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Innovative approaches to POVERTY REDUCTION SOCIAL COHESION PROGRESS #OECDgfd post 2015

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BEYOND POVERTY REDUCTION: THE CHALLENGE OF SOCIAL COHESION IN DEVELOPING COUNTRIES

As the Millennium Development Goals (MDGs) deadline approaches the world is looking back at the last 20 years. While policy makers hail the success in meeting the povery reduction target of the MDGs, social unrests in the Middle East and North African regions and some parts of Asia and Europe question current economic growth models. Developing countries have been catching up economically at unprecended rates, but economic growth does not automatically translate into positive social outcomes. Widening inequalities within countries, especially in fast-growing economies, threaten social cohesion.

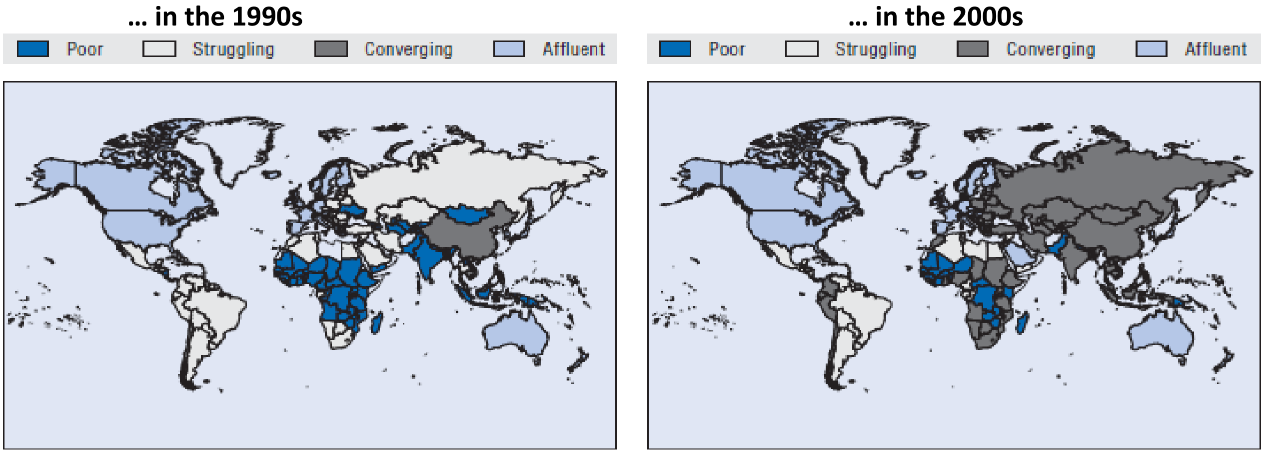
This issue paper describes the opportunities and challenges faced by developing countries due to the shift in economic gravity. It argues that reducing absolute povety is not enough and that inequality limits social mobility and restrict individual choice. Inequalities reinforce circumstantial factors such as inherited poverty, gender, ethnicity and location (Watkins, 2013). Policy making must go beyond targeted approaches aimed at absolute poverty reduction and consider broader social cohesion objectives that will reduce inequalities in terms of income as well as access to basic services and opportunities for decent jobs and mobility. New inclusive growth models that encompass more effective redistribution policies and comprehensive social protection programmes are needed to ensure both sustainable growth and social cohesion.

SHIFTING WEALTH AND SOCIAL CONSEQUENCES TO DEVELOPING COUNTRIES

"Shifting wealth" refers to the phenomenon in which the centre of economic gravity of the world has progressively shifted from West to East and from North to South. This new dynamics presents both opportunities and challenges for developing countries, in particular fast-growing economies. The number of developing countries that doubled OECD per capita growth rate (a measure used to define "converging countries") has gone up from 12 in the 1990s to 83 in the 2000s. The past decade has seen several large countries, such as China and India, take off to become the new industrial powers. If current growth trends continue, non-OECD member countries will account for 57% of world GDP by 2030. One consequence of this shifting wealth has also been the intensification of the links between countries in the South in terms of trade, foreign direct investment and aid. Between

1990 and 2008, when world trade expanded four-fold, South-South trade multiplied more than 20 times over (OECD, 2010).

