



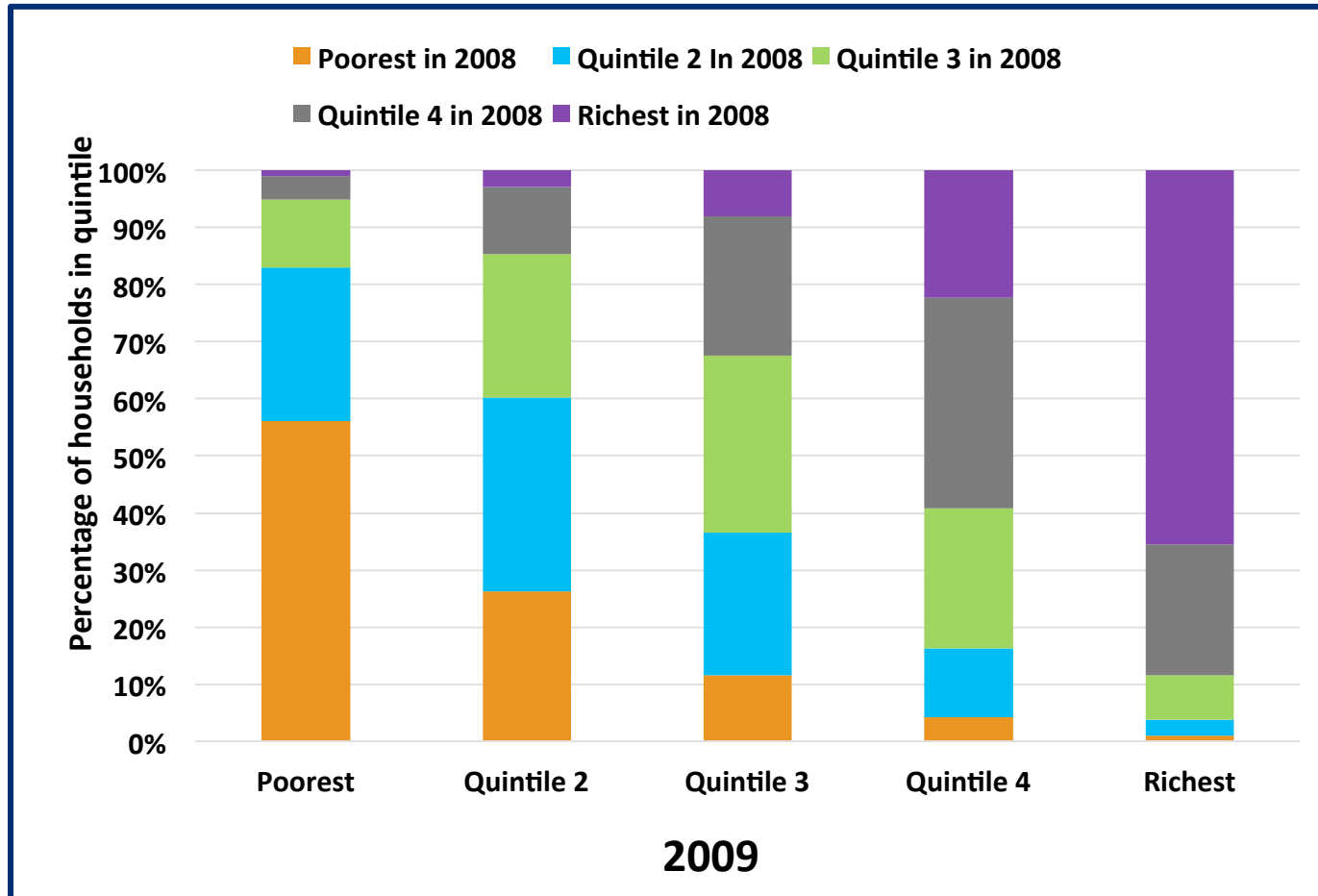
Social protection and economic growth



Stephen Kidd

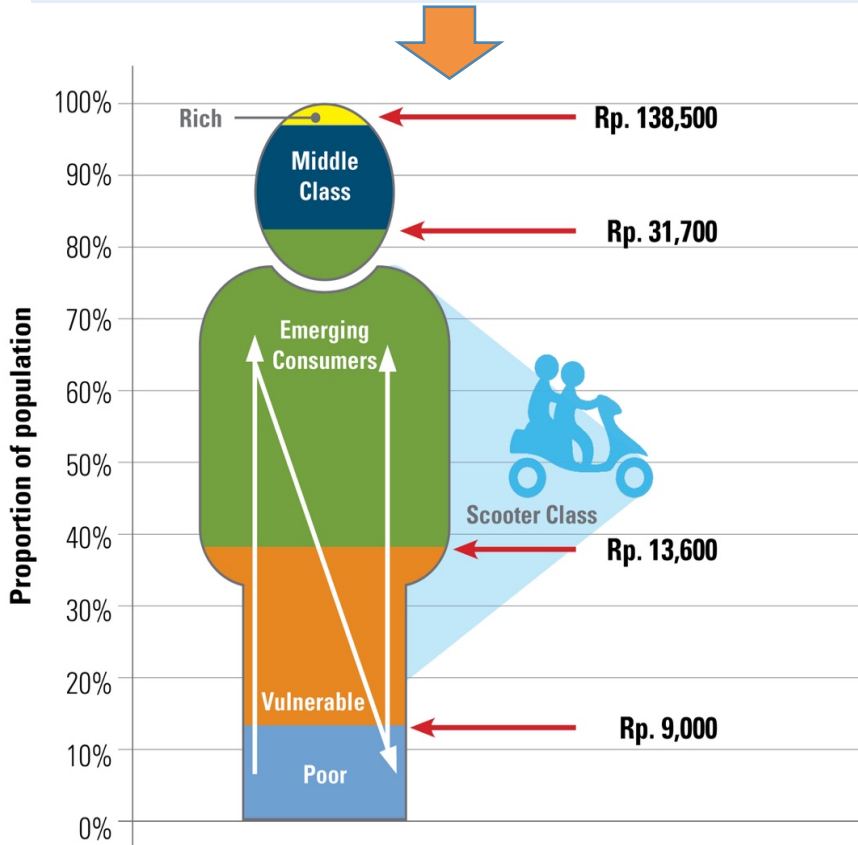


Consumption dynamics: high levels of insecurity

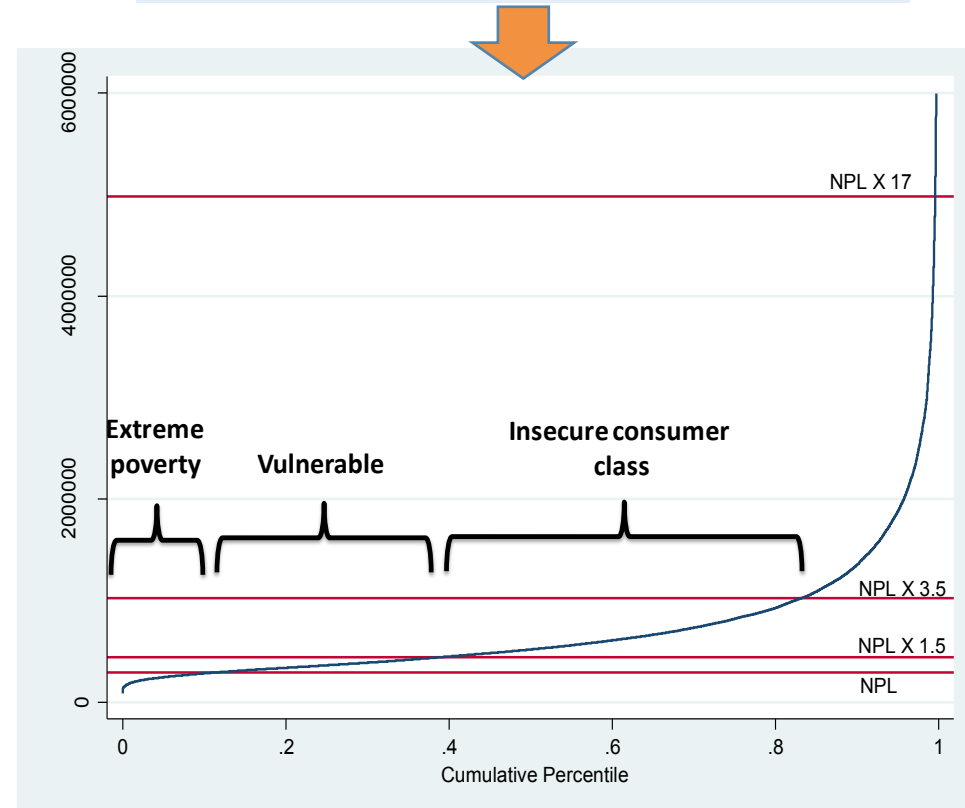


Many of those on middle incomes are still on low incomes

Economic classes in Indonesia



Differences in consumption



Impacts of social protection on labour markets and economic growth

- **Household level impacts**

- Strengthens development of children, the future labour force
- Enables people to engage in the labour force and deal with risk and shocks
- Helps particular groups of workers, such as mothers of young children and people with disabilities

- **Community level impacts**

- Promotes more dynamic local markets

- **National level**

- Helps tackle inequality and promotes social stability
- Facilitates structural reforms in the economy
- Enables a more flexible labour market
- Generates greater consumption and demand in the economy

Improving the future workforce: Impact of social transfers on nutrition

Challenge

- 36% of young children are stunted, and up to 58% in some areas of the country
- Stunting causes irreparable damage to children's physical and cognitive development, impacting on their education, health and productive capacity once they enter the labour force
- Children that are stunted are more likely to be obese and experience non-communicable disease in later life

Evidence

- **South Africa:** children living with an old age pensioner or receiving a child grant are 3-5 cm taller
- Children receiving the child grant when very young perform better at Maths and English
- Also, less likely to be ill when at school, especially boys
- **Colombia:** incidence of diarrhoea in children younger than 24 months was reduced by 36%
- **PKH:** stunting rates reduced by 2%

Improving the future workforce: School attendance and performance

Challenge:

- 3.5 million children not in primary and junior secondary education
- A third of children in junior secondary do not pass into secondary school
- 2.7 million children are involved in labour
- 15 year olds in Indonesia were ranked 50th out of 57 countries in Maths, Science and Reading

Evidence on school participation:

- **South Africa (Pension):** Attendance among poorest quintile increased by 8%
- **Brazil (Pension):** Pension has reduced the enrolment gap among girls by 20%; *Bolsa Familia* reduced probability of dropping out of school by 63%
- **Pakistan (Stipend):** increased enrolment of girls by 32%
- **Uganda (Pension):** 30% fall in number of school days missed

