

**A discussion of Bourguignon Kapuscinski  
lecture, some answers to Lars questions  
&  
some advertising for the European Report  
on Development 2010,  
Social protection for inclusive development:  
A new perspective in EU cooperation with Africa**

**Copenhagen, DIIS, April 5<sup>th</sup> 2011**

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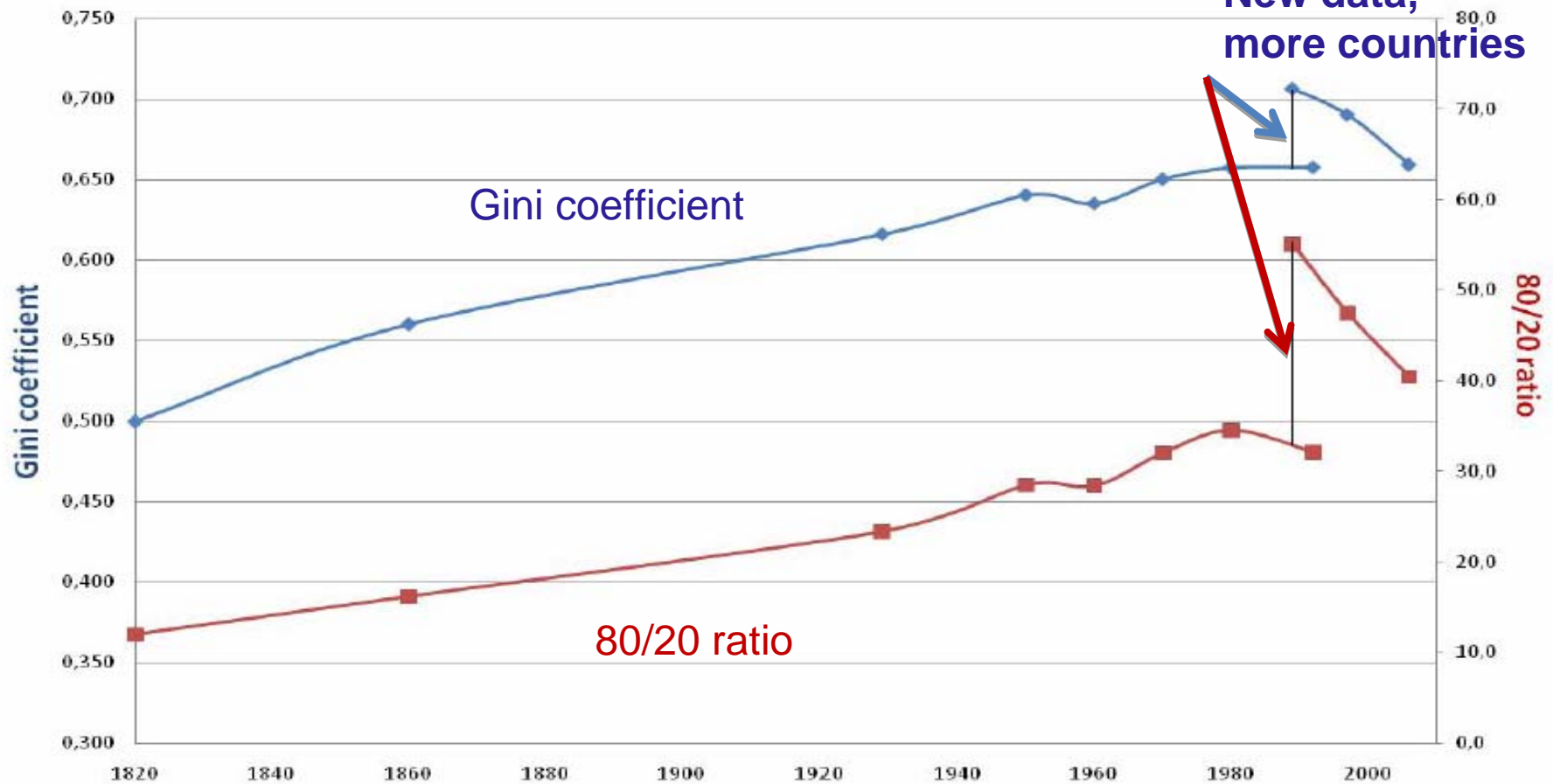
# What can we take from the lecture & Lars questions

- Is Inequality growing?
- Global inequality is falling, an historical event (but large heterogeneity, SSA still behind, graph)
- **Between** countries inequality is **falling**, but **within** country inequality might be **increasing** (Francois also showed the perception of inequality and changes)
- Again heterogeneity & issues of measurement (will not enter)



