

# CSAE Working Paper WPS/2011-17

## Social Protection, Efficiency and Growth

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### Abstract

Social protection can play an important role in poverty reduction and making growth inclusive of the poor. At times, it is also argued that social protection can directly contribute to growth and economic efficiency. The paper revisits the evidence on the cost of social protection to reduce poverty, and its contribution to efficiency and growth. As social protection may overcome market failures in credit and insurance, the paper also considers the role of alternatives, such as micro-credit and micro-insurance. The evidence on social transfers (in cash or in kind, conditional or not) suggests that while they have substantial poverty and equity impacts, their efficiency and growth impact is unlikely to be high – not dissimilar to the limited growth impact of microcredit. The implication is that the main motivation for social transfers must lie in their equity or poverty impacts. The evidence on contingent transfers, made in response to shocks such as illness, drought or unemployment, as in social insurance, is that their contribution to resolving market failures may be higher, leading to potentially more substantial gains, especially where children are targeted. Given the problems with developing market-based solutions via micro-insurance, there is a strong case for social protection initiatives in this area from an *efficiency* point of view, to complement contributions-based social insurance and micro-insurance initiatives. Conditions in conditional cash transfers can also be used to enhance efficiency gains, for example if conditions target activities or investments with clear social externalities. The paper ends with three areas where there could be potentially high growth impacts: social protection focusing on children, especially before the age of five; social protection measures to make migration smoother and cities more attractive places to live for low skilled workers, possibly via urban workfare schemes focusing on urban community asset building; and social protection targeted at adolescents and young adults, including transfers conditional on training focused on urban labour market transitions. In all these cases, standard cash transfers may be too blunt to have high impacts, suggesting the need for more context-specific ‘smarter’ social protection schemes.

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<sup>1</sup> This paper is written for the ABCDE conference May 2011. It draws some inspiration from the European Report on Development 2010 on ‘Social Protection for Inclusive Development’, to which I contributed as a core team member. However, the views expressed here are mine, as are the errors and inaccuracies.

## 1. Introduction

There appears to be general acceptance that social protection has a role to play in poverty reduction and in making growth inclusive. Large crises such as the food crisis or the economic downturn tend to make the principle more acceptable. Reasonable growth in the developing and emerging economies creates the space to look for additional instruments to make growth inclusive. Most of the key decisions on broadening social protection are inherently political: social choices on the fairness of the allocation in society, on the rights and entitlements of those less successful in wealth creation and those facing insecure livelihoods. Many of the challenges are managerial – the organisation of institutionalised systems of social protection, that offer secure and cost-effective access to these entitlements. This paper revisits the *economic* arguments for and experience with social protection. Its focus is on the use of social protection in some of the poorest settings, not least in Africa, the region where arguably its spread is still most limited.

In particular, the paper explores the evidence for the effectiveness of social protection in reducing poverty directly, but also via improving efficiency (correcting market failures) and by stimulating growth. In much discourse on social protection, contributing to income change of the poor, improving efficiency and stimulating growth are often used as if they are the same; as will be developed further, they are not.

Social protection is a broad concept with many meanings; in fact, none of the well-known dictionaries appear to have a definition, illustrating the lack of a shared meaning, and different organisations – the World Bank, ILO, UNRSID, DFID all seem to use a different definition. In this paper, a definition is used as in the European Report on Development (2010) on Social Protection, which refers to three functions: offering social insurance, social assistance and efforts to ensure access to social insurance and assistance.<sup>2</sup> In the paper, the focus is on the *transaction* involved in these schemes: offering a transfer in cash or in kind to poor and vulnerable groups. In the case of social insurance, it is a state-contingent transfer (i.e. dependent on something occurring, such as illness, drought or unemployment), and while usually social insurance is understood to be linked to contributions, here we treat it somewhat broader, and including non-contributory state-contingent transfers. Social assistance is more simply a transfer, irrespective of some event occurring. Both could nevertheless be conditional on something: some behaviour (such as sending a child to school, as in Conditional Cash Transfers), some initial conditions (such as being poor or disabled, as in targeted transfers) or

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<sup>2</sup> ERD defines it as “a specific set of 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 and in-kind transfers to support and enable the poor, and through inclusion efforts that enhance the capability of the marginalised to access social insurance and assistance” (ERD (2010, p.8)).

having paid a contribution (as in more classic social insurance, such as for health, unemployment protection or a pension). The transfers can be in cash such as in the case of a social pension, or in kind, in the form of goods or services, such as food aid, school feeding, supplementary child feeding, training when unemployed, or treatment at a health facility when ill.

Treating social<sup>3</sup> protection as essentially a set of transfer schemes for the poor and vulnerable is arguably controversial, not least when many definitions like to emphasize not so much the transactions involved, but rather the purpose and entitlements of the systems (“offering prevention, protection, and promotion” as in recent World Bank documents<sup>4</sup>, or “transformative social protection” as in Sabates-Wheeler and Devereux (2008), in which the fundamental change in people lives and position is emphasised, although arguably the latter would encompass a far wider set of actions and policies than envisaged here). While some may consider this spin, it is more than that: it is a statement of intent of what the objectives of social protection are, and the way all parts of the social protection system are integrated to achieve these objectives. Designing integrated systems with defined ambitions is important, and objectives will govern what types and forms of transfer schemes are being offered. These objectives are inherently dependent on social and political contexts and choices.

Here, the focus is more narrowly on the actual transfer of resources, and the economic justification for these transfers. Are they affordable? Are they the best way to spend resources to alleviate poverty? Do they contribute to efficiency, via addressing market failures? How do they compare with alternative mechanisms to achieve these objectives for the poor and vulnerable, such as micro-insurance instead of social insurance, or micro-credit instead of transfers? What is the evidence for growth effects? And how can social protection be more efficiency or growth enhancing?

The first section will briefly explore the size of the challenge and the cost involved. It also looks at the evidence for the poverty impacts of social protection on income, consumption and other indicators in a number of recent success stories. As seen from that perspective, costs are rather substantial but without doubt, successes can be claimed. Next, the paper focuses on the contribution of social protection to increased efficiency and growth, and on how to deliver social protection efficiently. Much of the justification for using social protection in some of the poorest settings these days appeals to efficiency and growth arguments. The theoretical arguments that changes in the wealth distribution – including via transfers – can have efficiency

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<sup>3</sup> The “social” refers to the role of public action; the principle is that at least partly these transactions occur outside market mechanisms. Of course, there is no reason a priori that market-based provision and allocation are totally excluded, and a role for the private sector is possible, such as for example using private insurance and health providers, as in the recent RSBY health insurance scheme in India.

