

# Expanding Social Protection in Africa: A Menu of Early Policy Ideas

Haroon Borat and Chris Rooney<sup>12</sup>

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## I: Introduction

Since the turn of the century, Sub-Saharan Africa (SSA) has recorded high levels of economic growth. Between 2000 and 2022, economic growth averaged 4.0 percent per annum (World Bank, 2023)<sup>3</sup> – leading to a systematic decline in both absolute and relative levels of household income poverty. Hence, data shows that the Headcount Index of poverty<sup>4</sup> decreasing from 56.5% in 2000 to 34.9% in 2019 (World Bank, 2023). Despite this progress, however, the number of individuals in SSA who experienced extreme poverty<sup>5</sup> rose from 379 million in 2000 to 391 million in 2019, due both to population expansion and the slowdown in economic growth (World Bank, 2023). Furthermore, 23 (82.1%) of the 28 countries with extreme poverty rates of above 30.0 percent are located within SSA (Aikins & Mclachlan, 2022).<sup>6</sup>

Given in part the dominance of SSA in any discussion around global poverty challenges – possibly the core aim contained within the SDGs - the expansion and integration of more comprehensive social protection systems in Africa must remain a high-level priority. Needless to say, a well-targeted social protection system lies at the heart of any anti-poverty, pro-growth agenda for the region. In this note, we hope to provide a brief overview of social protection spending and coverage in Africa. This is followed by a suggested set of policy options around what we have termed ‘traditional’ and new infrastructure for social protection. We then consider two social policy pivots that may be possible in the form of informal sector coverage and also a post-Covid 19 set of interventions. We conclude with key observations of financing options in terms of both additional tax revenue options and redistribution within existing fiscal envelopes for African governments.

## II: Social Protection Spending in Africa

The expansion of the social protection system in SSA has both strong broad political support and awareness in terms of being key to the region’s socio-economic development aspirations. In this respect, the African Union’s Agenda 2063 framework calls for countries to raise their spending on social protection to 5.0% of GDP by 2063, from the current 2.0% (OECD, 2017)<sup>7</sup> and to extend social protection coverage into informal and rural areas. In addition, the Abidjan Declaration, which was signed by ILO constituents at the African Regional Meeting in 2019, called for SSA countries to progressively extend social protection coverage (ILO, 2020).<sup>8</sup>

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<sup>1</sup> Development Policy Research Unit, School of Economics, University of Cape Town. All comments can be directed to [haroon.bhorat@uct.ac.za](mailto:haroon.bhorat@uct.ac.za).

<sup>2</sup> Input paper to Expert Group Meeting: “Rethinking social development policies and frameworks” Division for Inclusive Social Development, UN Department of Economic and Social Affairs (DESA) New York City. August 24-25 2023

<sup>3</sup> World Bank. (2023). *World Development Indicators*. Available: <https://databank.worldbank.org/source/world-development-indicators>. (Accessed 16 August 2023).

<sup>4</sup> \$2.15 a day (2017 PPP).

<sup>5</sup> At a poverty line defined at \$2.15 a day (2017 PPP) by the World Bank.

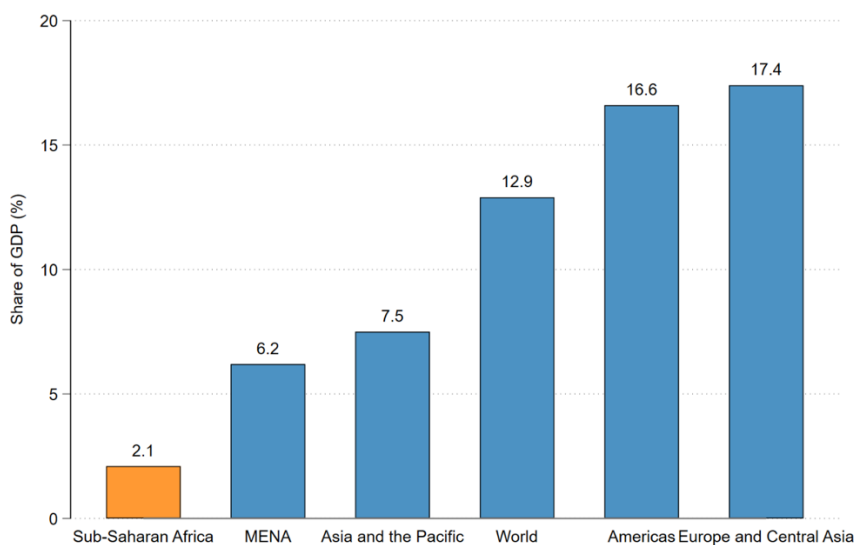
<sup>6</sup> Aikins, E. & Mclachlan, J. (2022). *Africa is losing the battle against extreme poverty*. Available: <https://issafrica.org/iss-today/africa-is-losing-the-battle-against-extreme-poverty>. (Accessed 16 August 2023).

<sup>7</sup> Organisation for Economic Co-operation and Development (OECD). (2017). *Social Protection in East Africa: Harnessing the Future*. OECD Publishing: Paris. <http://dx.doi.org/10.1787/9789264274228-en>

<sup>8</sup> International Labour Organisation (ILO). 2020. *Abidjan Declaration – Advancing Social Justice: Shaping the future of work in Africa*. Available: [https://www.ilo.org/wcmsp5/groups/public/---ed\\_norm/---relconf/documents/meetingdocument/wcms\\_731646.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_731646.pdf) (Accessed 16 August 2023).

However, despite the political will to extend social protection, SSA countries continue to lag the rest of the world. In Figure 1, spending on social protection as a share of GDP in SSA stands at 2.1% - which is almost three times below that of the MENA region – the next lowest social protection spending region in the world. On average, the world spends about 12.9% of GDP on social protection, with only two regions: Americas and Europe and Central Asia exceeding this average. Overall, a clear pattern emerges from Figure 1: Richer countries spend a greater proportion of their revenue on social protection programs than poorer countries.