# Global Inequality is falling....

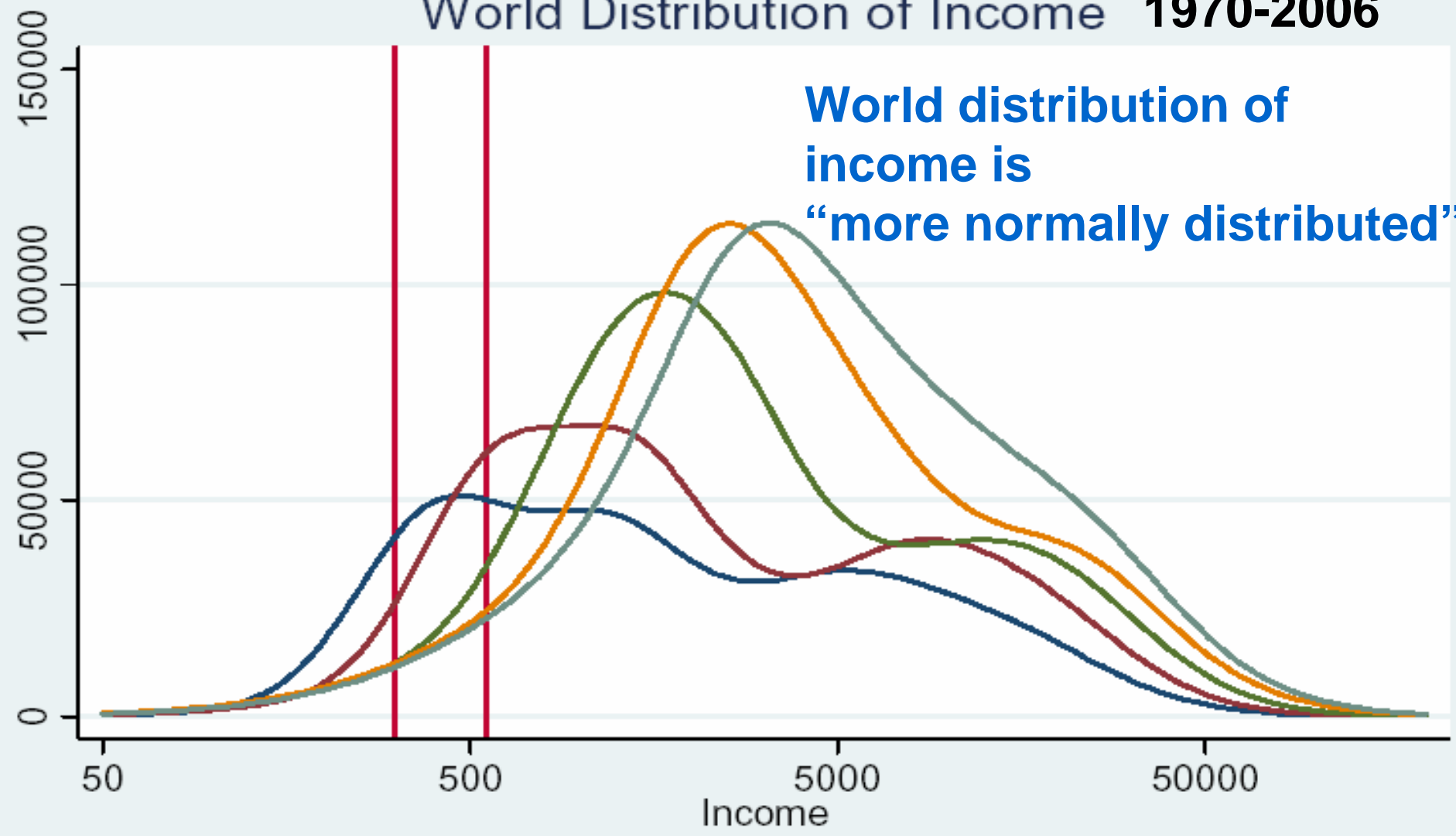
Global inequality: the 1990 trend reversal



Source F. Bourguignon, OECD, 2011

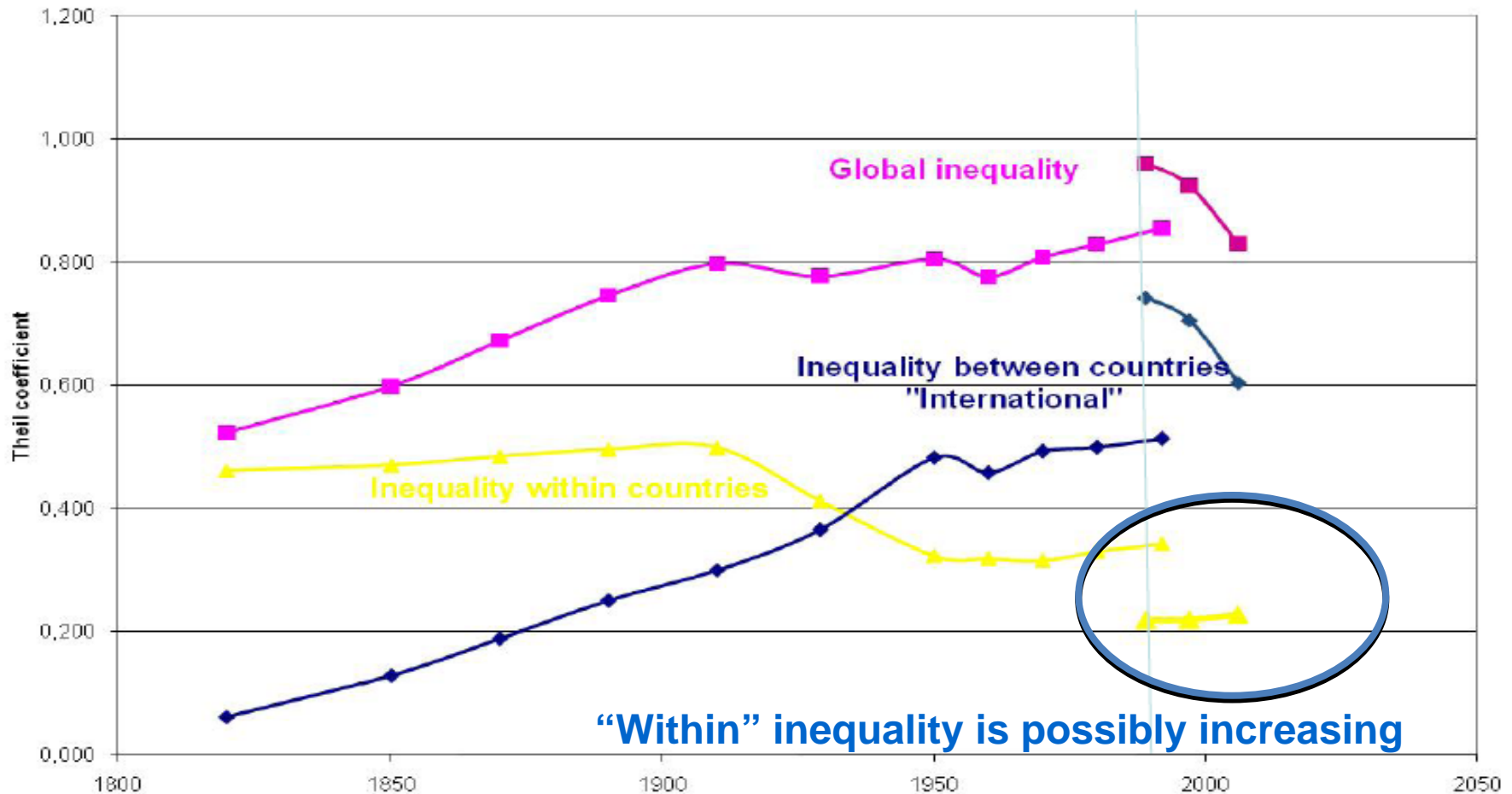
# World Distribution of Income 1970-2006