<sup>4</sup> In particular, in the concept note for the consultation for a new Social Protection and Labor Strategy 2012-2022.

gains are both well-founded and well-researched. Market failures in insurance, credit and labour markets, linked to informational and enforcement problems, as well as externalities all lead to inefficiencies, and in many model configurations, not least when accompanied some non-convexities (such as indivisibilities in technologies), redistribution could be welfare enhancing, while the potential growth consequences linked to the political dynamics in the face of inequality similarly offer efficiency gains from redistribution.<sup>5</sup>

But is the evidence really there to support this as a justification for social protection spending? More specifically, is social protection the appropriate solution? Here, the conceptual arguments for using social protection have to be more subtle, and the evidence is often not encouraging. In short, a simple argument that social protection is an essential part of a growth strategy because it has high efficiency gains in a world of market failure and contributes to growth directly has to be taken more nuanced. A number of more specific types of social protection interventions, especially in the space of social insurance and contingent transfers, would seem to satisfy this criterion, but not all, at least according to the available evidence. One interpretation of the evidence is that most social protection is too blunt to generate overall efficiency gains. A final section develops some possible areas of direct complementarity between social protection and growth, focusing on social protection programmes that could contribute to the various processes of economic transformation that are required to make growth both sustainable and more inclusive. Core examples developed are related to social protection to support internal migration, city development, children and youth labour markets. Standard social protection instruments are likely to be too blunt to be effective to handle these challenges. Careful cost-benefit analysis is required to ensure

## 2. Social Protection and Poverty Reduction

How big is the challenge for reducing poverty via transfers? The scope for transfers to contribute to poverty reduction is conveniently expressed by using a simple poverty gap measure of poverty.<sup>6</sup> When using it on monetary values of the standard of living, it gives a sense of the size of the transfers needed to bring everyone up to the poverty line, and how much in total would need to be raised for that. For example, using Chen and Ravallion (2008)'s data on global poverty gaps, relative to a \$1.25 dollar a day poverty line, the poverty gap is about 7.6% of the poverty line, or 9.5 cents per person per day across all the developing areas

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<sup>5</sup> Reviews are in Bardhan et al. (1999), the World Bank's World Development Report (2006), and Bowles et al. (2006)

<sup>6</sup>  $P_1 = \frac{1}{N} \sum_{i=1}^P \frac{z-y_i}{z}$ , in which  $P_1$  stands for the poverty gap, and it is measured as the average gap in a society with population  $N$  between the poverty line ( $z$ ) and actual income levels ( $y$ ), expressed as a fraction of the poverty line, with the gap zero for those ( $N-P$ ) above it.

they consider.<sup>7</sup> While these may seem small numbers, they are equivalent to daily transfers of about 520 million US dollars at PPP value, or about 190 billion US dollars a year in PPP of 2005. For sub-Saharan Africa alone, (with a higher poverty gap of 21%), this would be just over 25 cents a day per day, or this would be equivalent about 200 million dollars *a day*, or about 73 billion per year. Another way to look at it in sub-Saharan Africa is that it is about 5% of GDP expressed at PPP of 2005, or about a third of tax revenue. Yet another way of expressing this is that the total resources needed to get rid of poverty is now for the first time in history more or less equal to total net Official Development Assistance (at least if we try to correct it for PPP), both for sub-Saharan Africa or the developing world as a whole.<sup>8</sup> The arithmetic for a country like Ethiopia is similar, with the poverty gap about 7.4% of GDP, about 40% of tax revenues, but with current aid levels recently moving well above the equivalent level of GDP.<sup>9</sup>

This would seem good news: fighting poverty does not seem overly costly and aid has caught up.<sup>10</sup> An appropriate mix of social protection schemes could resolve poverty. What mix is required? Some of this poverty has transient elements, while other parts are more chronic. One can even try to quantify this. Using data from Dercon et al. (2005), this can be done for Ethiopia. Using data on panel data on living standards (proxied by consumption per capita) and detailed data on shocks for the period 1999 to 2004, a counterfactual can be explored of how high poverty would have been if social protection would have removed contingent losses linked to specified (and arguably insurable) shocks, based on a regression model. Starting from about 44 percent poverty, then if all shocks were insured, the head count would be about 31 percent – in other words, effective social protection would have removed 13% or about 30% of the poor from poverty. For the rest, contingent transfers would not be enough to lift them out of poverty, and social assistance would be required. A more appropriate calculation repeats this for the poverty gap, as this would represent the actual resources needed. Here we find an even higher percentage that can be covered by social insurance: contingent transfers insuring all

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<sup>7</sup> Which are all areas of the developing world as used in World Bank publications, but effectively Africa, East Asia and the Pacific, South Asia, Middle East and North Africa, Central Asia and Latin America.

<sup>8</sup> A back of the envelope calculation based on OECD figures of total ODA to sub-Saharan Africa suggests an increase in current US dollars of about 36 to 48 billion between 2005 and 2009; in 2009 this would be equivalent to about 75 billion US dollars in PPP (of 2005); a similar calculation for global ODA to the developing world suggests a figure of about 200 billion US dollars in 2005 PPP by 2009. To obtain this figure, actual ODA is multiplied with the ratio of GDP at PPP in 2005 and nominal GDP in current US dollars in 2005.

<sup>9</sup> Ethiopia has a relatively low poverty gap in comparison to its poverty level, according to official statistics, reflecting relatively low inequality among the poor, while the PPP correction makes poverty below the African average, contrary to most other living standard indicators for Ethiopia, such as enrolment, malnutrition or mortality. The poverty gap is about 10%.

<sup>10</sup> Using tax revenues to arrange for redistributive transfers is not quite yet on the cards in most of the poor countries, such as in Africa: Ravallion (2010) calculates the marginal tax rates required, and they would reach 100% for many countries.