**Figure 1: Public Expenditure on Social Protection (excl. healthcare) as a share of GDP in 2020.**

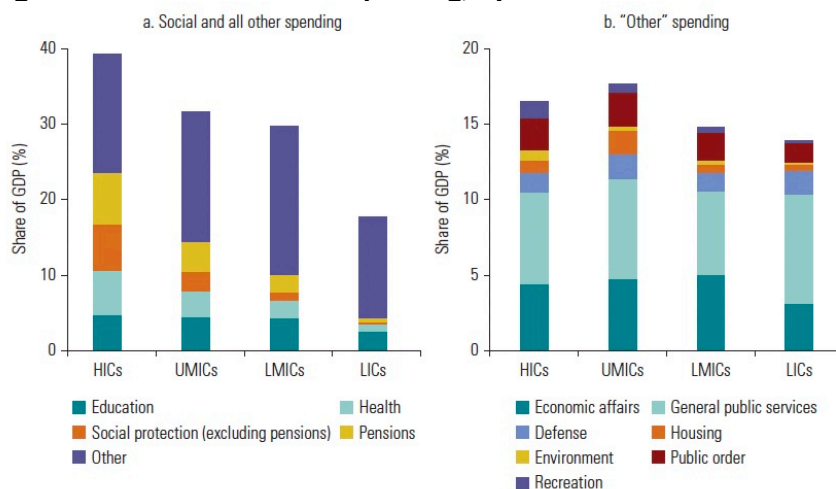


Notes: The Comoros, Eritrea, Gabon, Somalia and South Sudan were excluded from the 'Sub-Saharan Africa' category due to data unavailability.

Source: ILO World Social Protection Database, own calculations.

However it is also true that poorer countries in general tend to prioritize away from social spending relative to other fiscal allocations. The data in Figure 2 for example shows that Social protection (excluding pensions) averages 1%, 4%, 8% and 15% in LICs, LMICs, UMICs and HICs respectively – whilst pensions average 3%, 8%, 13% and 17%, respectively.

**Figure 2: Social and ‘Other’ Spending, By Income Classification**

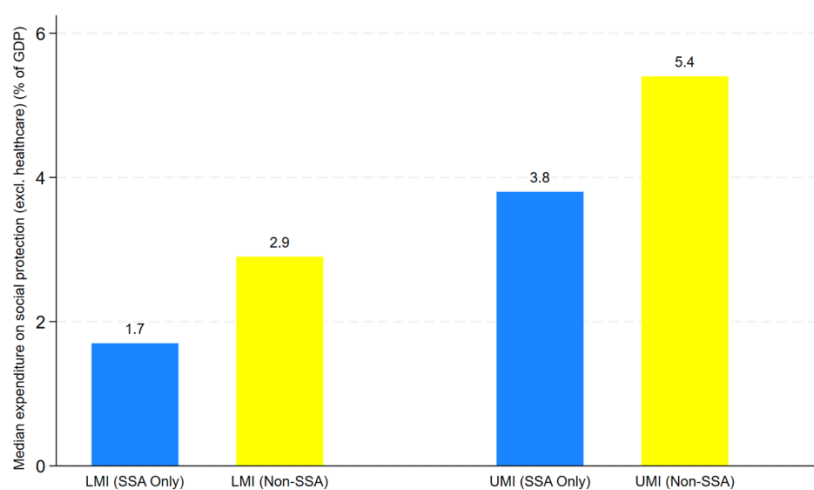


Sources: Sosa and Wai-Poi, forthcoming, based on data from World Bank, BOOST Open Budget Portal, <https://www.worldbank.org/en/programs/boost-portal>; International Monetary Fund, Government Finance Statistics database, <https://data.imf.org/gfs>.  
 Note: The figure shows each category of public expenditure as a percentage of GDP, aggregated by income group. "Other" in panel a is defined residually as the difference between total spending and social spending. Panel b shows "Other" categories. For LMICs, there is a gap between the sum of explicit "Other" categories and the implied "Other" in panel a. GDP = gross domestic product; HICs = high-income countries; LICs = low-income countries; LMICs = lower-middle-income countries; UMICs = upper-middle-income countries.

Health spending averages 6% of total spending in LICs, 8% in LMICs, 11% in UMICs, and 15% in HICs. Put differently, whilst LICs spend 40% of the average HIC on health, they only spend 6% of what the average rich country spends on social protection. At one level this gap could reflect either a stage of development preference (hence education and health spending taking precedence over social protection) for LICs or indeed it could reflect a real priority of other spending (such as product subsidies as we show below) over social protection allocations.

Further analysis shows that SSA countries spend a lower proportion of their GDP on social protection than other countries within the same income group. The median spend on social protection programmes in Lower Middle Income (LMI) SSA countries amounts to only 1.7% of GDP, which is 1.2 % lower than their LMI counterparts.

**Figure 3: Median Social Protection Spending (as a Proportion of GDP) by Income and Regional Classification, 2020.**



Note: LMI = Lower Middle Income; UMI = Upper Middle Income.  
Source: ILO World Social Protection Database, own calculations.

The gap between SSA and non-SSA Upper Middle Income (UMI) countries is wider, at 1.6 percentage points. This evidence suggests that it is not only the lack of wealth which constraints social protection expenditure in SSA, but also SSA-specific factors.

Ultimately the above suggests firstly that the SSA region spends less than other regions of the world on social protection – and secondly that we cannot ascribe this purely to the disproportionate share of low income countries in the region. Other low and middle income countries not in SSA, spend more at the median on social protection. Secondly though, it does seem that within the envelope of social policy spending – social protection is least valued by low income country governments. As a relative ratio, low income country governments are spending much more on health and education than they are on social protection.