Evidence on Child Labour

- **Pakistan (Stipend):** In Punjab, child labour among girls fell by 50%
- **Uganda (Pension):** 24% reduction in proportion of girls engaged in labour (no impact on boys)

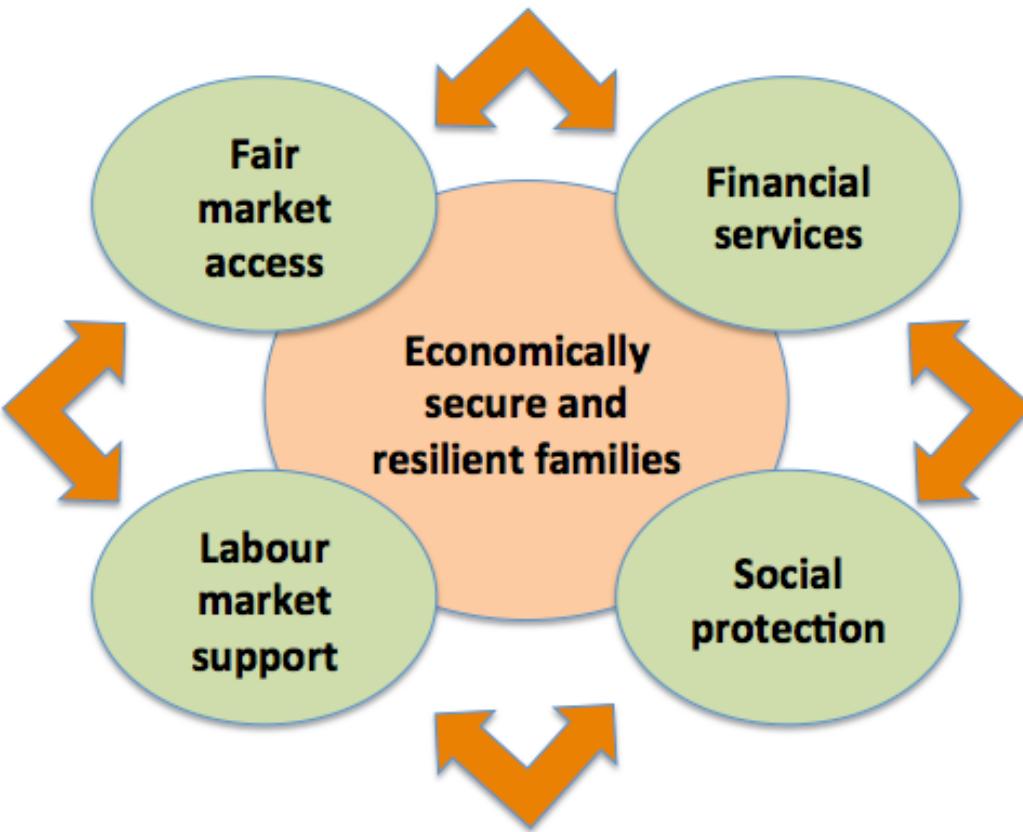
Impact of improved home environment

- Well-nourished children perform better at school, adding 10% to their lifetime earnings (WB 2006)

Social protection enables people to engage in the labour market

Social protection gives:

- Security and predictability in lives of beneficiaries
- Greater ability to deal with shocks and crises
- Cash for investment and to access employment
- Greater access to credit
- Healthier workforce
- Care of young children to enable parents to work



Regular, predictable transfers change how people behave

Without

- No income security
- High proportion of the population in the informal and subsistence sectors live from day to day
- They cannot plan for the future and much less likely to invest
- Fearful of taking risks

With

- People have some degree of income security
- They can take a longer term view and begin to think about investment
- They know that if they take a risk and invest in more productive activities, they will still be able to feed their family if they fail

Investment in income generating activities

Investment in agriculture

- **Zambia** (Child Benefit): 34% increase in area of land worked, and 50% increase in value of production
- **Uganda** (Pension): 42% increase in households purchasing agricultural productive assets: also diversification into higher value non-traditional crops

Investment in livestock

- **Uganda** (Pension): 9.5% increase in households with livestock and 94% increase in number of households purchasing livestock over the year
- Similar evidence in **Kenya, Lesotho, Zambia** and **Malawi**

Investment in small enterprises

- **Zambia** (Child Benefit): 16% increase in families undertaking non-farm business
- **Brazil** (*Bolsa Familia*): increase in families investing in small businesses

Access to credit

- Recipients of SP transfers are seen as better credit risks so are more likely to access a loan
- When transfer payments are done through banks, people can gain access to other financial services

Transfer “plus” programmes

Bangladesh (Graduation)

- Provide families with regular cash stipend, mentoring and training, and an asset (often livestock).
- Costs US\$600 over 2 years.
 - Increase in income of only US\$26 per year
 - 765 additional hours worked so additional income of US\$0.03 per hour
 - Children also engaged in work to support activities
 - Following programme end, 50% experienced a decrease in assets
- If money had been invested in bank account, impacts could have been similar

Peru (*Haku Winay*)

- Provides beneficiaries of Juntos with
 - Family production system (training, assets, advice);
 - Healthy housing (safe kitchens and water etc)
 - Grant competition for local business (advice and training)
 - Financial education
- Costs US\$1,300 over 3 years
 - US\$500 increase in income
 - 11% more families believed health had improved
 - Greater increase in confidence in financial system

Increase in employment rather than dependency

South Africa (Child Grant)

- Beneficiaries are 15% more likely to be in work; 18% more likely to look for work (buy better clothes for interviews: can pay bus fares)