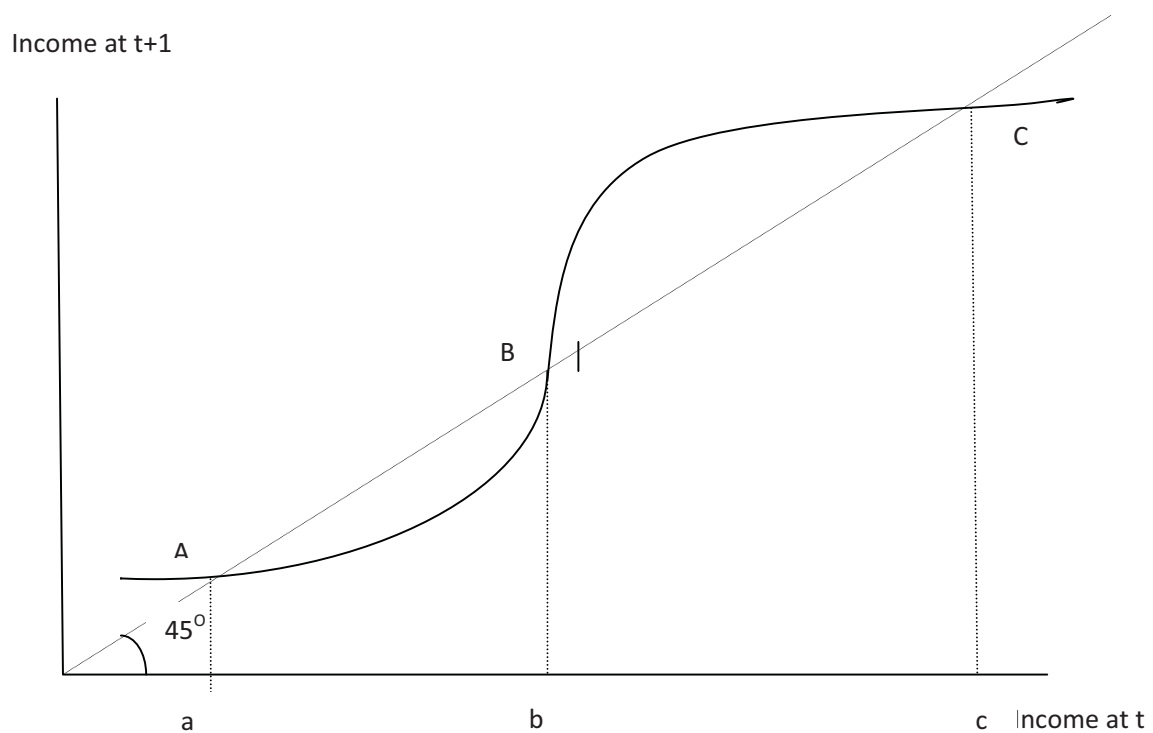
shocks could cover 40% of the poverty gap, while the remaining 60% would need to be covered by social assistance payments.

If only it was that easy. Experience shows that fighting poverty using transfers would require substantially more resources than the poverty gap. First, income is only one dimension of poverty, and while playing a role in achieving other outcomes, investments in health or education, to name just two, are relevant too, and would require additional investments to improve.

There are well-known other problems. Targeting is one, as not all resources can easily be transferred to the poor or at zero cost, and targeting errors are likely. Means testing can be costly, and in most of the poorest countries, some form of administrative or local identification of poverty has to be used. While local involvement in identification has advantages, it does not avoid political economy problems, often leading to poor targeting (Conning and Kevane, 2002). Definitions and concepts can be contested and identification of the poor may suffer from patronage and capture. For example the Below the Poverty Line-assessments in India, the basis of gaining access to various programmes, are rife with political meddling (Besley, et al. 2008). Local identification of the needy may also lead to potential exclusion from safety nets of particular groups during crisis. For example, Caeyers and Dercon (2011) show how access to food aid in Ethiopia during the drought of 2002-03 was highly correlated with connection to the local authority in charge of distribution – whether this is for political reasons or just reflecting lack of information by others can be disputed. But in the end, targeting is imperfect.

There is also the issue that each dollar spent may have a lower return (in terms of poverty) than the value that reaches the household. This is not about the poor spending this money wrongly but there are other factors. First, there could be crowding out: in response to a household receiving a public transfer, private transfers may go down (for example from family or network members). World Bank (2001) has argued that between 20 and 91 percent of private transfers may be displaced if social assistance were expanded in the developing world – which obviously would raise hugely the cost of removing poverty. More recent and arguably more careful evidence is more mixed. Jensen (2003) estimated that each rand increase in public pension income for the elderly in South Africa leads to a 0.25-0.30 rand reduction in transfers made by children. Cox et al. (2004) suggest that a decline in private transfer by \$0.4 for each dollar spent for the poorest households in the Philippines. More recent work in Asia has nevertheless suggested that the effects are not so high, with at most a 0.08 reduction in private transfers (Gibson et al. 2006). The size of the effect will depend on the scheme and the context – in any case, it will make fighting poverty more expensive.

A second way in which the value in terms of increases in living standards households is lower than the amount actually received has to do with poverty traps linked to thresholds or some non-convexity in the opportunity set for attaining higher living standards. To illustrate this, suppose there is a poverty trap in the following way, with a dynamic process governing how income 'equilibria' are obtained as described in figure 1. Income at  $t+1$  is on the Y-axis, income at  $t$  is on the X-axis. The process translating income at  $t$  into income at  $t+1$  is governed by the S-shaped function, with a steep convex area resembling almost a threshold; incomes keep on changing until incomes at  $t$  and  $t+1$  are equal (i.e. reached equilibrium). The key implication is that if income is between  $a$  and  $b$  at any moment in time, then income would tend towards equilibrium  $A$ , i.e. it settles at the level  $a$ . If income is between  $b$  and  $c$  at some moment in time, it would grow towards equilibrium  $C$ , with income  $c$ . Suppose now that "poverty" is having income somewhere just below  $b$ . If social transfers are used to lift people below  $b$  up to the poverty line, then these will have a *zero* impact on poverty: any spending is irrelevant, as all these people will drift towards  $A$  with income  $a$ . These resources would effectively be wasted, even if the money is put in people's pockets. Only transfers that lift people beyond  $b$  will have a non-zero return. Whether traps like this exist is an empirical and disputed issue. For example, Dasgputa (1997) argues for such traps, based on how insufficient nutrition below some levels translates into an inability to be productively employed and quickly drift towards such low equilibrium. Unless the transfer is big enough, the marginal return to more nutrition would be insufficient. In general the evidence for actual traps is not that strong, but at the same time, the evidence points to slow dynamic processes that would be lead to processes of persistence, with similar policy implications (Ravallion, 2008). We return below to the idea of 'thresholds' motivating but also constraining social protection schemes.



**Figure 1 Poverty Trap and Transfers**

All these factors suggest that the cost of reaching the poor via transfers is going to cost more than the cost of the poverty gap would imply. Even about 190 billion dollar *per year* is hardly appealing or easily affordable, and given so many competing demands on government resources and development spending, spending on social protection in a smart way is essential. There may be ways to do this in terms of how one spends on social protection (for example, choosing ways of spending that reduce transactions or targeting costs), spending on items that help economic efficiency (for example, maximizing positive externalities or resolving other market failures), or social protection spending as investment, for example by building assets with at least a social return. In the next section, these options will be discussed.

Before turning to this, it is worth reflecting on how effective some countries have been in expanding their social protection provision – both in terms of contingent transfers as in terms of social transfers, and the cost involved as well anything that is known about their overall impact. Table 1 also shows the poverty gap as a percentage of GDP to benchmark the costs involved, using the 2 dollar-a-day in PPP poverty line (Ravallion and Chen 2008) as for most of the countries involved this would be a more relevant poverty line, as it would be closer to the national poverty lines used locally – as they are Latin American countries, as well as South Africa. For India and Ethiopia, the earlier benchmark of \$1.25 per day is used. First, we can see that for all these programmes the cost involved is relatively large in relation to the poverty gap as a % of GDP – these are big programmes. Relatively speaking, the Ethiopia programme is the smallest in relation to the poverty gap, but it is the largest social transfer and workfare programmes operating in sub-Saharan Africa, with approximately 8 million recipients. The



Indian NREGA (National Rural Employment Guarantee Act) programme covered about 34 million people in 2007-08, offering 1.4 billion working days of work. Oportunidades covered 5 million households, offering conditional cash transfers, and Bolsa Familia offered conditional cash transfers to 11 million households 2006. The main part of the social grants programme in South Africa is the social pension component, reaching about 90% of those eligible on means testing grounds; overall about 15% of the population get one social grant or another. Finally, the Jefes and Jefas workfare programme was the key policy response to the crisis in Argentina in 2002-03.

