

Social Protection for Inclusive Development

With Reference to Indonesia

Based on:
European Report on Development 2011 (with a focus on Sub-Saharan Africa)
Adjusted to reflect situation in Indonesia

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MOBILISING EUROPEAN RESEARCH
FOR DEVELOPMENT POLICIES



Considerable Development Progress in Indonesia

- **Improvements in macroeconomic environment**
 - High growth over the last decade;
 - Weathered financial crisis well; .
 - Increased capacity to mobilise domestic resources;
 - Inflation under control;
 - Increasingly diversified economy;
- **Considerable progress in poverty reduction**
 - But rising inequality (between regions and income groups)?



...but structural challenges persist

- **Four daunting challenges:**
 - Macroeconomic vulnerability and commodity price fluctuations (food prices, commodity prices);
 - Remaining persistent poverty, and low human development in some regions;
 - Climate change and natural hazards.

→ This results in **precarious lives** and **high vulnerability**



In Indonesia, many people live precarious lives

- In terms of:
 - livelihoods and assets (chronic poverty);
 - Risks and uncertainty (vulnerability);
- Hence:
 - short-term crises might have long-term consequences (poverty traps, health, etc.);
 - private safety nets (remittances, mutual informal insurance, informal credit markets) often insufficient (covariate shocks, imperfect markets);
 - Vulnerable households sacrifice growth opportunities to reduce risk;
 - Some groups (e.g. young, elderly, rural, some ethnicities, women) are particularly vulnerable.



Social protection: the missing piece of the development puzzle

- Social Protection (SP) can avoid serious hardship for populations facing risks:
 - Beyond relief, SP offers **protection** and contributes to the **promotion** and even **transformation** of lives;
 - SP can build **resilient livelihoods**, **reduce inequality**, contribute to **growth and poverty-impact of growth**, **leverage state-building** and **reinforce the social contract**;
 - **Complementaries exist between social protection and:**
 - growth policies;
 - investments in health and education;
 - and financial inclusion.



Time is ripe for Social Protection

- Today more than ever a timely topic:
 - **G-20** in Seoul: emphasis on “social protection mechanisms that support resilient and inclusive growth”;
 - United Nations ‘Social Protection Floor’ Initiative promotes a comprehensive social protection floor for all;
 - In Indonesia, a variety of social protection initiatives, but no comprehensive approach to date.



“Social Protection for Inclusive Development”

- The European Report on Development (ERD) examines the **need**, the **potential** and the **feasibility** for expanding social protection in developing countries (with particular emphasis on Sub Saharan Africa);
- The ERD analyses experiences learning from best practices and mistakes, assesses the importance of SP in development, (and suggests **priorities** for the EU and its Member States).

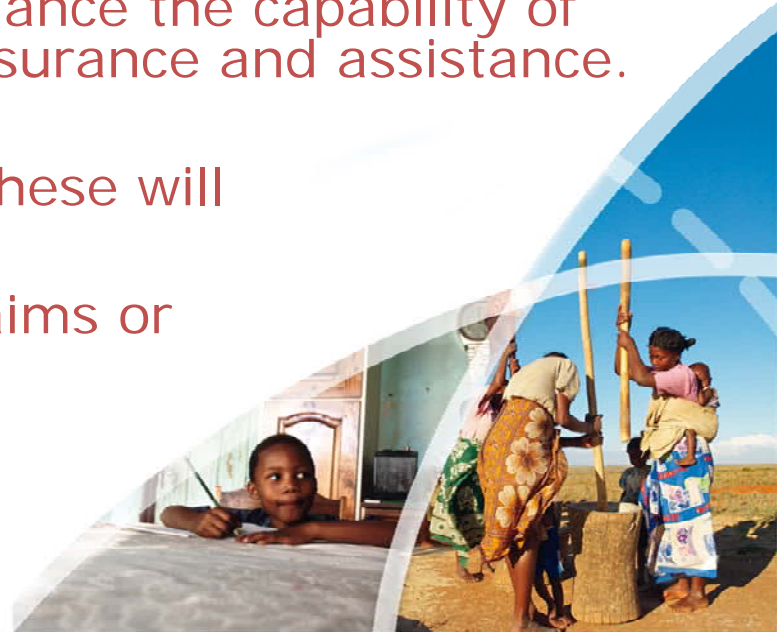


The ERD definition of social protection

The specific set of **public actions** to address the vulnerability of people's life:

- through ***social insurance***, offering protection against risk and adversity throughout life;
- through ***social assistance***, offering payments to support and enable the poor;
- through ***inclusion efforts*** that enhance the capability of the marginalised to access social insurance and assistance.

