Chapter 1

Introduction and Overview

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Social protection programs can play a critical role in society. Cash transfers and food support programs can assist the poor in making sure they can meet their basic needs and avoid hunger. Conditional cash transfers can invest in the health and education of children, supporting the current generation while also reducing the transmission of intergenerational poverty through a more level playing field. Pensions can support those in old age, prevent the elderly from falling into poverty, and provide insurance against the risk of exhausting retirement savings.

Health insurance can make sure that people do not go without necessary health care, while also helping to ensure that a health emergency does not drive someone into debt or poverty.

Despite how beneficial these programs can be, despite how they provide governments the tools to care for the vulnerable and to not leave anyone behind, these programs are often politically contentious. Part of the reasons for the contention is driven by a number of myths around social protection.

The first myth is that the programs create negative incentives. They disincentive work, either through an income effect or a fear or losing program benefits. The people who get these programs are lazy, prefer to be on the "dole," and spend their money on the ills of society –cigarettes, alcohol, and drugs. Time and time again, study after study, we find that this is really not the case, particularly in low- and middle- income countries (Banerjee et al. 2017; Baird, McKenzie, and Özler 2018). Many people who are on the programs work, and just do not earn enough for a variety of reasons. Others just need help because they face challenges (e.g., economic conditions, disabilities) that hinder work. In fact, if anything, more recent research –much of what we will review within the book below—hints to the fact that these programs can actually help boost productivity – by increasing investments in business or farms (e.g., Gertler, Martinez, and Rubio-Codina 2012;

Bandiera et al. 2017; Banerjee et al. 2015), by increasing health and educational investments for kids (e.g., Barham, Macours, and Maluccio 2018; Araujo and Macours 2021), etc.

A second myth is that with growth, these kinds of programs –often seen as "anti-poverty" programs-- are no longer necessary. This is something we hear from policy actors: that as countries grow, and they transition out of poverty, these programs will become obsolete. If history is any guide to the future, it is actually the opposite, as the extent of a country's social protection programs is strongly and systematically related to income: richer countries have much more extensive systems and spend more of their GDP per capita on programs and policies.

To see this in the data, we first plot, in Figure 1, social insurance expenditures as a share of GDP (using data from the International Labor Organization) against log GDP per capita, for 1995 and 2015. Two things are striking from this graph. First, there is a clear upward slope: richer countries, in general, spend much more on social insurance than poorer countries. This is clearly in opposition to the myth that countries can dispense with this this type of assistance as they grow. But second, quite interestingly, the 2015 line is uniformly above the 1995 line. Thus, over the two decades shown in the graph, social insurance spending has been increasing for two different reasons: first, it has been increasing as countries grow (i.e., move to the right on the graph along a given curve), but second, it has been increasing because, even at a given income level, countries tend to be doing more social protection than they were 30 years ago.

1 Social expenditures as a share of GDP against log GDP per capita

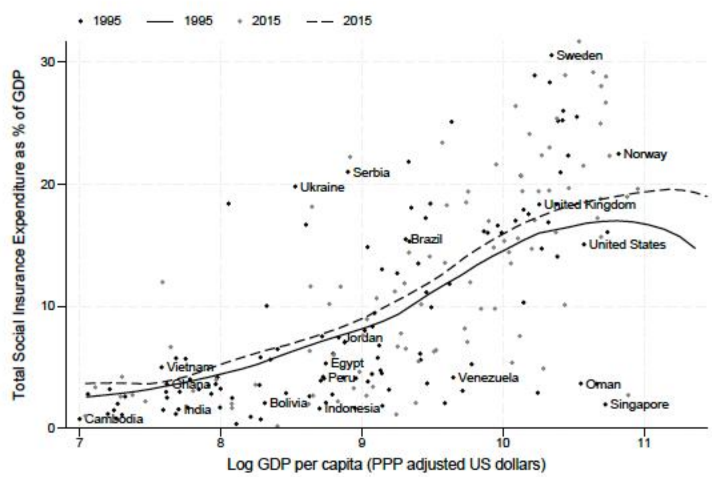

Figure 1: Social insurance expenditure as a share of GDP (y-axis) vs. log GDP per capita (x-axis). Source: authors' calculations using ILO data. Notes: This is an updated and expanded version of Chetty and Looney (2006), which plots these data for 1996.