Figure 1. The four-speed world



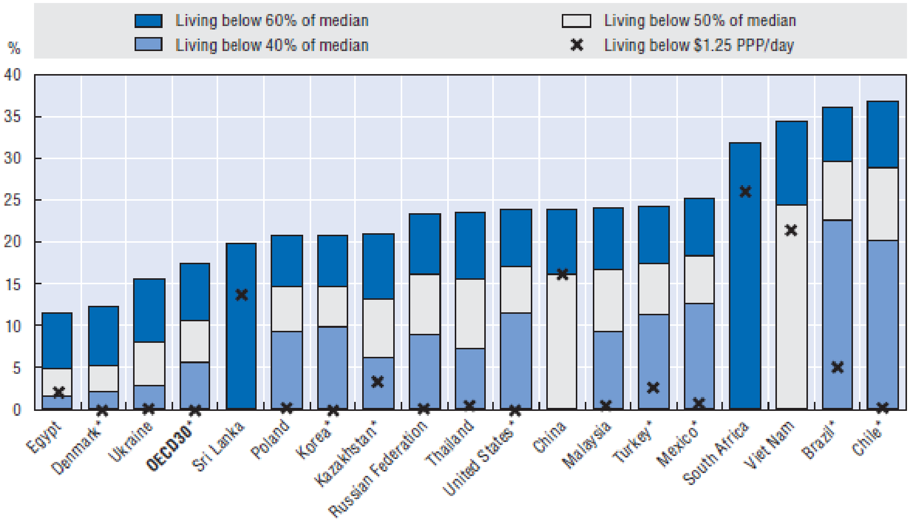
Note: See OECD (2010) for a detailed description of the country classification used.
Source: OECD Development Centre's elaboration based on World Bank (2010), World Development Indicators, World Bank, Washington, DC.

New trade partners open new markets, fostering new partnerships but these can also be a source of new competitive pressures. Entire sectors are being restructured in terms of technology and localisation of production, brewing fear that increased competition would harm developing countries' growth. However, until now, the shifting wealth process has been a source of opportunities rather than harmful competition. For instance, until the 2008 global slowdown, African manufactured exports to traditional and emerging partners have increased globally, with the demand from emerging partners recovering more quickly in 2009 (Pezzini, 2012).

But how does this shift in wealth translate in terms of poverty reduction and well-being? Clearly this growth has had an impact on poverty. Income poverty, in absolute terms, has fallen substantially, with the number of people living on less than $1.25 a day declining from 1.9 billion in 1981 to 1.4 billion in 2005 (UN, 2009). While this global decline in poverty level is welcome, when homing on some success stories, the picture is not so optimistic. Relative poverty – the share of people living under the median income – remains high or is actually increasing, especially in countries that have recently achieved fast growth and great strides in poverty reduction, such as in Brazil, China, India and South Africa. Inequality is increasing globally and there are rising sentiments that the fruits of growth are not being equally shared. Rising inequality is therefore a warning sign that social cohesion is at risk.

Figure 2. Relative poverty rates for selected OECD and non-OECD countries

Share of population, mid-2000s

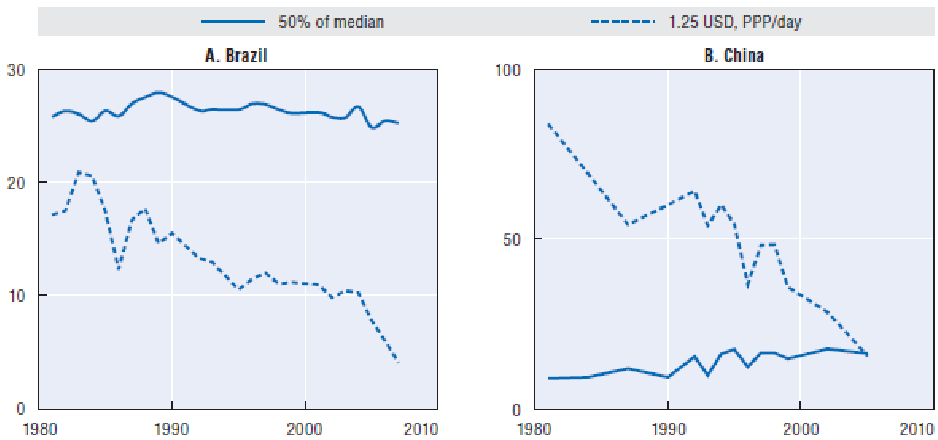


Note: A cross (x) indicates use of income, rather than consumption data. Relative poverty is not reported in cases where the relevant poverty line would fall below the absolute poverty line of USD 1.25 PPP a day (2005 international dollars). These are the 50% line for Sri Lanka and South Africa, and the 40% line for China, Sri Lanka, South Africa and Viet Nam.

