

**KEY MESSAGES:**

Social protection expenditures in Africa are lower than in any other region of the world. This is a reflection of the low levels of public resources that are available in African countries, especially for social programs. Nevertheless, some African countries have prioritized social protection spending and have nationwide social grants, health insurance, or public works programs. Increasing the amount of funding available to pursue social protection goals will require increasing the efficiency of existing spending, making the development case for social protection clearly to policymakers, accessing some of the fiscal resources resulting from economic growth, and leveraging external resources, particularly in countries that rely heavily on external aid.

**OVERVIEW**

Social protection spending as a share of each national economy tends to increase as the country's per capita income rises and as the coverage and scope of its social protection programs increase.

Overall spending on social protection in Africa is low by international standards (see box below), and these low levels of spending on social protection are hindering poverty reduction across the continent.

Within Africa there are significant variations in social protection spending. The regional average of 2.8 percent of GDP disguises a wide range of expenditures in different countries, from highs of over 12 and 8 percent of GDP in the Seychelles and South Africa respectively to lows of under 0.5 percent of GDP in Chad, Sudan, Guinea, Niger, Uganda, and Zimbabwe.

This low level of spending is largely a reflection of the very limited coverage of social protection in Africa. The World Bank's Social Protection Atlas<sup>1</sup> reveals that only 20 percent of Africans benefit from any type of publicly provided

**Public Social Security Expenditures  
excluding Health Expenditure (% of GDP)**

Region	Regional average (weighted by population), latest available year
Western Europe	17.98
Central and Eastern Europe	14.08
North America	8.98
North Africa	11.02
CIS	9.93
Middle East	7.09
Latin America & Caribbean	7.63
Asia and the Pacific	3.65
<i>Sub-Saharan Africa</i>	<i>2.81</i>
<b>World</b>	<b>5.72</b>

**Source:** Global Extension of Social Security Database.

**Note:** Includes old age, disability, family allowances, work injury, unemployment, and other public support.

<sup>1</sup> The Social Protection Atlas (SPA) is a multi-functional research tool developed by the Human Development Network of the World Bank. It consists of country-level data on 10 or more key indicators of social protection from the latest national household surveys.

social protection, far lower than in any other region in the world. Eighty percent of African households have no formal social protection coverage compared to 56 percent globally.

However, a handful of large social protection programs in Africa operate on a national scale and have significant coverage (see country examples on next page). All of these programs cover a substantial portion of their target population, whether that is the entire population as in the case of Rwanda's national health insurance program or a specific population group as in Lesotho's social pension. The cost of these programs ranges from 1.2 percent to 6 percent of GDP. In lower-income countries, these programs are heavily dependent on donor funding, whereas in middle-income countries, like South Africa, these programs are fully funded from the domestic budget.

## Key Lessons Learned

The experience in Africa with financing social protection has yielded several lessons:

- Achieving national coverage of programs is *fiscally affordable*. For example, extending health insurance to the entire population in Rwanda has cost about 1 percent of GDP, the same percentage as Ethiopia is spending on reaching 8 million food-insecure rural households with the Productive Safety Net Program.
  - Africa's recent and future economic growth has created some of the *fiscal space* needed to increase social protection coverage. As economies have grown in recent years, the amount of spending allocated to social protection as a share of GDP has also grown. The increased fiscal room to finance social protection initiatives from domestic budgets is clear in the examples of the social grants in South Africa and Lesotho.
  - External support in the form of donor resources has been vital not only in terms of funding but also, and critically, as *a way to introduce reforms and test approaches*. An example of such an innovation is the contingent financing arrangements in Ethiopia's Productive Safety Net Program (see box on right).
- In the absence of social protection programs, governments often implement *general price subsidies* as a way of mitigating the negative effects of short-term shocks. This response was particularly prevalent in the wake of the food and fuel crisis of 2008-2009. In Senegal, the government spent 3 to 4 percent of GDP on subsidies to protect its citizens from increases in the prices of basic consumer goods. A good deal of this expense has benefitted the non-poor. Moreover, subsidies often create negative economic incentives that can reduce productivity and impede economic development over the longer term.

### Using Contingent Financing to Fund Social Protection Programs

With the aim of being able to scale up the Productive Safety Net Program (PSNP) quickly in the event of transitory crises, Ethiopian policymakers created a risk financing mechanism (RFM). The RFM ensured that financial commitments from donors were put in place before any crises occurred. In 2008, in response to increasing food prices and the failure of the *belg* rains, the government used the RFM to provide additional transfers to 4.43 million existing PSNP beneficiaries who were negatively affected by the crisis. The RFM was again used in 2009 to provide additional transfers to 6.4 million PSNP participants in response to the repeated failure of the *belg* rains. This was financed by a prior commitment of US\$50 million from the World Bank.

The RFM was designed to reduce the usual amount of time involved in mobilizing humanitarian assistance to ensure that needy households would receive assistance more rapidly. Whereas the average humanitarian response takes eight months to mobilize, in Ethiopia with the RFM in place, it takes as little as two months.

## COUNTRY EXAMPLES OF SOCIAL PROTECTION SPENDING IN AFRICA



**Ethiopia's Productive Safety Net Program (PSNP)** was launched in 2005 to transform the historic food aid-based system into a more predictable safety net that produces productive assets in poor communities. The PSNP provides cash and food transfers to food-insecure households through labor-intensive public works for households with able-bodied members (80 percent) and direct transfers to households that are unable to fulfill a work requirement (20 percent). Estimated annual transfers per household are equivalent to about 40 percent of their annual food needs. The PSNP reaches more than 7 million people, or about 10 percent of the national population. The program operates with an annual budget of nearly US\$500 million, or about 1.2 percent of GDP, the bulk of which (90 percent) is funded through external assistance. This heavy reliance on external funding is a function both of the important role that donors have historically played in providing food aid and of the high share of external funding in the national budget (about 25 percent).