### **III: Building The Baseline: Traditional and New Infrastructure for SP**

A crucial lever in the development of a comprehensive social protection system is the infrastructure which supports it. Without the required infrastructure, the purpose and goals of a social protection system will not be achieved, even if the programs have been fully funded. The basic tenets - what we term “traditional infrastructure” – of a fully-fledged social protection program are the following: Firstly, a social protection program requires a political figurehead to provide political support: This could be through either the creation of a ministry dedicated to social protection or by creating social protection programmes within various departments, such as education or health (Beegle et al., 2018)<sup>9</sup>. Along with a political figurehead, there needs to be an agency - such as for example the case of South Africa’s ‘South Africa Social Security Agency’ (SASSA)- which can carry out the complex administration required to run a social protection system. In addition to setting up the various institutions, it is important that suitably qualified staff are hired. Typically, key features of a social protection system involve program targeting, registration, payments, case management and grievance mechanisms. This requires staff who can operate the relevant IT systems, understand and tweak certain programs (such as changing the threshold for social

<sup>9</sup> Beegle, K., Coudouel, A., & Monsalve, E. (eds.). (2018). *Realizing the Full Potential of Social Safety Nets in Africa*. Africa Development Forum Series. World Bank: Washington DC.

grant payments), respond to queries from citizens and manage inter-departmental relationships, especially those with the Ministry of Finance, which maintains the ultimately fiscal responsibility for annual social protection allocations. In many African and low-income country settings, such basic traditional infrastructure does not exist or indeed is very weak. Hence, any policy programme designed to expand or set up social protection systems must ensure that such standard infrastructure - particularly in operational areas such as registrations, payments and case management – is in place and appropriately staffed in tandem with a fiscal allocation for disbursement.

Table I indicates very clearly that many African governments fail the test of ‘traditional’ infrastructure. Hence, of the 17 economies in the sample only two for example, have an existing social register. Notably the sample includes a fair number of middle income countries such as Zambia, Namibia, Botswana and Morocco. Only two economies even have a dedicated national population register.

**Table I: Existing Institutional Readiness for National Identification System: Selected African Economies**

	Autonomous NID Agency	Same Agency for CR/NID	NPR	Social Register	NID/Voter Register Link
Botswana	no	Yes	implementing	planned	VR generated from NID
Cameroon	no	no	planned	no	separate (VR requires NID)
Chad	no	no	no	no	separate
Côte d'Ivoire	no	Yes	no	no	separate (VR requires NID or cert. of nat'l)
DRC	n/a*	n/a	no	no	n/a
Ethiopia	n/a*	no	no	no	n/a
Guinea	n/a*	n/a	no	no	n/a
Kenya	no	no	implementing	no	separate (VR requires NID)
Liberia	planned	no	no	no	n/a
Madagascar	no	no	no	no	separate
Morocco	no	no	no	no	separate
Namibia	no	Yes	Yes	no	MHAI provides info on deceased voters (VR requires NID, SWA card, or birth cert.)
Nigeria	Yes	no	no	planned (NSSNP)	separate
Rwanda	Yes	no	Yes	Yes (Ubudehe)	VR generated from NID
Sierra Leone	semi, planned full	planned	planned	planned (NASSIT)	planned integration
Tanzania	no	no	no	Yes (TASAF)	separate (VR will be used to extend NID)
Zambia	no	Yes	no	no	separate (VR requires NID)

Notes: CR = civil registration; NID = national ID; NPR = national population register. \*The DRC, Ethiopia, Guinea, and Liberia do not currently have national ID cards. In Ethiopia, *kebele* (neighborhood or ward) cards are issued locally rather than by a centralized agency; however, a centralized NID is planned. The DRC technically has a national ID agency (ONIP), however it is non-functional. In Madagascar, both civil registration and national ID cards are technically under the purview of the Ministry of Interior, however they are managed and executed separately by municipal (CR) and district (NID) staff. Source: Summarized from IMSA reports.

Source: World Bank (2017) *The State of National Identification Systems in Africa*. World Bank: Washington DC.

What is also important about the above data is that such national identification systems are both a fundamental pre-requisite for any national system of social protection – and indeed social policy in general. Their dearth in many African economies cannot be ascribed to high levels of cost - given their relatively modest fiscal outlays compared with other forms of social policy and other expenditure items. In many ways then they could reflect a lack of appreciation of the importance to optimal and equitable social policy of building traditional infrastructure contained in a national register or identification system.

While traditional infrastructure is the bedrock of a functional social protection system, the effectiveness of such a system could be substantially improved through the innovative use of technology. If one takes the example above of producing a representative social registry - technology through the use principally of mobile cellular phones - can of course be exploited to more rapidly and cost effectively update and maintain a national register. Essentially, the cell phone acts as a unique ID for everyone. As such, this type of registration can be used as the critical first-step developing biometrics infrastructure for social protection. Such systems have already been set-up in parts of SSA – albeit at a very small scale. We provide below two such examples, one from the Democratic Republic of Congo (DRC) and the other from Togo. For the DRC, during the covid-19 pandemic, the government designed a large-scale, emergency social protection programme for Kinsasha’s poor (Zeufack et al, 2022)<sup>10</sup>. The lack of administrative data on identifying poor people, combined with a lack of pre-existing social protection programs meant that the government needed to create an innovative program. Using geo-spatial analysis as well as obtaining anonymised data from cellphone operators, the program paid 100 000 subscribers within 3 months of the initiation of the program. In Togo, the *Novissia* program was also designed as a response to the covid-19 pandemic. Individuals registered through dialling a number and then providing key information through an Unstructured Supplementary Service Data (USSD) form (Zeufack et al., 2022). Using a combination of machine learning techniques, geographical areas and individuals residing within those areas were ranked according to their estimated level of relative wealth. Once the beneficiaries had been identified, they were paid through mobile money accounts.