**Table 1** Some well-known large social protection programmes

Country	Programme	Cost (as % of GDP)	Poverty gap using \$2/day (as % of GDP)	Impact?
Brazil	Bolsa Familia (transfer)	0.4	0.6	Poverty gap of those reached went down by 12% 2001-05
Mexico	Oportunidades (transfer)	0.4	0.4	19% poverty gap decline in rural areas 1996-06
South Africa	Social Grants including social pensions	3.0 (2.0 pensions only)	1.7	Positive benefits documented but not on overall poverty
Ethiopia	Productive Safety Net Program (workfare)	1.5	7.4 (based on 1.25\$ per day)	Limited impact on consumption and nutrition; some asset accumulation
Argentina	Jefe y Jefas (workfare)	0.8	0.2	Counterfactual poverty 53% rather than 67% among recipients, mainly stopping people falling into poverty during crisis
India	NREGA (workfare)	1.0 (all SP programs about 2.0)	2.2 (based on 1.25\$ per day)	No systematic impact evaluation.

Using data from World Development Indicators (2011), European Report on Development (2010) and sources therein. Brazil refers to 2005 poverty data, Mexico to 2000, Ethiopia 2005, South Africa 2000, Argentina 2000. Note that these estimates are approximate estimates, and depend on various assumptions used in the sources mentioned. Also, the interpretation of the impact evidence could be contested.

The table also reports on poverty impacts, although taken from across the various studies and programmes, it is not always possible to distil comparable findings, while methods are not always convincing. In general, poverty impacts are rather positive, although in India little systematic 'national' evidence is thus far available.<sup>11</sup> Still, the difficulties of bringing down poverty gaps down is well illustrated by the scale of the impacts reported.<sup>12</sup> For those for whom there are data available, they make positive even if arguably still modest inroads into poverty. Of course, if these programmes were not credible and people perceive that this is only a one-off opportunity, consumption smoothing would have encouraged people to save much of the contributions, so a one-to-one impact on poverty should not be expected. Overall, this illustrates well that trying to get an effective social protection programme that will fight income poverty will never be cheap, however small poverty gap numbers may seem to be. Fighting poverty is not simply a matter of spending.

Others have appeared to argue the contrary. The ILO has tried to calculate the cost of a basic package of social protection including free basic health care, child benefit, cash transfers to the poor and unemployed, and disability and old age pensions, all at modest levels never paying a direct transfer of more than \$1 in PPP per day (ILO, 2008). They simulated the cost for a number of countries, such as Ethiopia, Kenya, Tanzania, Cameroon, Burkina Faso, India and Pakistan, and suggested that to offer this package would cost about 3.7 to 10.6 % of GDP.<sup>13</sup> In relation to typical tax receipts of 10-18%, this is substantial. ILO (2008) considers this nevertheless a feasible plan worth allocating resources to in the short run.

Still, this is not to say that social protection is just too expensive. Poverty reduction is an important goal and many other interventions may well have a lower poverty impact. For example, in Latin America or in South Africa, it is hard to think of alternative, defined interventions outside social protection that have had or could have this poverty impact. But this comes at a cost, and rather careful thought needs to be given to what works and how most can be gained from social protection. In the end, political support for such schemes is key, and the way needs and rights of the poor articulated in political choices. Below we focus on *economic* benefits, which may help in arguing for these choices.

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<sup>11</sup> A small scale impact evaluation study by Ravi and Engler (2009) suggested that food expenditure increased 15% for participants, and even more compared to those who wanted to work but somehow were excluded.

<sup>12</sup> An example from China, reported in Ravallion (2007) confirms this for a programme aiming to bring all urban households above a particular poverty line, the "Minimum Livelihood Guarantee Scheme". By 2003, 22 million people were covered, or 6% of urban households. Although ambitious, the poverty gap was 'only' reduced by 12%. The poverty head count among the recipients was reduced from 57 to 45% due to the programme.

<sup>13</sup> The European Development Report (2010) questioned the assumptions and suggested that a cost of 5 to 12 percent was more realistic.

### 3. Efficient social protection

In this section, we address two questions. First, do transfers or contingent transfers improve economic efficiency? And secondly, are there ways of delivering transfers that promote more economic efficiency as well? The argument here is not that all social protection must improve efficiency – but it would possibly help, in a world of constrained resources, to spend on those programmes that may have these effects. In the process, we contrast social protection to alternative more market-oriented interventions that aim to resolve similar market failures, micro-credit and micro-insurance, and for which similar *economic* benefits as for social protection are being claimed.

#### *Social assistance and credit market failure*

Is there a return to offering social transfers? There would be one if those people receiving the transfers would have been constrained in terms of investments in assets and activities. If credit constraints bind, then profitable opportunities may have been foregone. As the poor have few assets, they cannot offer collateral but transfers may improve their asset position or offer them directly the cash required to do the investments. Similarly, if insurance markets or informal substitutes are missing, then shocks would lead to asset depletion, and lower future returns would follow, a process that can be avoided if contingent transfers offer protection. Furthermore, without insurance, fear of bad outcomes would lead to less risk-taking in activity or asset portfolios, leading also to lower returns. The promise of having access to contingent transfers would also avoid this.

How much evidence is there for these processes? Quite a few models predict that transfers, by boosting asset levels of the poor (and reducing inequality) would lead to more access to credit and therefore help to overcome the market failure (Banerjee and Newman (1993), Benabou (1996), Dasgupta and Ray (1986), Bardhan et al. (1999)). Introducing thresholds or indivisibilities, so that quite large investment sums are needed to enter lucrative activities would suggest potentially even larger effects, provided transfers are large enough (and help to overcome the threshold, as discussed in the previous section and figure 1).

There is plenty of suggestive evidence that credit constraints matter for many poor, even though hard evidence is difficult to come by, as other explanations for observed behaviours cannot be easily dismissed (Ray (2008)). Still, overall evidence seems to suggest that credit constraints matter for many in the developing world (Banerjee and Duflo (2005); World Bank (2006), Ravallion (2006)). Evidence on poverty traps is harder to come by, but some dynamic behaviours consistent with poverty traps are found in Kenya and India (Lybbert et al., (2006),

Dercon and Outes (2011)). As seen from this perspective, offering transfers as part of social protection could have high returns.

