Financing social protection for children in crisis contexts

Armando Barrientos and Miguel Niño-Zarazúa
Brooks World Poverty Institute
The University of Manchester

Abstract

The global financial crisis sharply underscores the fundamental role of social protection institutions for children in developing countries. The crisis is widely expected to lead to higher levels of poverty and vulnerability in developing countries. It may also reduce the fiscal space in low-income countries, due to the effects of a growth slowdown on government revenues. How to finance social protection for children through crises emerges as a key question for policy makers. The paper discusses three dimensions of financing: resource mobilisation, redistribution and insurance. It draws relevant policy lessons from a number of developing countries.

Key words: Social protection, children, poverty, financial crisis, developing countries

1. Introduction

The global crisis sharply underscores the need to strengthen social protection institutions in developing countries, especially in low-income countries. Before the onset of the crisis in 2008, a growing body of research demonstrated the effectiveness of social protection programmes in reducing poverty and enhancing human development.¹ The growth of social protection in the South is very impressive, and has been described as a ‘quiet revolution’ (Barrientos & Hulme, 2008). It reflects an emerging consensus among many national governments and international organisations that eradicating poverty in the world requires economic growth, basic service provision and social protection.² In developing countries, the recent extension of social protection has taken place through social transfer programmes, focused on poor households and communities. Children are the main beneficiaries of social transfer programmes.³ The global crisis is testing the effectiveness and resilience of the emerging social transfer programmes.

The main objective of this paper is to draw key lessons for the financing of child-focused social protection through the crisis. First we consider three relevant perspectives on financing social policy: resource mobilisation; insurance; and redistribution. Second we reflect on current social protection responses to the crisis in developing countries.

¹ Corresponding address: Humanities Bridgeford Street Building, Oxford Road, Manchester, M13 9P, United Kingdom. Emails: a.barrientos@manchester.ac.uk; Miguel.ninozarazua@manchester.ac.uk.
In the decade prior to the onset of the crisis, large-scale social transfer programmes had emerged in the South, many with a particular focus on children. This makes a lot of sense. Not only are children the largest group within the global poor; but they are also at the centre of the fight against intergenerational poverty. The focus on children signals the fact that social protection is as much to do with reducing current poverty, as with investing in the future (Barrientos & DeJong, 2006).

Social transfer programmes are diverse in terms of objectives and programme design. Some take the form of pure income transfers, as in the case of South Africa’s Child Support Grant. In other countries, programmes link income transfers with basic service provision. Mexico’s Oportunidades, and Brazil’s Bolsa Familia, for example, provide income transfers to poor households on condition that household members access schools and health clinics on a regular basis. In a handful of countries, transfers are combined with a wide range of interventions along several dimensions of wellbeing, integrated and sequenced within the programme. Chile’s Chile Solidario and Bangladesh’s Challenging the Frontiers of Poverty Reduction: Targeting the Ultra-Poor are relevant examples. Some of these programmes are directly focused on children. But even where programmes are focused on older persons or unemployed adults, children are often the main beneficiaries (see e.g. Duflo, 2003; Ravi & Engler, 2008). There are important differences between social transfer programmes in middle-income countries and those in low-income countries. On the whole, middle-income countries have greater financial and administrative capacity to implement social transfer programmes to scale. In low-income countries, on the other hand, programmes are often introduced at a small scale, their institutionalisation is precarious, and sustainability is a constant concern.  

Financing has emerged as a key constraint in discussions on extending social protection in developing countries (Barrientos, 2008). European countries financed the construction of their welfare state after 1950 through an increase in tax revenues, and especially social security payroll taxes. It is unlikely that developing countries today could replicate this experience. Globalisation places strong pressure on the capacity of developing countries to raise taxation. The size and significance of informality in the South in particular limits the scope of social security payroll taxation. The issue of how to finance the extension of
social protection in developing countries calls for hardheaded, innovative responses, especially in times of crises.

The paper finds that it is helpful to cast issues of financing in a broader context. An optimal financing mix should do three jobs well: firstly, generate the resources needed to establish and strengthen appropriate social protection systems; secondly, ensure that the incentives generated by the financing modalities reduce child poverty and child vulnerability; and, thirdly, secure legitimacy for social protection institutions and policies.

Section 2 of this paper examines three approaches to financing social protection. First, the resource mobilisation approach focuses attention on generating new sources of finance, and highlights the role of government revenue collection efforts and international aid. Second, the insurance approach puts the emphasis on socialising the costs of poverty and vulnerability. Thirdly, the redistribution approach looks at countries’ capacity to transfer resources from better off groups to groups in poverty. This provides a framework to discuss country and regional experiences with financing child-focused social protection through the crisis. Section 3 of the paper outlines social protection responses to the crisis in selected countries, particularly their financing. The final section draws out the main lessons and looks to the future.