While these two examples illustrate the power of innovation and technology in providing a rapid response to an economic shock, it is important to note that the greater use of technology may be exclusionary. For example, in the West Africa Economic and Monetary Union, 38.1% of urban residents have a mobile broadband connection, while the corresponding figure for rural residents is only 7.1% (Rodriguez-Castelan et al., 2021)<sup>11</sup>. If these constraints are not considered when making policy choices, then expanding social protection could prove to be more exclusionary than before the implementation of a technological solution.

Ultimately though it is critical to note that even prior to discussing the financial implications of a national upscaling of social protection systems – the simple prior task of setting up traditional infrastructure aided by the use of appropriate technology remains essential as a precondition for optimal social protection in low income country settings. At present, far too many Sub-Saharan African economies remain in deficit when considering such baseline infrastructure.

#### **IV: Two Social Policy Pivots: The Informal Sector and Post-Covid Support**

A key facet of a more broad-based social protection system is extending coverage to a greater proportion of the population through the traction ensured via focusing on groups of individuals – such as pensioners, children and so on. In SSA, the current albeit limited social protection systems tend to focus on the chronically poor in rural areas (Zeufack et al., 2022). In turn, contributory-based social protection schemes are limited to public and

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<sup>10</sup> Zeufack, A. G., Calderon, C., Kabundi, A., Kubota, M., Jorman, V., Raju, D., Girma Abreha, K., Kassa, W., & Owusu, S. (2022). *Boosting resilience: The future of social protection in Africa*. Africa Pulse no. 25. World Bank: Washington DC.

<sup>11</sup> Rodriguez-Castelan, C., Granguillhome Ochoa, R., Lach, S. & Masaki, T. (2021). *Mobile Internet Adoption in West Africa*. Policy Research Working Paper No. 9560. World Bank: Washington DC.

private sector formal employees in SSA (Guvan, 2019)<sup>12</sup>. Yet, data shows that the majority of the employed in Africa tend to those workers in Agriculture (covered by rural safety nets and/or rural subsidy schemes should they exist) or in urban informal employment. For example, over the period 1990-2018 close to 20% of all jobs created in Africa emanated from the informal sector (Bhorat *et al*, 2017).<sup>13</sup>

However, extending social protection programs to the urban informal sector would require several creative policies, which demonstrate the understanding of the precariousness nature of urban informal employment. For example, a product could be designed which allows flexible contributions and access to a portion of savings on a short-term basis, in order to provide a degree of income smoothing in times of economic shocks (Zeufack *et al.*, 2022). Access to short-term savings is key to building trust between urban informal sector workers and the government, as demonstrated in Ghana. When Ghana set up their informal sector scheme, it allowed workers to access up to 50% of their savings after 6 months (Guvan, 2019). When the 6 months had passed, many of the workers decided to access their savings. However interestingly, many returned their savings back to the bank the next day, suggesting that the six-month threshold was simply a test for many workers - to determine whether they could access their savings (Guvan, 2019). Short-term savings in the Ghana intervention, was also able to be used as collateral to access business loans (Guvan, 2019). Ultimately though, the Ghanaian example provides an early pilot for how a contributory based system of social protection could be built for a large cohort of African workers – who are in urban informal employment. There are a number of additional design features which could be bolted onto such a social protection scheme for the informal sector. These included for example the government partially subsidise the scheme, by for example, matching the level of contributions made by the individual or bundling other services such as health insurance, life insurance or crop insurance (Zeufack *et al.*, 2022). The bundling of services in this manner could be potentially beneficial for the government, which may experience efficiency gains if individuals are enrolled in more than one scheme, as the collection of contributions would be received on the same day (Guvan, 2019). Finally, governments could increase take up of multiple services through automatic enrolment using mobile phone data with the easy option of opting out, for those who do not wish to contribute to multiple schemes.

#### ***Covid-19 Social Policy as a Model for the Future***

The Covid-19 pandemic represented a substantial economic shock for countries across the world. The forced closure of businesses meant that many people lost their jobs. In addition, individuals who were unemployed before the pandemic had little chance of obtaining a job when the restrictions were in place, as many businesses were not hiring additional employees. As a result, there was a substantial increase in the number of individuals who required financial assistance from the government. Furthermore, governments needed to respond rapidly, as the negative economic effects were immediately felt. We briefly discuss two initiatives - the expansion of Ghana's Livelihood Empowerment Against Poverty (LEAP) program and the introduction of South Africa's Covid-19 Special Relief of Distress (SRD) grant to examine whether such models could serve as a basis for expanding social protection in the future.

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<sup>12</sup> Guvan, M. (2019). *Extending Pension Coverage to the Informal Sector in Africa*. Social Protection and Jobs Discussion Paper No. 1933.

<sup>13</sup> Bhorat, H R.Kanbur & B.Stanwix (2017) Minimum wages in sub-Saharan Africa: A Primer. *The World Bank Research Observer*, Feb, 32(1) pp. 21-74.



The LEAP program began in 2008 and was set up as an unconditional cash transfer program for the poorest families in Ghana (UNICEF, 2021)<sup>14</sup>. The primary aim of this program was to increase consumption and access to key services. With the onset of the Covid-19 pandemic, the Ghanaian government realised that in addition to the unfolding health crisis, an economic crisis was also occurring. In response, with the help of the World Bank and UNICEF, the Ghanaian government aided 332 000 vulnerable households, which amounted to 1.45 million people (UNICEF, 2021). The extraordinary payments made to vulnerable households amounted to four months' worth of social protection payments (UNICEF, 2021). The rapid expansion was possible by the use of Ghana National Household Registry data combined with the Management Information System from the LEAP programme. Furthermore, although initial payments made to recipients were made at bank branches, from December 2020, payments were made through a mobile money platform, which also allowed the government to communicate with recipients and monitor payments (UNICEF, 2021).