**World distribution of income is "more normally distributed"**



# While inequality “between” is falling, inequality “within” might increase..

Decomposition of global inequality into Between and Within Components (Theil coefficient)



Source: Bourguignon, unpublished, 2011

# Changes in income inequality, within countries (OECD)

	Mid-1980s to mid-1990s	Mid-1990s to mid-2000s	Mid-1980s to mid-2000s
<b>A. Trends in income inequality (Gini coefficients)</b>			
<b>Significant increase</b>	Czech Republic, Italy, Mexico, New Zealand, Portugal, Turkey, <i>United Kingdom</i>	Canada, Finland, Germany	<b>Finland, New Zealand</b>
<b>Small increase</b>	Belgium, Finland, Germany, Hungary, Japan, Luxembourg, Netherlands, Norway, Sweden, United States	Austria, Denmark, Japan, Norway, Sweden, United States	<b>Canada, Germany, Italy, Japan, Norway, Portugal, Sweden, United States</b>
<b>No change</b>	Austria, Canada, Denmark, Greece, Ireland	Australia, Belgium, Czech Republic, France, Hungary, Italy, Luxembourg, New Zealand, Portugal, Spain, Switzerland	Austria, Belgium, Czech Republic, Denmark, France, Greece, Hungary, Ireland, Luxembourg, Mexico, Netherlands, Spain, Turkey, <i>United Kingdom</i>
<b>Small decrease</b>		Greece, Ireland, Netherlands, <i>United Kingdom</i>	<b>France, Ireland, Spain</b>
<b>Significant decrease</b>	France, Spain	Mexico, Turkey	

*Note:* For sub-periods “significant increase/decrease” denotes changes greater than 2.5 points (Gini coefficient) and 1.5 points (headcount); “small increase/decrease” denotes changes between 1 and 2.5 points (Gini coefficient) and between 0.5 and 1.5 points (headcounts); and “no change” denotes changes of less than 1 point (Gini coefficient) and 0.5 points (headcount). For the total period, values are double.

*Source:* Computations based on OECD income distribution questionnaire.



