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#### COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

Social Protection in European Union Development Cooperation

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#### Social Protection in European Union Development Cooperation

#### 1. WHY IS SOCIAL PROTECTION IMPORTANT?

#### Persistent poverty and increasing vulnerability

The *Agenda for Change*<sup>1</sup> sets out EU policy on future development cooperation. It calls, inter alia, for a more comprehensive approach to human development, supporting increased access to quality health and education services and enhanced social protection in support of inclusive growth characterised by "people's ability to participate in and benefit from wealth and job creation".

In recent years the world economy has seen impressive growth in some developing countries, notably in Asia. Five large-population countries have reached middle income country (MIC) status. Yet two thirds of the world's 1.5 billion poorest people now live in middle-income countries. Furthermore, globalization has more widely been associated with increased vulnerability, disruption of traditional solidarity systems and, in some cases, increased social polarisation. Large numbers of casual, informal and migrant workers have no access to employment-related social insurance or any real form of social protection.

While the first Millennium Development Goal (MDG) target of halving the proportion of people living in extreme poverty is likely to be attained, many households remain vulnerable, just above the extreme poverty line.<sup>2</sup> Where poverty persists, it is increasingly associated with exclusion and marginalisation as a result of specific factors such as geographical isolation, disability, gender or ethnicity. In lower income countries (LICs), in particular, ill health and disease, inadequate nutrition, especially for children, lack of adequate skills, particularly for young people, scarcity of resources and repeated exposure to severe livelihood shocks prevent millions of poor people from participating effectively in the labour market or as entrepreneurs in order to escape from poverty. The global food, fuel and financial crises have exacerbated these impacts on the livelihood and employment quality and security of the poor.

#### Social protection in support of inclusive development

Social protection can play a key role in reducing poverty and vulnerability. By increasing equity – e.g. through social transfers and increased access to basic social services – and providing protection against risk, social protection can support poverty reduction and inclusive growth, as well as supporting social cohesion and stability. However, the very different profiles of developing economies and the high levels of informality in their labour markets present a very different setting from that in which most of the existing social protection systems in the developed world were established, calling for innovative and tailor-made solutions based on country-specific needs and priorities.

<sup>&</sup>lt;sup>1</sup> COM(2011) 637, Council Conclusions 9316/12

<sup>&</sup>lt;sup>2</sup> S. Chen and M. Ravallion, *The developing world is poorer than we thought, but no less successful in the fight against poverty*, WB, 2008

## Social protection in future EU development cooperation

The Council of the European Union, the European Parliament, international organisations and civil society have called on the Commission to prepare a proposal on social protection in EU development cooperation.<sup>3</sup> The 2010 European Report on Development calls for social protection to be made an integral part of EU development policy.<sup>4</sup> In 2011, the Commission launched a consultation process, which confirmed the relevance and timeliness of developing a policy framework for future EU support to social protection.

This Communication seeks to explain the role of social protection in underpinning inclusive and sustainable development and the role of EU development cooperation in supporting the strengthening of social protection policies and systems.

## 2. WHAT IS SOCIAL PROTECTION AND WHAT CAN IT DO?

## **Defining Social Protection**

The definitions of social protection used internationally vary widely. Some approaches are strongly normative, based on the concept of social protection as a right as stipulated in UN instruments, including International Labour Organisation (ILO) conventions, while others focus more on the functions of social protection in poverty reduction and economic growth. Some approaches to social protection emphasise its functions in helping poor people escape from poverty, while others emphasise its role in promoting social inclusion, social justice and assuring income security, quality education and healthcare for all. Social protection may be broadly defined therefore as policies and actions that:

• enhance the capacity of all people, but notably poor and vulnerable groups, to escape from poverty, or avoid falling into poverty, and better manage risks and shocks

and

• aim at providing a higher level of social security through income security and access to essential services (in particular, health and education) throughout active and inactive periods and periods of need throughout the life-cycle.