Focus on public actions by state, but these will include facilitating private, network, community-based actions with same aims or consequences.



Lessons from experiences

- **Social protection is feasible** also in low income (and lower-middle income) countries supported by a set of well defined preconditions:
 - Political commitment;
 - Administrative capacity;
 - Financial sustainability.
- The lessons enable to assess the possibility and likelihood of:
 - replicating programmes in different contexts;
 - scaling up existing schemes.



Types of Social Protection

- **Social insurance**

- Contributory pension schemes
- Health insurance
- Unemployment insurance
- Disability insurance, work injury insurance.

- **Social assistance**

- Child support grants
- School feeding programs
- Public works/workfare programs/employment guarantee schemes
- Cash transfer programs/income guarantee schemes
- Food and other subsidies;
- Emergency relief;
- Social pensions and other old age benefits.



The failure of traditional social insurance + subsidies

- **Classic approach: Employment-based contributory social insurance**
 - Contributory pension schemes, ealth insurance, unemployment insurance;
- **Covers rarely more than 10-20% of the population, poor in rural areas and informal sector left out!**
 - Plus often leads to fiscal problems!
- **Subsidies expensive and often leak to the non-poor (esp. energy);**
- **New Types of Social Protection Needed:**
 - Social Assistance Programs;
 - Insurance beyond the formal sector;



Design of Programs: Options

- **Universal versus targeted**
 - Targeted in principle more cost-effective (not always in practice), but stigma, weak political support, and high marginal tax rate a problem;
 - Universal programs costly, but converse advantages;
 - Light and self-targeting;
- **Conditional vs Unconditional;**
 - Conditional may promote other goals, increase acceptability, but comes at a high cost;
- **Cash versus kind (or mixed);**
 - Cash the easiest to deliver, but misuse and targeting problems;
- **Delivery Options:**
 - The promise of modern technology;

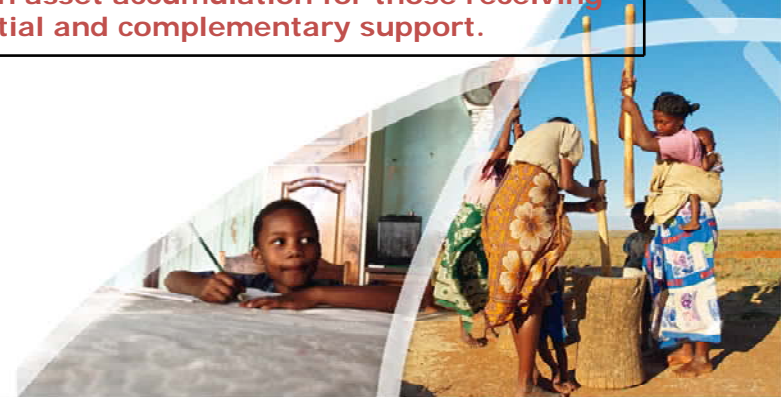


Lesson 1: Social protection can mitigate risks, reduce poverty and inequality, accelerate progress towards the MDGs

Social protection (assistance) 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 of 0.7-1 year of schooling.
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; increased educational attendance;
Old Age Pension (South Africa)	Social pension	80% of elderly	Reduced poverty incidence by 6%; a much larger effect on poverty depth, greater investments in children's health, education, and nutrition.
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.

Light targeting best, mixed evidence on need of conditionality!



Lesson 2: Political will and programme ownership are key

- In **India**, the introduction of National Rural Employment Guarantee Act (NREGA) was underpinned by a very strong civil society advocacy.
- In the case of **South Africa**, the relatively rapid built-up of a system of social grants was an explicit attempt to address previous race-based inequalities
- In **Lesotho**, old age pensions were introduced to address some of the country's vulnerabilities and became an electoral issue.
- **Donor-driven programs are rarely sustainable!**



A map of the African continent is shown in the background, with the country of Lesotho highlighted in a solid red color. The rest of the map is in a light tan color with black outlines for country borders.

