Second draft

MANAGING RISK AND MINIMIZING VULNERABILITY: THE ROLE OF SOCIAL PROTECTION IN PRO-POOR GROWTH

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From the initial work of the three POVNET Task Teams – private sector, agriculture and infrastructure – the common theme of "risk and vulnerability" clearly emerged, i.e. the need to manage and to reduce risks and vulnerabilities through various mechanism of "Social Risk Management" or "Social Protection". This paper is a contribution to the work of the fourth task team on risk, vulnerability and pro-poor growth, based on papers that have been produced or submitted to the task team as well as on work and approaches developed by the ILO. It will focus on the situation in low-income countries.

This paper consists of five sections. The first will develop the notions of risk, vulnerability and pro-poor growth and argue that empowerment is a fundamental ingredient of pro-poor growth. It will then define the concepts of social protection and social security and examine their role in economic growth. In the light of the concepts and approaches reviewed, section 3 will then briefly examine one key social risk management approach, i.e. social health insurance, and its impact on the productivity of employment. Section 4 will analyze the potential impact of social pensions and conditional cash transfers on the reduction of poverty, particularly in the context of low-income countries. Section 5 will provide some concluding remarks.

1. Risk, vulnerability and pro-poor growth

The concept of pro-poor growth (PPG) was first developed in the DAC Guidelines on Poverty Reduction (OECD, 2001). They state that increasing growth rates is essential, but not enough. The quality of growth – its sustainability, composition and equity – is equally important. The concept of PPG was further developed in the POVNET task team on private sector development, which indicates four possible ways in which the poor can participate in and benefit from growth, i.e. as farmers and entrepreneurs, as workers, as consumers, and as potential recipients of tax-financed services and transfers. The consensus in the task team was that the appropriate measure for PPG is the growth of the average incomes of all poor people (OECD, 2004).

Since poverty is a multi-dimensional concept, the concept of pro-poor growth has to reflect this reality. This is in line with the choice and interaction between the Millennium Development Goals (MDGs), which were originally conceived within the context of the OECD Development Assistance Committee. Income poverty (MDG1) and non-income poverty (MDG2-7) will be reduced most effectively in the context of an overall development strategy that integrates economic and social policies. In a recent analysis carried out for the DAC Network on Poverty Reduction, Klasen (2005) confirms this point. He finds that while there is a clear correlation between the income and non-income dimensions of pro-poor growth, that correlation is far from perfect. He concludes that relying on income growth to solve the non-income poverty problem is unlikely to be the most effective approach to addressing non-income poverty.

The concepts of risk and vulnerability have mainly emerged in the context of the pioneering work done by the World Bank on Social Risk Management (SRM) (Holzmann and Jörgensen, 2000). The great contributions of the SRM approach have been that it has shown the synergy between social protection and other development policies and that it examines all development policies from a risk and social protection perspective. The SRM approach does not concern itself only with coping strategies, but also with those that mitigate and reduce risks. It is forward-looking, in that it wants to reduce the vulnerability of people, and in particular the poor, so that they can participate in, and benefit from, the process of economic growth. This aspect has also been stressed by the human security approach (Commission on Human Security, 2003), which deliberately focuses on “downside risks”, with regard to external shocks, such as conflicts, crises and natural disasters, as well as to threats that are embedded in the daily lives of people, such as illnesses, unhygienic living conditions and social exclusion. In many cases, the “downside risks” at the macro- and micro-levels are cumulative and related to each other, so that integrated risk management approaches need to be adopted to deal with them.