The obligation for governments to provide social protection coverage stems from the right to social security enshrined in the 1948 Universal Declaration of Human Rights. Social security standards are set out by the ILO, in particular in the Social Security (Minimum Standards) Convention of 1952 (No. 102), which has been fully or partially ratified by forty-seven, mainly high-income, countries.

## How Social Protection supports inclusive development

Social protection has the potential to promote inclusive development in a number of ways:

• Social protection <u>increases access</u> to public services, improving the health, education and nutrition of working people and their children, supporting the participation of the poor in the economy and raising labour productivity.

<sup>&</sup>lt;sup>3</sup> Council Conclusions 11068/07, European Parliament Resolution 2011/2047.

<sup>&</sup>lt;sup>4</sup> 2010 European Report on Development, Social Protection for Inclusive Development, A new perspective in EU cooperation with Africa.

- Social protection can provide tools for <u>risk management</u> for individuals and their assets, enabling them to defend their long-term income-generating potential as well as make investments.
- Social protection promotes <u>income stability</u> and can stimulate demand for local goods and services, not least by acting as a <u>macroeconomic stabilizer</u> in times of economic turbulence.
- Social protection <u>reduces inequality</u>, which both contributes to inclusive and sustainable growth and can help strengthen the <u>compact between citizens and the</u> <u>state</u> and promotes social inclusion, cohesion and greater accountability.
- Social protection can provide <u>inter-generational equity</u> by distributing social benefits over the life-cycle from the currently-productive generation to children, young people and the elderly. This contributes to security, stability in society and predictability for the individual.

The role of social protection policies and measures in supporting inclusive growth and poverty reduction at the national level is reflected in their contribution to the attainment of the MDGs.

#### Social Protection in support of the MDGs

#### MDG 1: Extreme poverty and hunger

The Child Support Grant in South Africa has contributed to reducing the poverty gap by 47 percent.<sup>5</sup>

#### MDGs 2 and 3: Better education and gender outcomes

Between 1996 and 2002/3 girls' net primary enrolment in Bangladesh increased from 48% to 86%. Many researchers attribute this in part to the stipend programme for girls' education, which was supported by EU funding.<sup>6</sup>

#### MDGs 4, 5 and 6: Improved health care and reduced illness

The *Oportunidades* programme in Mexico combined cash transfers and free health services with improvements in supply of health services, leading to a 17% decline in rural infant mortality in Mexico over a three year period.<sup>7</sup>

#### 3. SOCIAL PROTECTION IN THE EUROPEAN UNION

#### A common commitment but different approaches

Social protection lies at the heart of the European social model. Social protection policy is largely the responsibility of individual Member States in accordance with the principle of subsidiarity. However, at the EU level the '*Open Method of Coordination*', a voluntary process for political cooperation based on agreeing common objectives and common indicators, has been established. Social protection systems vary widely across the Union However, EU Member States are all in principle committed to providing universal access to

<sup>&</sup>lt;sup>5</sup> DFID, Cash Transfers Evidence Paper, 2011.

<sup>&</sup>lt;sup>6</sup> Unicef, Accelerating the MDGs with Equity, 2010.

<sup>&</sup>lt;sup>7</sup> DFID, Cash Transfers Evidence Paper, 2011.

social protection against the major lifecycle risks, in line with the guarantee contained in Article 34 of the Charter of Fundamental Rights of the European Union.

European social protection systems have provided important buffers against risk and income poverty, as well as limiting inequality in Europe, but persistent economic difficulties due to the financial crisis have raised difficult questions about their affordability and efficiency. In response, the EU is seeking to develop new ways of delivering high levels of social protection at lower cost, including greater emphasis on activating young and elderly people. 'Europe 2020', the EU's strategy for smart, sustainable and inclusive growth, was launched in 2010 with targets for increasing employment and reducing poverty and social exclusion. These are the subject of detailed monitoring and analysis through the European Semester, which was initiated in 2011 in order to enhance coordination of policies for recovery and growth.

