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Even poor countries can afford basic social protection schemes, from which their economic development will benefit, as well

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Bonn, 6 December 2010. This week sees the publication of the second issue of the European Report on Development (ERD), which is funded by the European Commission and some EU member states, Germany among them. The European University Institute (EUI) in Florence had won the competition to draft the first two issues: While the first was devoted to overcoming the phenomenon of "fragility," i.e. weak statehood, which is affecting an increasing number of states in Africa, this year's report concerns social protection in sub-Saharan Africa.

The recommendations made in the report are not particularly innovative for experts. What is remarkable, however, is how clearly the authors, most of whom are economists, advocate much stronger engagement of the state in social policies even in the low-income countries of sub-Saharan Africa. According to the authors, these countries are quite capable of establishing, financing and administering a modest floor of basic social protection schemes, and if they did, might contribute to growth, poverty reduction and the achievement of the Millennium Development Goals.

The report draws on the findings of research conducted during recent years that highlight how important a role social protection plays not only in the social but also in the economic and political development of countries. People without access to adequate social protection are in danger of falling (even deeper) into poverty once a shock occurs because of risks such as illness, harvest failure or work disability. They may then have to use savings, to sell livestock or other means of production or to send their children to work rather than school in order to be able to finance their daily needs. In this way, they deprive themselves of the livelihoods which might otherwise help them to establish at least a modest existence by their own efforts.

Even more serious is that households without social protection shy away from investing savings from the outset: they hoard extra income in order to be liquid and be able to cope with shocks causing a loss of income or unexpected expenditures.

In contrast, people who enjoy some basic social protection are more willing to invest in education and productive capital, which entail additional risks, but also harbour the prospect of improvements in income. Empirical studies suggest that the existence of social protection schemes strengthens the propensity of households, especially those who work in the informal sector, to invest and so promotes economic growth precisely where it is most likely to help reduce poverty.

And finally, social protection schemes also contribute to political stability. By reducing poverty and economic insecurity, they lower a society's inclination to resort to violent forms of conflict over political aims.

But above all they show citizens that the state feels responsible and cares for them. Many studies point out that, where public social protection schemes exist, citizens identify more closely with the state and show their willingness to fulfil their obligations to the community.

Basic social protection is, thus, not only a preventive instrument of poverty reduction but also reinsurance for business activities and the material basis of a social contract accepted by every citizen.

It is rightly asked how low-income countries can finance social protection schemes. And the past experience of developing countries – especially in sub-Saharan Africa – tends to foster doubts about their ability to do so. Hardly anywhere, for instance, is the majority of the population covered by social protection systems that the members themselves finance through their contributions: social and private insurance schemes and community-based mutual insurance associations. The reason for this is that, particularly in low-income countries, the contributions to these schemes are too high for most people – not least because members have to finance not only insurance premiums but also considerable administrative expenses for marketing, premium collection, servicing policyholders and settling their claims.

At the same time, social transfer schemes financed by the state from tax revenues have long been rejected on the ground that there were no financial margins in government budgets of low-income countries.

This year's ERD objects that this is seen differently now in the academic debate. Low-income countries cannot, of course, afford comprehensive social protection for all their inhabitants. But they can find satisfactory solutions for particularly vulnerable groups. Lesotho, like other African countries, has, for example, created a tax-financed system that grants a very modest flat pension to everybody over a certain age, regardless of their residual income and circumstances. Although Lesotho is a very poor country, the programme costs less than 2 per cent of gross national income. The transfers benefit not only the elderly but also, in many households, their student grandchildren who want to lay better foundations for their later working lives. Similarly, Ethiopia has built up a programme that provides paid jobs to poor families in the construction of rural infrastructure. Even if an African country built up both of these programmes and added an unconditional cash transfer programme for orphans, the total cost estimated by the International Labour Organisation would not exceed 6 per cent of national income in any sub-Saharan African country. The reallocation of budgetary resources should enable even low-income countries to raise funds of that magnitude.

Unfortunately, this year's ERD does not explain how and by whom social protection is to be organised where the state is unwilling or unable to do this. In such cases, social protection can be provided only by non-governmental actors, building up, for example, micro-insurance schemes. The ERD does not take this course of action into account, because it restricts the definition of social protection to action conducted by the state. Where efficient government does not exist, self-help in the shape of, say, mutual insurance continues to be the only way out. And this is now true of a quarter to a half of all countries in sub-Saharan Africa, as the authors themselves noted in last year's ERD.

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