

## Assessment and recommendations

The 21st century has been a period of great achievement for most countries in Africa. Sustained and robust economic growth and greater political stability across the region have accompanied a significant decline in poverty and major improvements in living standards. According to the World Bank, the proportion of people living in extreme poverty fell from 57% in 1990 to 43% in 2012, while the rate of mortality among children under 5 has almost halved, from 173 per 1 000 live births in 1995 to 92 in 2013. Net primary school enrolment rose from 59% in 1999 to 79% in 2012.

Nonetheless, there remains a long way to go: of the world's 48 least developed countries (as defined by the United Nations), 34 are located in sub-Saharan Africa. Despite the decline in headcount poverty, the absolute number of poor individuals increased by 100 million between 1995 and 2012 as a result of population growth. Moreover, the gains achieved in the past 15 years are fragile: significant numbers of those who have emerged from poverty are at great risk of falling back.

Social protection is an effective means of sustaining the decline in poverty and protecting those individuals who have emerged from poverty from falling back. Moreover, there is an increasing body of evidence demonstrating the capacity of social protection programmes to promote human development. A rapid expansion of social protection in Africa since the global financial crisis reflects the important and multiple benefits social protection can generate at both the micro and the macro level. Today, nearly every country in the continent implements a social safety net and the number of countries implementing a cash transfer programme more than doubled between 2010 and 2014.

However, many more people are excluded from social protection in Africa than are covered by these arrangements. Only 11% of the poorest 20% of households are covered by social assistance in sub-Saharan Africa, compared with 21% in South Asia, 50% in Eastern Europe and Central Asia and 58% in Latin America. Coverage of other social protection instruments – social welfare services, social insurance and labour market policies – is lower still. In the case of social insurance, less than 10% of the population is covered across the region, meaning that an overwhelming majority of today's workforce population has little or no income protection either now or in preparation for their old age.

The African Union's Agenda 2063 framework, "The Africa We Want", recognises the potential of social protection and places it at the heart of the continent's development strategy. Building on the Social Protection Framework adopted by the African Union in 2008, Agenda 2063 establishes two ambitious targets for social protection systems across the continent: i) to raise spending on social protection to 5% of GDP (from an average of 2% currently) in order to establish social protection floors so that no citizen is without access to a basic income or essential health care; and ii) to extend coverage of contributory social security arrangements into the informal and rural sector in order to protect household incomes.

Thanks in part to the international development community, greater resources are being made available for social protection in Africa. Countries across the continent are developing long-term strategies for expanding provision, which in turn are reflected through their national development plans. At the same time, social protection programmes are evolving and innovating to better respond to national needs and priorities, supported by an important increase in the level of co-operation between countries in the Global South in addressing social protection challenges.

Yet even as governments look to scale up social protection to deal with the challenges of today, a number of demographic, economic and environmental trends are emerging

that could either strengthen or jeopardise Africa's development and its vision for social protection. The region's population boom could result in a significant demographic dividend provided that fertility rates fall and the fast-growing workforce is productively employed; if these not conditions are attained, population growth will impose a major brake on development. Rapid urbanisation has the potential to transform societies but, if it is not properly managed, can instead constrain progress in improving living conditions and eliminating extreme poverty.

At the same time, robust growth in many African economies since the early 2000s has not been accompanied by major changes to the structure of economic activity or employment, with the result that manufacturing has barely grown across the continent and agriculture remains a dominant source of income and livelihoods. This continued reliance on low-productivity agricultural activities not only limits Africa's potential to increase incomes and generate new jobs but it also leaves populations and economies at risk from climate change – a phenomenon to which Africa is especially vulnerable.

In the six countries which form the basis for this study – Ethiopia, Kenya, Mozambique, Tanzania, Uganda and Zambia – social protection is well established on the political agenda and scaling-up significantly but confronts many of the challenges facing Africa as a whole. These countries exhibit sufficient similarities to represent East Africa in comparison with other regions but are also different enough to allow comparison between them so as to better understand the dynamics around demographics, structural change, poverty and inequality.

The study looks forward over the next 50 years to explore what might be the main drivers of demand for social protection and identify appropriate policy responses. The report is structured as follows. Chapter 1 analyses major demographic and environmental challenges facing the six sample countries over the next 50 years, including the impact of the current population boom on the age structure of the population, urbanisation, changing health needs and cross-border migration. Chapter 2 identifies future socio-economic trends in the six countries based on an economic model which provides long-term projections for income growth, poverty levels, and the structure of the labour market and economic output up to 2065. The final chapter highlights seven grand challenges that confront social protection planners and proposes potential policy responses.