## 4. SOCIAL PROTECTION IN DEVELOPING ECONOMIES

The economies of developing countries are often characterised by high levels of informality, a low income tax base, relatively low budget allocations for social protection and highly segmented social insurance systems that generally benefit only a small minority in the formal sector. On average, developing countries spend around a quarter of that spent on social protection in the advanced economies. Consequently only about 20% of the world's working-age population has access to comprehensive social protection.

# In MICs, the challenges are to broaden the coverage and to improve efficiency.

In many middle-income countries, the elements of a modern social protection system have already been established with some components of social insurance now in place. However, the coverage – particularly of contributory schemes - is generally low so that a relatively small segment of the population benefits, mainly those that work in the formal economy. In these contexts, the main challenge is to extend coverage, in particular to those in the informal economy.

MICs also tend to operate a host of discrete social assistance programmes designed to reach specific groups, such as the poor, and increase their access to basic services. The effectiveness of these schemes varies widely, although evidence from both Asia and Latin America suggests that well-designed programmes can be highly effective in reaching the poor and other vulnerable groups.

In addition, governments have commonly used energy subsidies and/or price controls as a means of providing notional income protection to parts of the population. However, such policies have proven costly, regressive and inefficient.

# In LICs, funding and institutional capacity are the main constraints

In low-income countries, provision of social protection is often even more constrained by the relative lack of resources and, critically, the weakness of public institutions. In a context of limited industrialisation and large rural populations, most citizens remain uncovered by organised methods of social protection and are vulnerable to shocks, although family and other informal networks can provide partial compensation. Social transfer programmes – whether targeted or untargeted, conditional or unconditional – remain the dominant form of social protection with donors often playing an important role in their design and funding. Such programmes are often fragmented and many have failed to develop into sustainable,

government-owned systems. Consequently, outright exclusion and large inequality in access to social protection remain major features.

#### The common challenge: sustainable financing, extending coverage, building capacity

Despite these limitations, an important shift in attitudes has been taking place. Where economies have grown, the demand for social protection from citizens has also increased and governments are under pressure to respond. Yet the challenge for them is both to design social protection programmes that have better coverage – and hence address equity issues - but also to operate them with greater efficiency and in ways that are fiscally feasible and sustainable. Further, how governments can respond depends in turn not only on financing – and the ability to raise tax revenues or mobilise contributions rather than rely on debt or donor finance – but also on the institutional capacity of a country and the ease with which it can be deployed for social protection.

#### A renewed commitment by the international community

In response to these challenges there has been a renewed impetus to reinforce the international community's commitment to promoting social protection. This is reflected in the *Social Protection Floors* (SPF) Initiative, developed under ILO leadership, which was strongly supported at the 2011 International Labour Conference (ILC) and at the 2011 and 2012 G20 Summits. In 2012 G20 leaders also agreed to assist LICs in capacity building for implementing national SPFs through policy coherence, coordination, cooperation and knowledge sharing. The 'Recommendation Concerning National Floors of Social Protection', which provides guidance on the progressive implementation of social protection floors as a fundamental element of inclusive national social security systems, was adopted at the 2012 ILC.

While the SPF is a global initiative and is based on a set of principles, which are expressed as guarantees, it is not a one-size fits all approach. The design and implementation of SPFs is a matter for each country in line with national-specific institutional structures, economic constraints, political dynamics and social aspirations.