The growth across and within country income levels can be seen even more clearly if we drill down to particular types of programs. For example, in Figure 2, we plot the number of countries with unconditional cash transfer programs (Panel

A) and with conditional cash transfer programs (Panel B), by income group and decade, from the 1980s-present. Figure 2 shows a dramatic increase in both types of programs in recent decades, even within low income countries.

2 Number of countries with cash transfer programs by income group and decade

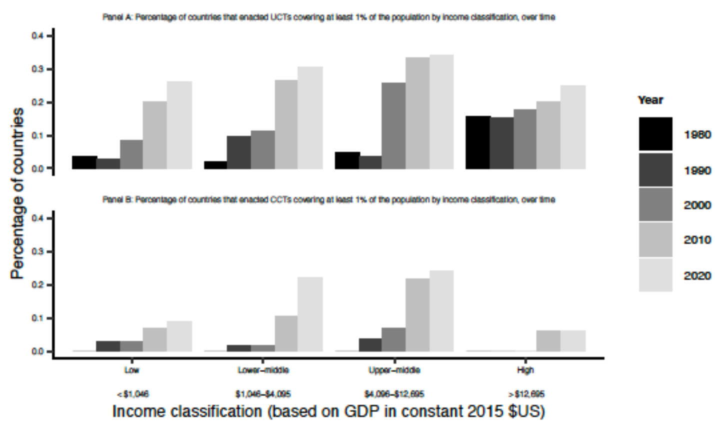

Figure 2: Percentage of countries with program, by income category Source: Banerjee et al (2024).

The fact that these programs exist, however, does not mean that they have sufficient budget to cover all those who are in need. Some programs, such as Brazil’s Bolsa Familia conditional cash transfer, are enormous – Bolsa Familia in 2023 reached over 23 million families, or about 30 percent of the country (gov.br 2023). But other programs are much smaller, focused on a subset of potential beneficiaries – such as Cote d'Ivoire's program Productive Social Safety Net project, which reaches only about 100,000 beneficiaries per year, or less than half of 1 percent of the population (World Bank 2019).

These types of social assistance programs for the very poor become easier to sustain as countries grow for two complementary reasons. First, tax capacity – the share of GDP that governments collect in tax revenues – increases systematically with GDP, as the economy becomes more formal in a variety of ways (Gordon and Li 2009; Jensen 2022). This increases the budget available for these types of social protection programs. Second, the number of extremely poor people – i.e., people within incomes below PPP$2.15 per day, to use the common World Bank benchmark – declines as a country's average per-capita grows. Thus, as countries grow, they have more resources to tackle the problem of extreme poverty, and the problem itself becomes more manageable in scale.

This brings us to the third myth: these programs are expensive and are unaffordable. This myth is a bit more complex, depending on the politics, societies varying goals, and whether we consider both domestic resource mobilization and foreign aid.

We start with a very simple basic calculation that considers using cash transfers to alleviate poverty worldwide: for each country, we calculate the amount of resources that each country would need to give everyone below the poverty line a transfer of PPP$2.15. This is a rough approximation of how much money would be needed to eliminate poverty for several reasons. Even though fixed-amount transfers are common in low-income countries, in principle, one could bring everyone to the poverty line for less money than this if one could give larger transfers to those further away from the poverty line, and smaller amounts to those closer to it. On the other hand, this may understate the extent of the problem, since giving transfers only to those below the poverty line assumes that one can solve targeting challenges, governance issues in delivery, or conflict/other factors prevent delivery – all real issues that will be discussed in more length within this book. Many countries may also want to go beyond this in terms of the level of income support they wish to achieve, as different countries may have different views about what is the basic level of income that households need. Nevertheless, with all these caveats in mind, this simple calculation provides a useful exercise to see if it is feasible in theory and to illustrate what countries could do with existing domestic government resources– and where external help would be needed.

Figure 3 provides the results of this calculation. In Panel A, we show the cost required to give each poor person (i.e., each person with consumption PPP$2.15 per day) expressed as a share of GDP on the y-axis; in Panel B, we show the same cost but expressed as share of government expenditure on the y-axis instead. Log GNI per capita is on the x-axis in both graphs. Each dot is a country, where the size of each dot is proportional to the number of poor people in the country. The vertical lines indicate the World Bank's cutoff for low-income, lower-middle income, upper-middle-income, and high-income countries. The horizontal line shows, as a benchmark, United States social transfers, both as a share of GDP (Panel A) and as a share of government expenditure (Panel B).