### **Confronting massive demographic and environmental challenges**

According to projections published by the United Nations in 2015, the population of sub-Saharan Africa will quadruple over the course of the 21st century, increasing from 1 billion in 2016 to fractionally below 4 billion in 2100. Thanks to rapid growth in the size of the working-age population, there will be substantial declines in dependency ratios across the continent, offering the potential of a large demographic dividend if current levels of employment and productivity are maintained or improve. However, high rates of population growth dilute economy-wide income gains and place considerable strain on basic services – an area where governments in the region are already under pressure to deliver.

The demographics of East Africa are currently characterised by high fertility rates, low life expectancies, high population growth rates, young populations and high dependency ratios. Rapid population growth is projected for all the sample countries but it will be fastest in Zambia and slowest in Ethiopia. The age structure of the population will change significantly across the countries: every age group will grow in absolute terms but in relative terms the size of the infant and school-aged cohorts has peaked while the youth cohort is growing in both relative and absolute terms, placing pressure on the education system and the labour market. The working age population will grow strongly – both relatively and especially in absolute terms – over the next 50 years. The elderly population

will grow slowly at first before expanding faster than any other cohort in relative terms as today's youth bulge reaches retirement age.

These projections are not set in stone. Governments in the six countries have published policies to reduce fertility rates but there are worrying signs that the fertility decline across the sample is stalling, a phenomenon that requires an urgent response. The determinants of fertility are complex and difficult to control directly through public policy. Increases or improvements in income, health, women's education, female labour force participation and urbanisation can all play a key role in reducing fertility; so too can social and cultural factors.

With the changes in the age structure of the population, it is expected that a higher proportion of the population will suffer from chronic conditions in the future while the burden of communicable diseases will decline. There have been major successes in controlling communicable diseases but HIV/AIDS and malaria will remain a drain on public health services and emerging diseases can wipe out gains achieved in terms of health outcomes.

Sub-Saharan Africa's population boom will be accompanied by large-scale urbanisation. According to UN projections, Africa is expected to be 56% urban in 2050, versus 40% in 2014. East Africa is the least urbanised region in the world today but a long-term average annual urban population growth of 4% is projected across the sample countries. Nonetheless, the rural population in a number of the sample countries will still be larger than the urban population in 2050. Population growth will be concentrated at the interface of urban and rural areas; urbanisation will be driven primarily by building new cities rather than expanding existing ones.

According to the UN Population Projections, international migration will be not a major determinant of population change in the sample countries: there will be net emigration of just under 5 million people from the six countries in the next 50 years, and just under 8.5 million from East Africa as a whole. This appears very conservative given the unprecedented level of population growth across the sample countries (especially among working age cohorts), the sharp increase in population densities and the potential impact of climate change. Population growth might be a push factor for emigration, with a high bound estimate of the surplus of labour or potential supply of migrants from the region standing at 140 million. At the same time, population ageing in wealthier countries will be a pull factor. However, labour flows are highly regulated and there is not an obvious destination for East African emigrants.

Climate change will affect East Africa dramatically and in different ways. Current models indicate that climate change will affect both temperatures and rainfall levels. The impact of climate change will not only be felt inland; rising sea levels and associated coastal erosion will also be a major concern for residents in coastal areas. At the same time, climate change will be associated with numerous health risks which the poorest individuals are least able to bear. The region's capacity to feed itself and meet its needs in terms of water provision will be further strained. By and large, the rural poor will be disproportionately affected by climate change due to their heavily reliance on agriculture.

### **Forecasting economic and social trends for long-term social protection planning**

Economic growth rates across Africa have improved markedly since their stagnation in the 1980s and 1990s. However, population growth has dampened the impact of economic growth on per capita incomes. While East Africa is currently outperforming the rest of Africa, it is unlikely that the growth rates experienced in recent years will be sustained far into the future. Projections in this paper indicate that favourable demographics could support robust growth in all six countries over the long term but

there are significant upside and downside risks to this projection: increased productivity as a result of accelerated structural change would yield higher growth rates, while an increase in unemployment would likely have the opposite effect.