#### **Social Protection Floors**

Social protection floors comprise a basic set of social guarantees for all (horizontal dimension) and the gradual implementation of higher standards (vertical dimension) as an integrated set of social policies designed to

<sup>8</sup> 

ILO, Social protection floor for a fair and inclusive globalization. Report of the Social Protection Floor Advisory Group, 2011.

guarantee income security and access to essential social services for all, paying particular attention to vulnerable groups and protecting and empowering people across the life cycle.<sup>8</sup>

The Social Protection Floors Recommendation adopted at the 2012 ILC states that social protection floors should comprise at least the following basic social security guarantees:

- (a) access to a nationally defined set of goods and services, constituting essential healthcare, including maternity care, that meets the criteria of availability, accessibility, acceptability and quality;
- (b) basic income security for children, at least to a nationally defined minimum level, providing access to nutrition, education, care and any other necessary goods and services;
- (c) basic income security, at least to a nationally defined minimum level, for persons in active age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity and disability; and
- (d) basic income security, at least to a nationally defined minimum level, for older persons.<sup>9</sup>

# 5. THE FUTURE DIRECTION OF EU DEVELOPMENT COOPERATION IN SUPPORT OF SOCIAL PROTECTION IN PARTNER COUNTRIES.

#### Equity, social inclusion and social cohesion

The goal of EU development cooperation in supporting social protection is to improve equity and efficiency in provision, while supporting social inclusion and cohesion, as the essential underpinnings of inclusive, sustainable growth and poverty reduction. These goals spring naturally from the fundamental values of the European Union.

#### Placing social protection at the centre of dialogue on national development strategies

The EU seeks to include social protection in its policy dialogues with partner countries on their national development strategies and should further promote and assist the development of context-specific social protection systems that are efficient, equitable and sustainable.

Policy dialogues with partner governments should ensure that social protection systems are underpinned by principles that aim to achieve equal and universal access to social protection throughout people's lives, with particular attention to the most vulnerable and disadvantaged people, such as children and persons with disabilities.

#### Supporting national policies and programmes

The EU should support the development of **nationally-owned social protection policies and programmes**, including social protection floors, while seeking to promote good practice in policy formulation and the design and development of social protection systems. Good practice might typically include moves to rationalise and unify systems to improve efficiency and develop a better basis for establishing wider and more effective coverage, including through moving from selective, short-term safety nets to comprehensive systems. Policies should reflect the specific needs and priorities of individual partner countries.

#### Revenue reform for fiscal space

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ILO, Article 5 of the Recommendation concerning National Floors of Social Protection, 2012.

Effective and sustainable social protection should ultimately be based on internal rather than international wealth redistribution. The Busan Partnership for Effective Development Cooperation<sup>10</sup> calls for partner governments' own revenues to play a greater role in financing development needs in order to increase poverty reduction and progress towards achieving the MDGs, while strengthening sustainability through reduced dependency on foreign aid. In line with the 2010 Communication on Tax and Development<sup>11</sup> and the principles of good governance in the area of taxation, the EU will support measures to develop effective, efficient, fair and sustainable tax systems, according to the capacities of individual partner countries, in order to increase fiscal space to fund social protection. This may include capacity-building for tax administration and revenue reform to improve the tax base as well as the replacement of regressive subsidies with more effective social protection measures.

#### Capacity-building for strong institutions

Establishing an appropriate legal and institutional framework is a key challenge for the provision of effective and efficient social protection coverage. The EU should continue to support partner countries through technical cooperation, to set up the strategic, policy, legal and institutional framework, based on their local analysis and priorities. The EU should also continue to support institutional capacity-building at all levels (national, provincial, local; governmental and non-governmental) in order to develop and strengthen the administrative and implementation capacities of governments, implementing agencies, social partners and other non state actors.

Social protection systems may suffer from high levels of leakage. Consequently, support will also have to address issues of good governance and public finance management, not least in order to reduce fraud, malpractice and waste, as well as promoting accountability.

#### EU added value in technical cooperation

The EU has accumulated a wealth of experience and approaches in the field of social protection. The differences between EU Member States in social protection financing, levels of coverage, administration and delivery systems offer a wide range of experiences and knowledge which can provide a strong basis for capacity building and policy advice in support of partner countries. Where relevant, the EU should also facilitate south-south cooperation, sharing of experiences and research.