Two major lessons were learnt from this experience (UNICEF, 2021): Firstly, the degree of functionality of social protection systems affected the response. The LEAP programme had a well-developed MIS, identified the most vulnerable people well and the staff were suitably qualified at district and national level. Despite these strong operational systems, the speed at which legislative changes could be made to the LEAP were slow, and some politicians did not have a good understanding of the role of social protection in responding to the covid-19 response. The second lesson learnt is the need for more dynamic data to be made available (UNICEF, 2021). While the available data used to identify vulnerable households is good, it was unable to swiftly identify additional households who become vulnerable as a result of a crisis, as the available data is based off household surveys. The implication of this is that some vulnerable households are likely to be excluded from receiving social protection payments - which occurred with the initial emergency payment.

In April 2020, a special Social Relief of Distress (SRD) grant was launched in South Africa – worth R350 per month – which targeted unemployed adults and who were not receiving money from other social protection programs in South Africa (Bhorat, Kohler & De Villiers, 2023)<sup>15</sup>. As figure 4 below illustrates, although the SRD was initially set to run for 6 months, it has been extended multiple times, and is now set to run until March 2024 (South African Government News Agency, 2022)<sup>16</sup>. Due to the strict lockdown at the time, the government was forced to come up with innovative technological solutions with regards to the application process. Three channels were designed for a potential applicants: a USSD-based system from Vodacom, a WhatsApp channel run by the government and a special website run by an external services provider (Gronbach, Seekings & Megannon, 2022).<sup>17</sup> Successful applicants could be paid by electronic transfer to a bank account, through a mobile number registered in the applicant's name or at a Post office facility. The SRD was highly successful, with over 6 million new recipients being brought into the social protection

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<sup>14</sup> UNICEF. (2021). *Being prepared and acting fast: a series of case studies on UNICEF's role in the delivery of effective social protection responses to COVID-19*.

Available: <https://www.unicef.org/media/110756/file/Being-Prepared-Acting-First-Case%20Studies-2021.pdf> (Accessed 16 August 2023).

<sup>15</sup> Bhorat, H. T., Kohler, D., & De Villiers, D. (2023). *Can Cash Transfers to the Unemployed Support Economic Activity? Evidence from South Africa*. DPRU Working Paper 202301. Development Policy Research Unit: School of Economics, University of Cape Town. [https://commerce.uct.ac.za/sites/default/files/media/documents/commerce\\_uct\\_ac\\_za/1093/DPRU%20WP202301.pdf](https://commerce.uct.ac.za/sites/default/files/media/documents/commerce_uct_ac_za/1093/DPRU%20WP202301.pdf)

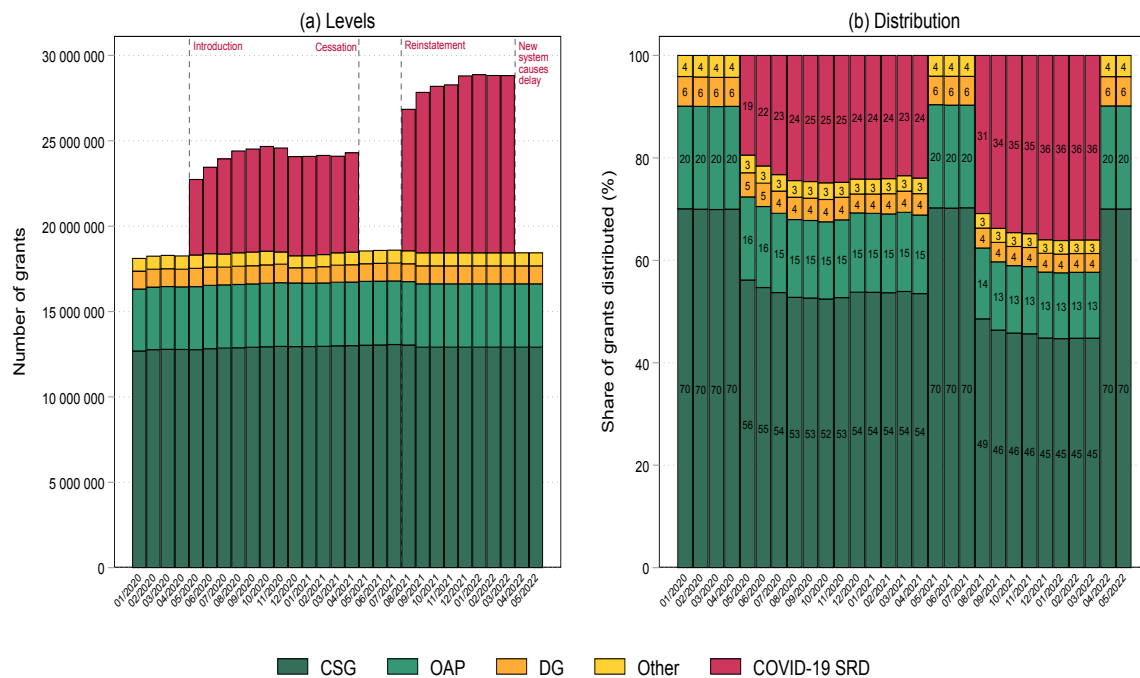
<sup>16</sup> South African Government News Agency. (2022). *SRD Grant extended to 2024*. Available: <https://www.sanews.gov.za/south-africa/srd-grant-extended-march-2024> (Accessed 16 August 2023)

<sup>17</sup> Gronbach, L., Seekings, J., & Megannon, V. (2022). *Social Protection in the Covid-19 Pandemic: Lessons from South Africa*. Centre for Global Development Policy Paper No. 252.



system (Bhorat, Kohler & De Villiers,2023). Importantly, it was well-targeted, with 60% of the recipients being unemployed and the majority of the remainder being informally employed (Bhorat, Kohler & De Villiers,2023).