The concepts of risk and vulnerability generally revolve around the exposure to a hazard and the ability to manage the consequences of the hazard, once it has occurred (Sabates-Wheeler and Haddad, 2005). The Japan International Cooperation Agency (JICA, 2005) defines risk as the “probability of degradation/aggravation in the future wellbeing” of people caused various threats at the macro- and micro-level. Vulnerability is defined as “the situation with a substantial downturn in the wellbeing of people or substantial threatening of their daily lives because of their inability to deal with risks when they face threats”. It varies according to the strength of risks and people’s capacity to deal with risks. The empowerment concept measures people’s ability to manage risks, and was first introduced in the World Development Report (2000) on “attacking poverty”. Narayan (2002) defines it as “the expansion of assets and capabilities of poor people to participate in, negotiate with, influence, control, and hold accountable institutions that affect their lives”. Empowerment can be strengthened by various actions of the national state and the international community, such as improved provision of basic services; local, national and global governance; pro-poor market development; and access to justice.

The focus of any pro-poor development policy should be on all those who are vulnerable to poverty. They are, of course, the poor themselves, but they also include the large group of people who may fall into poverty when faced with risks that they and/or their society are unable to manage. Since poverty is a multi-dimensional reality and not limited to only income, the concepts of risk and vulnerability are also multi-dimensional. Pro-poor growth is therefore part of a development policy that minimizes vulnerability to poverty – in all its dimensions. It must deal with the sources of economic growth, but also with the institutions and policies that ensure that vulnerability to poverty is reduced to the minimum.

2. Social protection and economic growth

Poverty is the result of economic, political and social processes that often exacerbate the deprivation in which poor people live (World Bank, 2001). The pattern of economic growth and social protection play fundamental roles in a comprehensive strategy for poverty reduction, which is centred on promoting opportunity, facilitating empowerment, and enhancing security. Promoting opportunity is one element of such a strategy, i.e. by stimulating economic growth and employment, making markets work better for poor people, and building up their assets. Empowering people, and in the particular the poor, is a second element. Because of unequal power relations, state institutions may be unfavourable to the poor, who often do not receive the benefits of public social protection investments, for example in education and health. Poverty outcomes are also greatly affected by social norms, values and customary practices that - within the family, the community or the market - lead to exclusion of women, ethnic and racial groups, or the socially disadvantaged. That is why empowerment – by building up human and social capital and making state institutions more accountable – is so important. Enhancing security – through various risk management and social protection mechanisms - is a third element. It reduces vulnerability to external shocks and threats embedded in people's daily lives that reinforce people's sense of ill-being, exacerbate their material poverty, and weaken their bargaining position.

Conceptual frameworks

There is a vast literature on the sources of economic growth, and a growing literature on pro-poor growth. Standard economic growth theory explains that over the long run output per worker (productivity) is determined by the rate of investment in capital (incorporating ever more productive technology) and by the efficiency of labour, i.e. workers' skills to use the capital. In the context of a globalizing economy, various additional enabling factors and conditions need to be taken into account to achieve economic growth and to make its pattern pro-poor. The fall of the Soviet-based development model and the success of the more open Asian model help to explain the emergence of the "Washington Consensus" in the late 1980s and early 1990s. Major elements of that model included: fiscal discipline; liberalization (deregulation) of domestic financial markets as well as of international trade and capital flows; privatization; and encouragement of competition. The experience of the mid and late 1990s raised doubts about some elements of this consensus, such as the proper pace and strategy for liberalizing capital controls and the degree of fiscal discipline appropriate in the face of financial crises. Many development analysts now also believe that the earlier Washington Consensus paid too little attention to institutional development, such as strengthening the rule of law, combating corruption and improving transparency in the operations of both public and private sector entities (Thompson, 2005).

Many analysts therefore propose broader conceptual frameworks to understand the relationship between economic growth and poverty reduction - in a context that is relevant for policy. Van der Hoeven and Shorrocks (2003) for example find that initial conditions, such as inequality in assets and education, the nature and quality of institutions as well as the structure of the economy matter a great deal as to whether policies have pro-poor or anti-poor outcomes. The Commission on Human Security (2003) accepts that economic growth is essential for reducing income poverty. They consider that markets and trade are basic to economic growth and have been a source of unprecedented wealth for some. The central issue from a human security point of view is to support the range of diverse institutions that ensure that markets enhance people's freedom and human security as effectively and equitably as possible. Such institutions complement the market by providing core freedoms that the market cannot directly supply. The Commission points out that market economies can have different ownership patterns, resource availabilities, social opportunities and rules of operation (patent laws, anti-trust regulation). Depending on these enabling conditions, a market economy would generate different prices, terms of trade, income distributions and overall outcomes. The arrangements for social security, social protection and other public interventions can also alter the outcomes of market processes. According to the Commission, it is the combined use of markets and non-market institutions that offers the best prospects for less global inequality and more human security.

