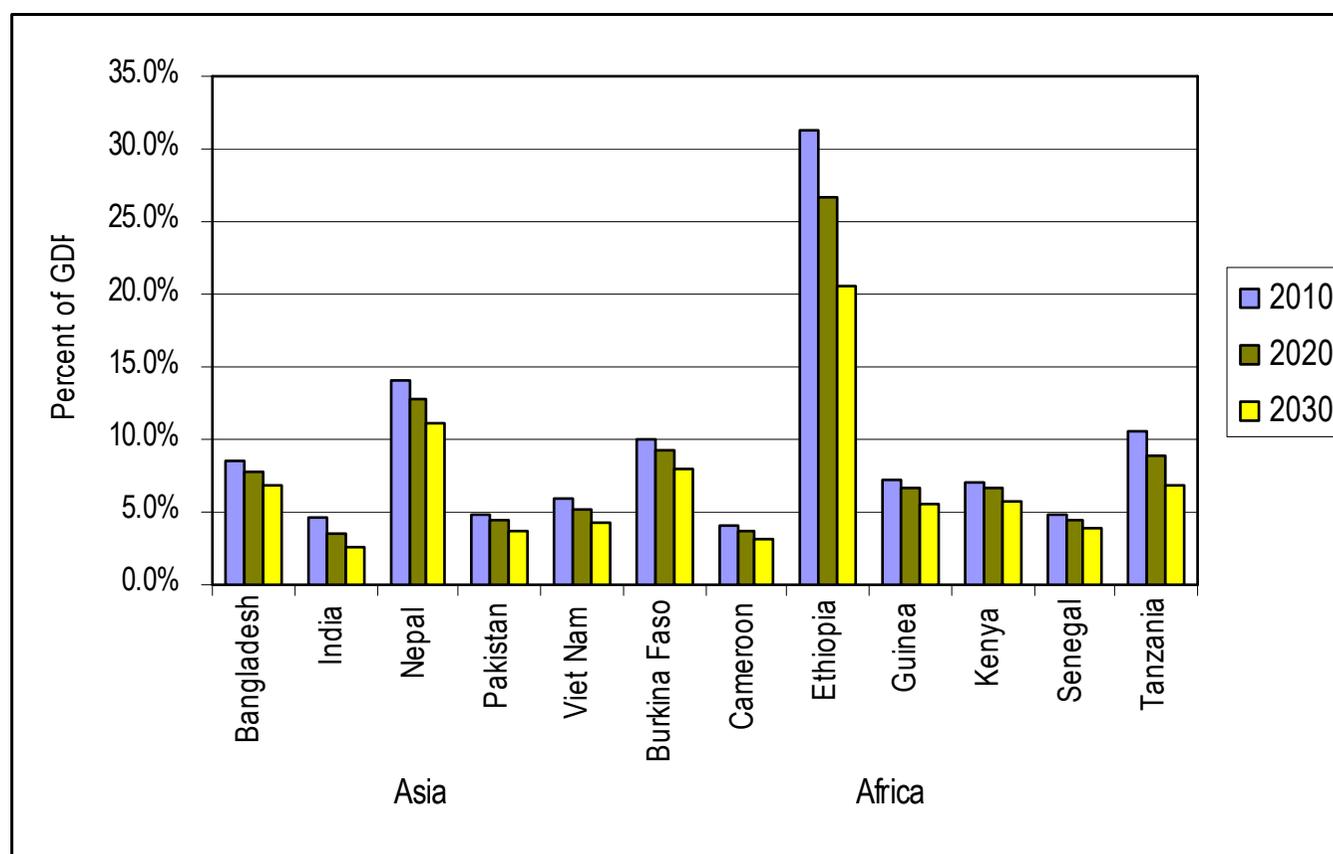
Cost of universal benefit for orphans aged 0-14 only (benefit = 0.15 % of GDP)





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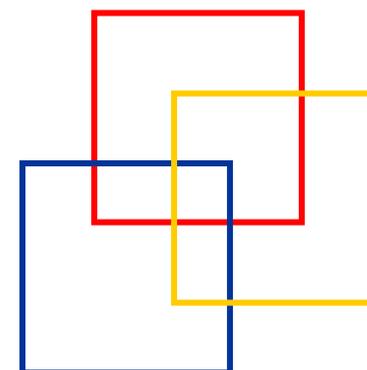
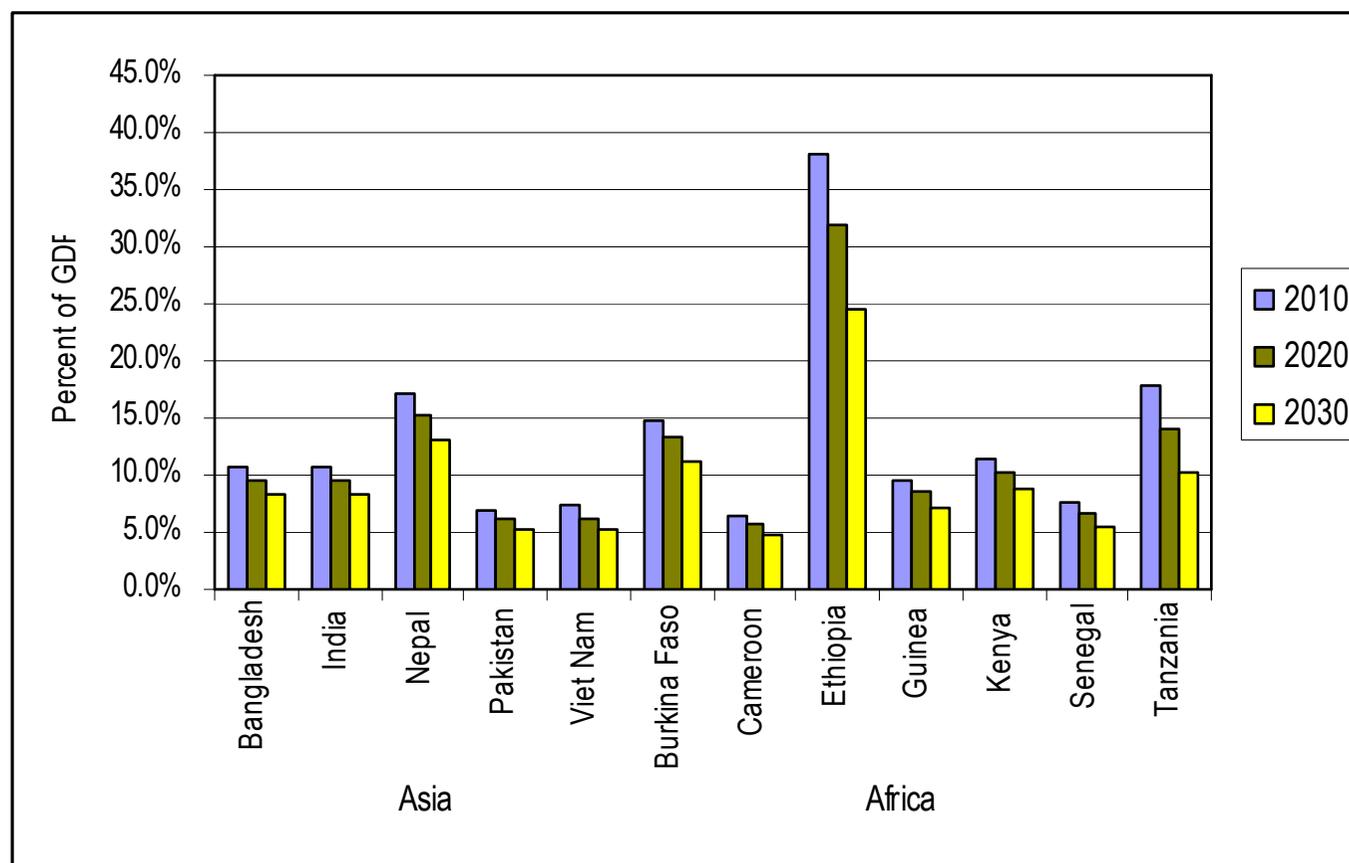
Cost of essential health care based on CMH unit cost estimates