# Large changes in income distribution in China and India

Figure 3: Chinese Income Distribution 1970-2006

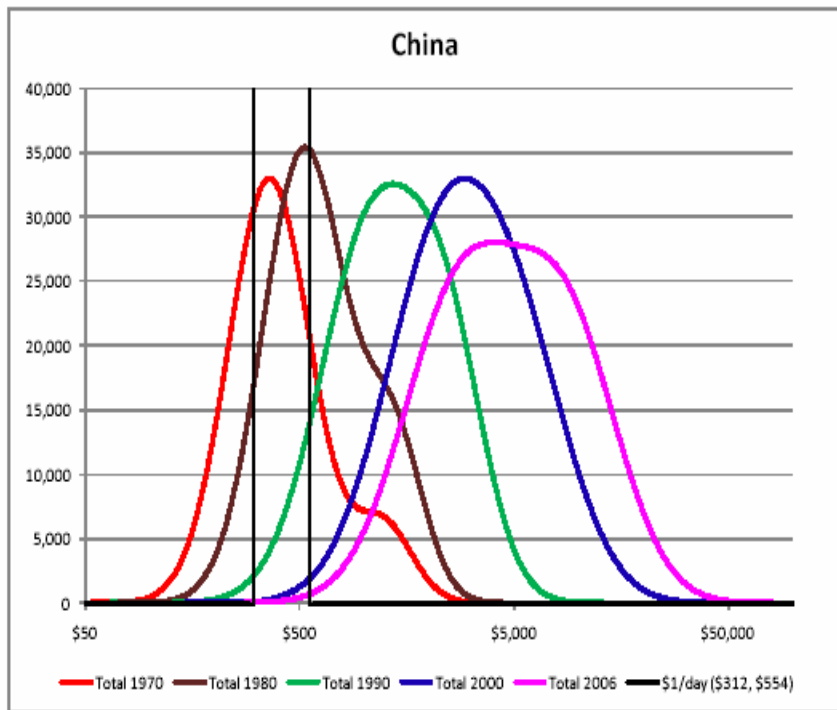
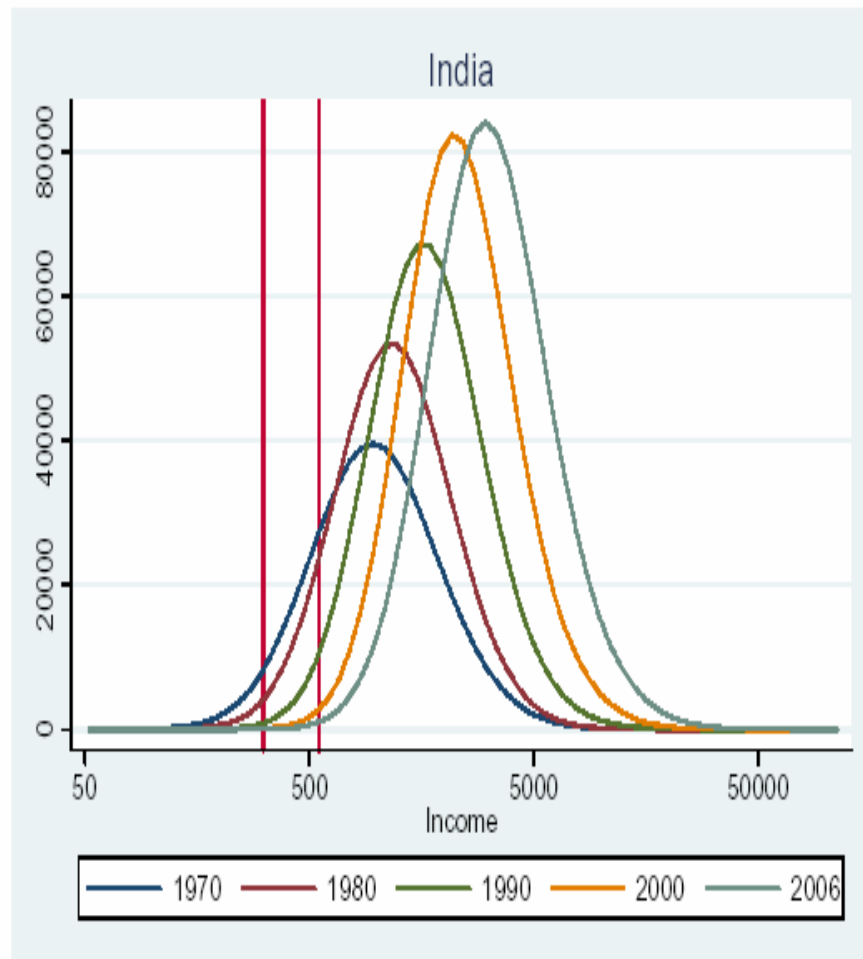
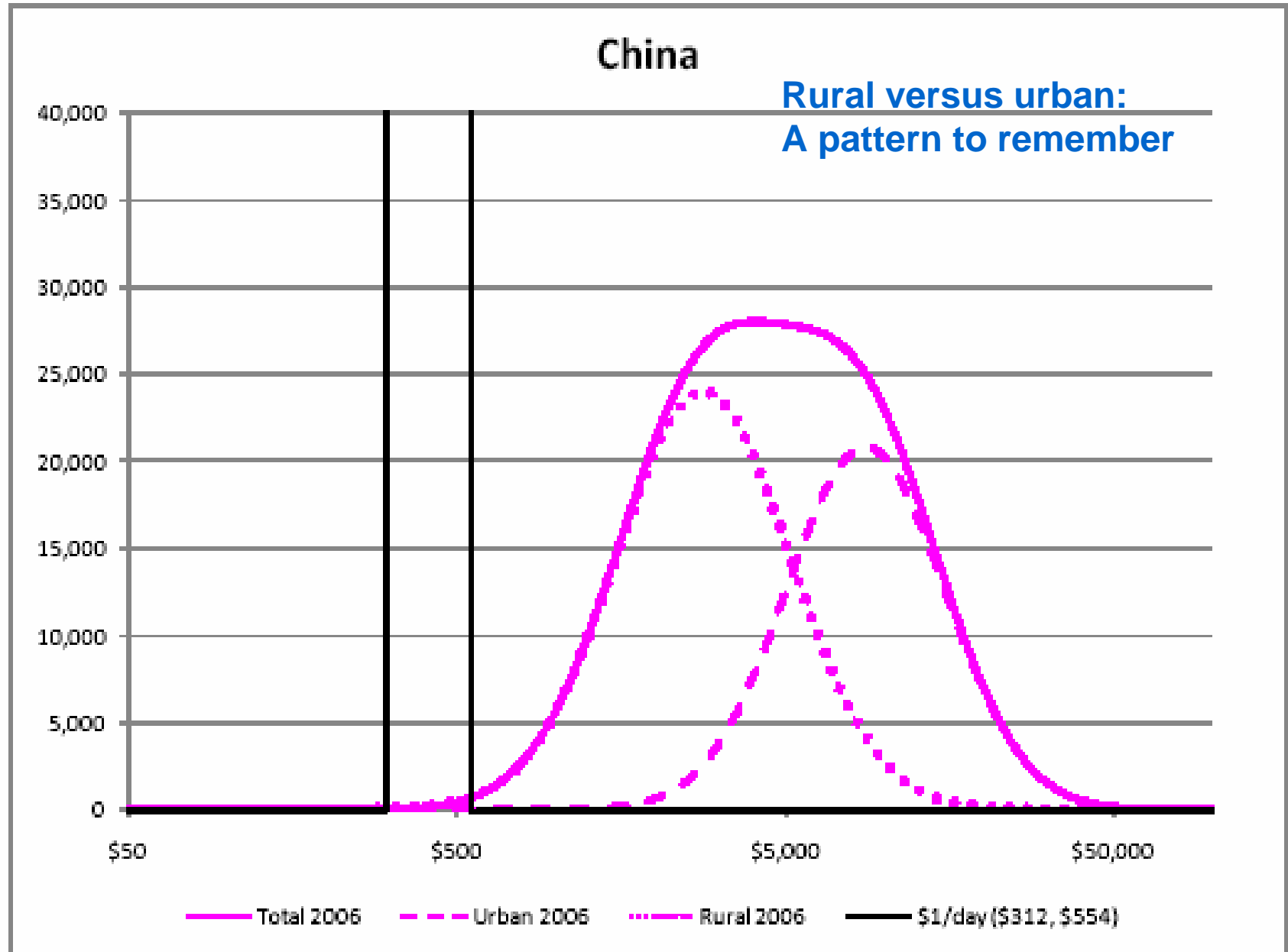