Policy mapping

In the light of the discussion of concepts and terminology in the first section and that of pro-poor growth discussed in this section, table 1 maps out the various policy areas related to social protection, social security and pro-poor growth.

Table 1: Mapping of policy areas with regard to pro-poor growth, social protection and social security

Needs and capabilities	**Social protection**		**Pro-poor growth**
	In cash (social security)	**In kind**	
	Integrated policies (coping, mitigation and promotion/prevention)		
Risks related to employment capacity and social cohesion			
Un(der)employment	Unemployment (insurance) benefits; cash for work	Labour market and training policies; food for work	SME and local development; macro- & sector policies
Sickness, disability and survivors	(Micro-) insurance and tax-financed pensions	Safe & healthy working conditions ; labour market (re)integration	
Old-age		Working conditions; old people's homes	Micro-finance institutions
Family break-up; social exclusion and discrimination	Maternity, child and family (insurance) benefits	Child care; child labour; gender equality; communities and minorities	
Basic needs (rights) and capabilities - to manage risks and overcome vulnerability			
Subsistence	Tax-financed benefits	Social work	Anti-poverty policies
Health	Fee waivers; social health (micro-)insurance; conditional transfers	Health policy; national health service; (safety & health at work)	
Education	Fee waivers; conditional transfers	Education policies, incl. school meals	
Housing	Rent and energy subsidies	Social housing	Employment-intensive construction & infrastructure; Micro-finance institutions
Food	Food stamps and consumer subsidies	Food aid	Stimulating agricultural productivity

Table 1 lists the basic needs and capabilities as well as the basic risks related to employment capacity and social cohesion (van Ginneken, 2003). It builds on the concepts developed by Sen (1999) who identifies poverty in terms of capability deprivation. Clearly, the satisfaction of basic needs and the build-up of basic capabilities enhance people's employment capacity, contribute to family and social cohesion, reduce poverty and empowers people to conduct their lives and manage their risks.

Social protection interventions can be distinguished according to whether they are provided in cash or in kind. Social security mechanisms normally deal with benefits in cash. They can be further distinguished as to whether they are tax-financed or contributory; in the case of contributory social security systems there is a direct link between contributions and benefits, while that is not so for tax-financed benefits.

Contributory social security mechanisms (including community-based systems) can play an important role in the financing of – and provision of access to – basic needs services. For example, in the absence of free access to health care social health (and community-based) insurance can play an important role in the financing of health care; in addition, tax-financed government subsidies can improve access to food, education and housing.

Another important part of social protection interventions are labour market and training policies; actions to promote safe and healthy working conditions; as well as policies that focus on particularly vulnerable groups, such as working children, the disabled, the elderly and socially marginalized groups.

As noted earlier, employment promotion policies are a key element of pro-poor growth. Some key employment promotion policies are mentioned in the last column of table 1. They consist of policies to stimulate small and medium enterprises, to improve agricultural productivity and to promote employment-intensive forms of production, particularly in infrastructure and construction.

Synergies between social protection and economic growth

Given the country-specific context of the economic growth process, the task team on private sector development (OECD, 2004) developed an analytical framework to assess whether the conditions are in place for the private sector to deliver growth, and to identify those changes to institutions and policies that would make growth more pro-poor. The five interlinked factors that this task team proposes are: (i) providing incentives for entrepreneurship and investment; (ii) increasing productivity: competition and innovation; (iii) harnessing international linkages; (iv) improving market access and functioning; and (v) reducing risk and vulnerability. In a paper written for DFID Bourguignon and Ravallion (2004) develop a similar set of broad conditions that can support pro-poor growth. They consider that social protection can help correct market failures, facilitate investment in human and physical assets, help prevent irreversible coping strategies that undermine productive activities in the longer term, foster social cohesion and reduce the likelihood of conflict.