2. Approaches to financing social protection

Despite growing consensus around the need to extend social protection in developing countries, financing remains a key constraint. In low-income countries with limited social protection in place and wide-ranging demands on available resources, policy debates around social transfers are commonly framed in the context of international assistance. Donor enthusiasm for social protection often meets resistance from finance ministers rightly concerned over the sustainability of programmes through the medium term. In middle-income countries with social protection programmes in place, financing constraints usually arise in the context of balancing the demands from subsidising social insurance programmes for workers in formal employment and those from emerging social assistance programmes focused on poor households (Levy, 2008). The financing constraints and potential policy responses will therefore vary across countries, their levels of development, and their institutional settings. It will be useful to begin by discussing three broad
approaches to the financing of social protection. This section considers in turn revenue mobilisation, insurance and redistribution.

Revenue mobilisation

Discussion on financing the extension of social protection in developing countries has been dominated by the revenue mobilisation approach – the need to find ‘new money’ to finance transfer programmes. In low-income countries in particular, discussions on the extension of social protection are commonly premised on additional aid flows. Among multilaterals and bilaterals, the extension of social protection in developing countries is framed almost exclusively on the revenue mobilisation approach. At the national level, ministers of finance often respond to social protection proposals by requesting clarification on additional revenue counterparts. The dominance of the revenue mobilisation approach has some important drawbacks. It goes hand in hand with a short-term time frame unsuited to assessing social protection’s contribution to development. It focuses on social transfers as expenditure, rather than as investment in human development. Revenue mobilisation approaches often take it for granted that existing budget allocations are both efficient and desirable. Some of these drawbacks will be discussed below, but for now the focus is on how to raise new money.

What are the options for developing countries that want to raise their social protection spending from domestic sources? Tax revenues are a major source for financing social transfer programmes. Taxes represent the largest source of government revenue in most developing countries. In low- and lower middle-income countries, taxes represent about 80 percent of government revenues, followed by revenues from property income, sales of goods and services, grants from foreign governments and international organisations, and property income (IMF, 2009a). In middle-income countries, taxes make up 90 percent of government revenues, followed by other revenues and social security contributions.

Low-income countries in particular face heavy constraints on their capacity to improve tax collection systems. Tax revenues as a share of GDP have shown only very modest growth in the sub-Saharan region; from 13.5 percent in 1980 to 18.2 percent in 2004 (See Figure 1). The constraints are associated in part with the structure of the economy – the rural subsistence economy and the informal sector are very difficult to tax – as well as with the administrative capacity of revenue authorities and political economy factors (Tanzi & Zee,
Whereas developed countries can finance their social protection expenditure through a variety of resources, including social security contributions, payroll taxes, and consumption and corporate taxation, developing countries rely more on taxes on consumption and natural resources.

The insights from political economy models into the financing of social protection are more difficult to unravel. Public choice models assume that self-interested tax payers are more inclined to finance social protection if there are direct benefits flowing to them (Gelbach & Pritchett, 1995), or if the externalities of the transfer programmes, say indirect benefits from a reduction in social unrest or crime, are sufficiently large. In the context of social transfer programmes which target households in extreme poverty, better off tax-payers are unlikely to benefit directly, and in many countries they have the power to ‘truncate’ social policies so that they do not reach the poor. In most countries in Latin America only workers in formal employment can access pensions or health insurance, while workers in informal employment are excluded. Where externalities are significant, better off tax-payers have other options which bypass support to the poor. They could find it more attractive to spend on gated communities or law and order, instead of supporting poverty reduction programmes.

For some countries, there may be scope for shifting expenditure from other areas to social protection. Tax exemptions on foodstuff, school materials and agricultural tools, for example, are common in developing countries. They tend to show large leakages to the non-poor, while at the same time diminishing the tax base. Fuel subsidies are also regarded as highly regressive. Shifting expenditure from these areas to direct social transfers focused on the poor and poorest will have a stronger effect on poverty reduction. However, there are practical obstacles for shifting expenditure, making this likely to be a medium term objective at best. The political economy literature on public sector reform suggests that the greater the number of losers from the policy change, and the more up front the losses are, the more difficult it is to shift public expenditure. In developed countries, raising public expenditure on social protection has been achieved by shifting the composition of tax revenues towards income, especially payroll taxes; but this option is not available to most developing countries.
International assistance can play an important role in helping to improve the revenue raising capacity in low-income countries, and facilitating the extension of social protection. This would require better coordination from bilateral and multilateral donor agencies, but would enable a switch to domestic financing, and thus guarantee the sustainability of social transfer programmes through crises. Setting targets for ‘budget graduation’, through decreasing aid-to-revenue ratios, can be useful in ensuring that national governments are committed to achieving financial sustainability in the medium and longer term. We return to this point in Section b below.