These graphs show quite starkly that the challenge is very different as a function of national income. At about the middle of the 'lower-middle income' range and higher –i.e. somewhere between GNI of US $2,000 - US $2,500 or so – the problem appears attainable: countries could completely eliminate extreme poverty using their own domestic budgets, spending no higher share of government expenditures on social assistance as the United States does. But for low-income countries – those with GNI per capita below US$ 1,026– no country can accomplish this. This simple graph suggests a stark divide: most middle-income countries, including many lower-middle countries, are likely to be able to finance large, meaningful social assistance programs themselves. Low-income countries cannot, and hence will either need to have much more limited goals for social assistance programs, or will need substantial additional external assistance – or both.

3 Cost of transfers to those living on less than PPP$2.15 a day (simple log scale)

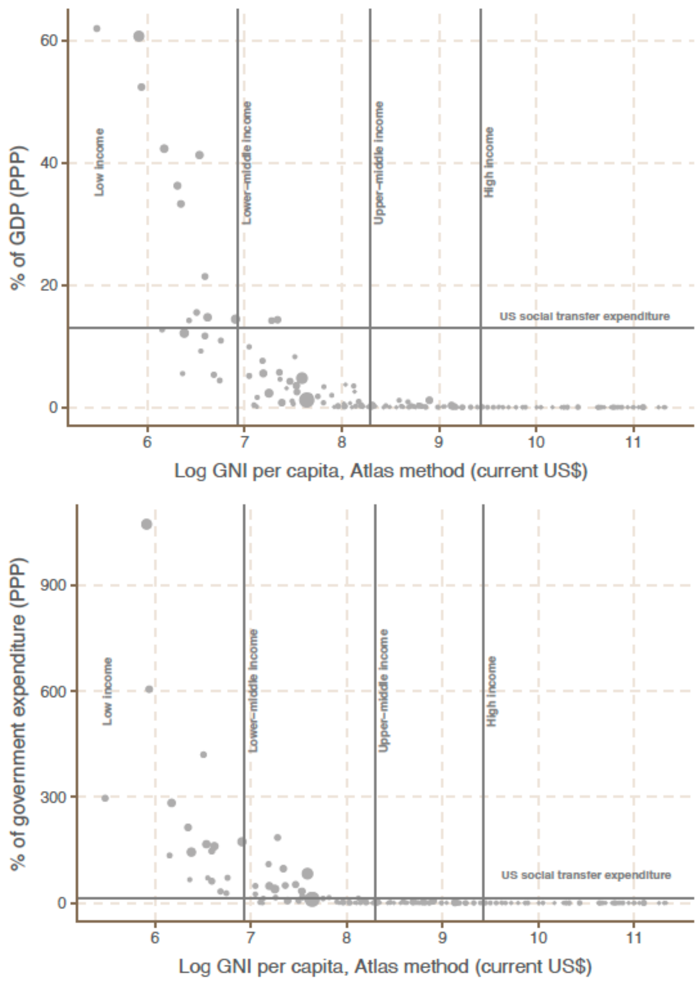

Figure 3: Cost required to give PPP$2.15 per day to people below poverty line expressed as share of GDP (PPP) and government expenditure (PPP).

How much assistance would be required? We calculate how much each country could contribute to combating poverty domestically if each country were to spend the same share of its national budget on social assistance as the United States, and then see how much additional would be required in external financing to give a transfer of PPP$2.15 to every poor person in the world beyond that. It would take about US$100 billion per year total in additional global financing to cover what poor countries cannot cover themselves (Figure 4 calculates at different levels of domestic contribution). This is a lot of money by most metrics. However, it is not crazy relative to what we already do: for example, it is substantially less than the world already gives in foreign assistance. That is, in 2023, the OECD countries collectively gave $223 billion in official development assistance (OECD 2023) – more than 1.5 times what would be needed to cover cash transfers to eliminate poverty globally. As we described above, this is a back of the envelope calculation, and probably both over and under-states how much would be required for various reasons. However, the point is that while eliminating global poverty would be a large financial undertaking, but it is not outside the realm of possibility.