The Commission will make greater use of existing tools, such as TAIEX, and develop new tools to enable rapid demand-driven deployment of expert practitioners both from Europe and from relevant third countries within a south-south or triangular cooperation paradigm.

## Support for job creation and employment

Effective social protection should also include or be closely associated with measures that enable beneficiaries to participate in productive economic activity and employment. The essential role of productive employment and decent work in reducing poverty is clearly set out in the first MDG, as well as the Commission Staff Working Document on Promoting Employment through EU Development Cooperation.<sup>12</sup>

<sup>&</sup>lt;sup>10</sup> Fourth High-Level Forum on Aid Effectiveness, Busan, Korea, November 2011.

<sup>&</sup>lt;sup>11</sup> COM(2010) 163, Council Conclusions 10349/10.

<sup>&</sup>lt;sup>12</sup> SEC(2007) 495.

The EU should support national governments to develop employment programmes, job creation schemes, and support for entrepreneurship. It should also support social dialogue and labour standards in line with the Decent Work Agenda<sup>13</sup> and the provision of social protection in the context of highly informal labour markets, including innovative approaches such as micro-insurance schemes. The EU should also support national programmes to improve the employment opportunities of vulnerable and marginalised groups, such as persons with disabilities.

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COM (2006) 249, Council Conclusions 11068/07.

## Bringing in civil society and the private sector

While governments have the main responsibility for social protection policy and provision, there are some situations in which social protection schemes can best be delivered through public-private partnerships. In supporting the development of social protection systems the EU should recognise the important role played by private sector and non-governmental service providers. The EU's initiative on Corporate Social Responsibility can support the private sector in developing countries to implement relevant international guidelines in order to achieve more inclusive and sustainable growth and further development.

Civil society and the social partners should be empowered and encouraged to partner with the state in developing and implementing social protection systems. Their participation can help promote efficiency in provision as well as wider consultation and inclusion. They can play a key role as advocates for social protection as well as empowering communities and individuals, in particular the disadvantaged and excluded, through raising awareness and improving information. In some instances, they can also help in monitoring and evaluating social protection schemes.

## Support for Transformative Social Protection

Transformative approaches extend the concept of social protection to include 'areas such as equity, empowerment and economic, social and cultural rights, rather than confining the scope of social protection to targeted income and consumption transfers'<sup>14</sup>. This aligns well with the values that underpin the development of social protection within the EU and EU development cooperation should therefore support such approaches. There has, however, been little research into their effectiveness and the EU should therefore consider support for operational research which documents good practice and generates evidence on the impacts of transformative social protection in order to build a firm knowledge base for action.

## Gender in Social Protection

'Women and men face different risks and vulnerabilities, some specific to their gender and others exacerbated by gender inequalities and discrimination.'<sup>15</sup> To ensure that men and women benefit equally, social protection systems must address women's life-cycle risks and the burden of care that they bear, as well as the impediments to women's access to work. The EU should ensure that gender-related concerns are addressed in social protection policy and programme design.

# 6. DEVELOPMENT COOPERATION PROGRAMMING AND MODALITIES

All aid modalities are relevant for development support for social protection, depending on the context and the objective of the support. In line with the *Agenda for Change*, social protection may be selected as one of the sectors for cooperation in individual country or regional programmes or feature as a dimension in other sector programmes (e.g. employment, health, education, food security, agriculture and private sector development, etc). Social protection may also be supported through thematic programmes, which should complement the geographical programmes.

<sup>&</sup>lt;sup>14</sup> S. Devereux and R. Sabates-Wheeler, *Transformative social protection*, IDS, 2004

Promoting pro-poor growth: social protection, OECD 2009

Sector approaches<sup>16</sup> can be a particularly suitable modality for supporting social protection, because of their use of partner country systems and processes and their basis on policy dialogue.

