

Social protection: not a cost, but an investment in long-term, sustainable economic growth for Kenya

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Rather than a 'cost' to the state, social protection is an essential component of any sustainable, national economic growth strategy. Most of the world's successful economies are significant investors in social protection, with spending across the OECD averaging 12 per cent of GDP. High-income countries began investing in social protection when they were much poorer, often during the early stages of industrialisation: for example, England was spending over 2.5 per cent of GDP in 1820, at a time when its national wealth was the equivalent of Kenya's in 2019, and one historian has claimed that it played a critical role in the United Kingdom becoming the world's dominant economic force.¹ Yet, Kenya's investment in social protection is still below 0.4 per cent of GDP.

Recent research by the IMF has demonstrated that, when the Gini co-efficient of a country reaches 27, inequality begins to have a negative impact on economic growth, becoming more severe as inequality increases.² Well-designed social protection plays a critical role in redistributing wealth from the rich to the majority of the population and is an effective tool in tackling inequality, thereby contributing directly to economic growth. The pathways through which social protection tackles inequality are multiple and the aim of this blog is to provide a short summary of its potential importance in recovery and growth for countries like Kenya, especially in the wake of COVID-19.

The transformation of Kenya's social protection system has seen its trajectory move from a contributory system into the beginnings of a multi-tiered system, with the foundational tier largely financed by the Government. In 2018, Kenya introduced its first universal programme – the Inua Jamii Senior Citizens' Scheme – which was a key step towards developing an inclusive lifecycle social protection system. The transformation has seen a marked improvement in the efficiency, delivery, coverage, and general coordination of the sector. However, like many countries in the world, the need for social protection has grown as a result of the COVID-19 pandemic, therefore expanding investments to social protection is imperative. The draft Kenya Social Protection National Investment Plan NIP 2018 sets out the case for expansion of social protection sector with the aim of investing up to 3% of GDP by 2030/2031, up from current under 0.4 per cent of GDP.

Drawing on global evidence, the following sections outline the main pathways through which social protection could potentially generate greater economic growth in Kenya.

Social protection builds human capital and a more highly skilled workforce

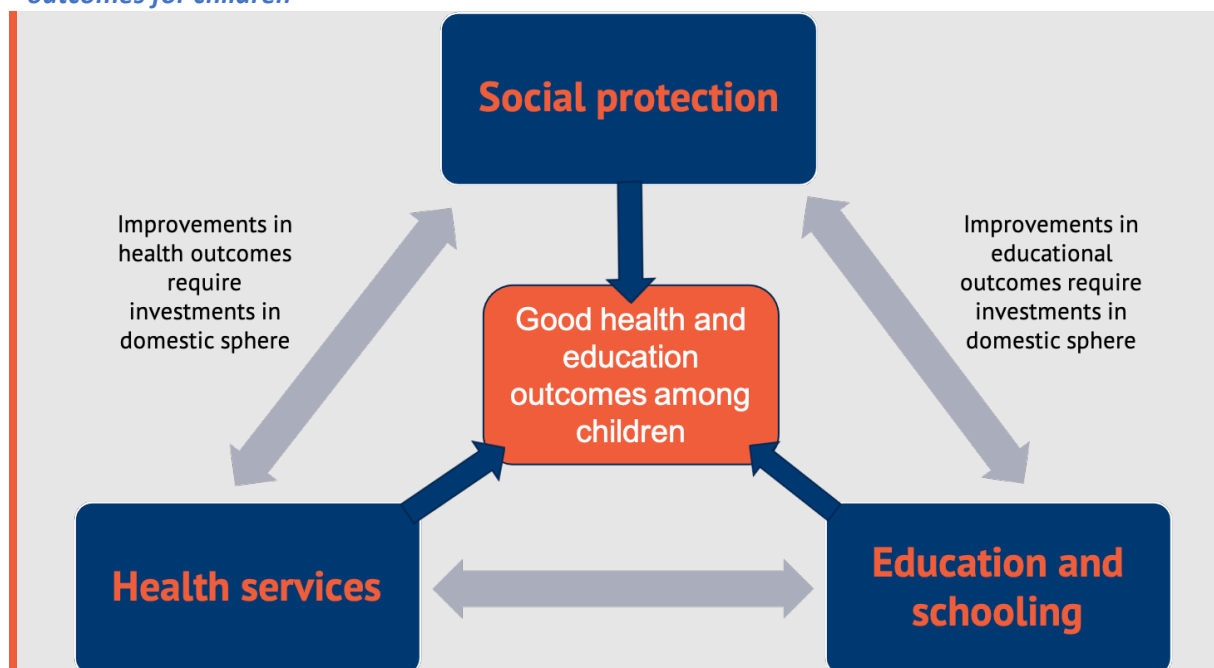
A successful economy requires a skilled workforce and that necessitates investing in children as well as young women and men, thereby building the nation's human capita. While it is essential to ensure access of children to good quality health and education services, as Figure 1 demonstrates, this is insufficient. If societies want to enhance development outcomes among children, they also need to invest in social protection, such as through child benefits. By doing so, they will address the income constraint that impedes families from investing in their own children. With additional income from social protection, families can offer their children better diets, thereby tackling undernutrition. For example, if children experience stunting during their first few years of life, their lifetime earnings can fall by as much as 26 per cent while it has been shown that every one dollar