Uganda (Pension)

- Among working age household members, proportion working increased from 74% to 81%, alongside a 16% increase in the number of hours worked each week

Brazil (Bolsa Familia)

- Labour participation increased by 2.6 percentage points (4.3 for women)

South Africa (Pension)

- Young men in poorest two-thirds of households are 4% more likely to migrate once the household receives an old age pension

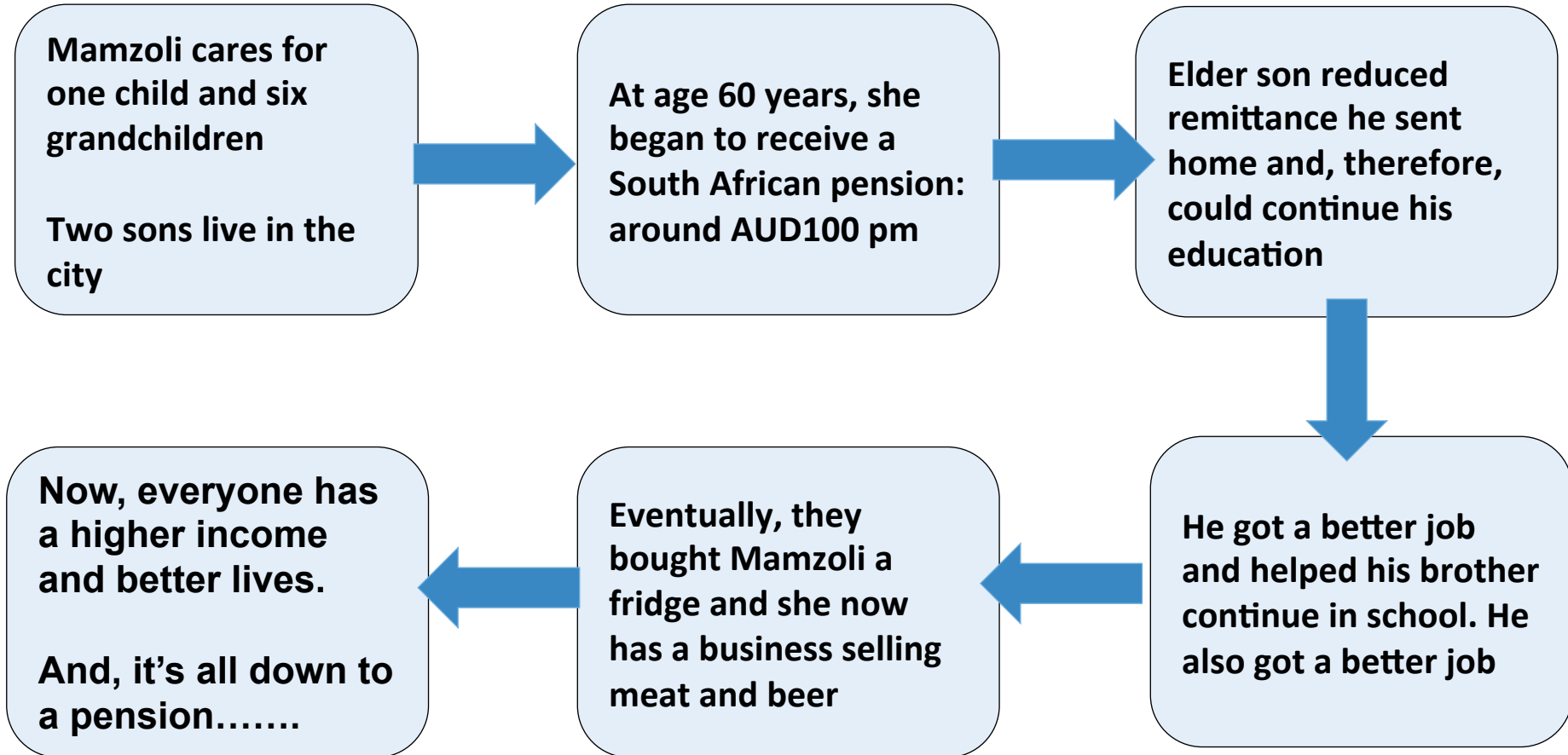
Ability to recover from crises

Challenge:

- During a crisis, when people do not have access to social protection, people may well sell off their productive assets – such as animals or agricultural implements – to help them cope.
 - **Zimbabwe:** assets 46% lower following a crisis
- Once crisis is over, people find it much more challenging to return to full productivity, as they no longer have as many assets
 - **Kenya:** Hunger Safety Net Programme provided households with important buffer during crises, so that consumption did not fall
 - **Ethiopia:** 60% of households on PSNP avoided selling assets to purchase food
 - **Nicaragua:** Recipients of *Red de Proteccion Social* scheme were able to cope with fall in coffee prices (2000/01)

Impacts happen over time:

Example from South Africa



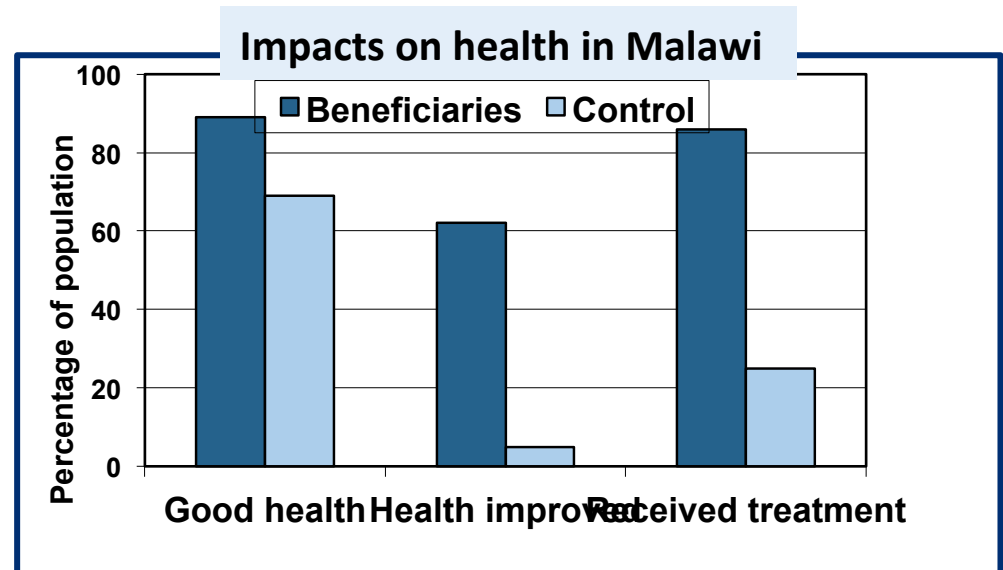
A healthier and more productive workforce

Challenge:

- Poor health causes 100 million people to fall into poverty each year
- If illness affects a breadwinner in the family, this results in a significant loss of income as well as additional costs
- **Bangladesh:** 87% of disabled workers leave employment within one year: 56% of carers give up more than 15 hours work per week

Evidence

- **Mexico** (Oportunidades): health visits increased by 16%
- **Uzbekistan** (child benefit): 12% spent on health
- **Lesotho** (pension): 50% of recipients increased spending on health



Enabling mothers of young children to return to labour force

Challenge

- Female labour force participation in Indonesia is one of the lowest in Asia
- One reason is the challenge women face in returning to the labour force after childbirth

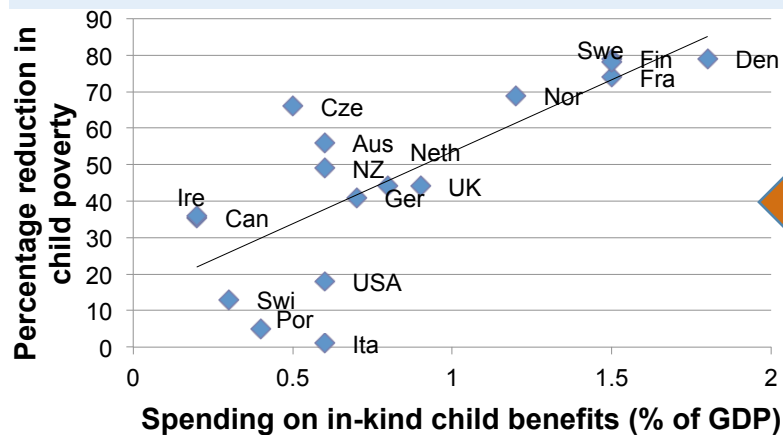
Maternity insurance:

- Can smooth income of families after childbirth

Old age pensions

- Enable grandmothers to care for grandchildren, so that mothers return to work

Relationship between poverty reduction and child care investment



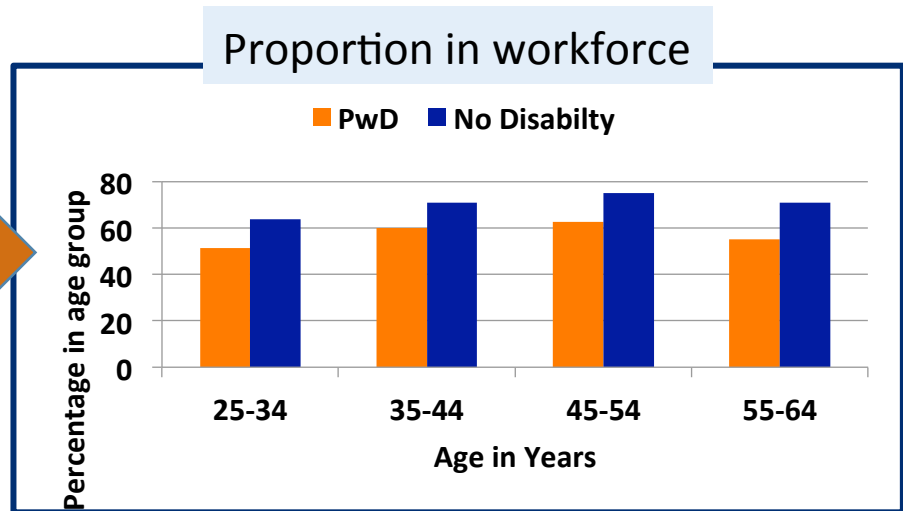
Childcare

- Subsidised (or free) childcare facilities linked to lower child poverty in developed countries
- Studies in UK, Denmark and Canada indicate that it can pay for itself
- In Quebec, it increased GDP by 1.5%.