Lesotho's Old Age Pensions (OAP)

- Rose entirely from the domestic political agenda; became an entitlement in 2005 through the Old Age Pension Act;
 - Played a major role on elections in 2007: the commitment to the Old Age Pension programme shaped voters' choices;
 - Is part of the poverty reduction strategy and of Lesotho 2020;
 - Is administered by the Ministry of Finance and Developing Planning, with a special unit solely responsible;
 - Is estimated to cost less than 2% of GDP in fiscal year 2009/10;

 - No clear evidence on poverty reduction; similar schemes in South Africa had substantial effects for the elderly and their households;
 - Boosts elderly inclusion in the household and the community;
 - Increases household food and health security; no clearly defined impact on asset building.
- ➔ **With strong domestic commitment and ownership, a universal pension is feasible and affordable**

Lesson 3: Ensuring financial sustainability is essential

- Bolsa Familia in **Brazil** costs less than 0.5% of GDP and reaches 26% of the population;
- PROGRESA-Oportunidades in **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.



Ghana's National Health Insurance Scheme (NHIS)

- Financed from domestic taxation (70–75%); formal sector contribution (20–25%) and informal sector *premia* (5%);
 - Emerged from an electoral promise; implemented through the 2003 National Health Insurance Act;
 - Built a “hub-satellite” model with a central authority and national fund regulating and subsidising (but not controlling) a national network of existing Community Based Health Insurance Schemes;
 - Is a pillar of the National Social Protection Strategy, linked to the provision of cash transfers through the LEAP;
 - Increases the efficiency of the health system, reducing out-of-pocket expenditures for health up to 50%;
 - People from the poorest quintiles are still partially excluded .
- **Strong government commitment based on elements of CBHIs can lead to universal health insurance.**

Focus 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,
- Our assessment:
 - Assessment of costs of basic social security floor suggests higher costs than ILO (esp. Administrative costs in low income countries, also health?);
 - Some programs quite difficult to implement (esp. Disability, unemployment, and child benefit); targeting issues;
 - Relative to existing spending, full package out of reach for many Sub-Saharan African countries, but feasible for Indonesia?
- But: Progressive implementation of aspects of social security floor feasible and affordable:
 - Beginning with social pensions and/or public works;
 - Free health care similarly a possibility;
- Expansion of domestic resource base critical!
 - Tax base expansion feasible;
 - Supplemental donor support useful.

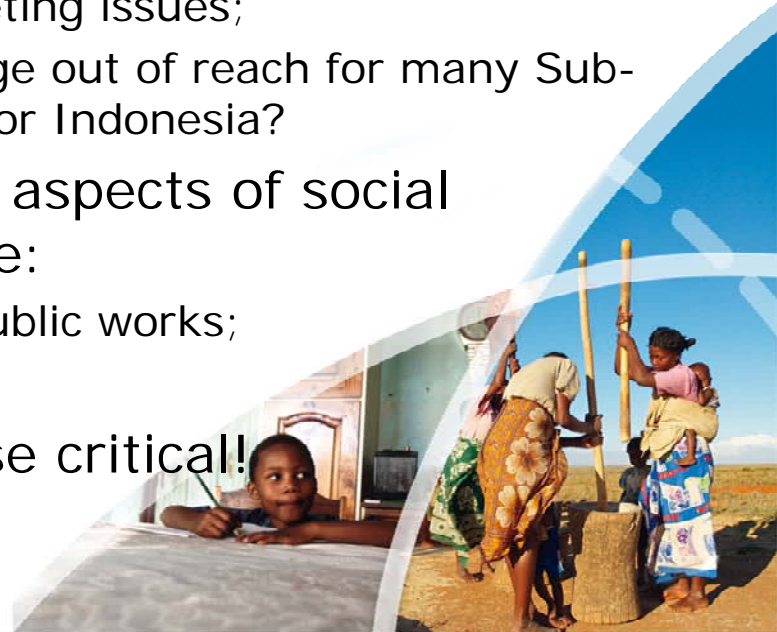


Table 1: ILO Basic Social Security and Fiscal Realities in Sub Saharan African Countries