Is there evidence from social transfers programme that the transfers appear to overcome credit market failure and lead people into virtuous cycle of productive investments? Here, the evidence is not very strong, at least for physical assets. For most programmes, the reports show *some* investment in productive investments with high returns. Gertler, et al. (2006) found that 12% of PROGRESA (the predecessor of Oportunidades) beneficiaries invested some of their cash into the productive activities such as micro-enterprises and agriculture. They reported 30 to 50% returns on these assets. While these returns are high, the number of investors involved (12%) is small – if credit constraints for productive investments had been high, then surely more would have taken advantage. In Ethiopia’s PSNP, where asset building by these rural households was a central objective, and ‘asset poverty traps’ had been argued to exist as a motivation for the programme, there was some impact on asset accumulation, but well below expectations. Gilligan et al. (2009) reported that livestock increased amongst the beneficiaries by about 9%, but for most, asset levels remained well below the levels initially set for ‘graduation’ across the poverty threshold. Initial targets had suggested that all beneficiaries were meant to graduate by 2009 through the virtuous growth processes of incomes and assets linked to access of the various components of the programme. But of the more than 8 million households, only 1.3% had graduated by 2009.<sup>14</sup>

In short, these ‘efficiency’ gains via transfers appear to be relatively small in some of the larger programmes. Maybe transfers are not the best way of overcoming this? In fact, a far more common intervention to overcome credit market constraints in many countries is microcredit, and at least in terms of uptake, that would seem a very successful activity. Would that offer a better alternative to generate efficiency gains than offer cash transfers?

In fact, the relatively low returns to cash transfers for most households are rather consistent with the emerging evidence on microcredit. For a long time, it has been hard to find clear and undisputed evidence that microcredit offers the transformation of lives promised (Armanderiz de Aghion and Morduch, 2005). More careful evaluation studies have been implemented in recent years, and generally, they are not finding large effects on poverty, asset holdings and ambiguous welfare effects. A number of recent RCTs in urban areas have focused on whether microcredit leads to high return from business investment in India and the Philippines, targeting areas where high returns should have been expected. They have recently found that the average return was *zero* for females receiving loans (Banerjee et al 2010, Karlan and Zinman

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<sup>14</sup> This does not bode well for current plans, where within the next five year, beneficiaries will be reduced to below 1.5 million, meaning that the rest is expected to graduate.

2010). Mirroring these studies but now offering grants to women in Sri Lanka and Ghana, it was found in Sri Lanka that the return was also zero, and in Ghana that only for those with a business in the top 40% of the distribution of initial firm size, did the cash transfer have a positive return (de Mel et al 2008, Fafchamps et al. 2011). In India, Banerjee et al. (2010) find that those already involved in entrepreneurship in India use the loan to expand business, without necessarily guaranteeing a return. Overall, Banerjee et al. (2010) conclude that “microcredit is not for every household, or even most households, ..., and it does not lead to the miraculous social transformation some proponents have claimed”. The same appears to be true for social transfers as part of social protection spending: for many, the returns to these grants are unlikely to be high, and their transformative power is not obvious.

However, it can be correctly argued that the non-monetary returns to these cash transfers (or indeed microcredit) may be as important. Just as microcredit’s main result appears to be impacts on female empowerment and non-monetary effects (Armanderiz de Aghion and Murdoch, 2005), the same seems to apply to social transfers. Transfers may be invested in other assets, such as health or education of children. It may more generally lead to social emancipation. There is indeed evidence of some such effects.

Conditional cash transfers tend to impose conditions in terms of school attendance or health clinic attendance of children on parents’ access to cash transfers. While many of these schemes, such as the Progresa (Oportunidades) have found positive impacts on health and education, it would not be quite right to directly attribute these to the cash part of the transfer. However, exploiting variation in the cash transfer given, Gertler et al, (2009) have argued that the cash part was relevant for improved health outcomes. The social (old age) pension scheme in South Africa also appears to have further effects beyond cash returns: Duflo (2003) finds positive health and nutrition effects on young children of the family, while Edmonds (2006) reports reduced child labour supply.<sup>15</sup> Some of the schemes in Latin America, such as Juntos in Peru, can be credited with offering marginalized groups such as Andean peasants something concrete from the state, rather than experiencing its oppression and violence.

Finally, if microcredit and cash transfers have similar returns, why not promote microcredit, as it surely will be cheaper if some resources were being repaid with little loss of the benefits? It is not so simple. One key argument for more social assistance is that microcredit programmes find it notoriously difficult to reach the poorest (Armanderiz de Aghion and Murdoch, 2005). And creating obligations to be repaid, if returns to assets are not high for many, would make credit

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<sup>15</sup> Social protection is however not necessarily leading to beneficial child labour effects: Woldehanna (2009) finds that child labour actually increased among beneficiaries of the PSNP, as parents leave children to mind the household while they take on the workfare.

not a suitable solution for the poorest. Nevertheless, the success of microcredit programmes of reaching millions across the world illustrates a possible lesson for social assistance programmes. Microcredit involves a clear contract between provider and borrower, with clearly spelled out rights and obligations. Social protection often lacks this contractual aspect.

#### *Contingent transfers and insurance*

The discussion thus far has focused on social assistance transfers; but what about transfers contingent on particular events, such as harvest losses or illness? Most poor live in risky environments that constantly threaten their livelihoods. The majority of the poor are self-employed, in agriculture or in the informal sector; others are in insecure casual wage labour jobs. Health risks are rife in urban and rural areas; rural livelihoods strongly depend on agro-climatic conditions. Mutual support and risk-sharing mechanisms are widespread, while households also use a variety of self-insurance and risk management strategies. However, extensive research in the last 20 years or so suggests that at best all these sophisticated livelihood strategies offer only partial insurance to the poor (Dercon, 2004). Typically, they cannot offer sufficient protection against economic downturns, climate shocks and serious health shocks.

Fundamentally, this is linked to missing insurance markets, or further market failures in savings and credit markets, the typical market-based substitutes for lack of insurance. Well designed social protection offering contingent transfers could fill this gap. Examples are workfare programmes to handle economic downturns (such as Jefes y Jefas in Argentina) or the employment guarantee scheme (NREGA) in India, offering up to 100 days at relatively low pay to anyone. Free or subsidized health care to specific groups would be a means to offer a contingent transfer in kind; more standard social insurance for health could take the form of publicly run or supported health insurance schemes, such as the strongly subsidized RSBY hospitalization insurance in India. Well-designed drought relief and other food aid schemes could also have their role, for example in the face of weather or price shocks.

Social protection may resolve some of the most pertinent insurance market failures. However, while no doubt much human hardship could be resolved, would this offer a sufficiently strong economic argument to spend resources on it? This would depend on the size of the losses. There are two types of losses linked to risk worth distinguishing. First, there is the loss of various assets and human capital. Secondly, there are the profitable opportunities missed due to risk as households and firms need to avert risk due to lack of protection against downside risk.