Source: Perspectives on Global Development: Social cohesion in a shifting world, OECD, 2012.

Figure 3. Absolute versus relative poverty in China and Brazil, 1981-2007

Incidence of poverty as a percentage of the population below the given poverty line



Source: Social cohesion in a shifting world, Perspectives on Global Development: Social cohesion in a shifting world, OECD, 2012

The main challenge for fast growing economies is how to meet the rising expectations and living standards of citizens and close the inequality gap. Furthermore, the combination of underdeveloped social protection systems and a large informal sector which does not contribute to the contributory schemes add to the difficulty of preventing vulnerable groups of population from falling back into the poverty trap. Increasing real and perceived inequalities and persistent feeling of unfairness and exclusion instill social tensions and unrests. This fast growth therefore needs to be accompanied by structural transformation that reduces poverty, improves access to opportunities and promotes social cohesion.

INNOVATIVE POLICIES FOR POVERTY REDUCTION: SUCCESSES AND LIMITS

More than 60 years after the adoption of the Universal Declaration of Human Rights, more than 80% of the global population is still not covered by social insurance that can guarantee basic social security[1]. In most developed nations, social protection contributes to maintaining the fabric of society. In many less developed nations, social security, whether public or private, remains the priviledge of civil servants and formal wage workers, leaving a large segment of the population working often in the informal sector without basic social coverage. In sub-Saharan Africa for example, only 26% of the working-age population have access to old-age coverage, 17% to protection against employment injury and a mere 1% to unemployment insurance (de Laiglesia, 2011). The high level of informality presents a number of challenges in extending social protection coverage.

There is no automatism that translates economic growth into positive social outcomes. Policy makers should therefore ensure that increased fiscal revenues are spent towards more inclusive social protection programmes that consider the poor and elderly, but also the informal workers who are not always considered as poor. Conditional cash transfers, workfare programmes, social pensions and community-based health insurance are some of the programmes addressing these coverage gaps.

Conditional cash transfers

Conditional cash transfers (CCTs), such as *Bolsa Familia* in Brazil and *Oportunidades* in Mexico, have generated much attention among donors and policy makers. These programmes are relatively easy to implement and their cost is limited. Because they target the poorest and most vulnerable, and because, unlike the rest of the poor's income, they are not volatile, cash transfers have helped reduce poverty in most countries where they have been adopted. They also have contributed to reducing inequalities in some countries. By making recipients responsible and linking financial incentives to school attendance and/or health care (e.g. regular check-ups, vaccination, prenatal care), CCTs can have a direct impact on children, who become better educated and healthier than their parents and are thus able to break away from the intergenerational poverty trap. By relieving the household budget constraint CCTs help recipients increase consumption in other sectors, indirectly stimulating local market development. They also foster women's empowerment. First, because they contribute to increasing girls' enrolment and retention in secondary schools, thus delaying girls' marriage. Second, because women are often selected as the recipients for cash transfers and made responsible for the children's school attendance. For all these reasons, many countries in the developing world have followed in the footsteps of Brazil and Mexico and adopted CCTs. Some of them, for instance Malawi and South Africa, have even experimented unconditional cash transfers, with similar results in terms of poverty reduction and educational attainment.

Workfare programmes

[1] The International Labour Organization defines ten elements of social security coverage: medical care, sickness benefits, and protection of disability, old age, survivor, maternity, children, unemployment, employment injury and general protection against poverty and social exclusion (ILO, 2010).

Workfare programmes provide income support to the working age population in the absence of unemployment insurance and typically offer short-term work prospects, often in unskilled and labour intensive activities. Budget sustainability is attained by setting quotas, by self-selection – the programme wages are set sufficiently low so that only poor individuals are attracted to the programme – or a mix of the two (deLaiglesia, 2011). Mexico's *Programa de Empleo Temporal*, for example, was introduced in 1995 as part of the government's response to the 1994/95 peso crisis although it has since then been expanded and became permanent (Ferreira and Robalino, 2010). Argentina implemented *Trabajar* after a sharp joint rise of unemployment and poverty in 1996. India's National Rural Employment Guarantee Scheme, established in 2005 differs from previous workfare programmes in its rights-based approach. The scheme guarantees 100 days of paid work to every rural household in the country. Workfare programmes are particularly effective to reduce variability of incomes, for example for rain-fed agriculture dependent workers. The cost of such a programme is estimated to be between 1 and 5% of GDP (de Laiglesia, 2011).