Estimated costs of basic social security as percentage of GDP (2008)														
	Universal pensions	Basic health care	Child benefit	Social assistance/employment scheme	Admin. costs, cash transfers (ILO)	Admin. costs per capita (current USD, ILO)	Alternative 1 Admin. costs (current USD)	Alternative 2 Admin. costs (current US\$)	GNI per capita (current USD)	Total	ODA 2006	Tax 2006	Estimated basic social protection expenditure 2010	Social Protection plus health spending, latest year
Burkina Faso	1.1	5.5	2.8	0.6	0.7	2.6	6.8	5.1	440	10.6-12.1	14.1	11.1	1.1	4.9
Cameroon	0.8	2.6	1.8	0.4	0.4	4.0	7.6	6.5	990	6.0-6.8	9.2	11.1*	0.6	2.0
Ethiopia	1.0	3.6	2.8	0.6	0.4	1.0	5.7	2.3	170	8.8-12.1	14.6	10.7*	1.3	9.6
Guinea	0.6	1.5	1.5	0.3	0.4	1.2	5.8	2.0	400	4.4-5.9	4.9	n.a.	0.4	0.8
Kenya	0.9	3.0	3.0	0.6	0.7	3.5	7.3	5.9	580	8.2-9.5	4.1	18.3	1.6	1.6
Senegal	1.1	2.5	2.0	0.5	0.5	3.8	7.5	6.8	760	6.6-7.6	9	16.1*	0.6	3.6
Tanzania	1.1	1.4	3.1	0.6	0.7	2.1	6.4	5.5	350	7.9-9.7	14.2	n.a.	2.1	4.5

Indonesia: Subsidies 6.1% of GDP 2009 (4.9% energy, 1.2% food and agricultural subsidy)

Source: MoF Indonesia

Indonesia can afford more social protection!



Lesson 4: Success depends on institutional and administrative capacity (horizontal and vertical)

- 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.



A map of the African continent is shown in a light tan color. The borders of the various countries are outlined in a darker tan. A small red dot is placed on the map, indicating the location of Rwanda in the central-eastern part of the continent. The title 'Rwanda's Vision 2020 Umurenge (VUP)' is written in large, bold, red font at the top of the slide.

Rwanda's Vision 2020 Umurenge (VUP)

- Builds on the participatory community-based approach of *Ubudehe*;
 - Is a pillar of the country's poverty reduction strategy 2008–12. Rwanda is committed to reduce poverty and vulnerability through an integrated SP strategy;
 - Absorbs 50% of the national budget for social protection;
 - Payments are used to satisfy basic consumption needs and stimulate savings. The number of extreme poor among beneficiaries has fallen from 41% to 9%;
 - Fosters employment opportunities off farms; enhances the (formal) market economy.
 - Poverty reduction has been higher in male headed households; for female-headed households no significant reduction, raising questions about gender specificities in the programme
- ➔ **VUP shows that very decentralised administrative structures can improve targeting avoiding resource mismanagement and increasing local ownership and accountability.**

Lesson 5: Piloting, monitoring and evaluation help to build support and improve programme design

- **Monitoring and evaluation are crucial to understand possible weaknesses and build political support:**
 - The success of some of some Latin American experiences in conditional cash transfer programmes has depended critically on robust and independent evaluations, sometimes using randomized designs;
 - Much less evidence on impact is available for SSA, though some countries (e.g. Rwanda) are moving in this direction. Scope for enhancement!



Lesson 6: Minimising disincentives, building on existing informal systems and complementing market-based microfinance schemes is crucial

- Incentive issues in most recent programmes are less serious than presumed:
 - **South Africa:** evidence shows that Old Age Pension had a positive effect on adult labour supply - the probability that prime-age adults are employed is approximately 3% higher in households with at least one pension recipient;
 - **Ethiopia's** public works programmes: evidence of limited crowding out of private transfers; little evidence of disincentives for labour participation.