¹ Lindert (2004); Szreter (2005).

² Grigoli (2017).

invested in reducing stunting generates around 18 dollars in economic growth returns.³ There is good evidence that social protection and higher incomes can help tackle stunting during a child's first 1,000 days, thereby strengthening their cognitive development.⁴ For example, an evaluation of South Africa's Child Support Grant has demonstrated that children receiving the benefit from a very young age perform better at Maths and English.⁵ Social protection also helps children – in particular girls – attend school and higher education, thereby acquiring important skills for the labour market.

Figure 1: Illustration of how core public services need to work together to generate positive outcomes for children



Nonetheless, 86 per cent of the variation on educational performance among children is the result of out of school factors and, therefore, it is critically important to improve the home learning environment for children.⁶ Yet, low incomes impede parents from purchasing toys and books for their children or, if they have to work long hours, spending enough time with them. Consequently, children lose out on critical stimulation and support. Low incomes increase the likelihood of domestic violence, which can further harm child development. Social protection can offer children a better home environment, further contributing to their skills development and value in the labour market.

If Kenya builds its human capital through social protection, it will be able to enjoy a demographic dividend resulting from falling dependency ratios between working age people and the rest of society. However, if it fails to invest, there is a real danger that Kenya will experience a 'demographic curse', with masses of under-skilled young people who, if they feel alienated from society, could be a source of damaging social and political unrest.

Social protection can support investments in income generating activities

³ Hoddinot et al (2013); Richter et al (2017).

⁴ Duflo (2000); Case (2001); Kidd (2016).

⁵ DSD, SASSA and UNICEF (2012).

⁶ Goldhader et al. (1999).Hirsch (2007).

Low-income families often avoid investing in income generating activities due to a fear that failure could result in them losing income and not being able to meet their consumption needs and care for their children. However, if they have access to a regular and predictable social protection transfer, they are more likely to have the confidence to invest. They know that, if their business fails, they have sufficient income to, at least, put food on the table. For instance, FSD Kenya's support to an economic inclusion scheme in Northern Kenya has demonstrated how access to transfers from the Hunger Safety Net Programme is an important building block in enabling individuals to gain the confidence to invest and take risks. Further, recipients of social protection can use the income from transfers as investment capital and as security for loans, which can also be invested in business activities. There is good evidence globally of social protection encouraging working age parents – as well as old age pensioners – to successfully invest in higher risk and higher return on-farm activities and micro-enterprises. The higher incomes they enjoy can feedback into additional investments in both their children and income generating activities. When this happens across the nation, it contributes to national economic growth.

Access to regular transfers and safety nets can mitigate the impacts of shocks, since families are less likely to sell their assets and recover their productivity more quickly. For example, in Northern Kenya, FSD Kenya found that, despite communities suffering from the financial impacts of the COVID-19 crisis, families in receipt of a regular transfer from HSNP were able to continue engaging in economic activities, with some even experiencing growth. This was possible because of the widespread reach of HSNP across households in these localities, enabling demand to be sustained and businesses to continue to function.