In middle-income countries, contributory pension schemes often produce financial surpluses in their early years of operation. These can be invested in bonds and other government investment instruments, to develop social protection systems. The experience of Chile is illustrative in this perspective (Arenas de Mesa & Benavides Salazar, 2003). However, using capital markets requires careful financial engineering to avoid domestic private funds losing their value against inflationary trends and currency fluctuations, as happened in Eastern Europe (Chichon & Samuel, 1995). Furthermore, social security contributions have a very limited capacity to finance social transfers in low-income countries, as informality is extensive and capital markets remain underdeveloped. Finance ministers in low-income countries are often reluctant to borrow in order to finance social protection, and in most plausible scenarios they would be ill-advised to take this route. However, for some countries with budgetary capacity, borrowing may represent an alternative for extending social protection for children in times of crises. This option is illustrated in Section 0 below.

a. Costs of raising domestic revenue for social protection

The public finance literature suggests there are costs to a market economy of raising revenue through taxation. Payroll taxes may reduce work incentives for marginal workers, and taxes on non-labour income may reduce incentives to save. This implies that, in order to finance US$1 for public expenditure, it may be necessary to raise, say, US $1.25 in revenue. In that scenario, the marginal cost of social funds would be greater than the amount needed for expenditure. But the distortionary effects of taxation need not be exaggerated. Concerns over whether this will exacerbate market distortions in developing
countries need to be balanced with the fact that they have a lower excess burden of taxation (because it is broadly proportional to the level of tax revenues as a proportion of GDP), and a markedly lower excess burden for income taxes.

Taxation may bring additional benefits to society – a ‘social dividend’ – if returns to human capital investment among children raise long-term productivity and reduce social unrest. This social dividend might be significant where taxes correct market imperfections. In that situation, the marginal cost of raising social funds would be less than the revenue collected. To the extent that social protection corrects market failures in credit and insurance markets, improves time preferences in labour markets, and facilitates human development, it can be argued that the marginal cost of raising funds for social protection may be less than actual spending. Warlters and Auriol have estimated the marginal costs of social funds for African countries to be in the order of 1.17 points, i.e. to have US$1 of revenue for social spending it is necessary to collect US$1.17 through taxes (Warlters & Auriol, 2005). Even without a ‘social dividend’, raising expenditure for social protection is justified if the returns to, for example, children’s education exceed 17 percent. Indeed, the perceived benefits from improved social protection for children, especially in the context of missing insurance markets, could generate conditions for a ‘double dividend’.

b. Aid modalities and social protection

International aid plays an important role in supporting the introduction of transfer programmes in low-income countries. This is critical in the early stages of institutional development, as the initial costs involved can be significant. To the extent that much of the work and knowledge that these programmes generate in terms of poverty reduction constitutes a global public good, there is a strong case for international assistance. However, ensuring the sustainability and political legitimacy of these programmes requires that, in the medium and longer term, they are financed by domestic sources. We devote the rest of this section to discussing aid modalities to assist low-income countries introducing social protection programmes, particularly through general budget support.

Strengthening institutional capacity through budget support has some advantages vis-à-vis other aid modalities such as project aid. Social protection will be more effective if it integrates interventions across sectors, and coordinates the efforts of a range of providers.
within the public, voluntary and private sectors. Bangladesh’s *Cash for Education Programme*, Cambodia’s *Priority Action Plan*, and Pakistan’s *Child Support Programme* are illustrative in this respect. With budget support, these linkages can be identified and supported more easily. Past and emerging evidence also suggests that budget support is more flexible in responding to changes in the pattern and significance of covariate risks (see Section 3 below). The term structure of social protection is an important issue too. Social protection interventions are most effective in the medium and long term. This is in stark contrast to the short-term horizon favoured by donors. The optimal time length of social transfers may extend beyond the maximum period to which a donor may be willing to commit. Establishing partnerships with government and other donors becomes important here. Donors may be in a position to finance the start of a programme in full, but rely on the commitment of governments to gradually take over the financing of the programme.  

International assistance to support child-focused social protection can also be financed through global taxes. Townsend (2009) proposes an alternative approach. He advocates the introduction of a global child benefit, which would be financed through a Tobin-type tax on currency exchange or air travel. This is effectively a global tax which can be redistributed to children in low-income countries. Townsend suggests that the global child benefit would need to be focused first on children with the greatest needs, and then gradually extended to other groups.  