Focus: Social Protection South Africa Style (Reliance on Social Assistance)

- Formal sector-based social insurance system (health, pensions, unemployment);
- For those outside of formal sector: social assistance/transfer based social protection;
 - Long history of social assistance under *apartheid* government (‘poor white problem’);
 - De-racialization of non-contributory social pensions under last *apartheid* government (during transition);
 - Phase-in of means tested child grant since late 1990s, continuation of disability grants;
- Result:
 - Large and comprehensive system of means-tested unconditional grants-based social protection;
 - Covering some 40% of households, reaching most of the poor and vulnerable, size of transfer large;
 - Clear racial pattern: Whites largely within social insurance system, Blacks covered by social assistance;



Table 3: Medical aid coverage by population group and sex

Population group	Covered	Not covered	Total without unspecified	Total with unspecified
Total	8 293	40 743	49 074	49 382
Black African	3 503	35 417	38 945	39 193
Coloured	942	3 455	4 405	4 439
Indian/Asian	543	731	1 275	1 282
White	3 305	1 140	4 451	4 468

Source: Statistics South Africa (2009).

Households Receiving at Least One of SOAP, DG or CSG (Rows)

	Any Grant		
	Yes	No	Total
African	47.34	52.66	100
Coloured	35.68	64.32	100
Indian/Asian	27.71	72.29	100
White	13.45	86.55	100
Total	41.67	58.33	100

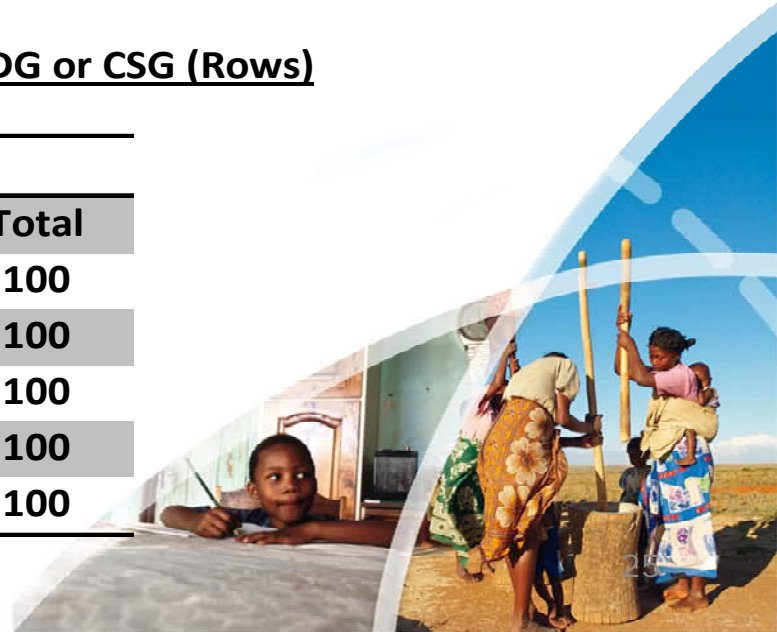
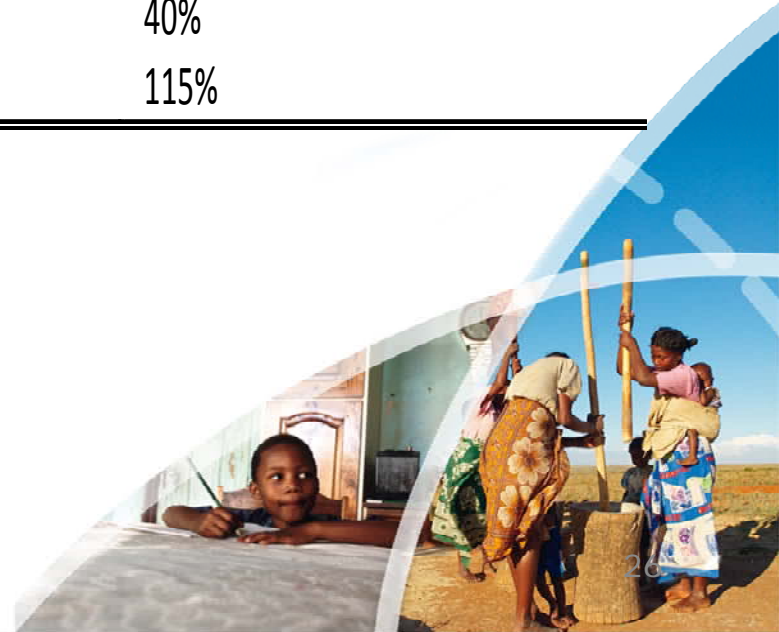