Figure 6: India 1970-2006



# Figure 2: China in 2006



# What can we take from the lecture & Lars questions, 2

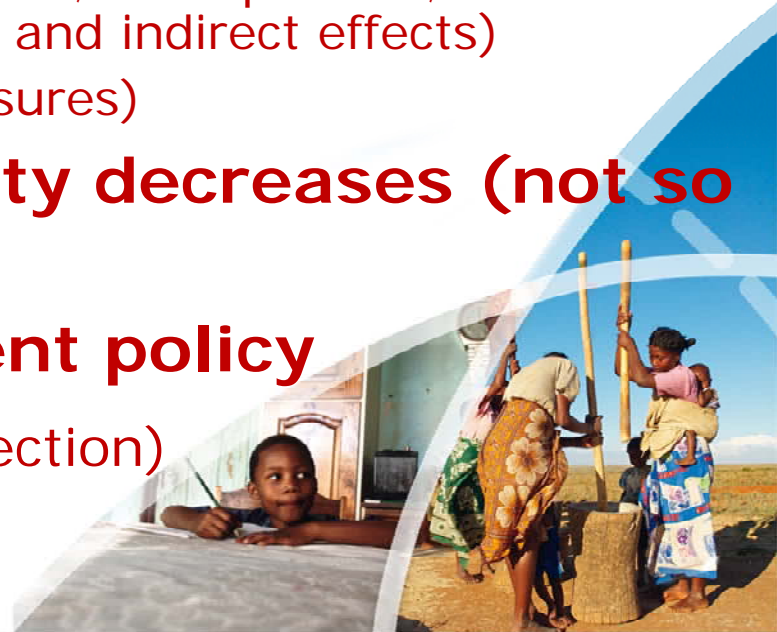
Discussion of the **background causes** of these **inequality developments**:

- **Globalisation** (as explanation for widening inequality within rich countries)
- **Technical change**
  - Greater returns to education?
- **Demographic trends**
  - Increased female labour force participation; Lone parents; Immigration from poor countries (direct and indirect effects)
- **Decline of unions** (may reflect other pressures)

**Inequality-poverty links: Poverty decreases (not so much in SSA)**

**The implications for development policy**

- Social policies (including social protection) as part of development strategy



# ERD 2010 “Social protection for inclusive development” states that:

- **Time is ripe for Social Protection (also in SSA)**
- **SP is affordable even in low-income countries;** Affordability is matter of setting the right priorities, showing that SP is an **investment and exploit complementarities between SP and education, SP and health, SP and credit**
- **SP is feasible even for low-income countries**
- **Main challenge is willingness & commitment**
- Negative incentive effects of SP are often negligible (also because of low level of transfers)
- **Broad consensus for SP** (G20 and AU declarations)
- **Trend towards social transfer schemes**
  - Social pensions in particular appear to be a promising instrument