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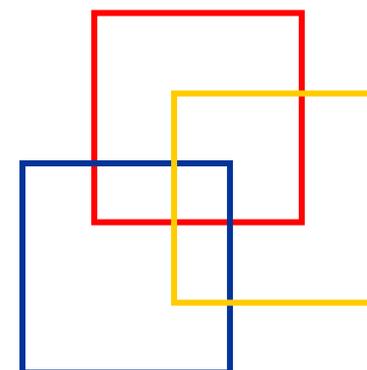
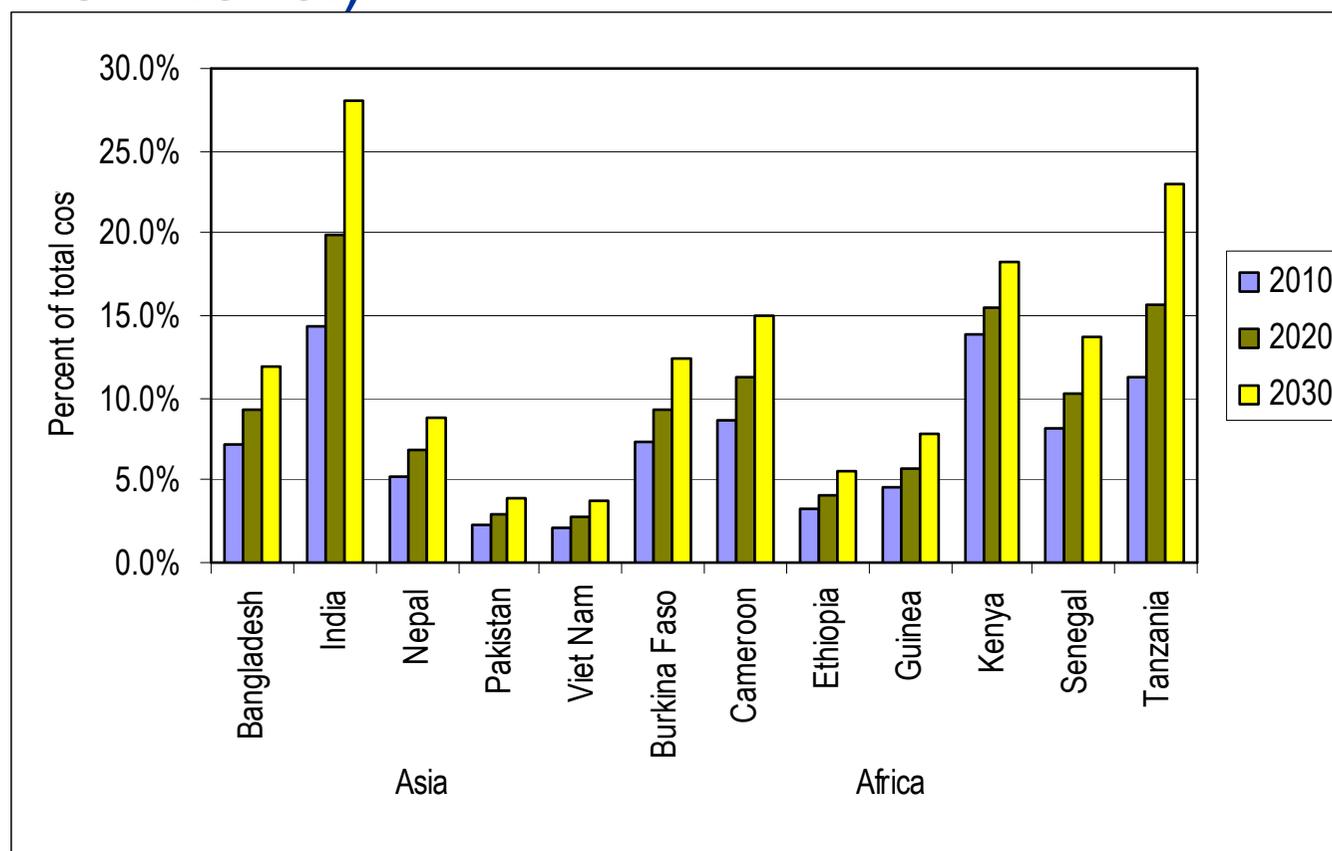
Total cost of basic social protection package





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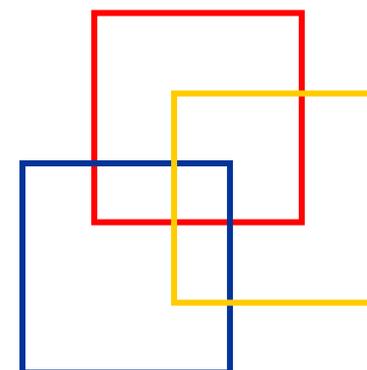
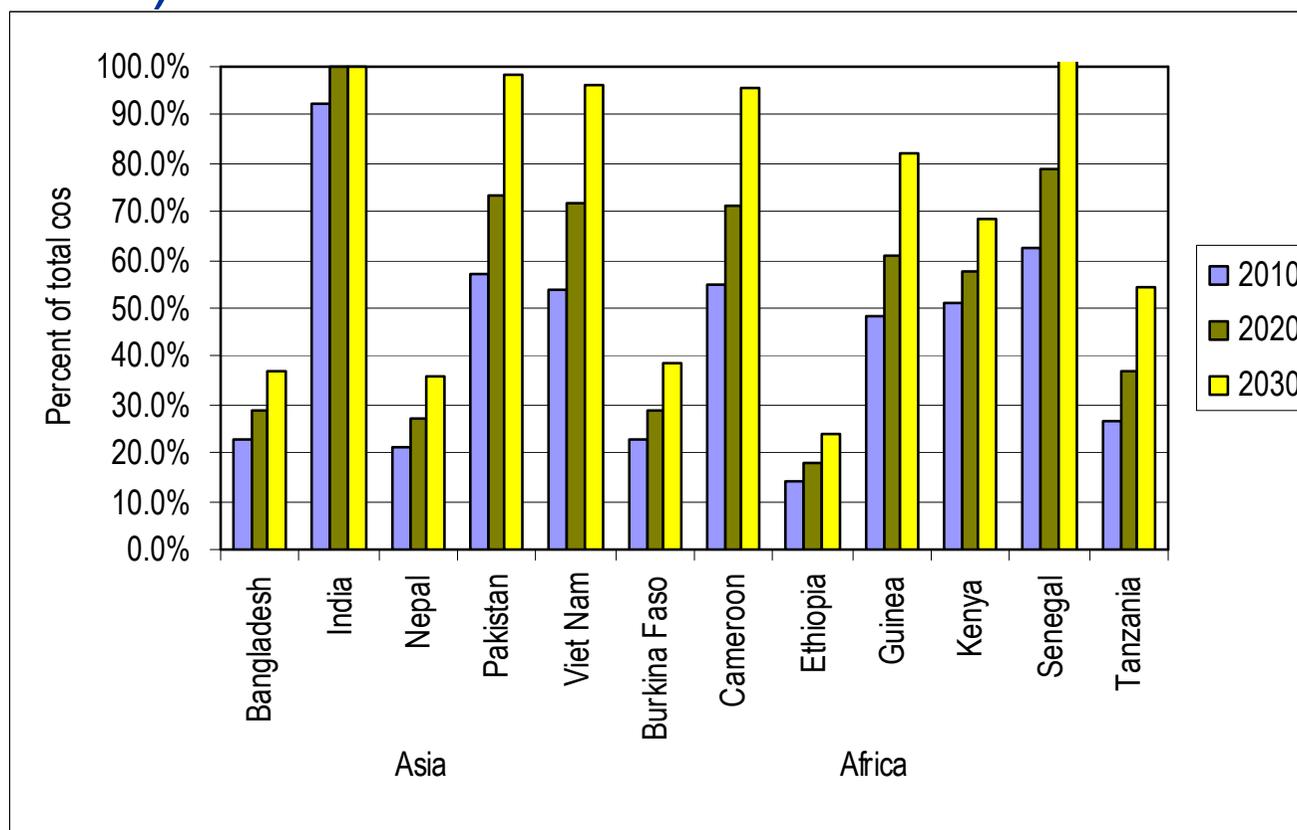
Share of total costs possible to be covered by domestic financing (share of budgets allocated to social protection kept constant at current level)





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Share of total costs possible to be covered by domestic financing (share of budgets allocated to basic social protection increases to 20%)

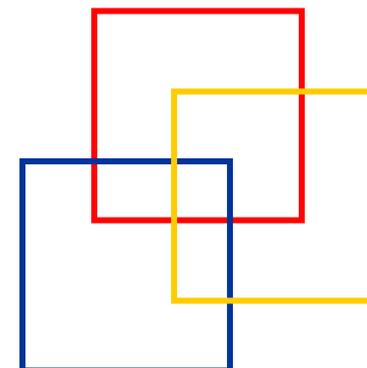




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Can low income countries afford **not** to have social security?