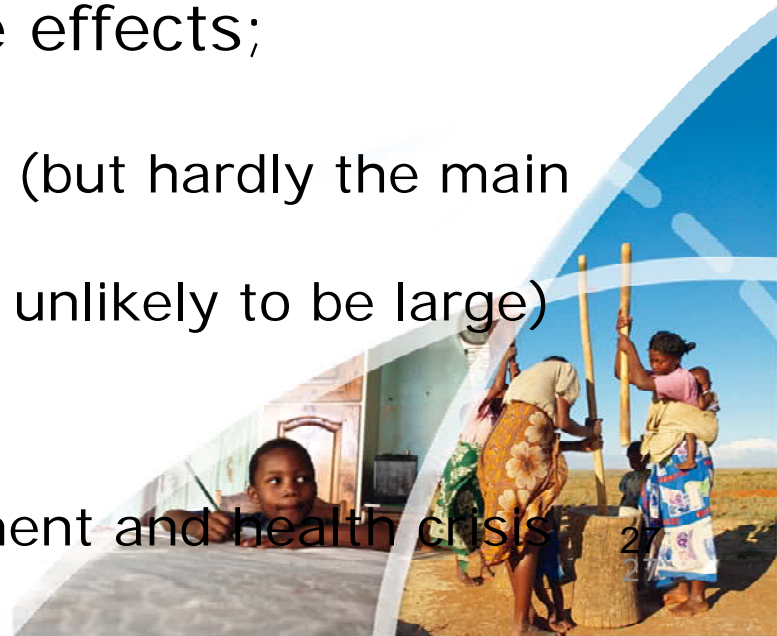
Table 7: Value of the grants in 2010

Grant type	2010 value in Rands (and PPP\$) per month	Grant value as percentage of median per capita income*
Old Age Pension	R1080 (PPP\$230)	175%
Disability Grant	R1080 (PPP\$230)	175%
Child Support Grant	R250 (PPP\$53)	40%
Foster Care Grant	R710 (PPP\$150)	115%



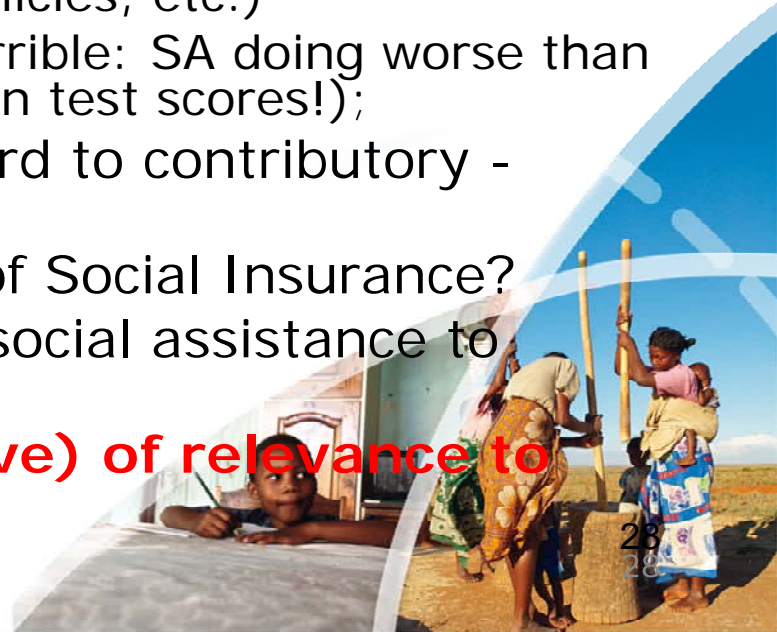
What works with Grants in SA

- Reaches the poor, vulnerable and unemployed (directly and indirectly)
 - Household formation adjusts to grant receipt;
- Fiscally sustainable (3.5% of GDP, tax/GDP: 27%)
 - Long-term sustainability not in question;
- Administratively feasible in SA context (but not cheap! \$40-50 delivery costs per year per recipient)
- Few (if any) direct disincentive effects;
 - Focused on inactive;
 - May reduce effective labor supply (but hardly the main reason for high unemployment);
 - Fertility effects understudied (but unlikely to be large)
- Politically expedient:
 - ‚Deserving‘ poor;
 - Income support while unemployment and health crisis remain unsolved;