A discussion on the feasibility of introducing a global fund to finance social protection for children is beyond the scope of this paper. However, it is important to point out that this initiative should be seen as a complement to, and not a substitute of, governments’ obligations to provide support to vulnerable children.

**Insurance**

In the absence of social protection institutions, how do households respond to contingencies which may threaten their living standards? Gill and Ilahi review and update a model of households’ demand for insurance developed originally by Ehrlich and Becker, identifying three main strategies (Ehrlich & Becker, 1972; Gill & Ilahi, 2002). Firstly, households could take steps towards reducing the likelihood that the contingencies may occur. For example, investment in children’s health care, nutrition and schooling will improve their human capital and reduce the likelihood of unemployment or low wages in the future. Secondly, households could focus on reducing losses in the event that
contingencies occur, by accumulating assets or saving part of their income. Thirdly, households could join an insurance scheme covering households threatened by contingencies, through which a small premium will ensure a measure of compensation for associated losses, as in health insurance schemes. These three strategies can be defined simply as: self-protection; saving; and insurance. Insights provided by the model into the way households respond to contingencies have important implications for the financing mix for social protection for children.

First, children are better off if their families can use a full range of options: self-protection, saving and insurance. Extending the range of available social protection instruments should improve households’ position to protect against shocks.

Secondly, insurance solutions are more effective for large-losses/low-frequency contingencies, while saving solutions are more effective for small-losses/high frequency contingencies. This implies that microinsurance schemes are of limited use where households are exposed to high income variability, and therefore constitute a restricted alternative for protection. Microsavings schemes, on the other hand, are a potentially important source of finance in low-income countries. Unfortunately, in most countries restrictive regulations reduce the ability of microfinance institutions to offer flexible savings schemes with easy access to withdrawals. As a result, many of these schemes provide only very limited protection.

Third, trade-offs between the different strategies also have implications for the financing mix. Savings and insurance are substitutes, meaning that improving the availability and reliability of insurance will reduce precautionary savings. Compulsory insurance may be sub-optimal if it ‘crowds out’ optimal levels of precautionary savings, particularly if it includes a mix of desirable and undesirable insurance. Self-protection, on the other hand, is complementary to saving and insurance. This implies that improving the provision of insurance, public or private, may not necessarily involve a reduction in households’ self-protection efforts, a concern commonly expressed by policy makers. Thus, the notion of ‘socialising’ the adverse effects of crises and shocks suggests that expanding the provision of insurance and savings instruments can complement the expansion of social transfer programmes focused on poverty reduction, without exacerbating the moral hazard problem.
Redistribution policies through tax-transfer systems have been important for the financial mix of social protection in high-income countries. In low-income countries, however, the redistribution capacity remains rather limited, due to institutional, societal and political factors (Alm & Wallace, 2006). Ravallion has estimated the redistribution capacity of developing countries by calculating the marginal tax rate\(^\text{11}\) on the ‘rich’ that would be necessary to eliminate the normalised aggregate poverty gap (Ravallion, 2009). Ravallion’s findings are that poorer countries have a very limited capacity for redistribution. For many countries with average consumption below US$2,000 a year, the marginal tax rate needed to cover the aggregate poverty gap would simply be economically and politically prohibitive, as it would exceed 100 percent.\(^{12}\)\(^\text{13}\)

As illustrated in Figure 2, few middle-income countries in Southern Africa, with a significant proportion of income levels above the US poverty line, have the capacity to finance social protection policies through redistribution. The redistributive capacity of low-income countries could nonetheless improve in the longer term, as higher mean incomes from sustained growth would require lower marginal tax rates to financing social protection for children.

In sum, all three approaches – resource mobilisation, socialisation, and redistribution – have something important to contribute to our understanding of how to finance the extension of social protection in developing countries. Redistribution is more relevant to countries with high income inequality, but less so in conditions of low inequality. The extension of transfers to households in poverty is unlikely to adversely affect their incentives to reduce the likelihood of negative shocks and to strengthen their resilience. Resource mobilisation is important, with well defined roles for taxation and international aid, but redistribution and insurance are also important. Thinking through a finance mix for developing countries which adapts to their level of development, revenue-raising capacity and institutions, appears to be the way forward in developing countries.
Shared perceptions and values about the causes of child poverty and child vulnerability, and about the relative effectiveness of potential remedies, can play an important role in generating support for financing social protection. In the context of external financing for social protection, those perceptions and values are often important in persuading tax payers to finance social protection for children in a different jurisdiction. In a national context, political economy factors are important, and go some way to explaining regional and sub-regional differences in the evolution of social protection institutions in sub-Saharan Africa.\textsuperscript{14}

3. Financing social protection for children and the global financial crisis

In this section we reflect on social protection responses to the global crisis in selected countries, taking care to identify the implications for financing. A focus on Bolivia, Chile and Mexico provides contrasting experiences, reflecting the three main approaches to financing examined in the previous section. Table 1 below provides summary information for all three countries. At the end of the section we focus on the implications emerging from this discussion for low-income countries in Sub-Saharan Africa.