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

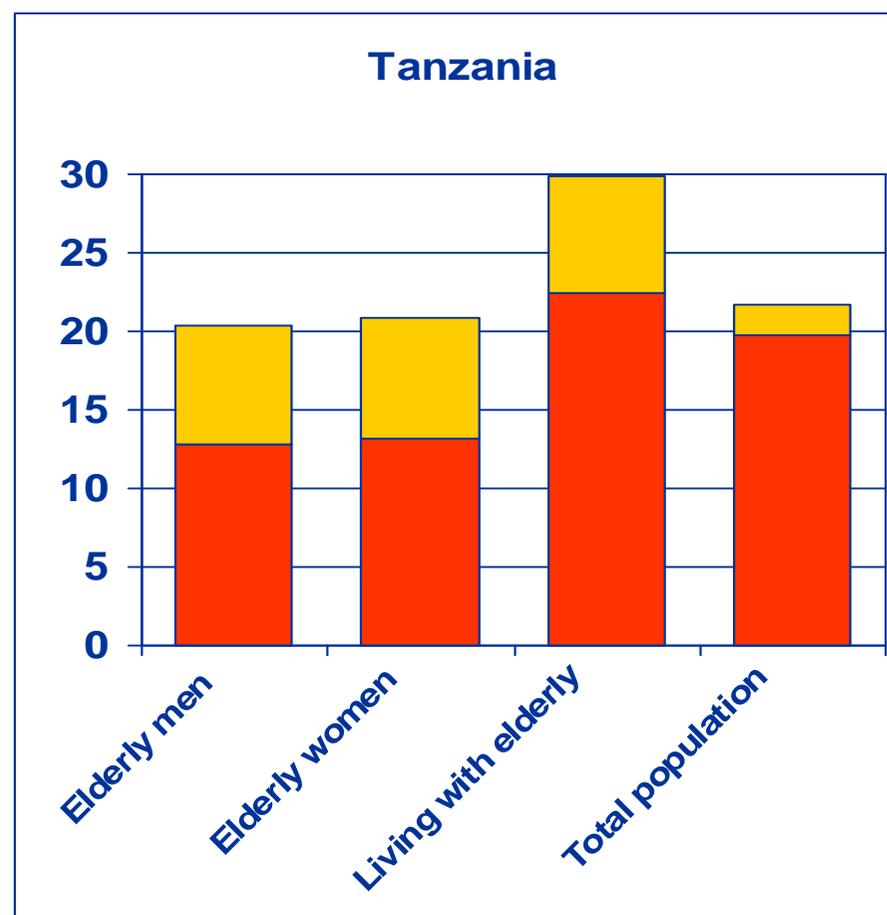
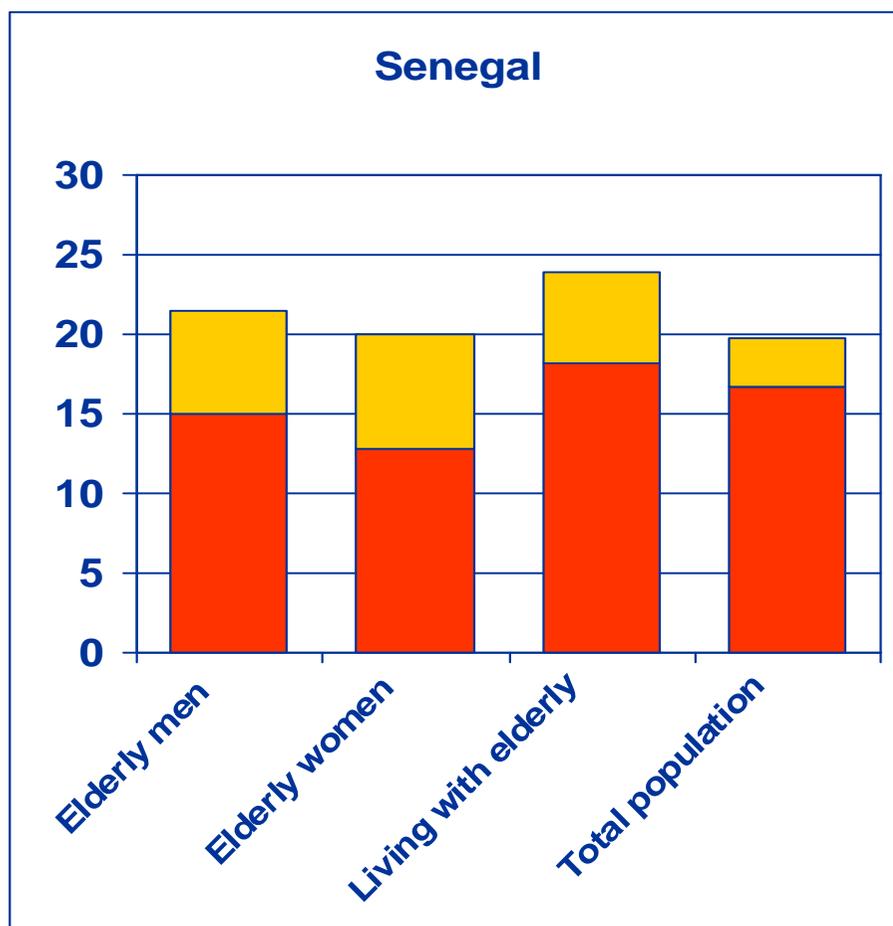




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Assessing potential impact and costs of universal social pensions in Senegal and Tanzania:

Poverty rates before and after pensions (food poverty line)