4 Cost of transfers to those living on less than PPP$2.15 a day (cost to international sources)

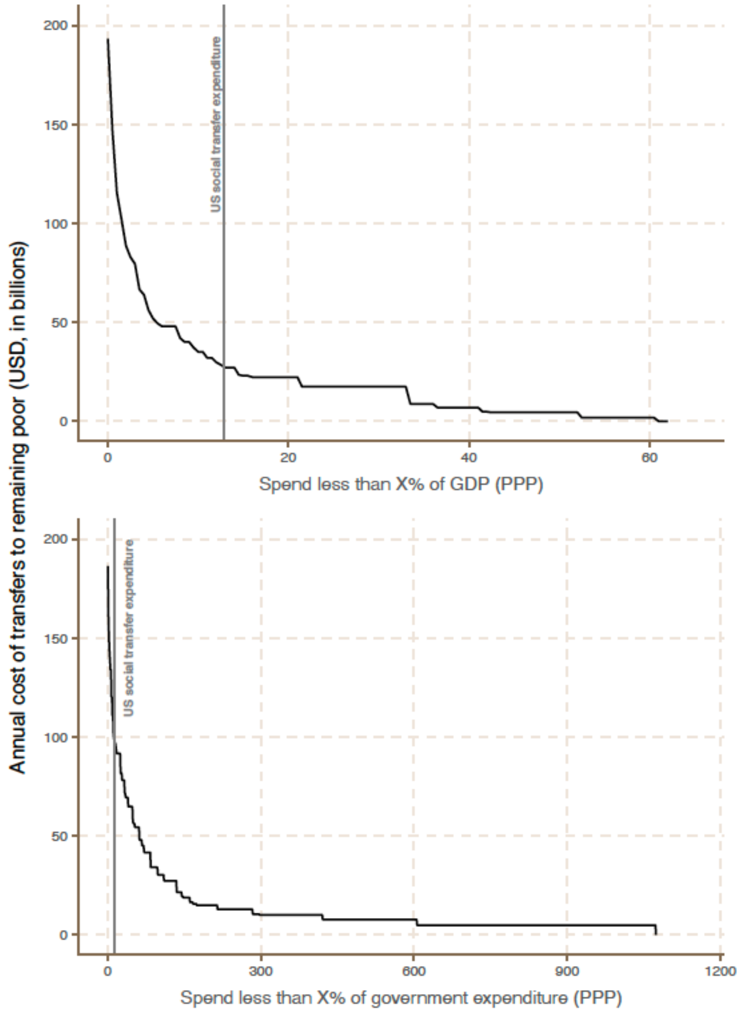

Figure 4: Remaining assistance required to transfer PPP$2.15 if each country spends up to X% of GDP (PPP) or government expenditure (PPP) to people below poverty line.

Of course, even if the financing was available, there are many complexities in delivering the right support to the right people – many of which will be discussed in the chapters that follow. There are many forms transfers can take – cash vs. in-kind support for example. One may also want to think not just about providing support now, but working to break the cycle of poverty – either for the current generation by fostering small-business creation, or for the next generation by investing in human capital. And even for people who are not in extreme poverty, they face risks that can drop them back into poverty –unemployment, health emergencies, conflict, climate-related shocks. There is thus also a need for social insurance polices –job insurance, weather insurance, health insurance – that help people in trying times.

How do we begin to tackle these challenges? Importantly, while there is a lot of research about how to do so in high income countries, low and middle income countries differ in fundamental ways – from the high levels of informality to a variety of administrative and governance different policy context and institution in low- and middle-income countries –so the design of these programs in low and middle-income countries may look different, and the existing research from high income countries may not necessarily apply.

In this Handbook, we aim to review what we know on social protection in low- and middle-income countries, bringing in some of the world's leading experts who have done pathbreaking research of a wide range of issues. In addition to highlighting what research can tell us, we also aim to discuss open policy questions for future research.

The first part of the book looks back to what we can learn from history. Various attempts to solve these challenges have been around for most of human history around the world. In Chapter 2, Gentilini provides a deep dive into their history, highlighting for example how Athens was running a cash transfer program in 483 BC that bears some surprising similarities to programs we see today. In Chapter 3, Aizer, Fishback, Lleras-Muney, and Rahman examine the rise and historical patterns of social protection in the Global North, to provide insight into what lessons could be learned along the way as a country economically grow.