**Figure 4: Distribution of Cash transfers By Grant type, South Africa: January 2020 – May 2022**



Source: Bhorat, H. T., Kohler & D. De Villiers (2023)

The introduction of the SRD grant highlighted a number of successes and challenges in the social protection system (Gronbach, Seekings & Megannon, 2022). In terms of successes, the program highlighted the relative ease with which a social protection could be scaled up efficiently. In addition, the comprehensive databases that the government kept for other social programs (such as UIF) meant that beneficiaries did not have to undergo an exhaustive registration process. Furthermore, the creation of the SRD grant was supported by a coalition of civil society and influential political actors, which created the right political environment to provide measures. Lastly, the digital registration process was a departure from the paper-based system used by the relevant ministry to register new applicants.

Ultimately though on the basis of both a consideration of a new large, accessible group of workers (such as the informal sector) – and through the response forced on governments by a pandemic – social policy pivots are possible. In these two examples for Ghana and South Africa, governments in Africa have potentially laid the groundwork to both deepen existing social protection systems or potentially to use these pivot experiences as a basis for enhanced social protection elsewhere in their economies.

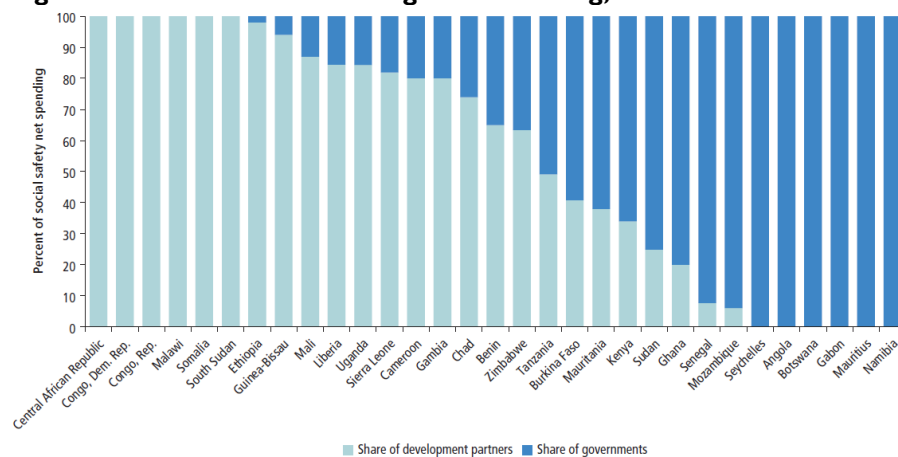
### V: Financing Social Protection in Low-Income Settings: Brief Observations

One of the primary challenges that SSA countries face in expanding and self-funding their current social protection systems is a lack of government revenue. Some SSA countries are unable to finance any of their social protection requirements through domestic revenue, as is evident in Figure 5. For example, the data shows that at least five SSA countries are

entirely dependent on donor funding to finance their social protection programs. The average proportion of donor financing in SSA is 55.0% (Beegle et al., 2018). Going forward, this dependency on foreign donors needs to be reduced if a comprehensive social protection system is going to be realised in SSA countries. Not only is foreign donor financial support likely to be capped – thereby preventing further expansion – but also, foreign donors are likely to have their own biases in terms of their preferred programs that they would like to implement, which may not be the optimal solution for that country.

An alternative to relying on donor financing is to create an enabling environment which generates a high level of economic growth for an extended period. Associated with high levels of economic growth is higher levels of business activity, more individuals are employed and higher incomes. All these effects combined will lead to an increase in tax revenue because there is a greater amount of company revenue and personal income to tax. The additional tax revenue could potentially be used to initiate the creation of a self-funding social protection system. We turn later on below to alternative tax revenue options not contingent on rising GDP levels.

**Figure 5: Social Protection Program Financing, SSA: Latest Year**



Source: Beegle et al. (2018).

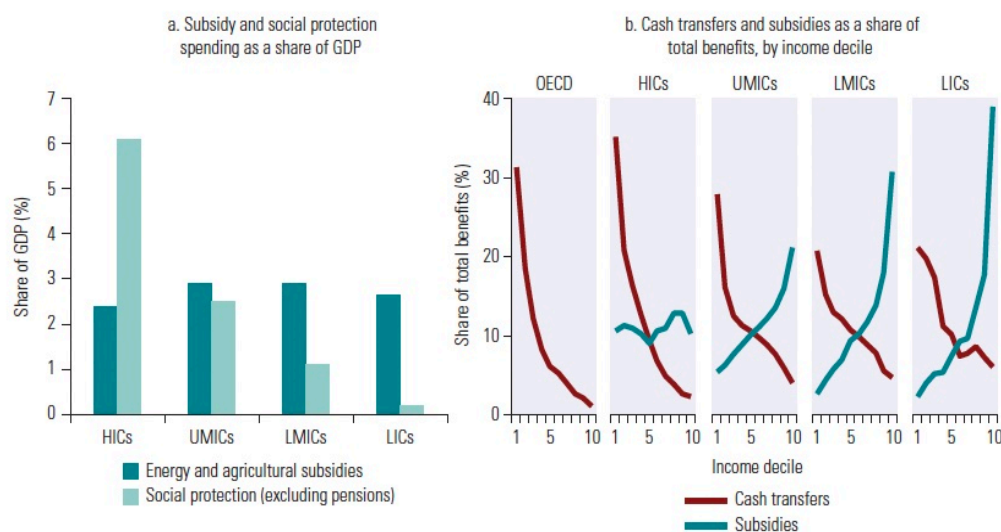
In resource-rich SSA countries, there is a further alternative: paying residents a dividend in times when there is a large increase in commodity prices. This approach has been pioneered by the US state of Alaska, which created the Alaska Permanent Fund (APF). The APF invests revenue garnered from the sale of oil and pays out residents a yearly dividend - effectively a form of universal basic income. Resource rich SSA countries could implement a similar program. However, given the volatility of commodity prices, such an approach should not form the basis of a social protection program, as revenues from commodities would be too unpredictable. Rather, the revenue from high commodity prices could potentially be used to reduce temporary deficits emanating from existing social protection program; to provide financial support to residents harmed by extreme events, such as a natural disaster or pandemic or indeed to even provide for once-off payments back to the population as a form of ‘shared income’ from commodity booms.