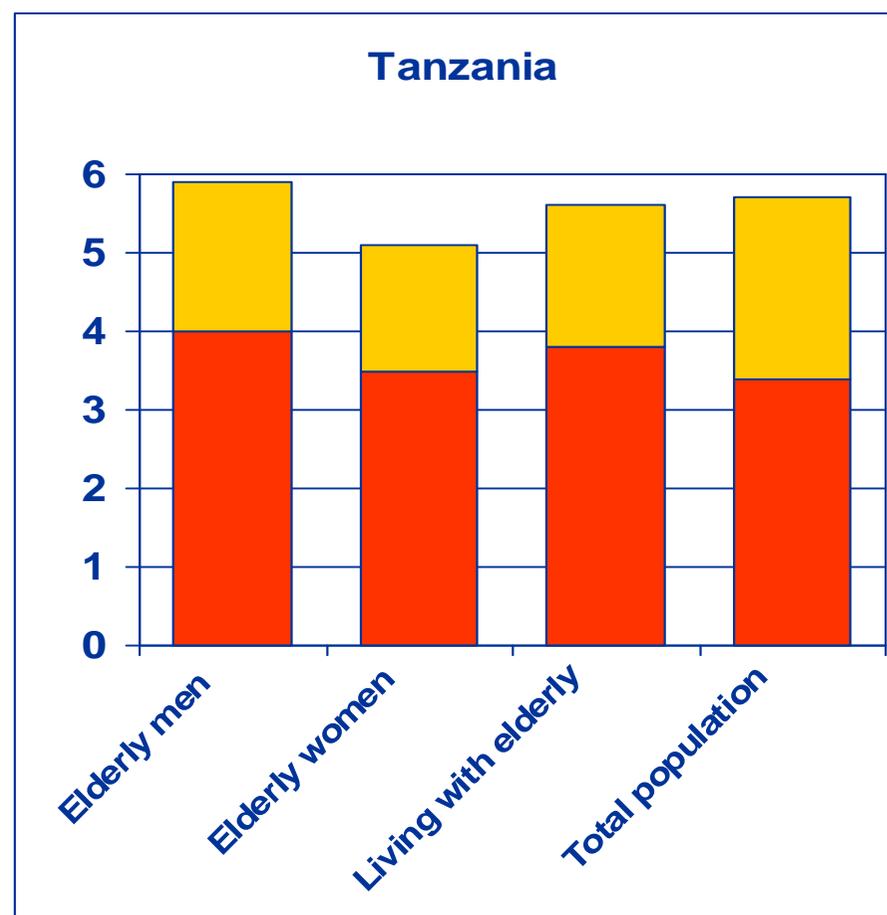
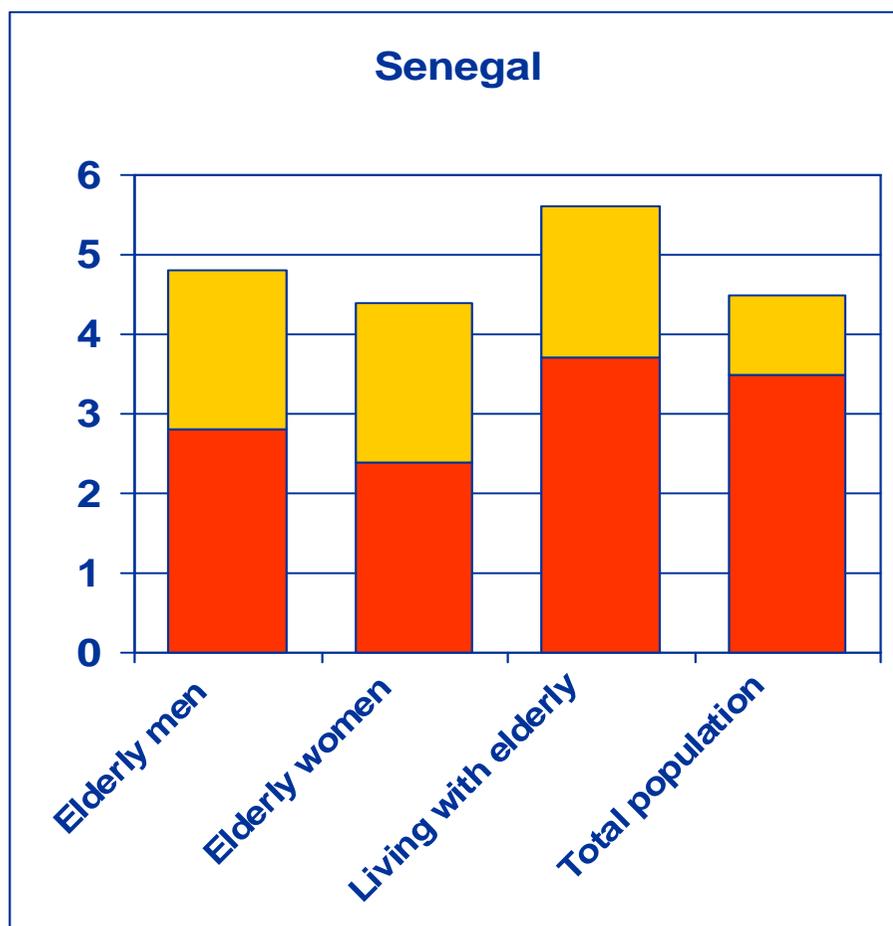




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Assessing potential impact and costs of universal social pensions in Senegal and Tanzania:

Poverty gap before and after pensions (food poverty line)

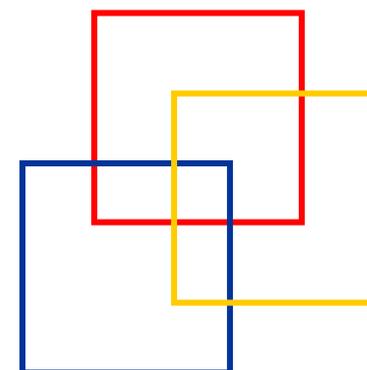
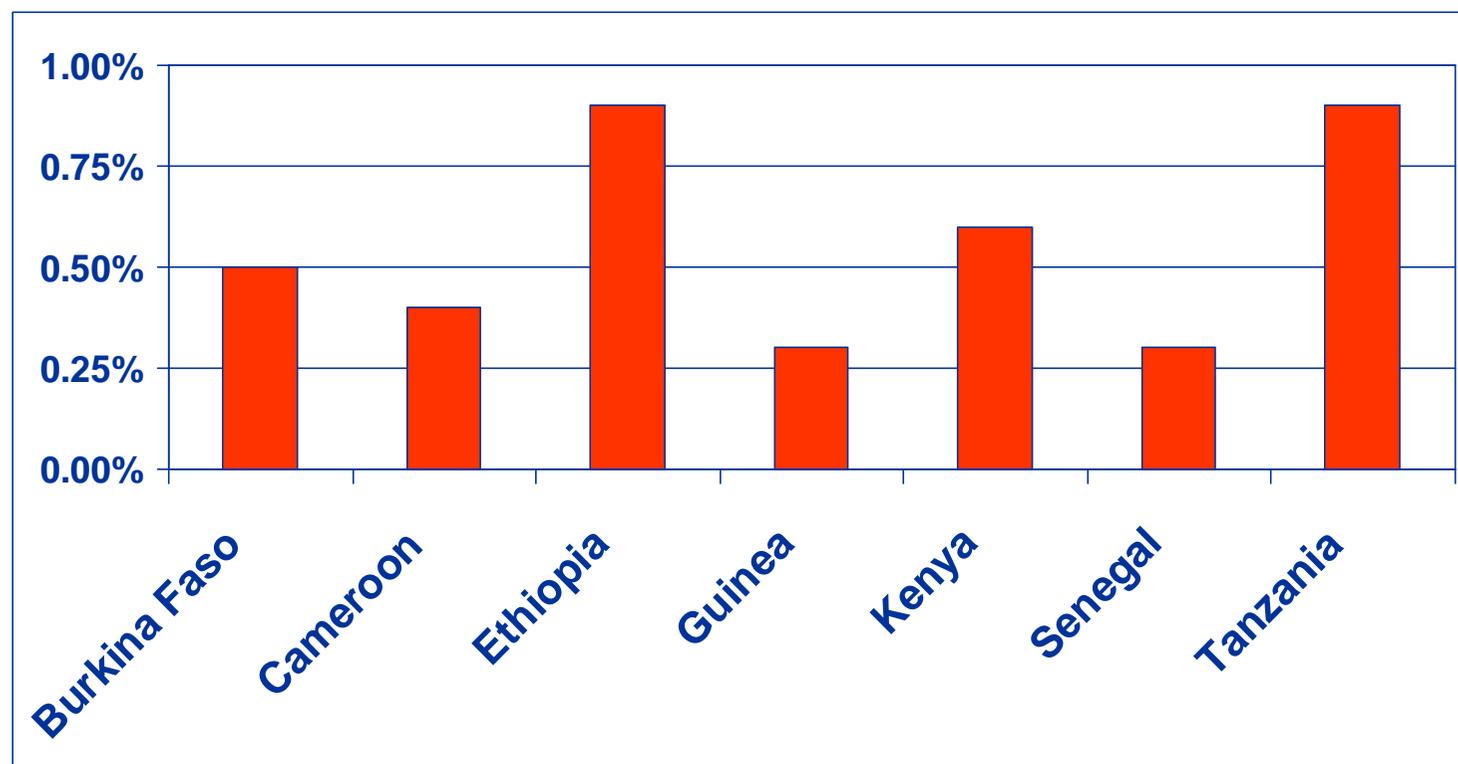