In the second part of the book, we focus on how to structure transfer programs. In the past –and still today in many countries—transfers were done through broad based price subsidies, often of energy sources, such as gasoline and electricity. In addition to the potential environmental consequences of these subsidies, these subsidies are often regressive. This means that many well-off households are getting the subsidies, and since these programs are often quite large, the costs of the subsidy leaves little room in the budget for other types of social programs. In Chapter 4, Alatas, Olken, Banerjee, and Hanna provide an overview of the different types of targeting options that we see in low and middle income countries, highlighting how these different options fare in practice, and thinking more broadly about how different tools could apply to achieve different program goals, even beyond income. In Chapter 5, Burlig and Sudarshan help us think about large-scale energy subsidies, a more traditional, but often times regressive way to provide subsidies. They discuss options for energy subsidy reform.

In the next section, we focus on transfer programs –how can they be designed? What are their impacts? Do they have long-run effects? Cash transfers are one of the most common types of programs, with 1.4 billion people covered in low- and middle-income countries (Gentilini et al. 2022). In Chapter 6, Niehaus and Suri provide a public finance framework for thinking through how to more fully evaluate these programs, particularly as governments are deciding how to prioritize programs with limited budgets. Fernald, Gertler, Manley, and Tsai take a deep dive into one key outcomes, provide a comprehensive analysis of what we know about the impacts of cash transfers on child health and development in Chapter 7.

While Fernald, Gertler, Manley, and Tsai show promising results of cash transfers, a key question is whether these effects will persist or grow, and eventually have long run impacts on households. Will an investment today—particularly at key points in a child's life to improve education and health—translate to better outcomes as these children reach adulthood? In Chapter 8, Macours, Barham, Maluccio, and Tembo review the small but growing literature on measuring the long-run impacts of transfers on both work and social outcomes, providing guidance on different methods to estimate these long run impacts. Finally, while this section thus far has focused on cash transfers, in-kind transfers are also an option. How should we think about this trade-off? In Chapter 9, Gadenne and Singhal compare in-kind, cash and voucher programs, providing insights into which types of programs are appropriate and when, and what kind of research is needed to better understand the tradeoffs between these programs in the future.

Social protection programs have a variety of different goals. While some are focused on providing basic support, others additionally have an income generating focus: helping provide households with capital and opportunities to improve their livelihoods, in ways that may potentially have impacts beyond time frame of the programs. Our next section focuses on these livelihoods programs. In Chapter 10, Heil, Sulaiman, Bandiera, and Burgess describe the promise of big-push/graduation programs, providing a bundle of support including a large asset transfer, which have shown promise in helping very low income households escape poverty traps. Alik-Lagrange and Imbert discuss public employment programs in Chapter 11. Public works programs are designed to provide labor market opportunities, especially in lean seasons or in areas with high levels of unemployment. Increasingly popular, nearly 94 countries have an active program (World Bank, 2015), including India's large scale NREGA program, these programs raise interesting questions on targeting, program efficiency and politics.

One key goal of social protection is helping to ensure that people rise out of poverty. Another key goal is helping they stay out of it. But, one bad shock –a health emergency, a closure of one's work place—can have devastating impacts, which households may not be able to easily recover from. To address shocks arising from job separations, Gerard, Gonzaga, and Naritomi discuss unemployment insurance in Chapter 12, highlighting why, when they exist in LMIC, we typically see unemployment insurance in middle income countries, and why these programs are challenging to design for low-income countries. Dupas and Jain focus on health shocks, exploring the evolution of health provision in LMIC from publicly funded systems to public insurance systems, providing evidence on what has worked and what could work better in the design of these systems in Chapter 13. Individual life spans are uncertain, and people may not best forecast or be able to save what they would need to comfortable retire at old age, necessitating pension schemes that can help individuals that can help cushion these risks. Pensions systems, while currently having less coverage in low and middle income countries than high ones, will increasing be important given the aging populations in many low and middle income countries. Barr and Bosch explore the evidence and design of these pension programs in Chapter 14.