Large or repeated shocks, without good insurance or social protection, force people to sell off assets to sustain nutrition and consumption with risks of persistent poverty: a state of deep poverty with little hope or opportunity of escape. The narrative of 'asset poverty traps' inspired by the analytics in figure 1 appears consistent with many of the life histories of those in persistent poor: they face depleted productive assets, with such low returns that they are likely to remain stuck in deep poverty forever. In a high risk environment, one could easily fall when a serious shock strikes, but then find it very hard to escape. If these losses are large and widespread, the efficiency losses may be very high.

There is evidence for such processes operating in some of the poorest settings in the world, in the form of asset or income poverty traps in Kenya and India (Lybbert et al., (2006), Dercon and Outes (2011)) and income dynamics leading to poverty persistence in China and Ethiopia (Jalan and Ravallion (2004), Dercon (2004)). The sizes of these dynamic effects for the affected groups can be large, and at times many are affected: for example, a large part of the rural population was affected by the famine of 1984-85 in Ethiopia, and in the 1990s, it was found that during a period of growth and recovery, they had about 6 percent lower *growth* in income per year than those not affected (Dercon 2006). In Tanzania and Ethiopia, incomes of those affected by droughts more than 10 years earlier were still found to be lower compared to unaffected communities (Beegle et al. 2008, Dercon, 2006).

The size of these effects is even better illustrated by the impact of large drought and conflict shocks on human capital, in the form of health and education. Catastrophic health shocks were found to have large effects on consumption in Indonesia (Gertler and Gruber, 2002). More dramatic consequences were found from crises affecting young children. Evidence from Zimbabwe and Ethiopia from crises in the 1980s found that up to 20 year later, young children affected by these crises were found to have permanent losses in terms of height and education, suggesting permanent income losses of between 7 and 15% (Alderman and Hoddinott, 2004; Dercon and Porter (2010)). Maternal orphanhood in Tanzania was shown to lead to substantial height and education losses, and about 9% lower earnings at adulthood (Beegle et al. 2010). In short, a serious crisis at an early age has life-long impacts on productivity and incomes.

Some of the key impacts here work through nutritional deprivation relatively early in life. The crises discussed in most of these papers are largely covariate, in that a large percentage of the population is affected. But these effects are unlikely to come about only from covariate shocks. Stunting is still very high – more than 40% of children in sub-Saharan Africa and South Asia are stunted, linked to deprivations in early childhood. Causal links between stunting and cognitive development, and therefore earnings possibilities are well established (Grantham-McGregor et al., 2007).

In short, the available evidence suggests long-term efficiency losses from two key sources: at the level of households, large uninsured shocks in incomes tend to have long-term income consequences, linked to losses of assets, while especially children bear an important cost in the long-run, in terms of education and health, affecting their productivity in later life.

Harder to quantify but possibly substantive as well are the costs of foregone opportunities due to risk. There is evidence of activity and asset portfolio choices in agriculture in India and Tanzania, suggesting that returns to assets are about 25 to 50% lower for those not able to protect themselves against the consequences of bad harvests (Binswanger and Rosenzweig, 1993; Dercon, 1996). There is also evidence of lower uptake in agriculture of profitable inputs and technologies in India and Ethiopia, linked to the lack of protection (Dercon and Christiaensen, 2011; Morduch 1995). Dercon (2006) has more examples.

This would suggest a rather strong case for social protection mechanisms that help to avoid consequences of climatic risk or serious health shocks. Few of the large social assistance schemes in operation have a system of contingent transfers included, for example where transfers increase or coverage is broadened when income shocks, such as linked to poor harvests occur. De Janvry et al. (2006) nevertheless suggest that Progresa helped children to stay in school when harvests failed, although they also argue that a more state-contingent system of transfers would make the system more effective.

In a number of countries, efforts are under way to expand health insurance systems for hospitalization costs. In Ghana, the National Health Insurance scheme is trying to offer more widely access to health insurance to reduce out of pocket expenditures, although evidence suggests that the poorest remain excluded (European Report on Development 2010). In India, the RSBY low-cost hospitalization insurance scheme offers an ambitious large scale attempt to ensure the poor avoid large health expenditures and protect their health. While enrolment appears to be high and rather successful (World Bank, 2011), early evidence on its functioning is rather more damning about its success. Rajasekhar et al. (2011) report how in Karnataka, 85% of the eligible households knew about the system, and 68% had been enrolled. But in practice, after six months, utilization rates were virtually zero, with beneficiaries not receiving cards or information where to get care, and with enrolled hospitals not honouring their commitments, asking for cash or turning away patients with RSBY cards.

The NREGA employment guarantee scheme in India would in principle offer one ideal form of contingent transfers, by offering permanently access to up to 100 days of work at wages that make it only of interest to either the poorest or those temporarily facing low incomes, as it



would guarantee a source of income when rural incomes are low due to poor harvests and limited rural labour market opportunities, while also contributing to build up community assets (Ravallion, 2008). Its impact is not entirely clear at the moment, and the programme is rife with implementation problems. For example, Dreze and Khera (2009) find in their survey that 98% of the potential workers stated that they were ready to work for 100 days in the year, which is the upper limit of the NREGA, but only 13% reported to be able to get this number of days (see also World Bank (2011)).

If uninsured risk is costly, and few programmes appear to function well, could insurance market development not offer an alternative? In most rich economies, public or subsidised solutions for health, unemployment and drought insurance are standard, but this does not mean that in settings with limited resources, there may not be efficiency gains from using more market-based solutions. Indeed, a lot of effort is put into trying to develop micro-insurance solutions for the poor, using exactly the same motivation as used for the development of social protection (e.g. see Dercon and Kirchberger, 2009). It is definitely worthwhile to explore what the place of either would be in an efficient system geared towards reducing vulnerability of the poor.

Experience with developing micro-insurance markets has taught us a lot of lessons. In practice, while there are a lot of micro-insurance initiatives, coverage is still very low. For example, Matul et al. (2010) estimated that only 2.6% of the population under \$2 a day in sub-Saharan Africa had an insurance policy from insurance companies, NGOs and community-based systems, and more than half of these were in South Africa, where funeral and life insurance is widespread. More careful impact evaluations of drought or health insurance products also find low uptake (Cole et al. 2010, Dercon et al. 2011). These markets are clearly hard to develop, for various reasons. First, insurance is a difficult concept and therefore a difficult product to sell – anywhere in the world (Cole et al, 2010). Furthermore, trust is a key issue (Cai et al, 2010, Dercon et al. 2011). Note the key difference with selling microcredit products: in the case of insurance, the seller first collects money and the customer has to trust that the seller will honour the contract if a bad event occurs; in credit, the seller gives money and has to find a way to ensure the customer repays. Parting with money as in the case of insurance will be seen as highly risky by the poor, adding to their vulnerability.