The aims of social protection and of social policies in general are to guarantee that people have at least a minimally accepted standard of living and to prepare them for a constructive role in economic, social and political life. The process of economic growth should serve to achieve these aims, but social protection and social policies should – in as far as possible – be so designed that they help to support the process of economic growth. ILO's decent work approach (ILO, 1999) emphasizes that employment – together with social protection – are the missing links between economic growth and poverty reduction ILO, 2003). Employment is one of the main avenues for people to achieve a decent level of living and to participate in, and contribute to, the process of economic growth. It is particularly in the interaction between social protection, employment and economic growth where the greatest benefits for synergies can be obtained.

One large area of synergy between social protection and economic growth is the long-term importance of social services, such as health and education, for employment and productivity. Section 3 of this paper will go deeper into the link between social health insurance and employment productivity. However, the precise and most effective forms of health and education policies and their financing are much less clear. It is sure, that good social service policies serve to contribute to factors (i) to (iv) that are elements of the analytical framework for pro-poor growth.

Another important area of interaction between social protection and economic growth is the question of (foreign) investment, competitiveness and (the employers' share of social insurance in) labour costs (see factors (ii) to (iv)). According to Thompson (2005), most labor economists believe that a free market economy will eventually convert employer social insurance contributions into lower net pay for employees. Where wages, capital flows and currency values area allowed to adjust, differences in social insurance contribution rates will be offset by differences in real wage levels, leaving employer costs unaffected. In addition, unemployment benefits and other social benefits will make it easier for workers to accept, and cope with, employment losses caused by trade liberation and other forms of structural change.

Characteristics of the ILO approach

With the context of the decent work approach, the ILO has developed a number of new initiatives with regard to social protection. The first is the launching in 2003 of the "Global Campaign on Social Security and Coverage for All", which is based on a new consensus reached by governments, employers and workers during the International Labour Conference in 2001 (ILO, 2001). Through the "Global Social Trust", the ILO is attempting to establish a new international mechanism for financing social protection.

According to the decent work approach employment and social protection for all are to be realized in the context of: (i) respect for fundamental labour rights (such as the progressive elimination of child labour); and (ii) social dialogue, including governments, workers' and employers' organizations as well as civil society organizations. ILO's approach to social protection can therefore be characterized by three main dimensions:

1. ***It is rights-based.*** Social security and social protection should provide entitlements to everyone. They will provide them with the basic capacities for empowerment before they can participate in society, as well as contribute to, and benefit from, economic growth. This is in fact one of the weak points of the Social Risk Management approach that assumes that people can manage their risks without having the empowerment and capability to do so. A rights-based approach is a necessary element of a pro-poor growth strategy that aims at minimizing vulnerability to poverty.

The rights-based approach has also been brought out by two of the papers that DFID submitted to this task force. The paper by Piron (2004) makes the point that the State has to provide basic entitlements directly, if certain vulnerable groups, such as the elderly, children, or people living in poverty, are not able to realize minimum human rights standards. If States do not have the resources, they have to set priorities. In addition, there is some sort of, but so far unofficially recognized, obligation of the international community to support States with insufficient resources for the realization of minimum human rights standards.

The paper by Shepherd, Marcus & Barrientos (2004) makes the point that "under a rights-based approach, states are obligated to provide laws, regulatory frameworks, programmes and policies which will all enhance the ability of households to manage risks and improve their standards of living". However, there is the presumption that risk prevention, mitigation and coping strategies will be enough to enable full recovery from shocks or stresses; that poor people will "bounce back" to where they were before, or a better place. Empirically, and theoretically, this is not always the case. There is therefore, according to these authors, a substantial risk of non-recovery which needs to be managed and overcome and that has to be conceptualized in a rights-based framework.