Making full use of people with disabilities in the labour force

Challenge

- People with disabilities less likely to be in workforce, in particular among women
- Pay is lower and jobs are often less productive
- **Bangladesh (2008)**: the exclusion of PwDs from the labour market resulted in an annual loss of US \$1.125 billion (1.2% of GDP) in income across the populatio
- **LICs/MICs**: estimates of losses in productivity across a number of countries due to disability ranges from 1% to 7% of GDP

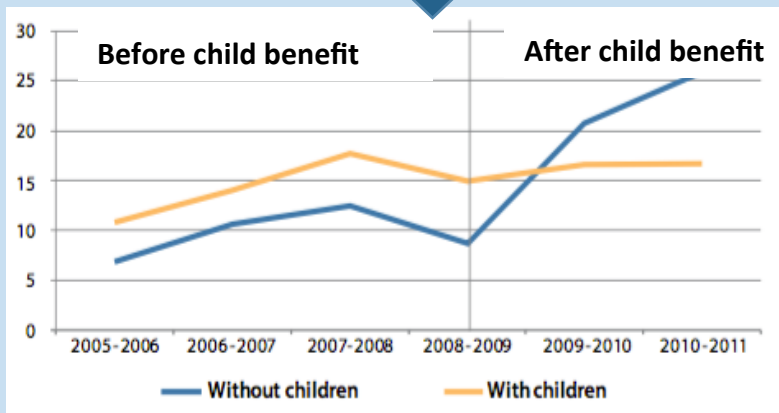


- A Disability Benefit can enable PwDs overcome the additional costs of accessing the labour market
- Need to combine with other measures such as enforcement of law that firms must have PwDs as 1% of their labour force

Caution: poverty targeting can create poverty traps

Argentina (child benefit):

- Paid to those families that are unemployed or are working in informal sector (30% of children)
- Recipients are more likely to remain in the informal sector



Uruguay (Child benefit):

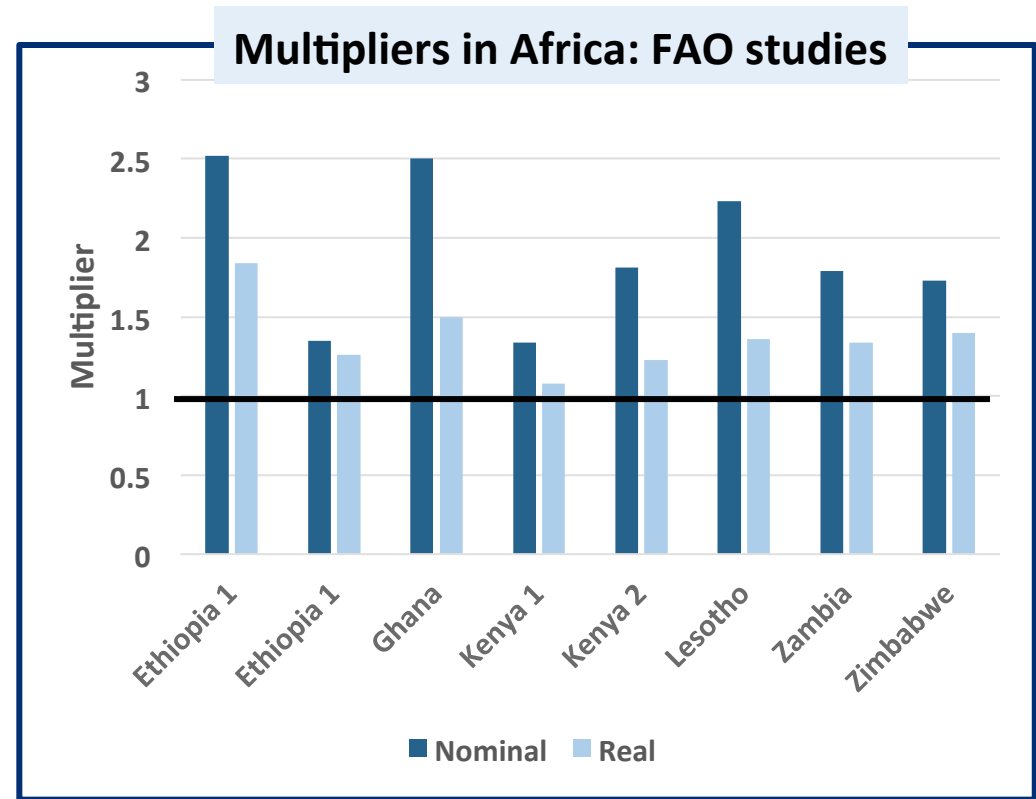
- Paid to 42% of children and targeted using a proxy means test
- 20% fall in formal employment among beneficiary women around eligibility cut-off
- Entry into formal employment among beneficiary women is up to 27 percentage points lower than for non-beneficiary women

Georgia (TSA):

- Targeted to poorest 15% of families
- Women receiving the TSA are 9 to 11 percentage points more likely to be economically inactive when compared to women in non-participants' households

Local economic multiplier impacts of cash transfer schemes

- Mexico:** large increase in assets among non-recipients of the *Oportunidades* transfer because they sell services and goods to recipients
- Uganda:** old age pensioners hire labour to work in their fields; local traders gaining more business: “There is more cash now. Whatever we stock we are sure when the elderly get these transfers, we will sell, thus more profits. The commodities spend less time on the shelves because they are bought instantly”