\textit{Bolivia and natural resources}

In Bolivia, transfer programmes for children are largely delivered in kind (especially food), and linked with the provision of health and educational services (see Table 1). Prior to the crisis, the international context had been favourable for the Bolivian economy. Economic growth in Asia led to an increase in the international demand for minerals and hydrocarbons. Sales of hydrocarbons, measured as a percentage of the government’s total revenues, jumped from two percent in 2004 to more than 45 percent in 2008 (Banco Central de Bolivia, 2009). Renegotiation of contracts with foreign companies involved in the exploitation of natural resources helped expand the fiscal space.\textsuperscript{15}

\textbf{INSERT TABLE 1 ABOUT HERE}

The election of Evo Morales set a precedent for a shift in policy priorities towards poor and vulnerable groups. Two large social transfer programmes focused on children, the \textit{Bono Juancito Pinto} (BJP) and \textit{Programa Nacional de Atención a Niños y Niñas Menores de
Seis Años (PAN), were introduced. Together with a non-contributory pension programme, Bono Dignidad, providing an income supplement to all Bolivians 60 years of age and older, they are a flagship for the anti-poverty policy agenda in the country. The fiscal space generated by increasing revenues from natural resources and privatisations of state enterprises helped the government to finance BJP and PAN throughout the 2008 crisis. The fall in revenues from natural resources as a result of the global crisis will add to pressure on fiscal space.

Chile and budgetary surpluses

Social protection for children in Chile is delivered through income transfers linked to public services. Since 2001, the Chilean government has managed to generate a fiscal surplus in line with medium-term fiscal policy objectives. Budgetary surpluses averaged one percent of GDP in the period 2001-2008. They were made possible partly due to high international copper prices, but also as a result of a one-off rise in the rate of consumption tax (Value Added Tax or VAT) earmarked for programme specific expenditure on health and social transfers, and anti tax-evasion policies. The VAT evasion rate, for example, was reduced from 20 percent in the 1990s to less than 10 percent in 2009 (Velasco, 2009). This Chilean case illustrates the importance of improving tax collection systems for expanding social policy expenditure, but also a trend in raising the rate of VAT to finance social protection policies.

Financial assets from budgetary surpluses are invested in a sovereign wealth fund, known as Economic and Social Stabilisation Fund (ESSF). The Fund was used to support aggressive countercyclical policies in response to the 2008 global financial crisis. The Economic and Social Stabilisation Fund supported an extraordinary contribution of US$40 to lower-income households with children, beneficiary households of Chile Solidario and Subsidio Único Familiar, to ameliorate the effects of the global financial crisis on household consumption. The extraordinary contribution benefited 1.4 million households with children – about 40 percent of all households – and required a budgetary allocation of US$51 million (Direccion de Presupuestos, 2009).

Mexico and public borrowing
In response to global food prices increasing by an average of 43 percent between March 2007 and March 2008 (FAO, 2008), the Mexican government decided to introduce an additional component to the *Oportunidades* programme, a monthly contribution of US$9.24, known as ‘*Vivir Mejor*’ (see Table 1). The component required additional budgetary resources of US$400 million, which were initially funded through general revenues. In 2009, the effects of the global financial crisis began to be felt, with a GDP falling nearly seven percent in 2009 (IMF, 2009a), and a sharp rise in unemployment (INEGI, 2010). In January 2010 the government announced an expansion of *Oportunidades* to cover an additional 600 thousand low-income households.\(^1^6\)

However, as the budgetary capacity of the government was limited, due to the economic slowdown, the expansion of *Oportunidades* was financed through public borrowing (Secretaría de Hacienda y Crédito Público, 2009).\(^1^7\) In this context, the view was that public borrowing could be used to spread the short-term fiscal burden of expanding transfer programmes over several decades. The extension of social transfer programmes was also justified by the need to reduce household vulnerability associated with systemic market turmoil. Policy makers also regard borrowing as progressively redistributive, as children benefiting from social protection today can be expected to enjoy higher living standards in the future, and thus be able to pay higher taxes in adulthood (Cichon et al., 2004). Nonetheless, public borrowing can only act as a complementary component of a more comprehensive financial mix for financing social protection.