Social pensions and insurance

Social pension schemes aim to help older persons smooth their consumption patterns and avoid or escape old-age poverty. Due to the high proportion of the informal sector in the labour market of developing countries, the number of poor households covered by contribution-based social schemes is usually very small. Non-contributory social pension schemes are becoming increasingly popular in developing countries. Countries like South Africa, Namibia, Nepal and Mauritius have implemented such schemes, where the amount paid rises with the age of the pensioner (Johnson and Williamson, 2006). In Cape Verde, Lesotho, Mauritius and Kyrgyzstan, the share of the elderly receiving regular pension payments is 90 per cent and above (de Laiglesia, 2011). Social pensions reduce old-age poverty and contribute to filling the gaps left by social assistance interventions with age limits or focusing on employment-based benefits. They are affordable, and typically account for a small percentage of gross domestic product. For example, in 1999, State pensions accounted for 0.3 per cent of GDP in Costa Rica and for 0.1 per cent of GDP in Zimbabwe (Coady, Grosh and Hoddinott, 2004).

Fragmentation vs. universalism

The rapid development of social innovations in many developing countries has had undeniable impact in terms of poverty reduction, but has also contributed to creating fragmented social systems, which can deepen divisions in society. The above examples are indeed targeted social assistance and are non-contributory, i.e. they are financed out of general taxation or donor funds. As such, they are limited as an instrument for a more expanded or universal social protection system. CCTs, for instance, are especially tailored for countries with tight budget constraints and are not adapted to specific problems induced for instance by the rapid urbanisation process that accompanies fast economic growth, such as violence, drugs and family breakdown. In fact, most of these social programmes focus on the poorest and overlook a large segment of the population, which is too "rich" to benefit from public safety nets, but too poor to subscribe to private insurance schemes. This "missing middle", which is often working in the informal sector, is ill-served, if served at all, by public social instruments that in turn do not make full use of their saving capability. If not tackled in time, this missing middle could be the origin of social protests similar to those registered in many Middle East and North African countries.

Social programmes therefore need to be complemented by more traditional transfers and support to those of working age who are unable to work as well as for the elderly (de Laiglesia, 2011). In fact, research shows that universal social protection systems are much more effective in reducing vulnerability, and it is possible to implement such systems in most developing countries with a modest increase of budgetary resources. Lessons learned from the past three decades call for social policy to return towards universalism (UN, 2009).

POLICY-MAKING THROUGH THE LENS OF SOCIAL COHESION

The OECD Perspectives on Global Development 2012 describes a cohesive society as a society that "works towards the well-being of all its members, fights exclusion and marginalisation, creates a sense of belonging, promotes trust, and offers prospects of upward social mobility" (OECD, 2011). In other words, the state of social cohesion can be assessed through three interlinked dimensions:

(i) *Social inclusion*: the degree to which all citizens have equal access to fundamental rights and social and economic assets without any kind of marginality or exclusion;

(ii) *Social capital*: the degree of interpersonal trust and confidence with various forms of civic engagement;

(iii) *Social mobility:* the degree to which people can or believe they can change their position in society, with equal opportunity, whatever their socio-economic background.

As such, social cohesion is both a desirable end and a means to achieve inclusive development. Evidence shows that social cohesion has an intrinsic value in itself as citizens see it as part of their own well-being and progress of society, and that it contributes to more inclusive, stable, long-term growth. As a goal, social cohesion is a continuous process, just like development. It should be an objective in itself as it can reinforce and sustain development efforts. As a means, social cohesion enables citizens to live in societies where they enjoy a sense of belonging as well as trust, which makes policies more effective through a virtuous circle between a widely accepted social contract, increased citizens' willingness to pay taxes and improved public services (OECD, 2011). This positively influences the state's ability to raise income, which can then be invested back into public services and programmes.