Budget support,<sup>17</sup> accompanied by policy dialogue, can help incentivise the development of social protection systems which are fully integrated into national budget and planning processes in a framework of government accountability to parliament and people.

## 7. DIFFERENTIATED DEVELOPMENT PARTNERSHIPS

The *Agenda for Change* proposes a differentiated EU approach to aid allocation and partnerships. Support for the development of social protection systems is relevant to both LICs and MICs, but countries at middle income status will have more fiscal and institutional capacity than LICs. Some of these countries will have graduated from large-scale EU development cooperation financing through bilateral geographical programmes. However, support for the development of social protection systems in these countries, in particular for technical assistance, exchanges and collaborative operational research may be delivered through regional and thematic programmes.

The critical role that social protection can play in addressing the high levels of poverty and vulnerability that persist in newly graduated and emerging economies also makes it essential that social protection remains a key item for the EU's political and policy dialogue with those partners.

EU development cooperation can be used to fund the setting-up and strengthening of social protection systems, including in situations which call for the development of systems that can be rapidly scaled up to address recurrent natural disasters. The funding of social protection benefits or transfers may be justified in fragile states and post-conflict situations in particular cases where social protection may play a critical role in helping affected populations to recover assets. However, the EU should work towards the development of systems based on domestic funding.

# 8. COORDINATED EU ACTION

The *Agenda for Change* calls for renewed efforts to make EU aid more effective, including through joint programming and the development of a harmonised results framework. Consultations with partner countries, EU Member States, international organisations, social partners, civil society and the wider public have all supported increased EU coordination for supporting social protection in development. Coordination should take place at field level in the partner countries.

The EU has expressed support for the concept of nationally-defined social protection floors, as adopted by the 100<sup>th</sup> session of the ILC in 2011, and contributed to its endorsement by the G20. It contributed to and supported the adoption of the Social Protection Floors Recommendation at the 2012 ILC. The concept of SPFs could provide a well defined basis on

<sup>&</sup>lt;sup>16</sup> A sector approach is a way of engaging in development cooperation based on the principle of coordinated support for a locally-owned programme of development, such as a national poverty reduction strategy, or a sector programme.

<sup>&</sup>lt;sup>17</sup> COM(2011) 638 , Council Conclusions 9323/12.

which to build coordinated and, where possible, joint EU support for social protection with partner countries which decide to develop them.

The EU may also seek to participate in global initiatives, such as the Social Protection Interagency Board that has been proposed by the G20 Development Working Group.

## 9. IMPROVED COHERENCE AMONG EU POLICIES

In a globalised economy, coherence among policies is essential. The external dimension of EU policies may impact on social protection in partner countries. The EU should ensure consistency between policies for supporting social protection in development cooperation and all other relevant EU policies.

The EU is committed to promoting openness to trade and integration into world markets as a basis for inclusive and sustainable economic growth and development.<sup>18</sup> Greater openness may lead to increased vulnerability for those employed in sectors that may become uncompetitive, which can be mitigated if an effective social protection system is in place. The EU is also committed to strengthening cooperation between Member States to develop a more coherent approach to social security coordination with third countries<sup>19</sup>.

The successful transition from humanitarian aid to development cooperation will also depend critically on the establishment of effective social protection systems. Effective integration of development and humanitarian aid should be promoted in line with the Communication on 'Linking Relief, Rehabilitation and Development'<sup>20</sup> to ensure that the international aid system operates consistently, coherently and transparently to address vulnerabilities. An effective social protection system should facilitate labour mobility by ensuring portability of social security rights for migrant workers. Social protection and climate change adaptation measures should also be closely linked in order to reduce the vulnerability of poor people to the effects of climate change.

<sup>&</sup>lt;sup>18</sup> COM (2012) 22 and Council Conclusions 7412/12.

<sup>&</sup>lt;sup>19</sup> COM (2012) 153.

<sup>&</sup>lt;sup>20</sup> COM (2001) 153.