2. The approach is based on ***participation and social dialogue.*** The ILO also strongly promotes social dialogue as part of policy design and implementation. As mentioned earlier, this process empowers people to make governments and other economic actors more accountable. In one of the papers submitted to this task team (ILO, 2004a), various country examples are given, such as for Honduras, Mali and Sri Lanka. In these countries a broad-based social dialogue took place, including employers' and workers' organizations, as well as civil society organizations and social security institutions, so as to design and carry out a national policy for extending social security to all.

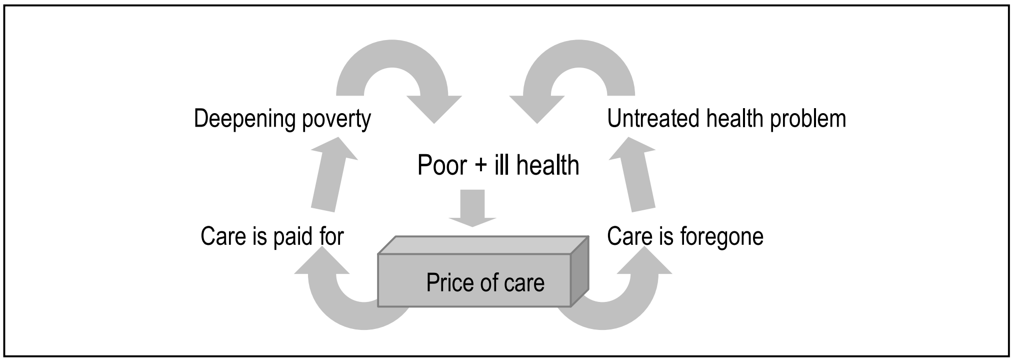
3. The approach is based on ***broad-based social protection strategies***. The ILO considers that social protection policies should cover everyone, because in principle everyone is vulnerable, particularly in an economic and social environment that is increasingly characterized by globalization and insecurity. For social protection to be really contributing to poverty reduction, it should not just focus on the poor, but it should also benefit, be supported by, and receive contributions from broad groups in society. In this aspect the ILO approach is on the same wavelength with the German concept of

social protection and social security (Federal Ministry for Economic Cooperation and Development, 2002) and with the Nordic "Social Policy Approach", as described in the note submitted to this Task Team by Finland.

3. Social health insurance and employment productivity

Good health and managing the financial consequences of health care are key factors in employment productivity and pro-poor growth (Waelkens, Soors and Criel, 2005). Ill health affects employment capacity and income levels, whereas high medical bills can reduce household savings or plunge people into permanent poverty (OECD, 2003). The ILO estimates that every year about 100 million people are vulnerable to falling into destitution as a result of unaffordable health care. The latter situation has been described as the medical poverty trap in which poverty and ill health reinforce each other in vicious circles (see box 1). These are often maintained in the long run as successive generations become trapped in poverty (ILO, 2003).

Box 1: The medical poverty trap at the household level



Source: Waelkens, Soors and Criel (2005)

What is true at the micro-level is also true for the macro-level. Low-income countries have a high disease burden and deficient health services (Wagstaff, 2002), or, alternatively, countries with the highest burden of disease have low economic growth, are stagnating or regressing (Sachs *et al.*, 2004).

No or insufficient access to health care has also a direct impact on employment productivity, through the number of days disabled and the consequences for household income. On the basis of household survey data Schultz and Tansel (1997) studied the effect of illness on income and labour participation in Côte d'Ivoire and Ghana. They found for both countries that about one-fifth of all persons report reduced productivity because of illness or injury in a recall period of four weeks. On average, every person looses one day in these four weeks. For each disabled day, wages are 10.5 per cent lower in Côte d'Ivoire and 11.7 per cent in Ghana.

Governments in many low-income countries are not able to provide free and universal access to health care. As a result, many people, including the poor, have to spend a considerable part of their household budget on health care and can be faced with catastrophic expenses in the case of hospitalization for example. A small part of the population – often not more than five per cent - is covered by statutory health insurance schemes including workers in the formal sector.