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African countries: Effective social pensions - in principle- affordable now

*estimated 2005 benefit expenditure on old-age/disability
pension (% of GDP)*

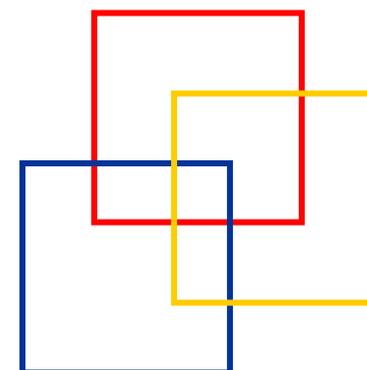
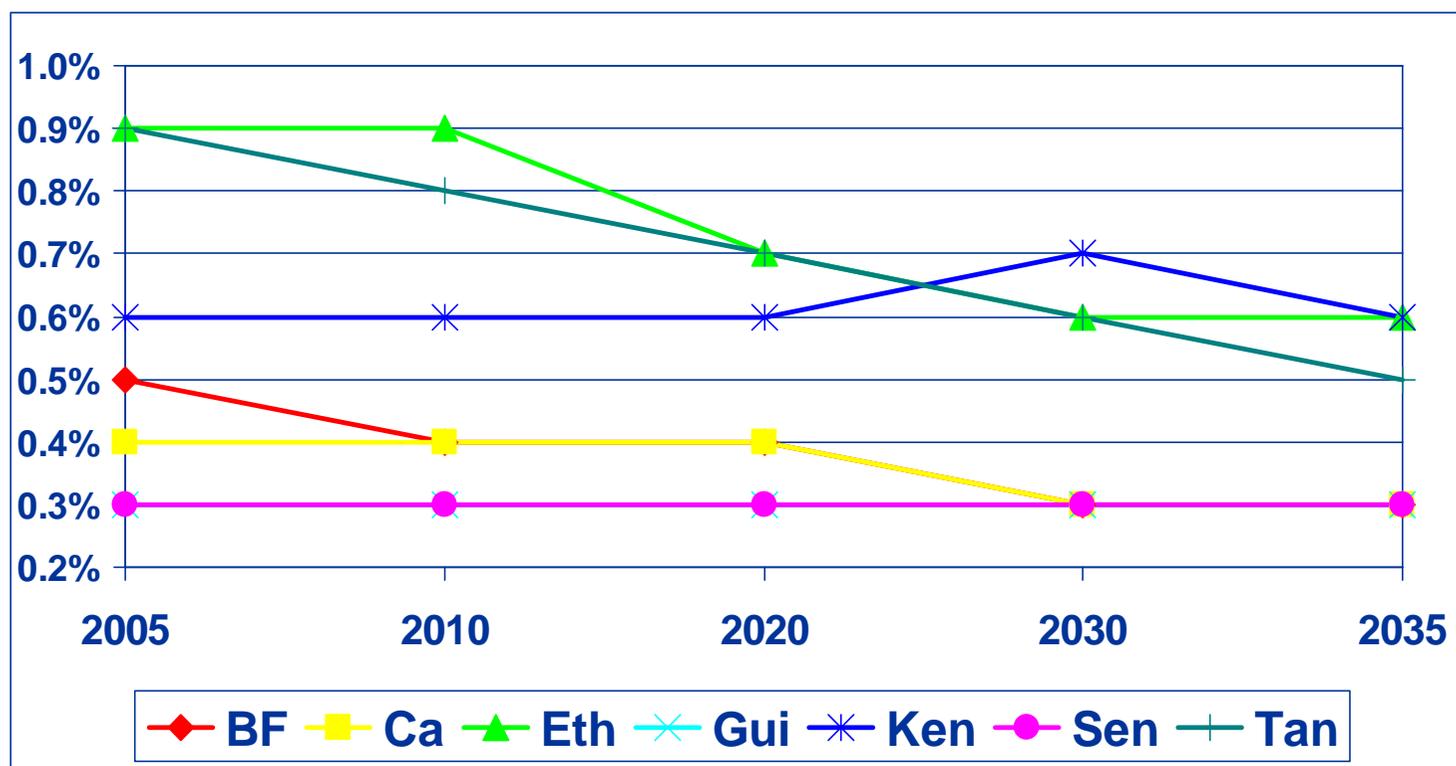




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...and in the future

*projected benefit expenditure on old-age/disability pension
as % of GDP*

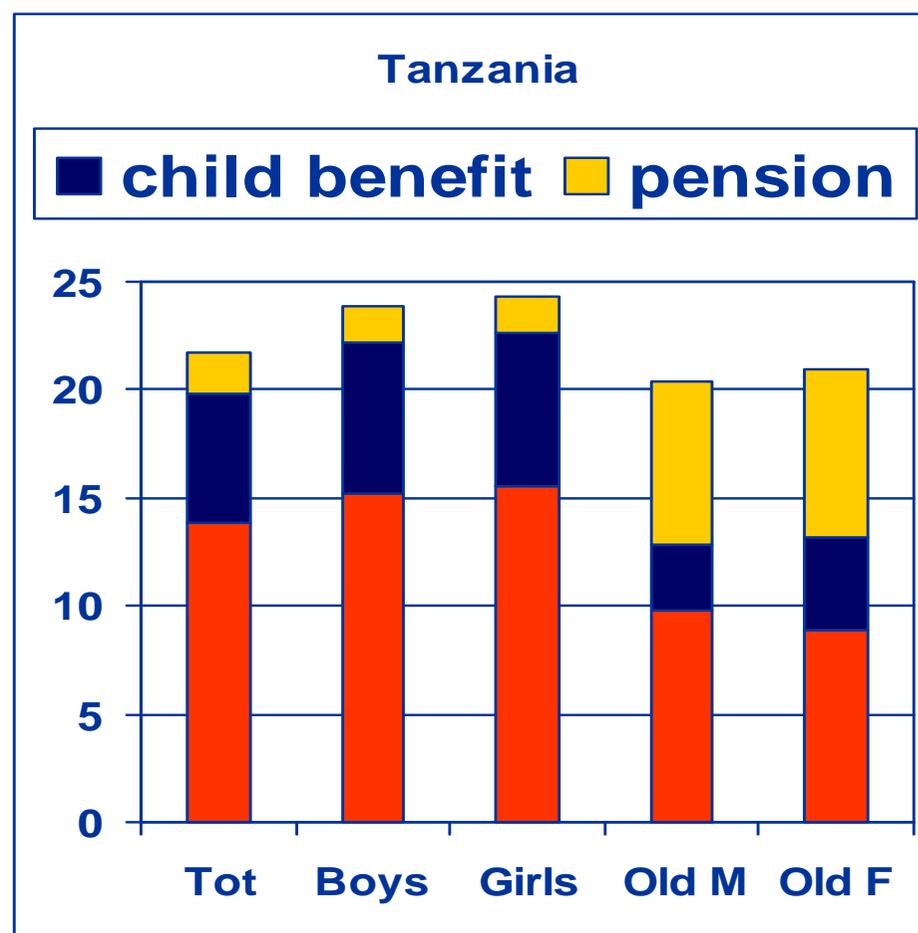
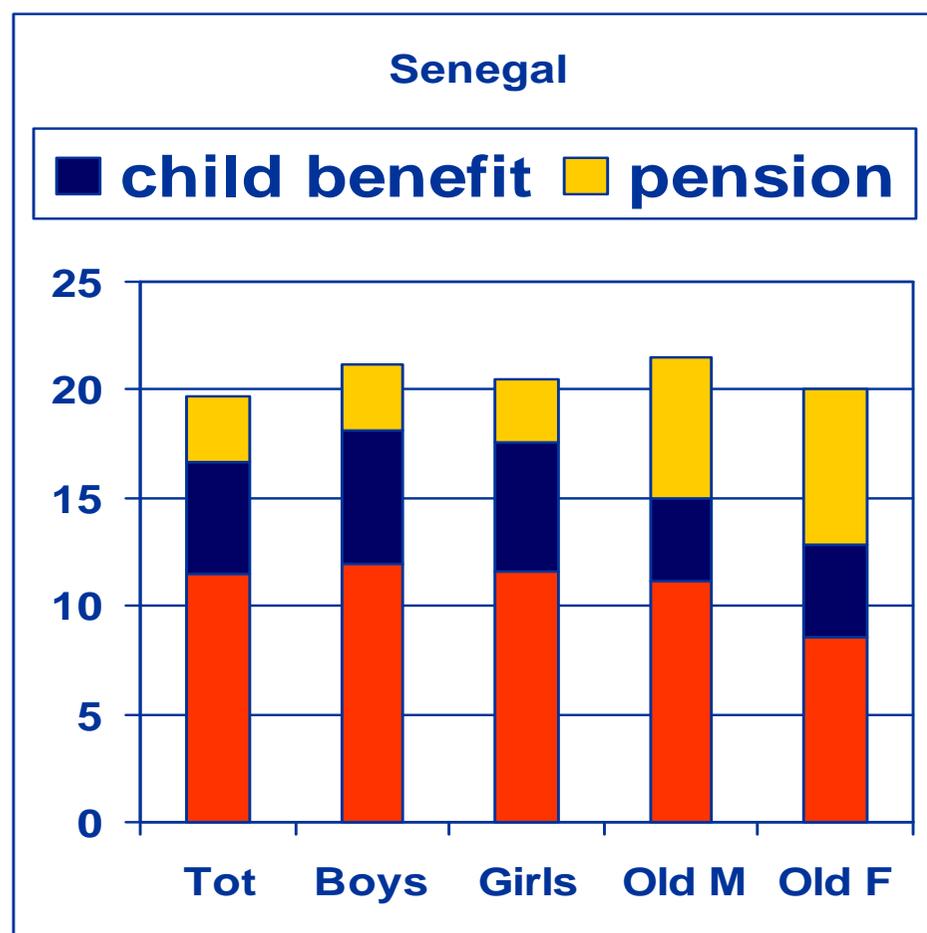