In all the programs that we examine thus far, there are cross-cutting themes that affect program design and delivery. We highlight three such themes next in Section 7. First, social protection programs—regardless of type—are political by nature, especially as the beneficiaries of the programs and who pays for them may not necessarily be the same. In Chapter 15, Camacho, Conover, and Querubin study the interaction between elections and social protection. Second, with the advent of digital technologies, and now even Artificial Intelligence, how we deliver social protection has changed dramatically: Sukhtankar provides, in Chapter 16, an overview of this can be a spectacular opportunity to improve programs, but also cautions how and when technology can also provide additional barriers. Third, gender may impact how people experience poverty, but also their experience of social protection –all of this may necessitate ensuring that policy designs also fit the needs of women, and that when we are evaluating programs, we are collecting the right outcomes to ensure that we are fitting these needs. Thus, in Chapter 17, Hidrobo, Peterman, Kumar, Lambon-Quayefio, Roy, Gilligan, and Paz provide a framework for thinking how to design and evaluation social protection programs with a gender lens.

Social protection can have much broader impacts beyond the usual indicators that we often discuss and study. In Section 8, we explore emerging areas within social protection design and research. Orkin and Ridley start this section, in Chapter 18, exploring whether cash transfers can improve mental health, as well as understanding whether they could have positive "psychological productivity" (Banerjee et al. 2020), alongside more conventional wealth effects. Next, many countries struggle with youth unemployment. In 2022, youth unemployment rates are notably high, for example, in Jordan (35 percent for ages 15-29), Greece (24 percent), and Tunisia (34 percent) (International Labour Organization, n.d.).Social protection, beyond providing basic support, may help improve skills and prospects for youth; in Chapter 19, Araujo, Baird, Das, Özler, Parisotto, and Woldehanna explore the systematically explore how social protection programs may help address issues relating to youths.

Social protection may have broader impacts on those who are not necessarily directly receiving social assistance. First, these programs could affect local economies more generally. For example, food or cash programs may affect prices of goods, which would also affect the purchasing power of those not on assistance. Public works programs could affect market wages. Local businesses could be helped if those on social assistance spend their cash. In Chapter 20, Miguel probes the general equilibrium effects of social protection. Second, formal government social insurance may change patterns of more traditional and informal insurance within communities, in ways that affect the communities as a whole. In Chapter 21, Ru and Townsend look at what we know about the interconnectedness of formal and informal insurance, and what it means for policy.

Conflict is also an important challenge that cannot be ignored when discussing social protection. As many of the worlds' poor are concentrated in fragile states, there is a growing need to understand when and how social protection systems can function and provide basic relief under the difficult conditions of war. Conflict also leads to refugees, who have their own set of challenges. Despite headlines of the news about refugees "flooding" high income countries, most refugees (about 80-85%) are hosted in low and middle income countries, which struggle with understanding how to finance and fit refugees into social protection strategies. In Section 9, we pay special attention to examine these issues. Moya and Rozo explore the successes and challenges of providing social protection to refugees in Chapter 22. Guarin and Londoño-Vélez discuss conflict and reparations in Chapter 23.

In short, this book will highlight what we know and what are open questions for research in the social protection space. But, it raises a key question: out of all the open questions, what should we prioritize? What do policy makers care about? What do they want to know? What has been most successful? How do they think about the challenges?

The final chapter provides insight into these questions, with Emily Romano summarizing a high-level panel of policy makers that generously spent their time discussing these issues with us. The group includes the Honorable Fatou Sanyang Kinteh, Minister of Women's Affairs, Children, and Social Welfare, The Gambia; Honorable Jean M. Sendeza, Minister of Gender, Children, Disability, and Social Welfare, Malawi; Honorable Myriam Dossou-d'Almeida, Minister of Grassroots Development, Youth, and Youth Employment, Togo; Rosine Sori-Coulibaly, Former Minister of Finance, Burkina Faso; and Muhamad Chatib Basri, Former Minister of Finance, Indonesia.

In short, we cannot discuss how to bring about the end of poverty without discussing social protection policy design. It is likely to play a key role in helping end extreme poverty, and in bringing a wide range of opportunities to people. In this book, we, along with our chapter authors, aim to help review some of what we know, but also provide pose important questions that we need answers to in order to design these programs better.

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A full set of references for all Handbook chapters, including this one, can be found at this link: https://www.dropbox.com/scl/fi/9lqs2mdrawkjdrv4m648e/References-Social-Protection-Handbook.pdf?rlkey=jt0f8kute31mhdke77aoiw99d&st=kd7l8ff1&dl=0