If the process of structural change continues at its current slow pace across the six countries, agriculture will remain a major component of economic output even in 2065, and the majority of the workforce will still be employed either in agriculture or other informal activities. A total of 7 million new jobs will be required every year across the sample countries to absorb new entrants to the labour market if current levels of labour force participation are to be maintained. The absorptive capacity of agriculture will be critical to clearing the labour market but the effects of climate change pose a major threat to productivity in the sector as well as to rural livelihoods more generally.

The rate of future poverty declines will depend not only on the rate of income per capita growth but also how incomes gains are distributed across the economy. At present, poverty rates and the level of inequality vary significantly across the six countries. Over the long term, poverty is projected to fall furthest in Ethiopia and remain highest in Zambia. Based on these projections, the first Sustainable Development Goal – to eradicate poverty everywhere – will not be achieved in any of the sample countries for a long time after 2030: on a 50-year view, only three will have poverty rates below 5% against the USD 1.90 benchmark of extreme poverty. In absolute terms, the number of poor individuals will decline very little across the region between now and 2065 due to the rate of population growth.

### **Towards a long-term perspective on social protection in East Africa**

This report identifies seven major challenges that social protection policy makers will confront over the long term: i) the last mile problem of eradicating extreme poverty; ii) promoting social insurance in a context of high informality; iii) confronting the employment challenge; iv) harnessing a demographic dividend; v) rapid urbanisation; vi) climate change; and vii) financing a step-change in social protection spending.

These are long-term challenges that need a policy response in the short term. The challenges are also inter-related, which will require a systematic approach that ensures coherence across the social protection sector at a policy, administrative and institutional level and which connects social protection to other government initiatives in sectors such as labour, the environment, agriculture and economic development. A capacity-development strategy will also be required for implementing some or all of the policies proposed here, while the participation of social partners in meeting these challenges will be essential both for securing popular support and for successful implementation.

**Solving the “last mile” problem of eradicating extreme poverty.** Data suggests the six countries are spending enough on social assistance to eliminate extreme poverty. However, this expenditure is not reaching the poorest households and there is significant leakage to the non-poor. Pursuing perfect targeting of transfers is likely to be a losing battle; higher spending and an emphasis on reducing exclusion errors (at a cost of tolerating inclusion errors) is the most viable means of reaching those most in need in the short term and will yield long-term benefits in terms of reducing poverty and inequality.

**Enhancing social insurance coverage in a context of high informality.** Coverage of social insurance across the sample countries is very low because these arrangements are typically accessible only to the formally employed. Governments need to adapt social insurance to a context where the majority of the workforce will remain in agricultural and informal employment 50 years from now. Failing to do so will leave large parts of the population vulnerable to falling into poverty in the event of an income shock or when they can no longer work.

**Confronting the employment challenge.** Public works programmes are already emerging across East Africa as an important part of the policy response to the rapid growth in the working age population. These programmes are capable of making an important contribution both at an individual level and for wider communities, but to do so they must meet a number of important conditions in terms of generating useful work and providing participants with skills they can use in the labour market.

**Harnessing a demographic dividend.** To harness a demographic dividend, it will be necessary to accelerate the decline in fertility rates and to promote productivity through enhancements to human and physical capital. Social protection can contribute to a decline in fertility by promoting women's access to health, education and the labour market, while enhancing pension provision can achieve a similar impact by reducing the elderly's reliance on their children for support in old age. Social protection enhances productivity by promoting gains in human capital (in particular through early childhood development initiatives) and higher saving rates.

**Adapting social protection to rapid urbanisation.** As urban populations continue their rapid growth in East Africa, so too will demand for social protection arrangements that are tailored to urban settings. Extending social protection to urban areas will require a much better understanding of the needs of city-dwellers, especially those living in slums.

**Resilience to climate change.** Climate change poses a massive, unpredictable and escalating threat to livelihoods in East Africa. Social protection programmes are able not only to help individuals withstand a climate-related shock but can also help households and communities adapt to climate change and mitigate its effects.

**Increasing financing for social protection without hurting the poor.** For social protection to achieve its potential, the African Union calculates that annual spending should more than double across the region to 5% of GDP. Significant domestic resource mobilisation will be required; care should be taken to protect the poor from shouldering too much of this burden.