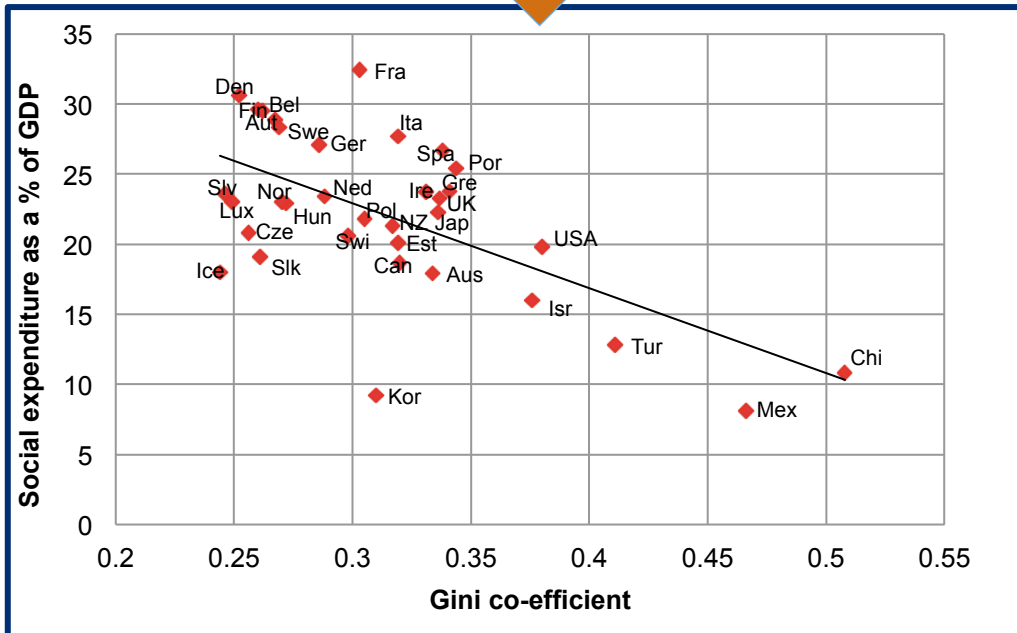


Studies used Local Economy-Wide Impact Evaluation methodology (LEWIE)

High inequality has negative impact on economic growth

OECD Social expenditure

$$R^2 = 0.38$$



Brazil: Old age pensions reduce inequality by 12%, while the targeted *Bolsa Familia* programme reduces it by only 0.4%

Georgia: Social transfers reduce Gini coefficient from 0.41 to 0.36, with 75% explained by the Universal Old Age Pension

Strengthening social cohesion, promoting stability and encouraging investment

Europe

Post 2nd World War, there was a massive expansion of social protection – along with other social services – across Europe and it contributed to ensuring stability

Mauritius

Established a universal pension in the 1950s. IMF argued that it helped the country overcome racial divisions and established the platform for significant expansion of the economy

Nepal

Universal pension established in 1997 which was delivered to areas controlled by Maoists during the civil war; following peace, it massively expanded its social security schemes as a peace dividend

South Africa

With the fall of apartheid, the ANC expanded and made equal its social security schemes as a means of generating stability and providing the black population with a concrete link to the state

Social protection facilitates structural reforms to the economy

China

Restructuring of state owned enterprises facilitated by introduction of Minimum Living Standards Scheme

Directed initially at those losing jobs – mainly middle aged men in urban areas – and now reaches 60 million

Reduced social conflict

Bolivia

Privatised its energy industry in mid 1990s amid significant opposition.

A universal pension was established – financed by the taxes from the energy companies, to reduce opposition

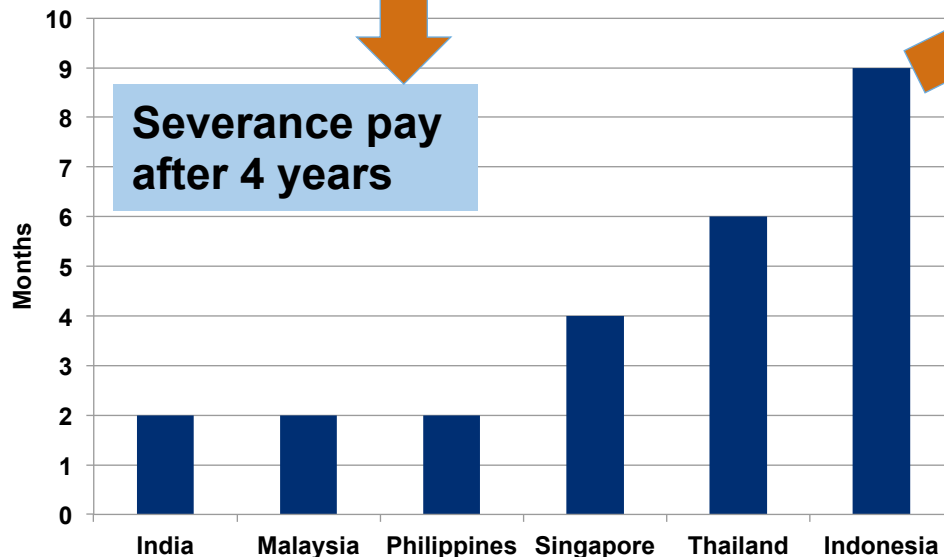
Mexico

Disruption to rural livelihoods caused by signing of North America Free Trade Agreement (NAFTA) was addressed by implementing a number of social transfer schemes in the 1990s, which continue today as *Oportunidades*

Well-designed social protection can support a more flexible labour market

Challenge

Rates of severance pay in Indonesia are among highest in the world, reducing competitiveness



Impacts on productivity and economic growth:

- Investors discouraged
- Increases informal labour and short contracts
- Discourages training of work force