Social protection can help people access jobs

When working age adults receive a social protection transfer, the additional income can help subsidise the costs they incur in finding and retaining jobs. As a result, contrary to popular belief, recipients of well-designed social protection schemes are more likely to be in employment. Old age pensions are particularly important in enabling grandparents to offer childcare for parents of young children – in particular mothers – who can, therefore, stay in employment, adding to the nation's workforce. Often, young parents are able to migrate in search of work, leaving their children in the care of their grandparents. When governments offer free childcare services, mothers of young children are also able to return to work: in Quebec, subsidised childcare has increased GDP by 1.5 per cent.⁷ Unemployment benefits can provide laid-off workers with the opportunity to find jobs and, if necessary, be re-trained, without falling into destitution.

Recipients of social protection transfers can themselves offer jobs to others, by investing in micro-enterprises. For example, in Uganda old age pensioners have employed younger people to work in their gardens while small and large transport businesses can gain good incomes through taking recipients of social protection to and from shops or to receive their payment. Old age pensions also enable older people to withdraw from jobs, thereby opening up employment opportunities for younger people.

Social protection can expand local financial infrastructure

Governments offering social protection need to find a means of transferring cash to recipients. This offers the opportunity to work in partnership with private sector financial service providers. By paying banks and mobile phone companies to deliver cash to recipients, governments can, in effect,

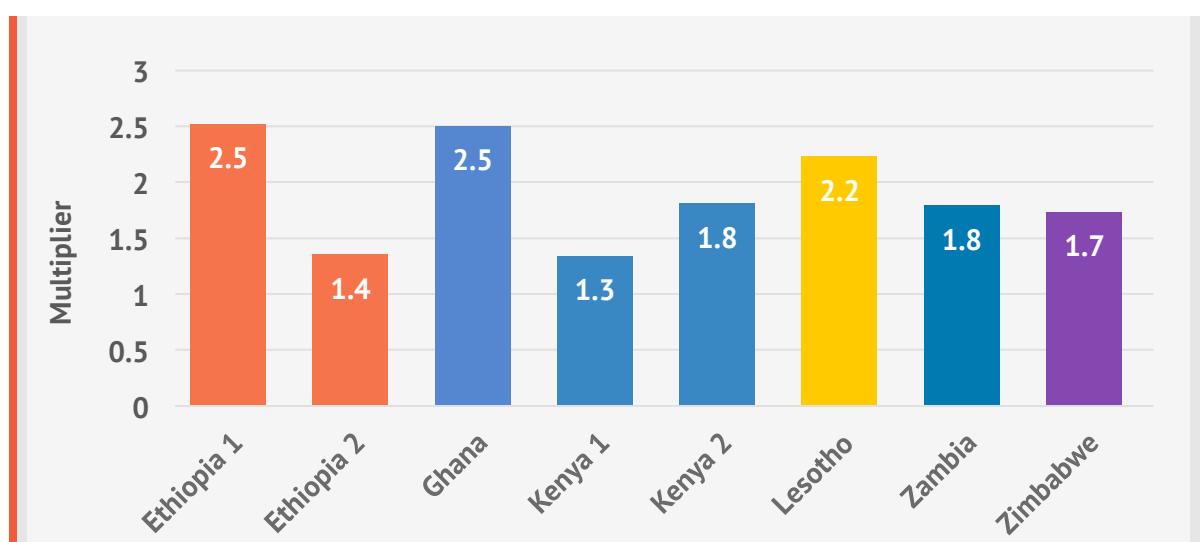
⁷ Ben-Galim (2011).

incentivise them to take their services to more remote communities. Once services to deliver cash are established, payment service providers can, over time, offer additional financial services within communities, benefitting both recipients and non-recipients of social protection. These services can further help drive local – and ultimately – national economic growth.

Social protection can expand markets and offer opportunities to entrepreneurs

Social protection transfers are a means through which governments can inject cash into local and national economies, stimulating demand and consumption and expanding markets for entrepreneurs. Across Africa, a number of studies – including in Kenya – have shown how social protection transfers can generate multipliers of between 1.3 and 2.4 for the cash entering local communities, as a result of greater consumption, trade and employment.⁸ There is good evidence of local shops expanding as a result of the increased business generated, when social protection transfers enter their communities. FSD Kenya has seen how HSNP has fomented this process in Northern Kenya, with local communities becoming more dynamic environments for business.