**From Subsidies and Taxation to Cash Transfers: Redistribution Within the Budget?**

Given that richer economies have a larger tax revenue base, the ability to finance social protection and other forms of social policy is much easier. We have though notably shown that there is a hierarchy of social policy categories for low income economies – with social

protection often being the most marginalised of spending items for the fiscus. Be that as it may, the need to broaden revenue is in essence a discussion about long-term economic growth, greater wage employment and thus improved revenue outcomes for country governments. Is there however, an option within-budget that governments could look to, in order to improve allocations for social protection? We consider below one such idea – recently raised by the World Bank in its report *Poverty and Shared Prosperity* (World Bank, 2022).<sup>18</sup> The simple notion here is that developing country governments, those in Africa included, spend more on energy and agricultural subsidies than they do on social protection. Hence, Figure 6 below shows that whilst in upper middle-income countries subsidy spending as a share of GDP is similar (at about 3% of GDP) – this is not the case for low income countries.

**Figure 6: Energy & Agriculture Subsidies and Social Protection Spending, % of GDP and Incidence: By Country Income Classification**



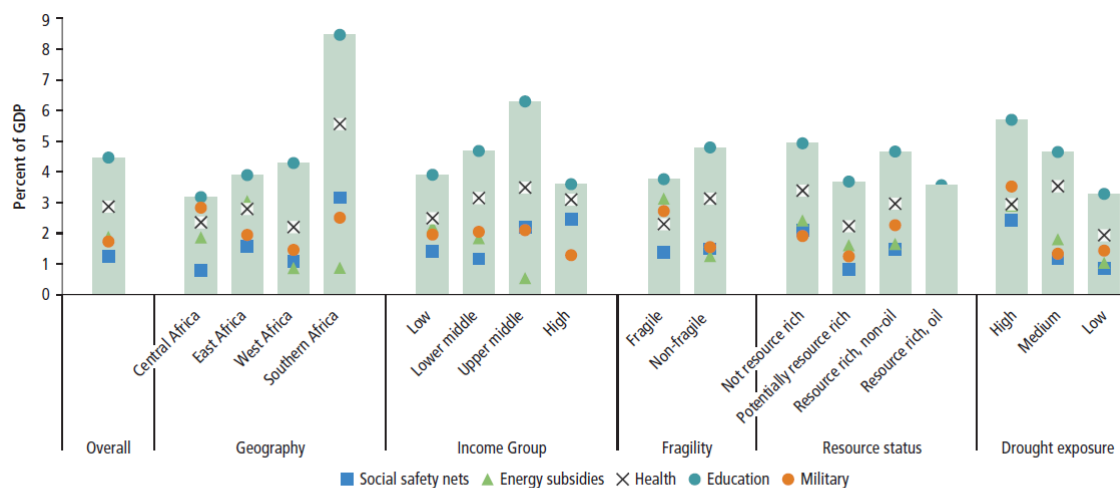
Sources: Agricultural subsidies: International Organisations Consortium for Measuring the Policy Environment for Agriculture database, <http://www.ag-incentives.org/>; energy subsidies: International Institute for Sustainable Development, <https://www.iisd.org/>; social protection: World Bank, BOOST Open Budget Portal, <https://www.worldbank.org/en/programs/boost-portal>, and International Monetary Fund, Government Finance Statistics database, <https://data.imf.org/gfs/>; cash transfers and subsidies as a share of total benefits: CEQ Institute, CEQ Data Center on Fiscal Redistribution, <https://commitmenttoequity.org/datacenter/>; OECD data; World Bank data.  
 Note: Panel a compares spending on energy and agricultural subsidies with spending on social protection (excluding pensions) as a share of gross domestic product (GDP), aggregated by income group. Panel b shows transfers and subsidies as a share of total benefits by market income decile, aggregated by income group. Subsidy incidence is not available for OECD countries. GDP = gross domestic product; HICs = high-income countries; LICs = low-income countries; LMICs = lower-middle-income countries; OECD = Organisation for Economic Co-operation and Development; UMICs = upper-middle-income countries.

Instead for LICs and LMICs, spending on social protection is less than 10% and less than 50% of their spending on subsidies. In turn though, as the right hand panel of Figure 6 shows: Subsidy expenditure is much more regressive than social protection spending: Only 20% of subsidy spending reaches the bottom 40 percent of households in any of the countries in the sample. Spending on subsidies are in many cases present for governments to serve local interest groups or to ensure the necessary political support to remain in power.

<sup>18</sup> World Bank. (2022). *Poverty and Shared Prosperity: correct course*. World Bank: Washington DC. Available: <http://hdl.handle.net/10986/33748> (Accessed 16 August 2023).

It is also particularly true though that in Africa, social transfers are deeply under-utilised even within the suite of available interventions beyond subsidies.

**Figure 7: Proportion of GDP Spent on Various Sectors**



Sources: Spending data: ASPIRE (Atlas of Social Protection Indicators of Resilience and Equity) (database), Administrative data, World Bank, Washington, DC, <http://www.worldbank.org/aspire>. Energy subsidies: Coody et al. 2015. Other data: WDI (World Development Indicators) (database), World Bank, Washington, DC, <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>.  
 Note: Methodology presented in appendix B.4 and more details in appendix G, table G1. Data do not reflect reductions in subsidies which have taken place since 2015. Social safety net spending estimates are moderately different from those in World Bank (2018) due to data updates in this report and different treatment of outlier data points.