Since the beginning of the 1990s, various groups of informal economy workers in low-income countries have started to organize themselves in community-based health financing schemes. In West Africa, for example, the ILO (2004b) estimates that about 1.5 million people contribute to such schemes. For India the preliminary estimate is about 10 million people. The large majority of such schemes are based on insurance and risk-pooling, which has led to the term "micro insurance" – a concept coined by Dror and Jacquier (1999). The concept of community-based schemes is wider, since it includes all collective action in raising, pooling, allocating, purchasing and/or supervising the management of health-financing arrangements.

Under social health (including community-based) insurance schemes, members pay a premium to a social security or another (often non-profit) agency in exchange for an agreed entitlement to a defined package. Health insurance allows payments for services to be spread across time and between those insured, and implies cross-subsidization between the healthy and the sick. Social health insurance can ensure that people are treated on time and with quality services. It also provides a secure and cost-effective protection against the financial consequences of medical treatment and it greatly increases the predictability of household expenditure. All these advantages have a direct and positive impact on the income-earning capacity of the household.

There are various characteristics on the basis of which (work- and residence-based) communities can organize themselves for the provision of health care. People can organize themselves because they share the same occupation, live in the same area or belong to the same gender, cultural or religious group, for example. Each of these characteristics has its own advantages and disadvantages with regard to community factors such as trust, leadership, as well as financial and organizational capacity. These characteristics also have a major impact on the extent and speed with which self-financed community health insurance schemes can be replicated and/or linked up with other schemes.

Since most of these schemes remain fairly small, it is important to know under what forms of partnership the coverage of these schemes can be expanded. Such schemes therefore may form organizations among themselves, which will enable them to achieve various objectives, such as a stronger negotiating power towards the government as well as (public and private) health providers, sharing of knowledge and greater financial stabilization through mechanisms, such as re-insurance. In collaboration with a variety of partners, the ILO-STEP (Strategies and Tools against social Exclusion and Poverty) Programme promotes this movement through coordination networks that have been (or are being) set up in Africa and Asia.

The role of the government is critical for the successful up-scaling of these schemes (van Ginneken, 2003). Local governments must play an important role in setting up area-based social security schemes - in partnership with local groups of civil society. At the national level, governments are in the best position to ensure that isolated experiences can be replicated to other occupations, sectors and areas and that they can be linked up to statutory health insurance schemes. Moreover, it can create an enabling environment for the development of community-based schemes. Four possible forms of government support can be distinguished here:

- Promote health insurance through recommendations on design (benefits package, affiliation and administration) and the setting up of a management information system.
- Monitoring the performance of community-based schemes, possibly within the context of legislation on the efficient and transparent administration of schemes.
- Undertake and organize training, based amongst others on the promotion and monitoring activities mentioned under the above first two points.
- (Co)finance the access of low-income groups to health insurance, possibly through subsidies (for instance capitation fees) or matching contributions.

The development of micro-insurance and community-based schemes must fit into an overall health financing policy coordinated by the State. Apart from the direct provisioning of services, the State can provide incentives, set standards, and enforce compliance. The overall aim of such a policy is universal access to health, based on pluralistic financing structures. In the case of low-income countries national financing may need to be supported by international financing sources.

4. Social pensions, conditional cash transfers and poverty reduction

Some developing countries, particularly in Latin America, have set up tax-financed cash benefit schemes that provide basic income security for those in need. They are generally targeted to categorical groups (elderly people, widows and children) who have few or no potential links with the labour market. Social pensions are important form of tax-financed cash transfers. Benefit levels of tax-financed transfers are frequently lower than the poverty line, but they appear to be a welcome supplement to family income and encourage the integration of children and elderly into the household (van Ginneken, 2003).