**What are the financing options for sub-Saharan African countries?**

The improved growth performance of sub-Saharan African countries since the 1990s, and the discovery and exploitation of natural resources (including oil) in Angola, Botswana, Cameroon, Chad, Côte d'Ivoire, Gabon, Equatorial Guinea, Namibia, Nigeria, Republic of Congo, Sierra Leone, Togo and Zambia, have created the conditions for an improved fiscal space in these countries (Keen & Mansour, 2009). Changes in taxation, with a decline in trade and personal income tax revenues, and a concomitant increase in consumption and natural resource taxes, generated a fiscal situation in the 2000s very different to the early 1990s.
When examining the impact of the global financial crisis on the region we find that although overall the crisis has reduced the fiscal space that had emerged in previous years (IMF, 2009b), the impact has been highly country-specific. For oil-exporting countries, the fall in exports has led to large gaps in fiscal revenues. Oil exporting countries have been the most affected in the region, with estimates from the IMF that revenues will have contracted in 2009 by as much as one-third. Middle-income countries, particularly South Africa and its surrounding neighbours, are the next group most affected by the crisis. The transmission mechanism there has been mainly through the growth slowdown. South Africa has responded to the global crisis by expanding coverage of the Child Support Grant to include children up to 17.

Low-income countries in sub-Saharan Africa have not been seriously affected by the global financial crisis, as they are not fully integrated into the global economy. The impact of the crisis on their fiscal position will be small, perhaps around one percent of GDP (IMF, 2009b). For non-oil exporting countries, concessional funding will partly mitigate the effects of reflationary fiscal measures taken in response to the crisis. The key issue here is how to secure appropriate financing to support policy responses that reach the most vulnerable. In a group of countries, notably Kenya, Malawi, Mozambique, Tanzania, Rwanda and Zambia, social protection projects for children are being piloted. They are largely financed by international partners and managed through a mix of public, NGO and private agencies. There are indications that few governments are willing to expand these pilots to a larger scale with international financial support. However, uncertainty over the full scale of the crisis makes it difficult at this point to assess the extent of the medium-term contraction of the fiscal space. A short and shallow crisis, leading to a quick return to economic growth in the region, could enable a scaling up of existing pilot social transfer programmes.

The introduction of sovereign wealth funds in countries such as Nigeria, Botswana and, most recently, Angola, suggests that excess oil and minerals proceeds could help lay the foundations for the introduction and gradual expansion of social protection in low- and lower middle-income countries in the region. For several low-income countries, including Benin, Burkina Faso, Gambia, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Tanzania, Uganda and Zambia, the Heavily Indebted Poor Countries (HIPC) initiative, and/or international support for post-conflict
reconstruction, could contribute to the financial mix of social protection. Ghana, for example, financed the Livelihood Empowerment against Poverty (LEAP) programme with HIPC debt reductions. The 2009 G20 Summit in London, and the establishment of a two billion US dollar Rapid Social Response Fund to support social policies in the global South via the World Bank, also suggest that the institutionalisation of social protection in sub-Saharan Africa is increasingly becoming more of a political issue than a financial constraint (Niño-Zarazúa, Barrientos, Hulme, & Hickey, 2010).

Concluding remarks

The global financial crisis has highlighted the important role of social protection in protecting the most vulnerable groups, particularly children, against crises. Social transfers that focus on children are widely considered effective, and protecting children is considered key in order to prevent long-term social effects arising from short-term economic crises. Lessons from past crises in Asia and Latin America show that transfer programmes can be rapidly scaled up as economic conditions change, and can be supplemented to address specific vulnerabilities. Large-scale social transfer programmes could act as economic stabilisers during crises, so that when national economies are faced with crises, spending on social protection expands to maintain consumption levels among the poor. The focus of social transfer programmes on children’s nutrition, health and schooling makes a significant contribution to avoiding long-term losses in human capital, and therefore protects and promotes economic and social development.

In the context of social protection, it is essential to connect short-term responses to crises with longer-term institutional development. Country experiences with crises in the past provide salutary lessons. Indonesia’s Jaring Pengaman Sosial, which was launched in 1998 to help disadvantaged households to mitigate the impact of the 1997-1998 Asian financial crises, had mixed outcomes (Sumarto, Suryahadi, & Bazzi, 2008). It did ameliorate the effects of the crisis on poor households as regards education and health, but highly regressive petrol subsidies took a decade to undo. In Argentina, Plan Jefes y Jefas de Hogar Desocupados was introduced in the aftermath of the 2001-2002 Argentinean peso crisis, to provide income support to unemployed households with children under age 18. It is reported to have contributed to attenuating the sharp fall in income and rise in unemployment among families with children, as a consequence of the devaluation of the
Argentinean peso in 2001 (Galasso & Ravallion, 2003). However, after the crisis had passed, lessons from the crisis were not absorbed. Further institutional development did not take place, and as a result social protection continues to be fragmented and regressive.