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Assessing potential impact and costs of cash transfers in Senegal and Tanzania:

Poverty rates before and after cash transfers

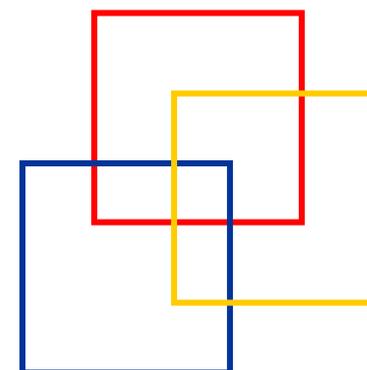
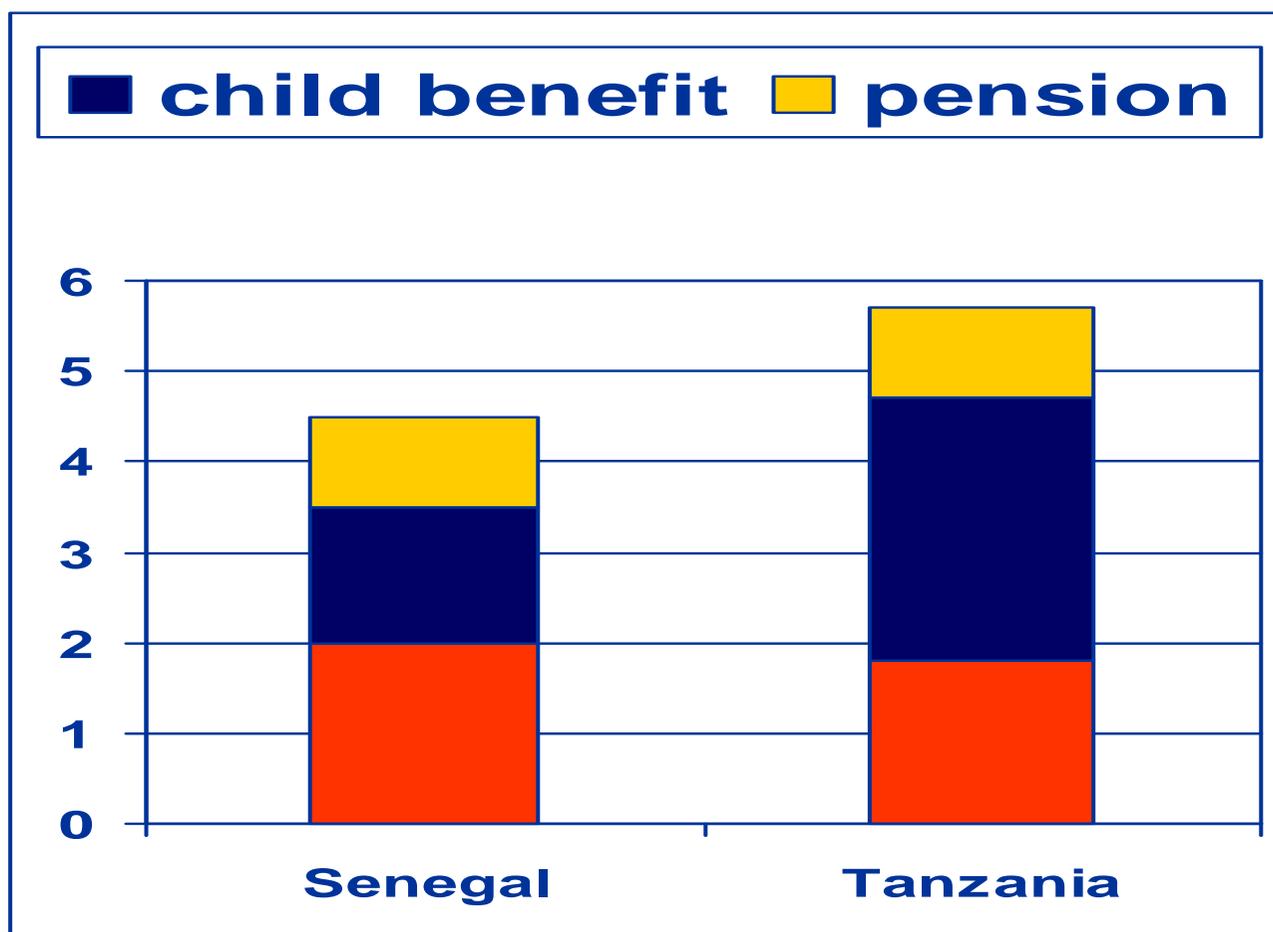




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Assessing potential impact and costs of cash transfers in Senegal and Tanzania:

Poverty gap before and after cash transfers

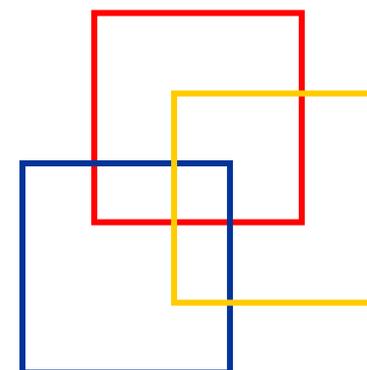
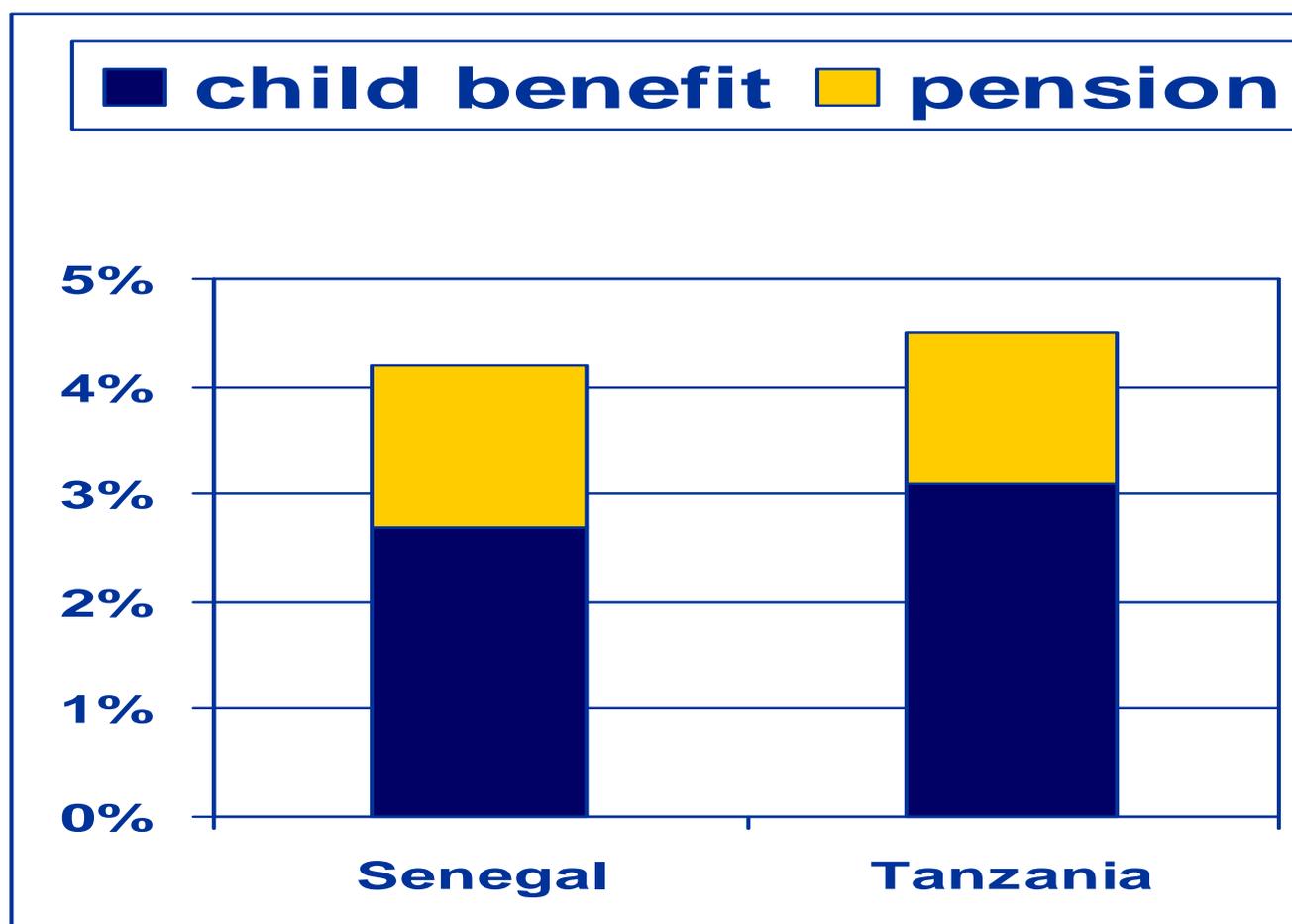




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Assessing potential impact and costs of cash transfers in Senegal and Tanzania:

Cost of benefit package as percentage of GDP

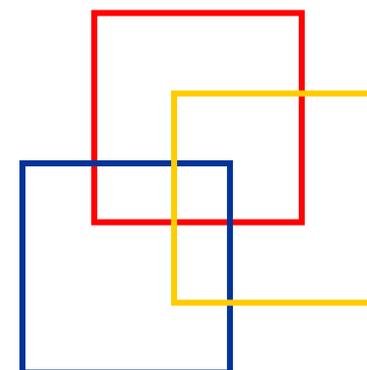
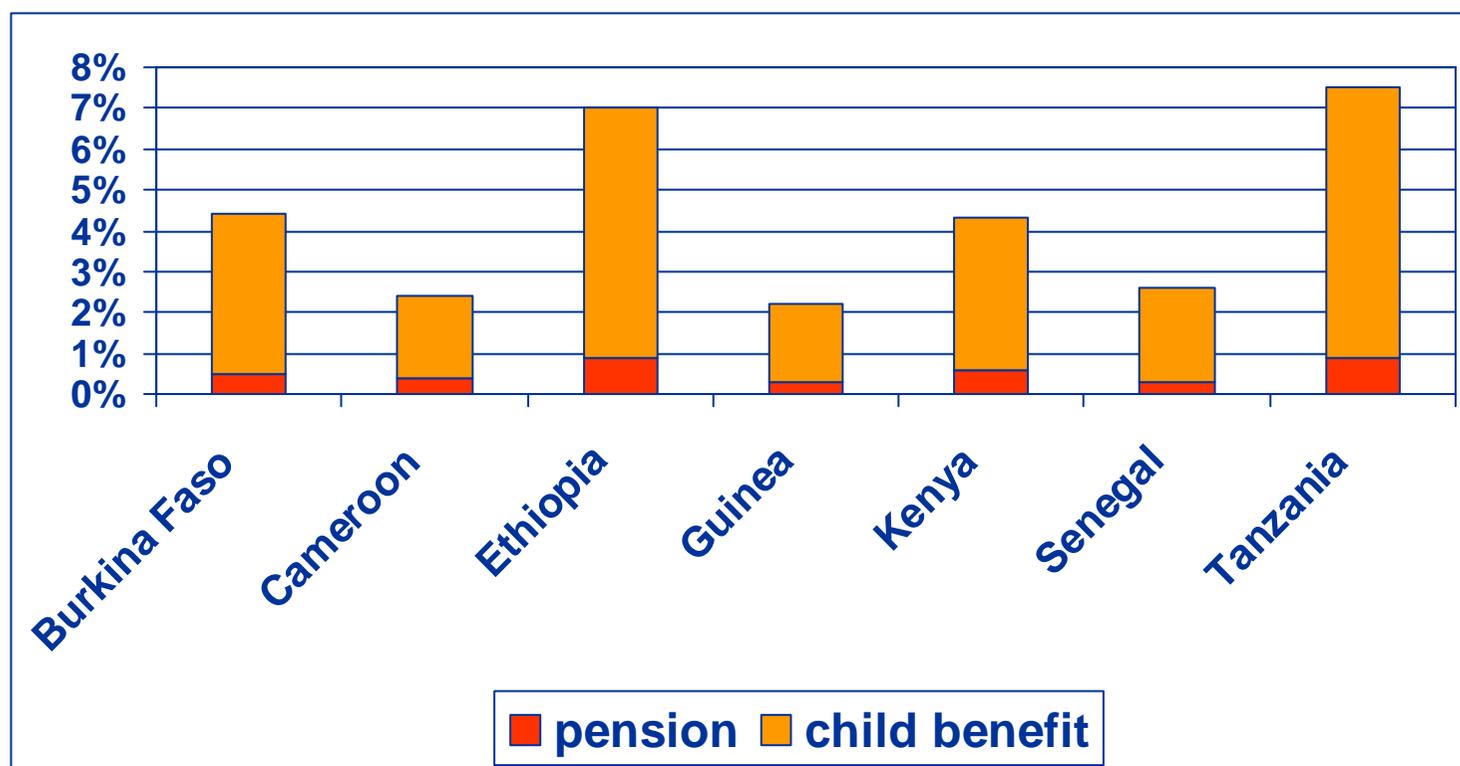




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Affordability study (base scenario): estimated 2005 benefit expenditure on old-age/disability pension and child benefit (% of GDP)

In all demographically young countries child benefits are currently more costly than benefits for elderly