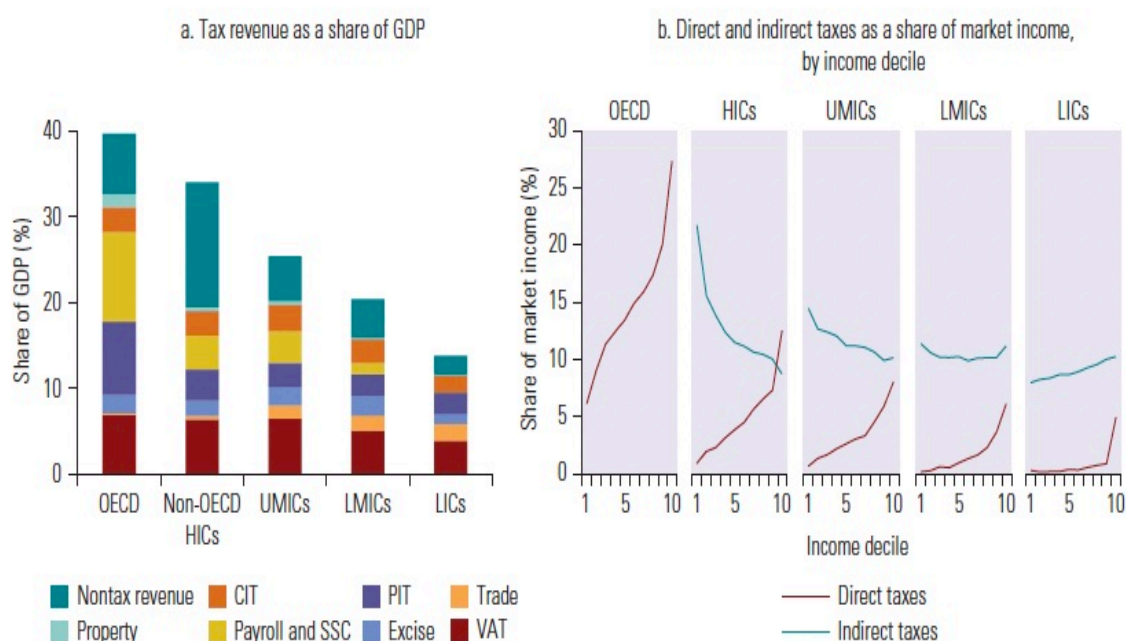
Source: Beegle et al. (2018)

Hence as Figure 7 shows, irrespective of the category of African economy utilised (by income group, sub-region and so on), social safety net expenditure as a share of GDP remains the lowest for almost all categories, when compared against spending on education, health, subsidies and worryingly – military spending.

It is also true however that improvements in taxation policy, tax collection and enforcement can also act as the impetus for enhanced funding available to developing country governments to allocate resources to social protection. Data shows for example, that the income level of countries is on average positively associated with tax revenue as a share of GDP. Simply put: Richer countries collect more tax as a share of GDP relative to middle and low income economies. As the figure below illustrates then, for example whilst LICs collect 11% of GDP in taxes— this estimate is 32% of GDP for the sample of OECD high-income countries. Studies suggest that differences in tax revenue may in part be a function of state capacity to collect taxes and enforce collection (Besley and Persson 2013)<sup>19</sup>.

<sup>19</sup> Besley, T., and T. Persson. 2013. "Taxation and Development." In Handbook of Public Economics, vol. 5, edited by A. J. Auerbach, R. Chetty, M. Feldstein, and E. Saez. Amsterdam: North Holland.

**Figure 8: Tax Revenue by Source (% of GDP) and Progressivity of Tax Revenue, 200s: By Income Classification**



Sources: International Centre for Tax and Development, <https://www.ictd.ac/>; CEQ Institute, CEQ Data Center on Fiscal Redistribution, <https://commitmenttoequity.org/datacenter/>; OECD data; World Bank data.

Note: Panel a shows each type of government revenue as a percentage of gross domestic product (GDP), aggregated by income group. Panel b shows direct and indirect taxes as a percentage of total market income by market income decile, aggregated by income group. Indirect tax incidence is not available for OECD countries. CIT = corporate income tax; GDP = gross domestic product; HICs = high-income countries; LICs = low-income countries; LMICs = lower-middle-income countries; OECD = Organisation for Economic Co-operation and Development; PIT = personal income tax; SSC = social security contribution; UMICs = upper-middle-income countries; VAT = value added tax.

Ultimately then, improved tax collection systems and tax levels could potentially be a key enhancer of social protection spending in SSA and other low income country settings. Research suggests that policy improvements could be focused on three core areas: Firstly, for countries to introduce property taxation as in many countries these do not exist. They will also tend to be progressive given the distribution of property ownership in many low income countries. Secondly, indirect health taxes such as on tobacco, alcohol and sugar are easy to implement and adjust and are progressive in a lifecycle sense. Finally carbon taxes could be considered for developing countries. The latter can evidence shows, simultaneously raise revenue without undermining inequality and employment in a domestic economy.

## VI: Conclusion

The above has attempted an analytical whistle-stop tour of some of the key issues and concerns in analysing the prevalence and financing of social protection in Africa. It is abundantly clear that social protection reach and spending in Africa is wholly inadequate. As a share of GDP social protection spending in SSA, lags all other regions of the world. In addition though, the evidence shows that low income countries in general seem to value social protection less than other forms of social policy. The need for baseline traditional and innovative infrastructure in order to build the foundations for a social protection remain

essential, but again under-valued in the region. We show crucially that a focus on groups – such as the informally employed – or the response to a crisis can allow for a foothold in widening social protection access within a country. Ultimately though, perhaps the one key financing solution offered here is that governments in developing regions of the world under-spend on progressive poverty-reducing social transfers and over-spend on regressive, inequality-inducing energy and agricultural subsidies. In addition, more attention to improvements in tax collection and tax policy – with a view to increasing revenue from companies and individuals – could potentially be a key instrument to increasing social policy spending. Ultimately though, the need to reallocate greater shares of the national budget of African economies towards social protection would seem to be a core policy action required in pursuit of the war on poverty in the region.