Figure 2: Economic multipliers delivered by cash transfer schemes across Africa

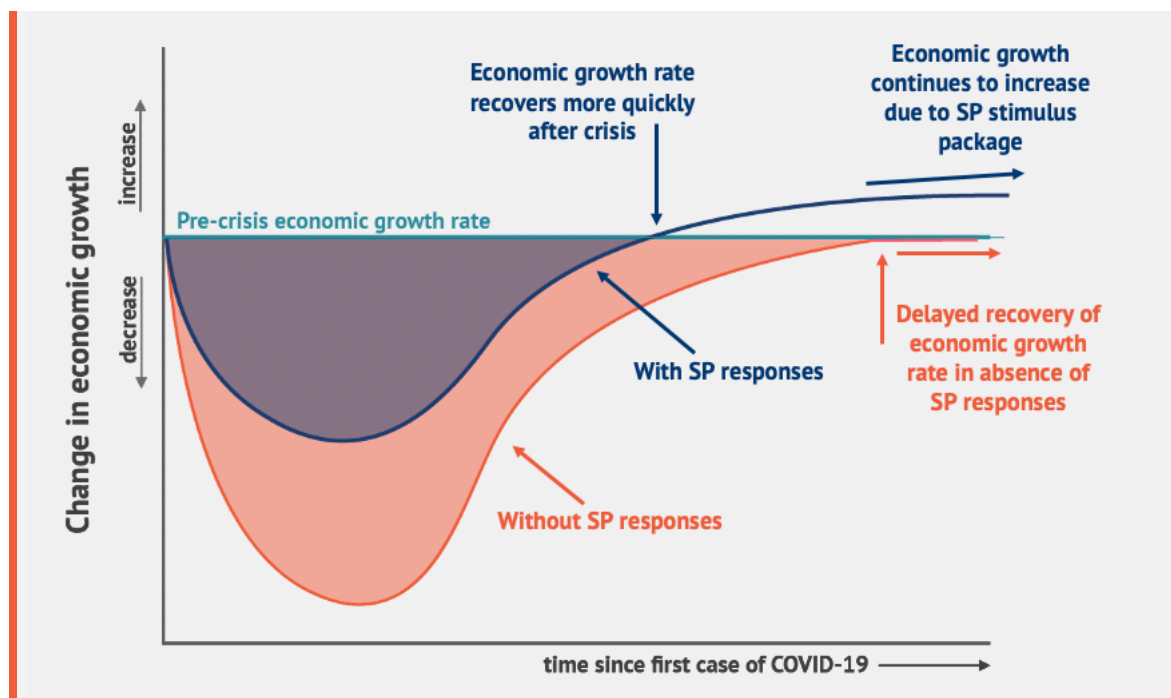


Source: Thome (2016)

These local level impacts further multiply into larger markets nationally, with social protection transfers maintaining liquidity and demand in the economy and offering opportunities for entrepreneurs during normal times. As seen during the COVID-19 crisis, governments across the world have invested significant sums in providing cash to their citizens, to encourage them to spend and offer a significant fiscal stimulus, thereby supporting economic recovery. The logic of a social protection stimulus package during COVID-19 is explained in Figure 3. As shown by the orange line, in the absence of a stimulus package, economic growth will decline steeply and take a longer time to recover. However, as shown by the blue line, a social protection stimulus package could reduce the fall in economic growth and enable an economy to recover more quickly. Further, if countries increase their investment in social protection in the long-term, economic growth will be further strengthened. If unemployment benefits are in place, they can act as automatic stabilisers during recessions: they ensure that those who lose their jobs can continue to spend.

⁸ Thome et al (2016).

Figure 3: Potential impacts on economic growth as a result of COVID-19, with and without social protection responses



Source: Kidd et al (2020a).

Social protection can make it easier for governments to undertake necessary macro-economic adjustments

When governments have to undertake necessary macro-economic reforms that can impact on the wellbeing of large portions of society and result in opposition, social protection can be used to compensate the losers and avoid social unrest, which would otherwise be very damaging for national economies. For example, Iran successfully reformed its fuel subsidy by offering all households a substantial income transfer;⁹ and, China facilitated the privatisation of its state-owned enterprises by providing a regular social protection transfer to those who lost their jobs.¹⁰

Social protection strengthens social cohesion and creates a more favourable investment climate

By offering universal transfers to citizens, governments can strengthen social cohesion and create more peaceful societies, facilitating a positive climate for investment by entrepreneurs. Christine Lagarde, the former President of the IMF, noted that: “Social security systems, alongside progressive fiscal policies and non-discriminatory legislation, are important elements to ensuring social inclusion. Inclusive societies also help achieve growth and economic stability over the long term.”¹¹ Following the Second World War, social protection played a key role in restoring peace to Western Europe, enabling business to flourish. Similarly, governments in countries as diverse as Nepal, Thailand, South Africa, Lesotho, Namibia, Bolivia and Argentina have benefited from the social cohesion and peace generated by investing in inclusive social protection.¹²

⁹ Guillaume et al (2011).