While providing basic income security is an essential condition for reducing vulnerability, there is increasing interest in making these programmes more responsive to wider developmental and social protection concerns (Farrington, Harvey and Slater, 2005). This is the case with Conditional Cash Transfers (CCT), which are basically child benefits and which have mainly been adopted in Latin America. CCTs provide money to poor families contingent upon a certain behaviour, such as sending children to school or bringing them to health centres on a regular basis. Such cash transfers may therefore have there an important role to play in a pro-poor growth strategy.

In general, the poverty reduction effect of social pensions is high. An ILO study on Brazil (Schwarzer and Querino, 2002), shows that social pensions lift more than 14 million people out of poverty. South Africa tax-financed State Old-Age Pension (SOAP) reaches 1.9 million beneficiaries, about 85% of the eligible population. The scheme reduces the poverty gap for pensioners by 94%. India's National Old-Age Pension Scheme, financed by central and state resources, reaches one fourth of all elderly, i.e. about half of pensioners who live in poverty.

Contributions of tax-financed cash benefits to pro-poor growth

First of all, cash benefits reduce poor people's vulnerability, and enable them to better manage their risks. This is a point made by Prowse (2003) – i.e. that the state of vulnerability itself should be more widely recognized as being a cause, symptom and constituent part of chronic poverty. Many people living in chronic poverty have developed a condition of resignation, which can manifest itself in discouragement and risk aversion, which further exacerbate vulnerability and poverty. An interesting example of the favourable impact of cash benefits is the pilot social cash transfer scheme in Zambia's Kalomo District (GTZ, 2004).

Secondly, various cash transfer programmes have shown important effects on family cohesion and local development. Namibia's universal pension scheme has contributed to the improved social status of elderly persons (Schleberger, 2002). Even though their pensions are small, it gives them the ability to contribute to the income security of their children and relatives in times of need. This is particularly true in the informal settlement areas of towns and cities where unemployment is estimated to be around 70 per cent of the population. The Brazilian social pension scheme (Schwarzer and Querino, 2002) provides each beneficiary with an electronic banking card that is often used as proof of creditworthiness and is used as collateral for productive and consumption loans. In many small rural villages retired people are among the few who can count on a regular income. Moreover, as in Namibia, the pension benefit has strengthened the role of the elderly within the household and in rural communities. This is particularly evident in the case of women, who now have an income source of their own.

Thirdly, the CCT programmes in Latin America have had a significant impact on school enrolment (for both boys and girls), on health and nutrition monitoring, as well as on family consumption (Rawlings, 2005). In Nicaragua average primary school enrolment rates in treatment areas increased nearly 22 per cent in treatment areas, from a low starting point of 68.5 per cent. In Mexico the so-called PROGRESA programme was effective in reducing child labour. In Colombia, the proportion of children under 6 enrolled in growth monitoring was up 37 percentage points.

Some policy issues and challenges

Social pensions and CCTs have shown to have various positive impacts, but this does not mean that they can be implemented in all situations. They have to fit into an overall social protection and development strategy, and it is particularly problematic to implement them in low-income countries, which have few tax resources and low administrative capacity.

The first policy challenge concerns the financial sustainability of social pensions in Latin America (Bertranou, van Ginneken and Solorio, 2004). In individual countries contributory pensions systems cover on average between 20 and 50 per cent of the workforce. These percentages have generally not increased over the past 20 years, mainly as a result of greater informalization of employment. Particularly in countries with more developed contributory pension schemes, this has led to the growing importance of tax-financed pension schemes. However, if the mandatory contributory pension schemes cannot cover more that say 50 per cent of the workforce, it may be too great an outlay for the government. An estimate with regard to Argentina (Bertranou, Rofman and Grushka, 2003) shows that a universal pension, i.e. covering all persons over 65 years would cost 1.5 per cent of GDP in 2005 and rise to almost 4 per cent in 2050. One way forward for pensions in Latin America would be to experiment with collective pension and savings schemes for workers in the informal economy and which may eventually be included in a mandatory secondary pension pillar.