In South Korea, the *Livelihood Protection Scheme* and the *Medical Assistance Programme* were expanded to support households who had lost their jobs as consequence of the 1997 crisis, leading to the establishment of an integrated Minimum Living Standards Scheme (Kwon, 2002). Mexico’s *Progresa* (later renamed as *Oportunidades*), was introduced in 1997 to avoid a severe loss in human capital formation as the result of the 1995 ‘Tequila’ crisis. Connecting short-term responses to longer-term institutional development is key to building effective social protection. Often, crisis conditions are not propitious to a long-term perspective, as shown by some of the examples discussed.

Another important lesson is that, in a crisis, it is better to build on existing social protection institutions than to generate competing programmes. Recent government responses to the 2008 global financial crisis have been oriented towards extending the reach and scope of protection to vulnerable groups. The government of South Africa, for instance, decided to extend the Child Support Grant to cover children up to age 18, from the previous age limit of 13. In Brazil, the government expanded the scope of *Bolsa Familia* to include an additional 1.3 million households. In Mexico, the *Oportunidades* programme was also expanded, to cover an additional 600,000 households mostly living in urban areas.

An important issue is how to ensure financing for child-focused social protection through the crisis. The paper has provided several examples from Latin America to illustrate the range of policy options. In low-income countries, the focus on revenue mobilisation highlights the role of the international community in supporting social protection in low-income countries. Our discussion suggests that the appropriate role for international assistance is to facilitate the introduction of programmes, because of the high costs involved. To the extent that the knowledge generated by these programmes in terms of poverty reduction constitutes a global public good, there is a strong case for international assistance. In the current crisis, there has been a strong commitment from multilaterals and bilaterals to maintain and expand finance for social protection, regardless of adjustments to aggregate aid budgets. This is welcomed, and reflects the consensus emerging from global policy debates around the effectiveness of social protection.
The examples from Latin America show contrasting policy options for the financing of child-focused social protection through the crises. If the crisis is short, revenues from natural resources, public borrowing, and savings can provide alternative ways to support existing programmes and their temporary extension. For the longer term, the sustainability of social protection programmes will involve a mix of redistribution, insurance and raising the ratio of tax revenues to GDP. Finding the appropriate mix for each country in the region remains a key policy challenge.

In sub-Saharan Africa in particular, the global financial crisis has reduced the fiscal space of many countries through the impact of a growth slowdown on government revenues. Oil-exporting countries and middle-income countries in Southern Africa have been hit hardest. The impact of the crisis on low-income countries has been more muted, and recent evidence suggests that the crisis will be shorter than previously thought, paving the way back to economic growth in the region. In low-income countries, an optimal financing mix will involve international assistance and improved revenue collection capacity, especially taxes from natural resources and consumption. It is important to make the connection between short-term responses to the crisis and long-term institution building, as shown by the examples from crises in the past. Among middle-income countries, South Africa is one of the few exploring the potential from introducing a national social insurance scheme, extending the role of socialisation in the financing of social protection.

For developing countries as a whole, the long-term financial and political sustainability of these programmes requires a comprehensive financial mix that includes improving revenue-raising capacity, switching public subsidies from social insurance to social assistance, and redistribution. Long-term child-focused social protection institutions are the key to addressing future crises in developing countries.
Figure 1. Tax revenues in the sub-Saharan region

Source: Keen and Mansour (2009)
Figure 2. Redistribution capacity in SSA countries
Ratio of poverty gap ($1.25/day) to aggregate incomes of better off households (income>US poverty line)
Table 1. Sources of financing social transfer programmes for children during crises

<table>
<thead>
<tr>
<th>Social transfer programmes directly focused on children</th>
<th>Bolivia</th>
<th>Chile</th>
<th>Mexico</th>
</tr>
</thead>
</table>
| - *Bono Juancito Pinto*  
- *Programa Nacional de Atención a Niños y Niñas Menores de Seis Anos (PAN)*  
- School feeding programme. | - *Chile Solidario* 1/  
- *Subsidio Único Familiar* 2/ | - *Oportunidades* | |

**Characteristics**
- In-kind transfers linked to health and education.  
  *Bono Juancito Pinto* transfers US$26 a year to children aged 17 and younger in state schools.
- Both programmes are means-tested and categorical  
  1/ Income transfer supporting access to food, education, health and basic public services.  
  2/ Transfer of about US$11, linked to health.
- Means-tested income transfer linked to regular school attendance and health check-ups. Transfer in the range between US$11-69 a month, depending on gender and school grade.