**South Africa's system of social grants** include several types of means-tested grants targeted to the elderly, poor families with children, foster families, the disabled, and war veterans. Roughly 15 million people receive a social grant, or about 30 percent of the national population. The child support grant, introduced in 2001, reaches about 10 million beneficiaries, while the old age grant, which applies to poor people over 60 years of age, covers just over 2 million people. According to household survey data, social grants make up over 60 percent of the income of the poorest 20 percent of households, with child grants being the largest contributor. South Africa's social grants are financed from general tax revenues and represent over 10 percent of total government spending and 3.5 percent of GDP.



**The Old Age Pension scheme in Lesotho** is a non-contributory (social) pension for people aged 70 and older without any other form of pension benefits. It was introduced in 2004 in response to high levels of poverty among the elderly (89 percent) that resulted from the migrant labor system and high HIV/AIDS rate, both of which were undermining families' ability to support their elderly members. The monthly transfer is equal to approximately one-quarter of the minimum wage and has lowered the elderly poverty rate by 19 percentage points. The program benefits about 80,000 citizens, or 4.3 percent of the total population and over 85 percent of the elderly. Two-thirds of recipients are female-headed households. The fiscal cost of program is about 3.6 percent of total government expenditures (as of FY2009/10). Over the last five years, the old age pension has averaged 1.6 percent of GDP. It is financed entirely by general taxes.



**Rwanda's national health insurance program** has been expanded considerably in recent years with a view to increasing the use of health services and protecting households from health-related income or consumption shocks. About 9.75 million people, or 92 percent of the population, are now covered by the national health plan. At the outset a flat premium of about US\$2 per person per year was required for membership of a health mutual plan (or *mutuelle*), with donors subsidizing premiums for 1.5 million of the poorest households. Premiums are currently scheduled to be increased to a range of about \$5 to \$12 per person per year. In 2006, 70 percent of the premiums were contributed by users, 8 percent by employers, 9 percent by donors, and 13 percent by the government. Total expenditures on premiums, which represent the social protection portion of the health system, account for only about 5 percent of total health expenditures. Individuals in households that have mutual health insurance coverage used health services twice as much when they were ill as those from households that have no insurance coverage. Coverage is also associated with a higher degree of financial risk protection, with the incidence of catastrophic health expenditure being almost four times less than in households with no coverage. As a result of increased funding via *mutuelles* as well as increased use of health services, total health care spending in Rwanda has risen sharply. While Rwanda spent only 4 percent of its GDP on health in 2000, one of lowest shares in Africa, it now has one of the highest shares - more than 10 percent as of 2010. Half of public health expenditures are funded through external assistance.

# CHALLENGES AND OPPORTUNITIES

There are several key challenges involved in securing adequate financing for basic social protection provision in Africa. Looking at broad international trends, there is a positive association between a country's level of economic development, its level of public expenditure, and its level of social protection spending. The task ahead for African countries is to expand access to effective social protection programs. Options include:

*Increasing the efficiency and effectiveness of existing social protection expenditures.* Given the overall low level of social protection spending in Africa, making existing expenditures more efficient within the existing resource envelope offers only a limited opportunity to increase program coverage. Nonetheless, efficiencies are possible. Perhaps the most significant would be to shift away from using general price subsidies, particularly in response to economic shocks, towards a more targeted approach. Many efficiency and effectiveness improvements can be achieved by developing a national social protection system. Better targeting can have a greater impact on poverty for a given level of funding, although the possibility for targeting social protection initiatives will be shaped by the political economy. Enhancing the productive aspects of social protection programs (for example, by reforming food aid to include cash transfers and increasing the quality of public works) can also increase poverty reduction for a given amount of resources, which has been the focus of Ethiopia's

Productive Safety Net Program. Integrating an often disparate set of small programs into one larger program can streamline administrative costs, thus making it possible to do more with existing resources.

*Increasing the amount of domestic resources allocated to social protection.* A key challenge is to raise the share of domestic funding for social protection. Economic growth has created some fiscal space in Africa over the last decade, but competition is keen for budget resources. In most low-income African countries, social protection spending – particularly that designed to reach the poor – continues to represent a very low share of overall public spending. Increasing policymakers' awareness of the links between social protection and economic growth will be imperative for building political coalitions in support of social protection funding, by overcoming concerns that social protection promotes dependency. In other countries, a case should be made for increasing financing for social protection as a means of realizing the constitutional rights of citizens, such as in Kenya and South Africa.

*Mobilizing external assistance.* Assistance from donors will continue to be necessary in the medium term, particularly in low-income African countries that remain aid dependent. In fact, the scaling up of social protection in some low-income countries, such as Rwanda and Ethiopia, has been the result not only of government commitment but also of increased donor funding.

## Additional Resources:

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Hagen-Zanker, J. and A. McCord (2010). "Financing Social Protection in the Light of International Spending Targets: A Public Sector Spending Review." Overseas Development Institute, London.

Holmqvist, G. (2010). "External Financing of Social Protection – Opportunities and Risks." Africa Institute, Uppsala, Sweden.

ILO (2008). "Can Low-income Countries Afford Basic Social Security?" Social Security Policy Briefings, Paper #3, International Labour Organization, Geneva.

McCord, A. (2009). "Cash Transfers: Affordability and Sustainability," ODI Project Briefing, Overseas Development Institute, London.

Ravallion, M. (2008). "Bailing out the World's Poorest." Policy Research Working Paper 4763, World Bank, Washington D.C.