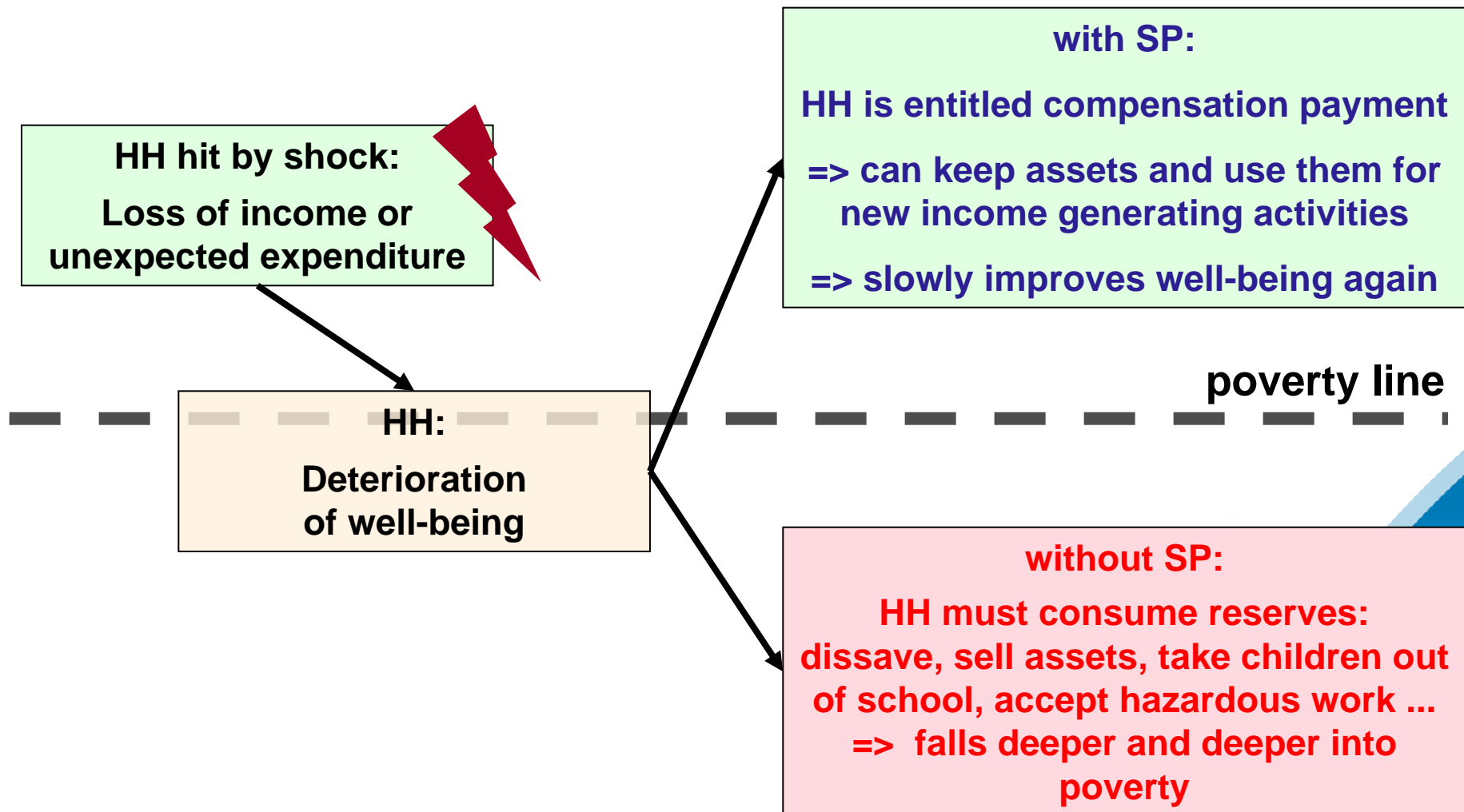


# ... But many SSA (developing) countries may still need support in providing SP

- Hence, **ODA is needed** (at least in transition phase)
- ODA should be **predictable**
  - Donors should not change their agenda every two years
  - Their **commitments** should be **credible** and their **funding reliable**
- ODA should be **untied**
  - Partner countries should be free in the decision how to use the fund provided by donors (**domestic ownership**)
- Careful with pilots: make sure that partner country is committed to roll out the pilot if successful, otherwise have isolated, fragmented schemes
- **SP should become an integral part of development co-operation**



# Social Protection helps HH coping with shocks...



Source: M. Lowe, 2011, discussion of ERD



# Social protection is indeed needed to tackle short term crises that could otherwise have permanent effects.....

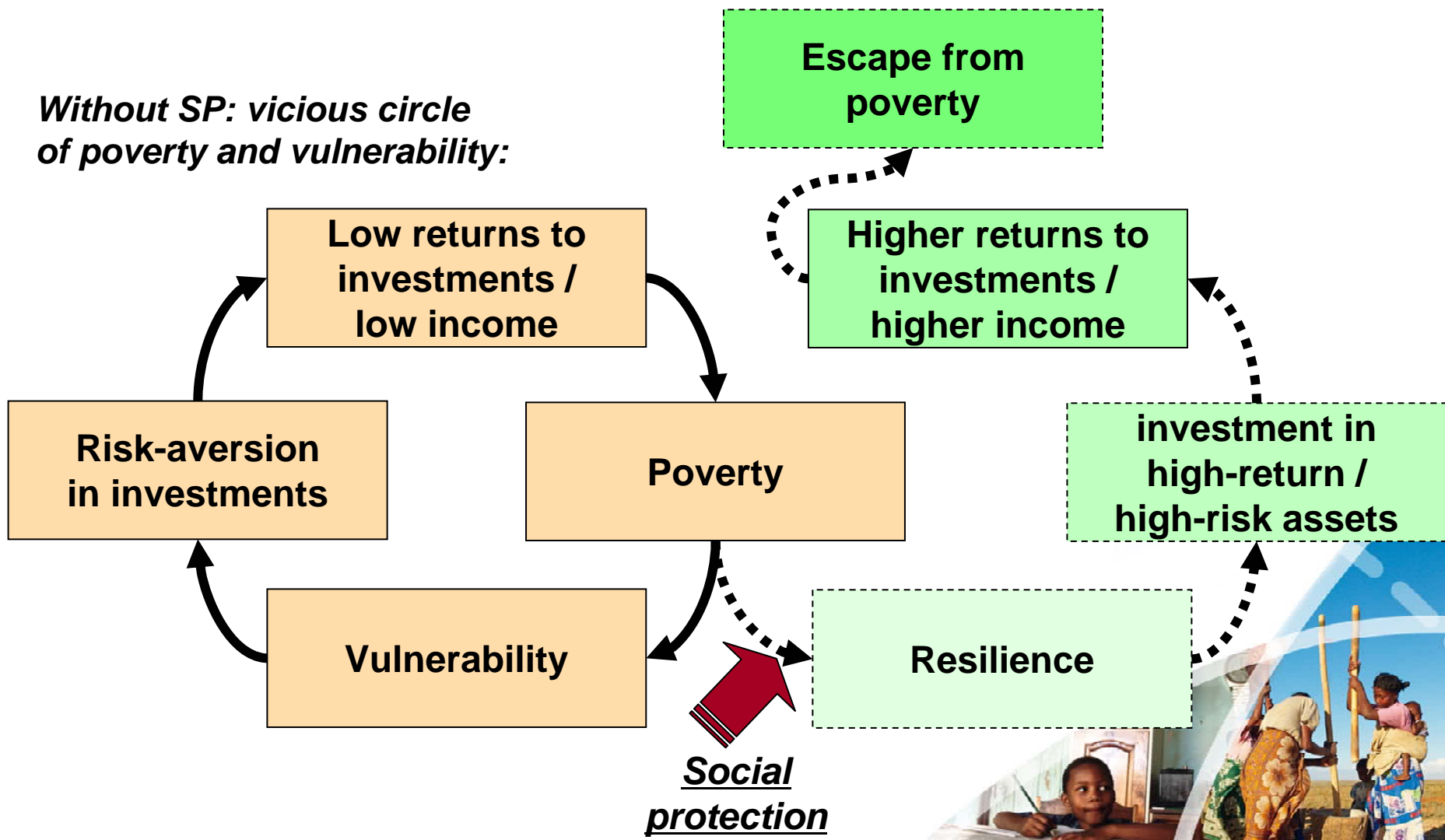
- **Short-term crises are indeed likely to result in long-term consequences** (poverty traps, health, etc.);
- **private safety nets** (remittances, mutual informal insurance, informal credit markets) **are often insufficient** (covariate shocks, imperfect markets);
- **Vulnerable households sacrifice growth opportunities to reduce risk** (deplete human capital, assets...);