**Coverage**
- *Bono Juancito Pinto* reaches approximately 1.1 million children (aged 17 and younger) enrolled in school.  
  1/ 300,000 households in extreme poverty.  
  2/ 516,000 poor pregnant women, children aged 17 and younger, and women with disabled children.
- 5.2 million households in poverty with children of school age.

**Cost of programmes**
- About 0.3% of GDP, including school feeding programmes.  
  1/ 0.02% of GDP  
  2/ n.a.
- Approximately US$3.6 billion that represents 0.3% of GDP.

**Sources of financing during crisis**
- Tax on hydrocarbons.  
- Sales of state enterprises.
- Fiscal surpluses.  
- Improvements in tax rate and collection systems.
- - Borrowing from World Bank (US$1.5 billion) and IADB (US $600 million).

**Measures introduced during the 2009 economic crisis**
- Reduce taxes on food grains.  
- Additional contribution of US$40 to low-income households with children.
- Additional contribution of US$9 per month (known as ‘*Vivir Mejor*’) to protect households against food insecurity. In January 2010 *Oportunidades* was expanded to cover an additional 600,000 urban households.
References


Notes

1. See (Grosh, Del Ninno, Tesliuc, & Ouerghi, 2008) and also (ILO, 2009) for a detailed review.

2. In low-income countries in particular, where growth performance is weak, and service infrastructure and social protection are incipient, this involves advancing on all three fronts at the same time. This applies especially to countries in Sub-Saharan Africa (Commission for Africa, 2005).

3. The Joint Statement on Child Sensitive Social Protection led by UNICEF reflects a wide measure of agreement among international organisations on this (see http://www.unicef.org/socialpolicy/index_50745.html).

4. In low income countries in Sub-Saharan Africa, domestic political resistance and donor influence have resulted in small-scale pilot projects. Countries currently piloting transfer programmes covering children include Ghana, Kenya, Malawi, Mozambique, Nigeria, Rwanda, Tanzania, Uganda, Sierra Leone, Liberia and Zambia.

5. In addition, there are costs associated with the administration and enforcement of tax rules.

6. The marginal cost of public funds is ‘the multiplier to be applied to the direct resource cost in order to arrive at the socially relevant shadow price of resources to be used in the public sector’ (Sadmo, 1998).

7. Psacharopoulos and Patrinos estimate a global average return to education to be in the order of 26.6%, 17% and 19% for primary, secondary and high school levels, respectively. However, for sub-Saharan African countries, the returns to education for the same levels of schooling jump to 37.6%, 24.6% and 27.8%, respectively (Psacharopoulos & Patrinos, 2004).

8. To the extent that increased taxation provides a corrective instrument for market imperfections that cause inefficiencies, the tax ‘burden’ could become a ‘benefit’. For a discussion, see (Atkinson, 2005) and (Clunie-Ross, 1999).

9. The term structure for this contract may be an issue. The Global Social Trust programme, for example, envisages the provision of start-up capital and knowhow for open-ended projects, with a gradual withdrawal of the trust after 10 years. There is also a political economy dimension to this. Once a programme becomes established, and evaluations show effectiveness and impacts, it becomes easier to ensure its political sustainability.

10. Similar global initiatives that target children are the Vaccine Fund associated with the GAVI Alliance for Vaccination and Immunity; the Global Fund to Fight AIDS, Tuberculosis and Malaria, and the ILO’s International Programme on the Elimination of Child Labour.

11. Marginal tax rate is understood here as the proportion of tax paid for each additional income unit earned at the highest income threshold.
An issue with Ravallion’s exercise is that few developing countries have the progressive tax systems he assumes. In most developing countries both taxes and benefits are regressive, an ‘inverse Robin Hood’ effect (Lindert, Skoufias, & Shapiro, 2005). Furthermore, those regarded as non-poor in rich countries may not be necessarily regarded as ‘rich’ in low-income countries.

The current average marginal tax rate in the sub-Saharan region is about 30%, with Cameroon (60%) and Côte d’Ivoire (10%) at the opposite extremes. For more details see the World Development Indicators 2009 database (http://web.worldbank.org/).

For a discussion on the variety of existing ‘models’ of social protection in sub-Saharan Africa see Niño-Zarazúa et al (2010).

The government achieved a budget surplus that averaged 3% of GDP in the period 2006-2009.

The programme is expected to reach 5.8 million families by the end of 2010.

The Mexican government borrowed a US $1.5 billion fixed-spread loan from the World Bank and a US $600 million loan from the inter-American Development Bank.