These would seem reasons for involvement of the state, especially to ensure that some of the poorest are covered as well; contribution-based social insurance schemes clearly can have their role, with possibly subsidised access for some of the poorest. But if understanding and trust are problems for private contracts, these would similarly be problems for state-run

programmes if trust in governance of public schemes is not present – which could be a problem in many settings.

There could be other reasons why social protection, possibly working with private insurance systems, has a clear space. Insurance products for some of the most catastrophic and/or covariate shocks tend to be rather expensive, with costly reinsurance for private insurance contracts. Renewals by customers are also at times hard to achieve if no shocks occurred in the last year. Finally, private insurance markets have incentives to guard themselves against adverse selection, by keeping some of the highest risks out of the risk pool, leading to exclusion of some of the poorest. Involvement of the state, including via guarantees and subsidies could ensure the poorest are covered, even for the largest risks. More standard contributions-based social insurance could then be further developed from specific public social protection activities.

#### *Efficiency in Delivery of Social Protection*

With limited budgets and potentially high costs, finding ways of delivering social protection at low cost must always be a priority. Many of these issues relate to designing managerial and governance systems. However, there are certain elements in the design of the products involved that provide potential *efficiency* gains.

If targeting can be done more efficiently, reaching the target population will be more cost-effective. Imposing strict targeting rules would mean that no-one not ‘deserving’ the transfer receives it. In general, targeting using means-testing or administrative means tends to be expensive or systems tend to make errors. These errors are of two types: including those in schemes not deserving the transfer and excluding those that should get the transfer. If one wants to make sure that poverty reduction is paramount, then excluding ‘deserving’ groups would come at a high price in social welfare. Universal transfers (instead of targeted transfers) have therefore been proposed, but obviously would come at a high cost.

One means to exclude any non-targeted (non-poor) households is to set-up self-targeting schemes: social protection programmes designed in such a way that only those really needing it enrol or take advantage of the programme (Ravallion, 2006). Imposing conditions to receive a transfer such as in conditional cash transfer schemes can encourage self-targeting if the condition would be considered demanding, e.g. in time, tastes or even shame for richer groups. A workfare programme such as the employment guarantee scheme in India is one example, as the benefit requires hard work. Using inferior commodities for price subsidies, whose consumption decreases when income rises is another example. It is not always clear that this

will result in better targeting: one problem is that not all the poor can satisfy the criterion. For example, not all can offer to work, coming at the cost of excluding some groups.

While better targeting offers a means to deliver schemes at lower costs, this is not the same as providing efficiency gains to the economy from social protection. As the discussion in this section has argued, cash transfers to most of the poor as operating currently are not likely to have large return for growth and efficiency per se, although contingent transfers may have larger efficiency gains. Conditional cash transfers may offer some further benefits, as they not only transfer cash or typically fungible commodities, but also impose rather precise conditions. Conditioning transfers can have benefits for efficiency if the condition imposed offers direct efficiency gains. For example, one way of reading the benefits of conditional cash transfers as in operation in many Latin American settings is that they resolve inefficiencies in household allocation: children's bargaining power is insufficient and their intertemporal benefits from better health and education are insufficiently valued. Conditions ensure that more of the gains accrue to the children (Das et al. 2005). Furthermore, there could be direct benefits for the economy as well. If investing in health, education or training has externalities for the economy as a whole, provide (private) transfers to households with conditions for health and education (as in Oportunidades), or for training (Jefes y Jefas, Argentina) ensure more investment than what the unconditional use of the transfer had offered. The size of the externalities remain as disputed as the exact role of human capital for growth, which especially at lower skill levels is not resolved (Growth Commission, 2008).

#### *Other growth externalities*

There are also possibly other externalities from redistribution, that may be important for growth but work much more indirectly or dynamically. This touches on the more macro-level literature on the role inequality on growth, via political economy effects. There is relatively strong evidence that inequality is bad for growth (World Bank, 2006). Theory models have suggested various mechanisms including via pressures of redistribution in democratic societies or the impact of social conflict all leading to lower growth (Persson and Tabellini 1994; Alesina and Perotti 1996). Importantly, while it is less disputed at present that serious inequality leads to lower growth, in models such as in Persson and Tabellini (1994) it is *because* redistribution leads to lower growth. The evidence in Banerjee and Duflo (2000), that changes in inequality in *either* direction is associated with reductions in growth, may further limit the role of large scale social transfers as offering a direct route for inequality, even if inequality in itself is bad for growth. Of course, it would be hard to argue that current social protection schemes in most of the poorer developing countries have the scale required to attract any large negative dynamic growth effects, while the contribution to reducing social conflict tensions in high inequality societies such as in Latin America may well be large. As with all regression work, the

associations implied are averages across a world with relatively few countries offering data points and huge heterogeneity in social and political contexts. In this review, we have less to say on dynamic growth effects via the impact of social protection on inequality by lack of evidence either way.

#### 4. Social Protection and growth?

The discussion above suggests two broad types of social protection that can have substantial efficiency or growth benefits. First, given the problems with risk and insurance markets, developing social protection specifically to deal with shocks has a strong appeal, not least given the long-term costs the lack of insurance appears to impose on particular groups. Secondly, while broad-based cash transfers are unlikely to have a high return beyond their (important) redistributive role, the idea that either targeting specific groups or including specific (non-fungible) conditions to social protection seems appealing to achieve efficiency and growth goals. All targeting risks excluding certain groups as a consequence, so a trade-off between efficiency and equity considerations looms large in this case. Below we suggest how transfers to three specific groups that could have relatively high efficiency gains, as well as the possible types of transfers that could deliver these benefits.

##### *Targeting Young Children*

The case for targeting young children is well recognised. The evidence quoted above on the long-term damage that can be done from nutritional and other deficiencies in early childhood are well documented. In fact, even the Growth Commission (2008) recognised the need for spending on early childhood protective measures for growth reasons. Cash transfers per se are blunt instruments to ensure that spending by families reaches the children properly. Furthermore, the most critical ages for children are pre-school, so school based systems would not work either. A combination of conditional cash transfers as well as forms of contingent transfers during crises targeted at children may offer a solution, even though they are likely to be rather blunt instruments to ensure that no long-term losses emerge from short term deprivation.

Some of the evidence available suggests that standard conditional cash transfers are indeed too blunt to have a considerable impact on early childhood indicators. Even though some impacts were found, Schady (2006) argues, using evidence from Gertler and Fernald (2004) (see also Fernald et al. 2009) that Progresa/Oportunidades was too blunt to have much impact. Targeted food supplements to children, such as a programme in Peru offering milk to children also make little inroads in nutritional deprivation and other outcomes (Stifel and Alderman, 2003). Stronger impacts are found from special programmes encouraging attendance at day-care or

preschool facilities such as in the PIDI programme in Boliva (Behrman et al. 2004). The most encouraging results come from the work in Jamaica by Mc Gregor and colleagues (1991, 1997), in which nutritional supplements and child stimulation were offered, with especially the latter offering very high returns in the medium-run. How to scale up such interventions in poor settings such as in Africa is obviously a serious challenge.