## Key recommendations

### System level

#### **Establish an integrated framework for social assistance, social insurance and labour market policies**

- Identify the linkages between different instruments to ensure coverage across the life cycle.
- Connect the programmes, budgets and institutions operating across the social protection sector to facilitate co-ordination and develop integrated systems, financing plans and strategies.
- Leverage the economic multiplier effects achievable through social protection by integrating it within broader development plans and in strategies for achieving the Sustainable Development Goals and the objectives of Agenda 2063.

#### **Ensure that social protection is adequately financed while reconciling the objectives of tax and social policies**

- Prioritise increases in direct taxes when developing strategies for domestic resource mobilisation; efforts to improve compliance will need to focus not only on domestic taxpayers but should also target multinational companies.
- Assess the incidence of taxes and transfers and their combined impact on poverty and inequality to ensure that the fiscal system works for the poor.
- Eliminate or reduce subsidies for food and fuel to free up resources for social protection schemes.

- Control spending on civil service pensions by establishing transparent and sustainable financing mechanisms.

#### **Use social protection to promote individual and economy-wide productivity gains**

- Increase investment in early childhood development to promote cognitive development and skills acquisition among tomorrow's workforce.
- Use training schemes to promote individual productivity and entrepreneurial skills.
- Leverage the potential of social protection instruments to promote investment in physical capital.

#### **Maximise the potential of social protection for women's empowerment**

- Promote women's access to health, education, family-planning services and the labour market through social protection.
- Ensure social protection is gender-sensitive and does not impose additional constraints on female participants, either in terms of time use or by reinforcing harmful social norms.
- Promote gender parity in social insurance arrangements through mechanisms that compensate women for the time they spend out of the labour market caring for children or other family members.

#### **Adjust social protection strategies to address the needs of a growing urban population**

- Devise implementation modalities to overcome challenges associated with the urban setting in terms of targeting social assistance.
- Work with local government to integrate social protection into urban development strategies.
- Consider the use of public works programmes as a means of supporting the provision of essential services in a context of rapid urbanisation.

#### **Place social protection at the fore of climate-change adaptation strategies**

- Develop scalable social protection programmes which can respond to climate-induced shocks quicker, more accurately and at lower cost than humanitarian assistance.
- Link social protection programmes to early warning systems to provide support for vulnerable groups before a climate-related shock occurs.
- Promote micro-insurance for farmers to mitigate the unpredictable and varied threat to livelihoods posed by climate change.

#### **Progressively enhance the statistical basis for social protection policy making at four levels**

- Enhance civil registration and census collection to understand population characteristics and dynamics.
- Carry out regular household surveys with social protection modules to ascertain the needs of the population, target interventions and assess the impact of social protection.
- Establish single registries and Management Information Systems that are unified across the social protection sector to identify beneficiaries and link them to appropriate interventions.
- Build rigorous monitoring and evaluation mechanisms for individual social protection programmes to understand their impact and inform their design.

## Programme level

### **Place social assistance at the forefront of poverty-reduction strategies**

- Increase social assistance spending to better reach the extreme poor and reduce inequality.
- Adapt social assistance to evolving social and demographic trends, including the dynamic nature of poverty, the changing age structure of the population and rapid urbanisation.
- Prioritise a reduction in errors of exclusion in the short term and improvements in administrative capacity to reduce inclusion errors over the longer term.

### **Expand innovative and flexible social insurance arrangements to protect the growing informal workforce**

- Explore the introduction of subsidised or matching contributions from the government to incentivise participation in social insurance arrangements.
- Establish an enabling environment in financial and capital markets to ensure that contributions to funded arrangements generate returns and are protected against investment risks.
- Leverage labour associations, cooperatives and formal enterprises that employ large numbers of informal workers in order to promote contributions from informal sector workers.

### **Invest in public works programmes to accommodate rapid growth in the working-age population**

- Scale up public works programmes and ensure that these interventions are accessible to the large youth cohorts who will enter the labour market in the next 50 years.
- Align public works programmes to broader national development strategies while involving local government and communities in identification and implementation of projects.
- Expand public works programmes beyond a focus on infrastructure towards environmental and social services.



**From:**  
**Social Protection in East Africa**  
Harnessing the Future

**Access the complete publication at:**  
<https://doi.org/10.1787/9789264274228-en>

**Please cite this chapter as:**

OECD (2017), "Assessment and recommendations", in *Social Protection in East Africa: Harnessing the Future*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264274228-4-en>

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