The second policy challenge concerns the financing of basic social protection, including social pensions, in low-income countries of sub-Saharan Africa. A recent ILO study (Pal, Behrendt, Léger, Cichon and Hagemejer, 2005) projects the cost of tax-financed pension and invalidity benefits for seven sub-Saharan African according to three scenarios. The Base Case scenario adopts a low level of universal old-age and invalidity pension – US$ 0.50 (PPP) per day that is in line with the MDG1. The second scenario sets the universal pension level at 30 per cent of GDP per capita. The third scenario sets the benefit level at US$ 13.71 (PPP) per month that will be provided to the 10 per cent most destitute households. This scenario is based on the GTZ experiment in Kalomo District, Zambia (GTZ, 2004). Under the base scenario, the cost of universal old-age and invalidity pensions will reach not more than 0.3 to 0.6 per cent of GDP. Under scenario 2 the costs will not exceed 1.5 per cent of GDP throughout the projection period. Under scenario 3, the benefits costs are much lower than under scenario 1. These projections appear not to take into account the administration costs, which are substantial, particularly under scenario 3. The GTZ study (2004) estimates the overall costs (including administrative costs) at 0.4 per cent of GDP. The costs under scenarios 1 and 3 seem affordable, but are higher than what countries spend now, and would probably need additional international financing.

The main policy question here is the choice between universal and means-tested pension benefits. The advantage of universal pensions is that the costs are much more predictable and that administrative costs will be relatively low. The disadvantage is that people will have fewer incentives to organize old-age income security for themselves. The overall costs of means-tested pensions will initially be lower, but may considerably increase over time when the principle of a tax-financed pension is established and when the political pressure for les stringent eligibility criteria will grow. In general, it is recommendable to examine the question of tax-financed pension in the context of a wider perspective on old-age income security and social protection. Such a perspective would include the role of the family, as well as the impact of savings and other assets, such as land and housing.

The third policy challenge is whether CCTs, which are basically child benefits, can be applied in low-income countries, particularly in sub-Saharan Africa. Lavinas (2003) assesses the conditions for a successful introduction of school incentive payments in Mozambique. She estimates that it would require substantial outside money and an overhaul of the existing tax-financed social benefits. In her evaluation of Latin American CCTs, Rawlings (2005) warns that many conditions have to be fulfilled before CCTs can have a long-term development impact. The first condition is that there is an availability of quality education and health services. One policy question if therefore the trade-off between improving the availability of quality services and providing incentives to use them. The second issue is that – certainly in the case of Mexico – the PROGRESA programme was originally set up in a time of economic crisis, to make sure that children would continue to go to school. In sub-Saharan Africa, the main group of vulnerable children are orphans, whose parents have often died from AIDS. Thirdly, there is also the question of the size of the benefit and the trade-offs with other ways to increase household income. In general, it is recommendable to keep the child incentive benefits small, and reserve higher benefit levels for households living in extreme poverty.

5. Concluding remarks

This paper has argued that a pro-poor growth strategy should aim at minimizing vulnerability to poverty – in all its dimensions. The process of growth can be pro-poor, if the State and civil society are able to strengthen empowerment of the poor and the vulnerable (through social services and participation), and to reduce risk and vulnerability – through macro-stability, (social) insurance mechanisms and direct support to the vulnerable. It is only when basic equality of opportunity is created, that all can participate in, and benefit from, the process of economic growth.

One part of a strategy to achieve equality of opportunity is to be based on a global social contract, some elements of which are already included in the MDGs as well as in the idea of a "global socio-economic floor" (ILO, 2004c and 2004d). The contract would guarantee certain entitlements to everyone, based on human rights. The contract partners are the people, nations and the international community. States would have the first responsibility to realize these entitlements, but in particular low-income countries will need additional international support. An important element of the contract is also to create a global environment, in which opportunities, security and empowerment can be achieved.

This paper has assessed the role of social protection in pro-poor growth. It shows that various positive synergies with private sector development, productivity and economic growth can be achieved, in particular through social protection services, social insurance and tax-financed benefits. Much depends on the proper design of such benefits, and their coordination with other development policies. The paper has also shown that employment is a key component of a pro-poor growth strategy.

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