### *Migration and Cities*

During periods of growth, livelihoods rarely change smoothly. For many, it involves taking risks, including migrating and entering into activities previously not performed. Such changes are essential to allow the poor to take part and benefit from economic transformation—but as the fast-growing economies in Asia and Latin America have shown, while improving many lives, migration tends to involve serious hardship for some, even if temporarily, and even leading to persistent poverty. This will make others reluctant participants, slowing poverty reduction during growth. At the same time, the economic transformation requires a ready supply of workers, and despite perceptions to the contrary, migration in many developing countries is often too slow leading to inefficiencies, and the lack of the appropriate skill mix for local labour markets. Au and Henderson, (2006) argued that limitations on migration in China lead to cities that are too small for growth and efficiency. Beegle et al. (2011) find urban-rural gaps in the standard of living in Tanzania consistent with under-migration; similar evidence exists for India.

Internal migrants are often perceived to live initially in squalor suffering poverty. In terms of average material living conditions, the evidence suggests the contrary, at least compared to conditions left behind; however, the risks of migration, leading to heterogeneity in living conditions, as well as the costs of congestion, and poor public services in the form of access to health, sanitation and education reduce the attractiveness of migration. As there would be efficiency gains, the *economic* case for offering migrants and other urban groups better social protection to lower the risks in migration may be high, even if controversial. Most workfare programmes in the poorest countries are rural-based, at best building up rural infrastructure, often in areas with limited future for agriculture or employment in the long-run. Introducing workfare programmes in urban areas, both in small and larger cities, focusing on building up community assets, such as sanitation or better housing, could have substantial benefits, and contribute to making urban areas more attractive for workers, contributing to a more ready supply of workers to feed into the required economic transformation. At present many of the rural community asset building projects such as in the PSNP or NREGA may not have produced high quality assets; it would be a challenge to ensure this would happen in urban workfare programmes.

### *Adolescents and young adults*

Another group, largely forgotten in social protection, but becoming an ever larger challenge for social and economic policy are relatively poor adolescents and young adults. The massive rise of enrolment into education and the economic transformation taking place has raised the expectations of this group. Given the way demographic trends have evolved, in many countries, they are currently or in the next decade or so, the largest single demographic group. In many developing countries, education has not delivered guaranteed jobs in the same way as it would have been for their parents. At the same time, concerns about the quality of education in many developing countries means that even their cognitive skills are limited; labour markets do often not appear to consider them easily employable.

As economic transformation, and the inclusiveness of growth depends on the extent to which labour markets can absorb these relatively low-skilled workers, they would deserve specific attention *on efficiency grounds* from social protection systems. Designing conditional cash transfers conditional on additional training and labour market preparation, or apprenticeships, may well have high long-term returns, and helping to bridge the absorption of this group in the labour market. It would in any case be preferable to using social protection funds for large scale self-employment oriented micro-business training with credit, a favourite intervention: as the evidence above has suggested this is likely to be beneficial to only a limited and well-targeted group of potential entrepreneurs. Preparing an army of workers for the informal sector would in the long-run not be the appropriate recipe. As the history of the economic transformation in rich economies has shown, relatively few are called to be successful in self-employment, and most will end up wage workers – and together this forms a successful formula for poverty reduction.

## 5. Conclusion

Economic growth and sustained job creation are essential for large-scale poverty reduction in the poorer regions of the world. Higher incomes will mean that increasingly fewer people will be stuck in poverty but more will be able to withstand shocks. Therefore, do appeals to increase social protection to reduce poverty not simply show that this process is not taking place? There is definitely some truth in this argument. Many of the poor are stuck in poverty because they have limited opportunities. Much of their vulnerability to shocks and persistent poverty is closely linked to their livelihood opportunities: working on farms in highly risky agriculture or being self-employed in a small business in a risky market environment.

Poverty reduction throughout the world is characterised by the absorption of large parts of the labour force in stable wage jobs. Higher incomes for those remaining in self-employment and agriculture would mean opportunities to build up assets or other means to withstand shocks

and misfortune. For many, the threat of persistent poverty and asset poverty traps would be unravelled. While some particularly vulnerable groups will always require forms of social protection, the scale of the task would shrink with sustained growth. Social protection is no substitute for this process.

Nevertheless, social protection has an important role in this development agenda. It is one mechanism for making growth pro-poor. It offers a direct and simple means of redistributing some of the gains from growth including to those not able to productively contribute to the economy—such as the elderly or disabled—or more in general, those that risk stay behind. It also offers ways to ensure that shocks don't push people back.

Well-designed social protection may contribute to growth. Social transfers and other social assistance can offer the productive assets the poor need to engage productively in the economy, and allow them to graduate from dependence. Public works programmes can also build relevant public goods and infrastructure in local communities, contributing to growth. Well-designed social insurance can plug gaps in private insurance markets and complement community-based systems. By overcoming market failures, it can contribute to efficiency, allowing households to use their resources more effectively, and encourage the risk-taking and innovation essential for growth (Ravallion, 2006; Dercon, 2005). But don't expect social protection to be a driver of growth. It would be naive to expect that the *macroeconomic* effects via the demand increases from cash transfers, without production and efficiency increases, would be anything else but inflationary. And the evidence on the contribution to *efficiency* and *growth* of social protection is just not that strong.

Social protection is not simply the panacea to make growth inclusive. It could address market failures but it is not necessarily or always the best instrument to do so. It will support equity objectives, and they remain paramount. Trade-offs are the bread and butter of welfare economics, and exposes the need for others to make the political choices where simple economic logic does not offer an exact solution. Expanding social protection will remain a matter of social tastes, but it does not mean that it cannot be done, nor that it necessarily will hinder efficiency and growth processes. While it is not a simple a 'win-win' situation, choosing both designs and the focal areas carefully will help to maximize their return to growth and poverty reduction.

But there are areas where it can have strong effects and at least provide the oil to make the growth engine work more smoothly. We identified three areas. First, both social insurance and social assistance can protect family investments in human capital, such as education and health, by ensuring that children stay in school or that nutrition does not suffer when a financial shock hits. Because these losses in nutrition and education are often irreversible, they imply that earlier social investments are wasted, which could have been avoided with appropriate social

protection. This is especially so in the case of very young children and serious crises – any nutritional loss has large and irreversible impacts on their ability to contribute productively in adult life. Secondly, social protection could be targeted to help the economic transformation become sufficiently labour intensive. Areas of importance would be support to migrants and migration, and anything that can help cities grow in an inclusive way. Thirdly, and related, use social protection to make adolescents more employable, and of interest to firms to absorb them into the economy. In all these cases, some smart mechanisms would be required, probably well beyond the rather blunt standard social protection measures and cannot be done in isolation from other policies related to health, education and employment skills formation.

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