Social cohesion contributes not only to the rate, but also to the quality and the sustainability of growth, especially in the context of sharp, frequent changes in external conditions. High level of social capital, demonstrated for example by society's capacity to organise itself in times of crisis, produce externalities that are beneficial in meeting the basic needs of the population and to the overall economic recovery (e.g. the surge in the number of people engaging in volunteer work in Argentina in the early 2000s (IDB, 2006), the 'Gold Gathering Movement[2]' which helped replenish foreign exchange reserves in Korea during the 1998 crisis).

Box 1: The Social Cohesion Policy Reviews

[2] A civic movement which received nationwide support from around 3.5 million people who brought out gold kept at home (jewelry, medals, etc.). Within several months, 227 tons of gold worth more than $2.2 billion was gathered, helping replenish foreign exchange reserves during the crisis (Source: Ministry of Finance and Economy, Republic of Korea).

The *Social Cohesion Policy Reviews* (SCPRs) are a new OECD tool that measure the state of social cohesion in a society and assess how policies across sectors such as fiscal, labour, education and social protection policies enhance social cohesion. The analysis focuses on the policy coherence and linkages with the three dimensions of social cohesion: social inclusion, social capital and social mobility, i.e. whether policies are designed to reduce poverty levels across populations and regions, build trust and sense of belonging, and promote social mobility for all members of a society. Particular attention is given to identifying inequalities of opportunities linked to geographic, socio-economic, ethnic and gender identities, and their impact on social cohesion. The objective of this new initiative is to provide countries with a tool to improve their economic and social policies in a way that fosters social cohesion.

How different is policy-making through the lens of social cohesion? A social cohesion policy agenda calls for different priorities in policy-making. Some of the key policy areas for social cohesion – fiscal, employment, educational and social policies – therefore move away from "residualist" approaches and specific interventions (e.g. programmes targeted only to the most vulnerable) towards approaches that coherently include all sectors affecting social outcomes. This means targeting social outcomes with multiple-pronged approaches: for example, in the area of education, policies must look beyond the enrolment and achievement rates, and take into account the inclusiveness of the education system (in terms of gender and population groups by income and ethnicity) to enhance the sense of belonging in a society, and improve the quality of education for better prospects of upward mobility.

Though is no single definition of what is a cohesive society, three principles of policies seem to matter: (i) policies must be inclusive and ensure equality of opportunity and social mobility, so that people can pursue their personal goals; (ii) policy-making processes must be participatory in order to improve accountability and transparency; and (iii) policies must be coherent between sectors and levels of governments (OECD, forthcoming). Framing policies through the lens of social cohesion therefore allows adopting a broader development objective that encompasses the effects and linkages of different policy interventions. In particular, it allows for better co-ordination between social policies (e.g. cash or in-kind transfers, public services) and economic policies (e.g. labour market, taxation), and facilitates policy makers to take on a coherent approach in achieving their countries' development goals.

In this respect, fiscal policies, such as taxation or transfers, are traditionally important tools to reduce inequalities and foster social cohesion. Effective redistributive policies can reduce inequalities and strengthen the social contract, thereby allowing the state to collect taxes for investment in better public services. The efficiency of public intervention in terms of tax collection and spending dramatically depends on the strength of the social contract. The more government officials, particularly the tax administration, are perceived trustworthy by the population, the higher the tax revenue through payments and lower tax diversion. Increased revenue of the state through the successful collection of taxes can then enable the government to improve the delivery of reliable and fair public goods and services.

Greater fiscal margins, thanks in part to the 'shifting wealth', allow for the adoption of a greater social agenda, including universal social programmes. They also enable developing countries to invest in social-oriented infrastructure, such as schools and hospitals. In fact, most current social programmes can only solve part of the social equation: the affordability of education and health care. But if countries do not have enough schools and health centres, or lacks of teachers and health professionals, they will then face a supply problem. This kind of social investments would not only improve social services but also create job opportunities. It is also important to invest in the quality of such social services, so that human capital can play its role both in terms of increased productivity and enhanced social mobility.

Finally, it is also time for developing countries to consider the possibility of implementing instruments such as minimum wages and unemployment benefits. In spite of their potential negative effects in terms of labour costs and the associated risk of poverty trap, these mechanisms would help increase the purchasing power of their populations and would represent important automatic stabilisers in case of economic downturn.

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