Problems with Social Protection System in SA

- Social Insurance: Virtually no progress since 1994
 - (except poor quality, rationed by queuing free primary health care);
 - Health access remains highly uneven, access for the poor is low, and costs of system is high;
 - No progress on extending employer-based or other forms of contributory pension schemes;
 - No progress on support for unemployed (unemployment insurance, training, labor market policies, etc.)
 - (plus: education system remains terrible: SA doing worse than Kenya, Botswana and Mozambique in test scores!);
- Crowding-out issue: Esp. With regard to contributory - pensions?
- Political Crowding-Out of Progress of Social Insurance?
- No obvious transition strategy from social assistance to social insurance;
- **All lessons (positive and negative) of relevance to Indonesian case?**



Lesson 7: Maximising synergies between social protection programmes and other investments is important

- Social Protection can support complementary investment in health, education, agriculture:
 - PROGRESA-Oportunidades in **Mexico** marks the importance of the transition towards an integrated approach, ensuring the simultaneous provision of a basic package of health, education and nutrition, taking advantage of their complementarities;
 - **Kenya**'s school feeding program spreads benefits of social protection to children while boosting local agriculture;
 - Delivery mechanism can be used for other programs!



Lesson 8: Social protection promotes gender equality, empowers women and reduces social exclusion

- NREGA's quota for women has been consistently achieved, and women are paid the same wages as men;
- CCTs in Latin America generally allocate cash to women, promoting their empowerment and investments in children;
- Zomba Cash Transfer Programme in **Malawi** shows that targeting young girls enhances school attendance (3-4 times) and reduces pregnancy (30%), and the risk of HIV/AIDS infections.



From lessons to priorities

- There are opportunities for introducing SP in contexts of low and lower middle-income countries;
- Despite heterogeneity, in many low-income and lower middle-income countries, some specific programmes – such as non-contributory social pensions or child benefits – are generally administratively feasible;
- They can be fiscally sustainable, with few negative incentive effects. And they can garner broad political support;
- It is crucial, however, that a programme, once launched, can survive possible changes in local government and can be sustained if there is a change of government.
- Over time, more complex administrative arrangements can become feasible as countries accumulate experience and build up domestic resources.



Relevance for Indonesia?

- Many programs
 - BLT (cash transfer, now discontinued)
 - Raskin: Rice transfer
 - PNPM: Public works program
 - Askeskin, Kartu Sehat: Health insurance, health card for the poor
 - BOS: School operational assistance
 - PKH: CCT (in pilot phase)
 - JSLU: Social pensions for the poor
 - Huge energy, food, and fertilizer subsidies;
- Problems:
 - Considerable leakage (esp. for Raskin, Askesin, and subsidies)
 - No comprehensive approach, fragmented programs;
 - Too little for vulnerable groups (children, elderly, women);
- Options:
 - Universal social pension?
 - Child support grant?
 - Self-targeting employment guarantee scheme?
 - Extend BLT?
- Financing:
 - Reduce subsidies?
 - Consolidation of programs?



Conclusions

- **Indonesia can invest more in social protection!**
- **Would reduce poverty and vulnerability, promote growth and complement other social sector and productive investments!**
- **Developing a comprehensive approach required:**
 - Centered around a social pension, child support, targeted cash transfer program or extensive public works program?
 - Consolidate existing programs around this?
 - Redirect funds from energy subsidies;
 - Complementary expansion of social insurance system useful;
- **Challenges:**
 - Building political support for chosen approach;
 - Dealing with tensions between expanding social protection and promoting social insurance!



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

- Adopt a comprehensive policy framework for social protection, tied to concrete time-bound commitments and to dedicated resources.
- Seize opportunities in the pipeline and mobilise the wide array of instruments to leverage more EU - Commission and Member States- support to social protection.
- Raise awareness on social protection, especially in the field. Build capacities and provide joint training to EU personnel.



2. Promote and support domestic processes

- Support the promotion and implementation of an African-owned social protection agenda, starting with the AU Social Policy Framework for Africa.
- Ensure that interventions are consistent with domestic priorities and needs.
- Provide technical and financial support to build capacities at all levels, including civil society.
- Promote participatory approaches, support domestic 'champions' and strengthen dialogue with 'veto players'.
- Do not institute/support donor-driven programs !