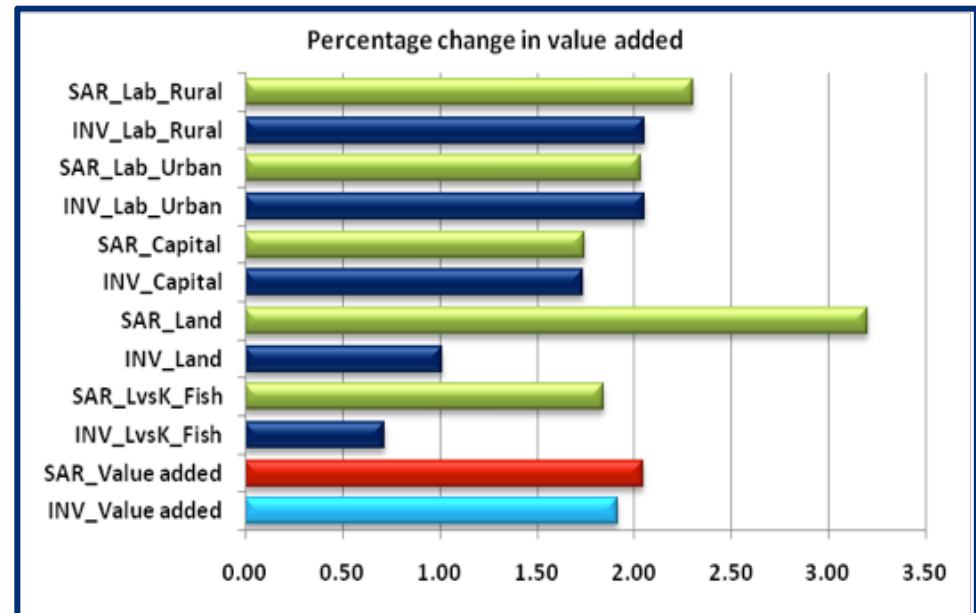
Unemployment insurance offers alternative

- Encourages workers to accept greater labour market flexibility
- Can be linked to BPJS

Social security investments stimulate consumption and demand

- **Developed countries:** spending of 14% of GDP generates demand in the economy
- **Uzbekistan:** With fall of Soviet Union, invested 4% of GDP in child benefits, suffering less from crisis than other countries. Boosted spending again during global recession, maintaining GDP growth of 8%
- **Thailand:** provided universal pension coverage in 2009 to stimulate economy
- **China:** massive expansion of pensions to increase consumption and demand

Potential impact on GDP in Vietnam of investment of 0.8% of GDP in social transfers and infrastructure

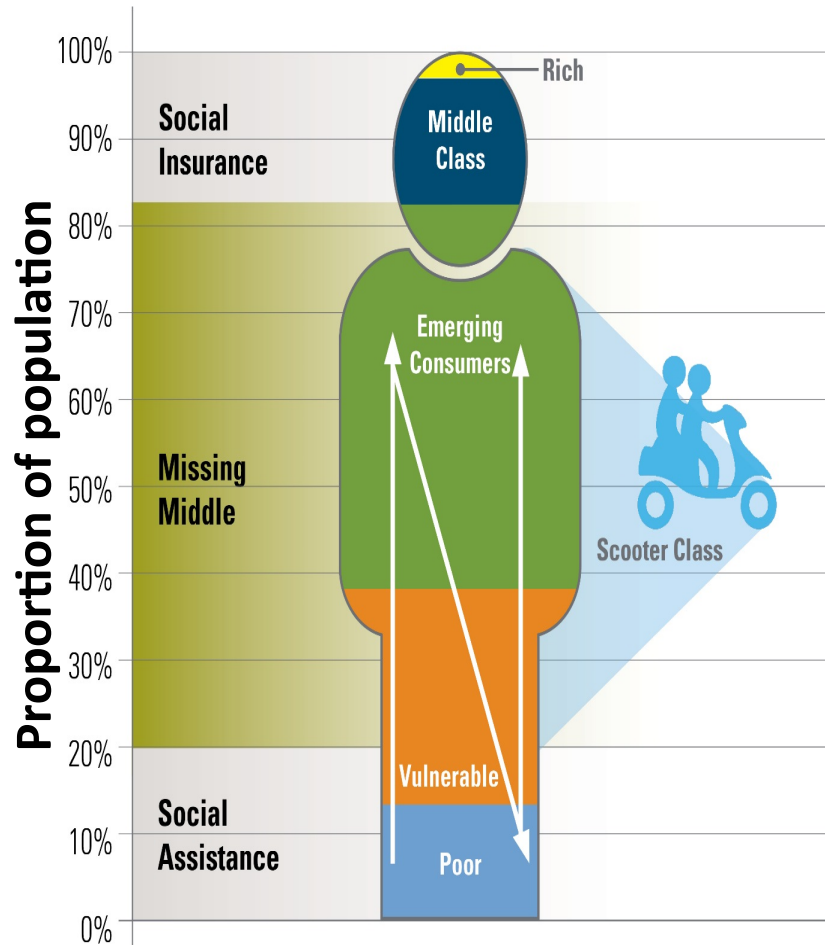


Study used Social Accounting Matrix model for simulations

Contributory schemes provide funds for investment

- While there are many benefits from tax-financed transfers, countries should also build social insurance schemes and private contributory schemes (for old age and disability pensions)
- These schemes can offer additional social protection benefits
- But, well-designed schemes can offer significant funds that can be invested in business

So, to gain these benefits, who should Indonesia reach with social protection?





Thank you!

Contact:

Stephen Kidd

E: skidd@developmentpathways.co.k

W: www.mahkota.or.id