NB: Some groups (e.g. young, elderly, rural, some ethnicities, women) are particularly vulnerable (issue of targeting?)



# Indeed, Social Protection helps build resilience

*Without SP: vicious circle of poverty and vulnerability:*



**Important to show that Social protection can mitigate risks, reduce poverty and inequality, accelerate progress towards the MDGs (Lesson 1 of ERD, evidence provided, less for SSA where few impact evaluations):**

## Social protection in developing world

Programme	Type	Coverage	Impact
PROGRESA/Oportunidades (Mexico)	CCT	25% of the pop.	Poverty gap in rural areas decreased by 19%; contributed 18% to the decline in income inequality (1996-2006). Educational attainment of beneficiaries: estimated increase 0.7-1% per year.
Bolsa Familia (Brazil)	CCT	26% of the pop.	Poverty gap decreased by 12% (2000-05); contributed one-third to the decline in income inequality over the last decade.
Old Age Pension (South Africa)	Social pension	80% of elderly	Reduced poverty incidence by 6%; a much larger effect on poverty depth.
Child Support Grant (South Africa)	Social grant	70% of children	
Productivity Safety Net Programme (Ethiopia)	In cash and in kind transfer	10% of the pop.	Improving food security (11%), livestock holdings (about 7%) and households' ability to cope with emergency. Larger effects on asset accumulation for those receiving substantial and complementary support.



# But ensuring financial sustainability is essential (Lesson 3 of ERD):

- A comprehensive package (such as ILO social floor) may be **beyond the scope** of many African countries, but **individual programmes are feasible**.
- Rural employment, public works programmes, school, child feeding programmes, universal non-contributory social pensions have high benefits; **such programmes should be priority interventions to build a platform for comprehensive approaches**.
- **Costs do not need to be high**: Bolsa Familia (**Brazil**) costs less than 0.5% of GDP and reaches 26% of the population; PROGRESA-Oportunidades (**Mexico**) costs 0.4% of GDP and reaches 5 million households; The national health insurance in **Ghana**, covering 67% of the population in 2010, is **entirely domestically funded**.



# More on Affordability Issues

- Reference point: ILO basic social security floor;
  - Social pensions (65+), child benefit, disability support (1%), social assistance/unemployment support (10%), basic health care
- ERD assessment:
  - **suggests higher costs than ILO (esp. Administrative costs in low income countries);**
  - Some programs are difficult to implement (esp. disability, unemployment, and child benefit); targeting issues;
  - Relative to existing spending, full package might be out of reach
- But, progressive implementation of aspects of social security floor is feasible and affordable:
  - Beginning with social pensions, child benefits and/or public works;
  - Free health care similarly a possibility;
- **Expansion of domestic resource base critical**
  - **Tax base expansion feasible;**
  - Supplemental donor support useful (in transition phase).

