

The rise of social protection in the Global South

The role of foreign aid

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Despite the rapid expansion of social protection across the Global South in recent decades, the ILO (2021: 19) estimates that more than half of the global population still have no access to any form of protection against poverty vulnerability and social exclusion.

The COVID-19 pandemic and the devastating economic and social consequences brought about by lockdown and containment measures exposed significant gaps in access to social protection systems within and across countries in the Global South. In many cases, unprecedented policy responses introduced by national governments to mitigate the effects of the pandemic exposed existing inequalities in access to healthcare, unemployment benefits, and income support to vulnerable populations, underscoring the urgent need to expand coverage of social protection systems to adequately respond to future crises.

The role of international aid in social protection expansion

Social protection measures include policy strategies within social insurance, social assistance, and labour market regulations. A recent report to the Expert Group for Aid Studies explores the impact of foreign aid on the expansion of social protection systems in the Global South, with a focus on non-contributory social assistance, as it represents the most important changes to social protection systems in low- and middle-income countries (LMICs) over the past two decades.

Aid targeting social protection has historically captured a very small fraction (about 2%) of total global aid budgets, although in absolute terms it increased by approximately 60% between 1995–99 and 2015–19. An analysis of key determinants underpinning the recent expansion of social protection systems confirms that aid does have a positive and statistically significant effect on the expansion of social protection systems among (LMICs) in the Global South.

FINDINGS

Globally, the share of aid that targets expansion of social protection systems is declining from already low levels (about 2% of aid, historically)

We find that aid has a positive and statistically significant effect on the expansion of social protection systems in the Global South.

An increase in social protection aid by one percentage point leads to an increase in the share of countries' population covered by social protection by approximately 0.25%

Social protection is an important countercyclical instrument for macroeconomic management. Likewise, crises and other aggregate shocks drive the expansion of social protection systems

Yet, the already small share of social protection in aid budgets has decreased further. While aid to social protection increased in absolute terms, this growth is outpaced by development assistance to other sectors, such as health and education.

The results from econometric analysis indicate that globally, an increase in social protection aid by one percentage point leads to an increase in the share of countries' population covered by social protection by approximately 0.25%, which is not negligible. The effect is marginally larger for sub-Saharan Africa (SSA) at approximately 0.26% compared to Latin America and the Caribbean (LAC) (0.12%, $p < 0.1$) and Asia-Pacific (APAC) (0.24%, $p < 0.1$).

Aid has been countercyclical

At the global scale, social protection aid exhibits a cyclical pattern, spiking in response to financial crises and price shocks. The bulk of aid distributed in the aftermath of the 2008–09 financial crisis, particularly from multilaterals such as the World Bank, was allocated to MICs that already had social protection programmes in place. Many LICs were unable to absorb social protection aid because they did not have nationwide social protection programmes and systems in place. This underscores the importance of having social protection systems to act as countercyclical instruments in times of crisis.

We do not find any evidence of a detrimental effect of aid on the development of social protection systems, although there is a marked unequal distribution of aid budgets, irrespective of the prevalence of aggregate vulnerabilities and the low levels of social protection spending and coverage in most SSA countries.

Factors that influence the expansion of social protection

The composition of aid type and finance type seems to matter, as well as the preferred channels for aid disbursements. Over two-thirds of social protection aid in SSA is channelled via multilaterals and executed in significant proportion through debt instruments and reimbursement grants, which signals a greater engagement of national governments in the development of social protection systems.

Building in parallel the fiscal capacity of countries is desirable, and possibly the most effective way to secure the long-term sustainability of social protection systems, especially in SSA. While donors' influence and policy diffusion—the process by which policy making in one government affects policymaking in other governments—seem to have, above and beyond aid and its associated conditionalities, a positive effect on the development of social protection systems in LAC and APAC, this association is weaker in SSA.

In aid-recipient countries, economic dynamism, redistributive fiscal capacity, the prevailing terms of trade, and high levels of income inequality are all positively associated with the recent expansion of social protection systems in SSA. While natural resource rents, the incidence of material deprivation, and the

scale of unemployment hinder or have negligible effects on the expansion of social protection systems. Aggregate shocks, in particular, previous financial crises, have triggered the expansion of social protection programmes in LAC, but not in SSA.

Implications

The important question is how to assist LMICs to utilize social protection systems to better respond to, and mitigate the effects of, aggregate shocks. This will require not only the expansion of the scale and scope of these systems with financial assistance, but also the building of tax collection and welfare delivery systems that enable governments to effectively respond to crises.

The study makes the case for continuing to provide support for social protection systems, preferably in parallel with aid interventions that enhance public resource mobilization efforts, which are critical to achieving the long-term sustainability of social protection in the Global South.

IMPLICATIONS

Financial assistance to low- and middle-income countries to expand social protection systems supports homegrown resilience to crises and shocks and increases access to protection against poverty and vulnerability

As national fiscal and redistributive capacity is an important determinant of social protection expansion, aid that is paired with support for improved public domestic resource mobilization can be more effective

Building in parallel the fiscal capacity of countries is desirable, and possibly the most effective way to secure the long-term sustainability of social protection systems, particularly in sub-Saharan Africa

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