3. Assist in tackling affordability

- Support SSA countries on the path to tax reform and improved domestic resource mobilisation, including through policy dialogue on fiscal aspects of SP and broader public financial management.
- Honour ODA commitments.
- Explore innovative financing options (e.g. the Global Social Trust concept or a possible Social Protection Fund for Africa).
- Support high initial and fixed-up start-up costs (e.g identification & registration, delivery)
- Provide predictable and reliable funding, preferably with an agreed exit strategy from the onset, especially when supporting recurrent spending.



4. Tailor modalities to specific contexts and needs (1)

- No 'one size fits all', need for deep-rooted understanding of local contexts and politics.
- A package including budget support, policy dialogue and capacity-building may be appropriate to promote ownership and home-grown SP systems. Depends on local conditions and quality of the 'aid contract'. Innovative 'Cash-on-Delivery' contracts might be an option.
- Donor-driven pilots should be limited. Pilots need to be domestically embedded.



4. Tailor modalities to specific contexts and needs (2)

- In situations of fragility, an agenda focusing on emergency assistance and transfers, public works, input supplies and basic healthcare might be first priority before long-term rebuilding.
- Monitoring & Evaluation are key. Allocate appropriate resources and improve impact evaluation techniques and support rigorous impact evaluations and learning.
- Explore solutions to improve poverty and vulnerability data, e.g. UN Global Pulse Initiative.



5. Support knowledge-building and lesson-sharing

- Support evidence-oriented research, with a focus on African analysis to enhance relevance and legitimacy. Disseminate results to policymakers.
- Embed Social Protection in Africa-EU dialogue at all levels to facilitate lesson-sharing and enhance political will on both sides.
- Share EU lessons (information, study tours, workshops, training...) at partners' request.
- Provide support to South-South learning, building on examples of good practice and on the potential of existing EU dialogues.



6. Improve the coordination, complementarity and effectiveness of EU action

- Establish a network of EU “social protection and development” experts and policymakers, and map EU assistance to SP.
- Implement the *EU Code of Conduct on Complementarity and Division of Labour* (DoL) for both in-country and cross-country DoL. Hold discussions at EU level to agree on whether SP should be approached as a sector or as a cross-cutting issue (and how).
- Improve and promote Policy Coherence or Development. Clarify linkages by assessing impact of other EU policies (e.g trade) on SP



7. Strengthen EU partnerships for a progressive social protection agenda

- Work closely with strategic partners to translate EU commitment to social dimension of globalisation into practice.
- Cooperate further with Africa Union and AfDB, to embed EU support in African momentum.
- Support regional cooperation in social policy and SP.
- Explore partnerships with private sector to leverage support to SP through innovative Public Private Partnerships (PPPs).



In summary

- Time is ripe for a new Africa-EU SP agenda;
- There is a growing consensus on SP benefits;
- The post-crises environment calls for a renewed partnership;
- SP programmes exist in SSA and can have a positive impact;
- Regular, robust and independent evaluations are crucial;
- With commitment, vision and support building up SP is feasible;
- The choice of specific programmes is country-specific.
- SP can and should be a distinctive feature of the EU development agenda



Ethiopia: A survey on households reporting events or shocks affecting their wealth or standard of living in last four years

	Urban Ethiopia	Rural Ethiopia
Any shock?	67	86
Illness in family	22	31
Price shocks	21	38
Job loss	18	6
Death in family	15	14
Theft/crime	13	14
Livestock death	6	36
Land eviction	6	3
Crop pests	6	40
Drought	5	44
Rain/flood	3	22
Frost	1	12



Lessons for other SSA Countries?

- In principle, attractive for poor countries who face similar problems
 - High social protection needs (due to high unemployment and other vulnerabilities);
 - Politically expedient and quick results for the poor:
 - Cash transfer system easier to implement than difficult health and education reforms to improve access and quality?
 - Esp. Old age pensions fairly straight-forward to implement and can have good targeting and poverty performance;
- South African system cannot be emulated in entirety, esp. in poor countries:
 - Fiscal Costs;
 - Lower tax base;
 - Donor funding unreliable;
 - But reallocations (from education and health)? Need to carefully compare comparative effectiveness!
 - Administrative capacity and costs;
 - Programs don't fall from heaven: need domestic constituency!
 - Possible to start with one element (e.g. OA pensions)