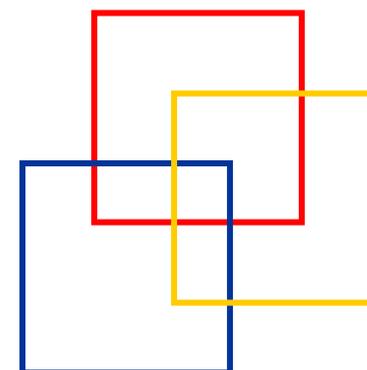
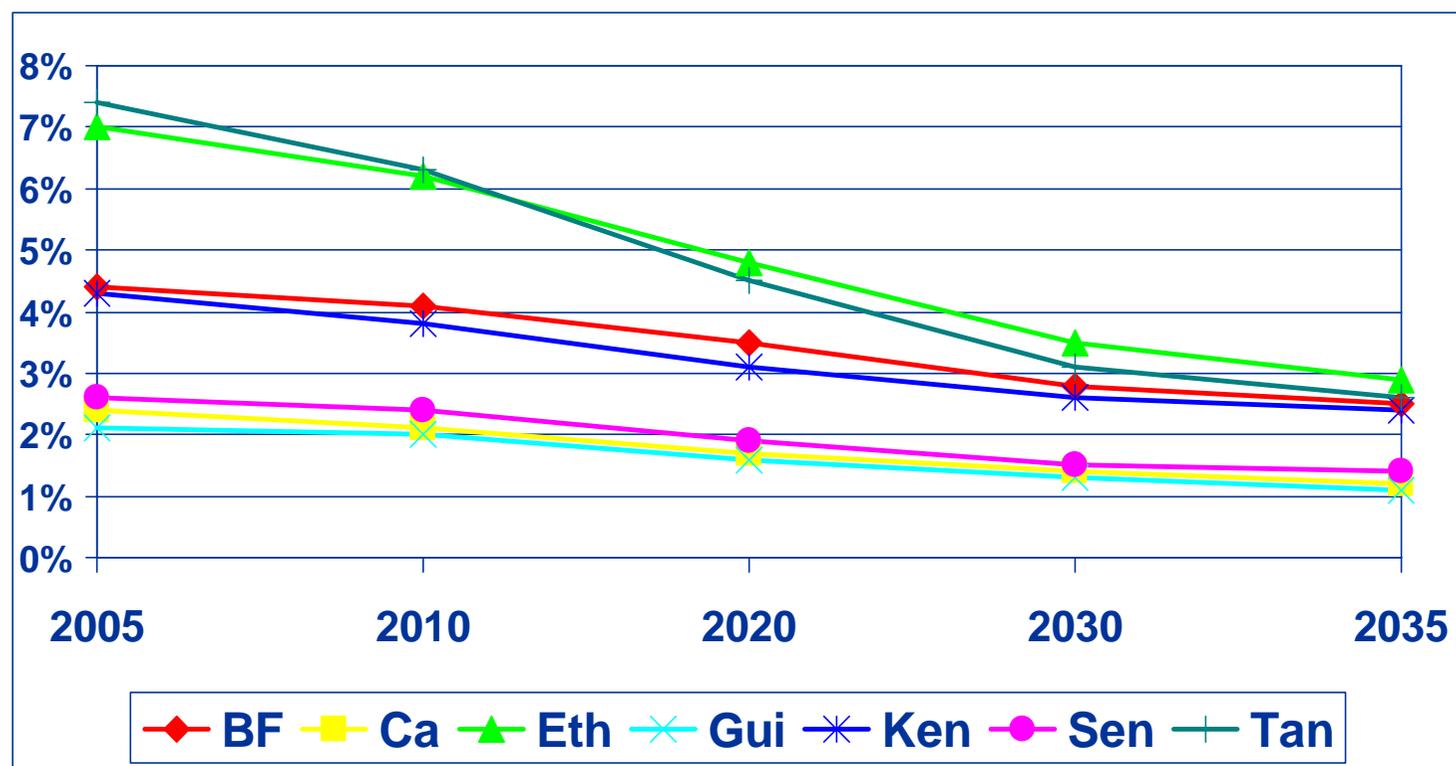




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Affordability study (base scenario: 2005 -2035 projected benefit expenditure on old-age /disability pension and child benefit (% of GDP)

But, in principle, both would be fiscally affordable now and in the future

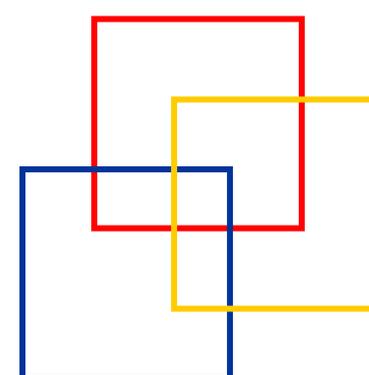
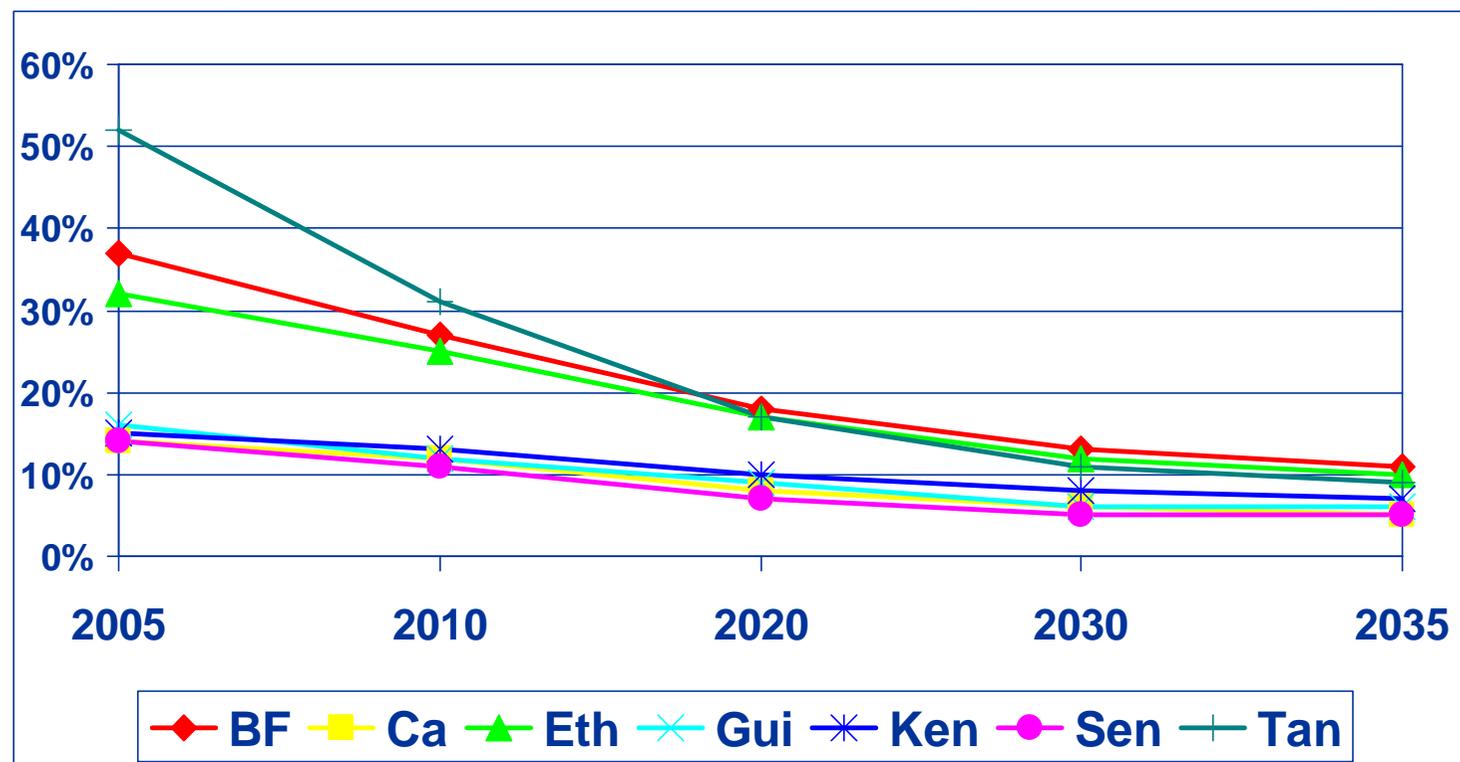




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Affordability study (base scenario): 2005 -2035 projected benefit expenditure on old-age /disability pension and child benefit (% of total government revenue)

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





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Conclusions

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