¹⁰ Ngok (2010).

¹¹ 31 January 2018, in response to an open letter on social protection by UN Independent Experts and Special Rapporteurs.

¹² Suwanrada and Wesumperuma (2012); Pelham (2007); Muller (2009); Kostzer (2008); and, Galasso and Ravallion (2004).

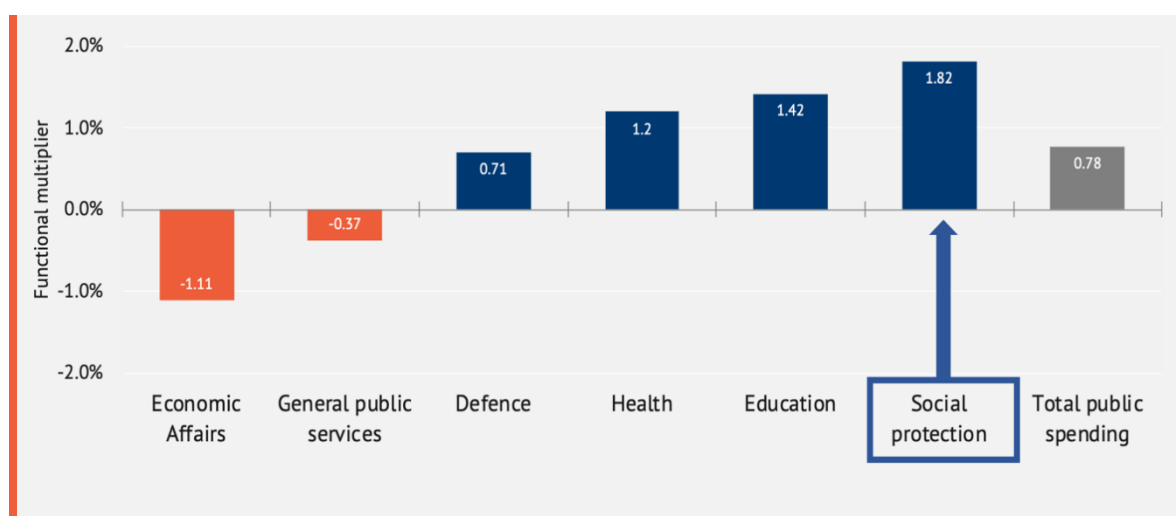
Social protection builds trust in governments, stronger national social contracts and higher government revenues

As argued by Sweden's Ministry of Finance, universal social protection strengthens trust in government and builds a more robust national social contract.¹³ As a result, a virtuous circle can be created whereby citizens are more willing to pay tax, meaning that government revenues can expand, enabling higher investment in human capital and infrastructure, which feeds through into economic growth.¹⁴ Indeed, trust in government has been at the heart of the social and economic success of many successful economies.

Conclusion

The core purpose of social protection schemes is to offer families income security and enable them to address exposure to risk. However, this simple policy of giving families access to regular and predictable transfers can have further multiplier benefits which, when combined, can offer a significant boost to national economic growth through a wide range of pathways. In a study across 36 countries across the Global South, the World Bank has demonstrated that social protection has had a larger impact on GDP growth than any other area of government spending (see Figure 4).¹⁵

Figure 4: Average response of GDP to changes in functional distribution of public spending across 36 low and middle-income countries, between 1984 and 2013



Source: Asea 2016.

Although government finances globally are facing a significant squeeze due to the impact of COVID-19 on their economies, now is not the time to retreat into austerity. In contrast, as many countries are showing, if Kenya expands its investment in social protection to build a comprehensive, national social security system, economic recovery will be stronger and more sustainable. Importantly, it will enable Kenya to reduce inequality, which currently, with a Gini coefficient of 40.8, is well above the critical level of 27 set by the IMF. Social protection is not a cost: instead, it is a critical investment that even the poorest countries cannot afford not to make.

¹³ Ministry of Finance of Sweden (2017).

¹⁴ Kidd et al (2020b).

¹⁵ Asea (2016).

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