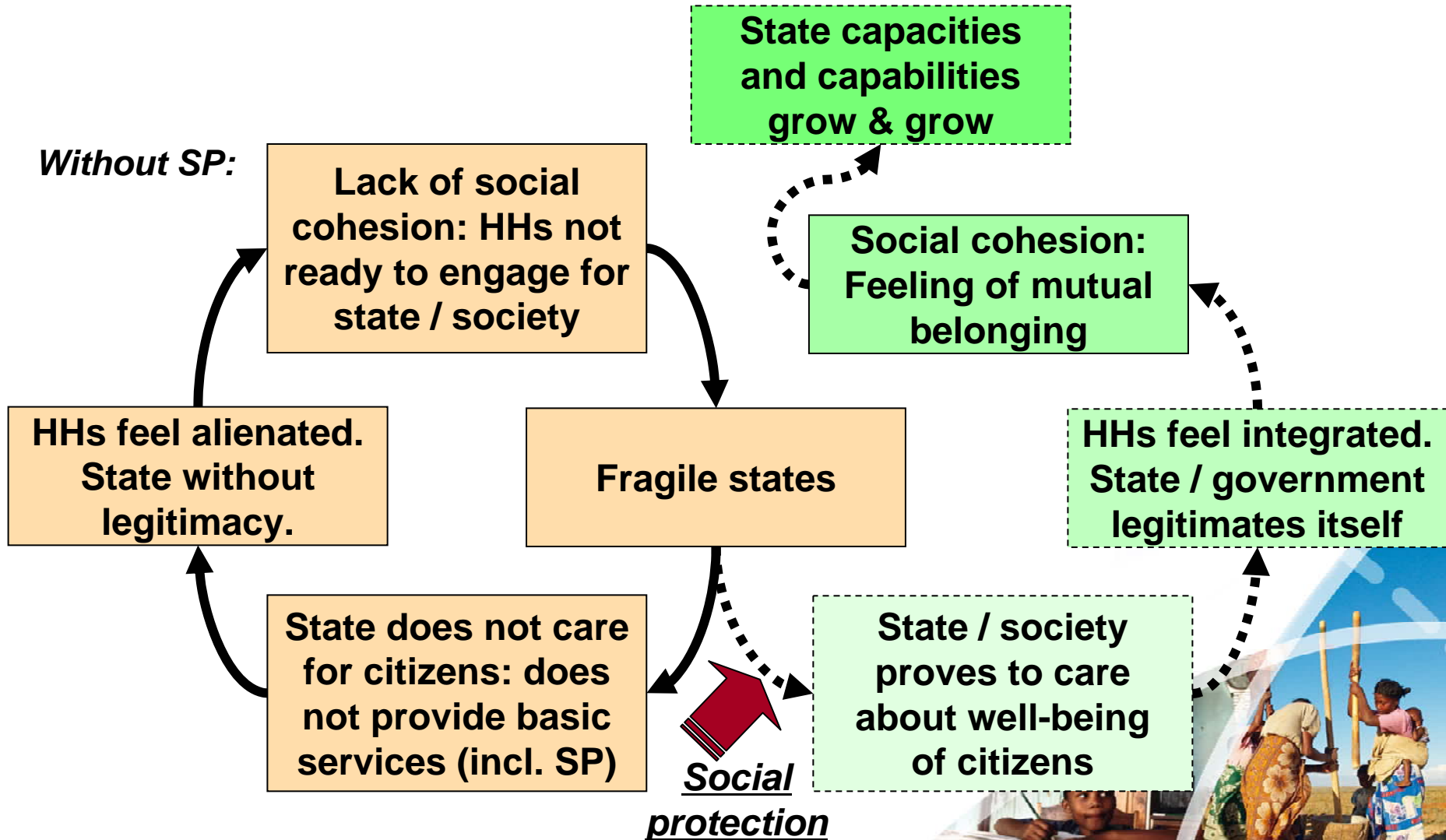


# ILO basic security and Fiscal Realities in SSA

	Un. Pens	Health C.	Child Ben	Soc Ass	Costs ILO	Costs pc	Alt 1	Alt 2	Range costs	oda	tax
Burkina	1.1	5.5	2.8	0.6	0.7	2.6	6.8	5.1	10.6-12.1	14.1	11.1
Camer.	0.8	2.6	1.8	0.4	0.4	4.0	7.6	6.5	6-6.8	9.2	11.1
Ethiopia	1.0	3.6	2.8	0.6	0.4	1.0	5.7	2.3	8.8-12.1	14.6	10.7
Guinea	0.6	1.5	1.5	0.3	0.4	1.2	5.8	2.0	4.4-5.9	4.9	Na
<b>Kenya</b>	<b>0.9</b>	<b>3.0</b>	<b>3.0</b>	<b>0.6</b>	<b>0.7</b>	<b>3.5</b>	<b>7.3</b>	<b>5.9</b>	<b>8.2-9.5</b>	<b>4.1</b>	<b>18.3</b>
Sen.	1.1	2.5	2.0	0.5	0.5	3.8	7.5	6.8	6.6-7.6	9	16.1
Tanz.	1.1	1.4	3.1	0.6	0.7	2.1	6.4	5.5	7.9-9.7	14.2	na



# Social Protection enhances the social contract



Source: M. Lowe, 2011, discussion of ERD

# Against this background, political will and ownership are key (ERD Lesson 2)

- **India:** introduction of National Rural Employment Guarantee Act (NREGA) underpinned by a very strong civil society advocacy.
- **South Africa:** the relatively rapid built-up of a system of social grants was an explicit attempt to address race-based inequalities
- **Lesotho:** old age pensions were introduced to address some of the country's vulnerabilities and became an electoral issue.
  - NB: **It might take time to build Consensus**
  - NB: Issue to be resolved: **countries in situation of fragility**



# Success depends on institutional and administrative capacity (ERD Lesson 4)

- Importance of a **clear definition of institutional responsibilities & coordination (Horizontal & vertical)**
- If NOT in place, needs to be built and/or expanded
- NREGA in **India** is based on an act of government, with states responsible for implementation, and **responsibilities spread to district and block level functionaries;**
- **Rwanda's *Ubudehe*** approach shows that decentralised systems can be very useful in the design of successful programmes.



# ERD 2010 highlights seven priorities for EU and member countries development policy

**1. Make social protection an integral part of EU development policy**

**2. Promote and support domestic processes**  
Ensure that interventions are consistent with domestic priorities and needs

**3. Assist in tackling affordability (path to tax reforms, honour aid commitments)**

**4. Tailor modalities to specific contexts and needs (innovative cash on delivery contracts might be an option; problems of countries in situation of fragility: public works?)**



# The Seven priorities, continues

**5. Support knowledge-building and lesson-sharing; provide support to South South learning**

**6. Improve the coordination, complementarity and effectiveness of EU action, improve policy coherence (study impact of other EU policy on SP)**

**7. Strengthen EU partnerships for a progressive social protection agenda**



# In summary:

- **“Between” inequality decreases, “within” increases, inequality-development relationship is ambiguous because of contrasting forces;**
- **Redistribution instruments are complements and existing complementaries** between (e.g) social protection and growth policies, SP & investments in health and education; and SP & financial inclusion **need to be best exploited**
- **SP has been a missing piece in the development puzzle;** It can build resilient livelihoods, reduce inequality, contribute to growth and poverty-impact of growth, leverage state-building and reinforce the social contract; there is a need in most countries for more Social protection (but issue of coordination)



# In summary, 2:

- **Equalizing opportunities is important for future efficiency** (social security, but also spending more on schooling, health care, housing, micro-credit,... And exploiting complementarities)
- **Role of global governance: crucial (who? How? Which instruments?)**
- **Issue to be solved: how to deliver aid in countries in situation of fragility** (where social policies most needed)



Thanks!

