

Letter of 20 September 2021 from the Minister for Foreign Trade and Development Cooperation to the House of Representatives on social protection in Africa

The Advisory Council on International Affairs (AIV) recently issued a report on 'Social Protection in Africa' (advisory report no. 118, 29 June 2021). This letter gives the government's response to the report.

Background

Last year the Minister for Foreign Trade and Development Cooperation requested an advisory report from the AIV on 'the importance of social protection initiatives for the poorest and most vulnerable groups, in particular in Africa, and whether it is advisable for the Netherlands to become involved in these initiatives through development cooperation'. The request for advice referred specifically to cash transfers: periodic payments by programmes to improve the living conditions of members of particular target groups, such as the poorest population groups, single mothers, older people or people with disabilities. Sometimes these transfers are conditional, for example on children finishing school or on recipients helping with public works such as road maintenance. In recent decades programmes like these have been deployed on a large scale and with good results in Latin America and Asia to combat extreme poverty, malnutrition, truancy and child labour, but their use has so far been more limited in Africa. The question posed to the AIV was whether this model could be deployed more broadly in Africa as well, and whether the Netherlands should take part in such programmes as part of its development cooperation efforts.

The main points of the report and the government's assessment of them are given below.

Effective poverty reduction

The AIV concludes that social protection can be an effective form of poverty reduction, addressing both economic and social deprivation. The report cites many studies that demonstrate the positive effects of cash transfers on access to food, education, healthcare, employment and the position of women in developing countries. Recipients often use the payments for productive investments, such as beginning small-scale production and trade or purchasing small livestock. Financial transfers can also have a broader multiplier effect because they provide a bottom-up economic stimulus that spreads throughout the economy and because they have a structural impact on educational levels and health. This effect, cited by the AIV, has also been more widely recognised: a recent OECD report notes that investing in social protection is often wise economic policy (OECD 2019, *Can Social Protection Be an Engine for Inclusive Growth?*).

The AIV cautions however that cash transfers can have unintended negative side effects, such as higher food prices or behavioural changes to ensure continued eligibility for the transfers. Fraud, corruption and political abuse (for example in pursuit of votes) are also potential risks. The AIV rightly states that it is important to remain alert to these risks in the design and introduction of social protection programmes. Traditional objections that the money provided may be spent on less productive ends (such as alcohol, cigarettes or luxury goods) are baseless: food purchases have proved to be by far the most common use of transfer payments, closely followed by spending on education and healthcare.

Overall, the AIV sees good prospects for carefully designed social protection instruments that are tailored to the local situation. The government notes that this positive assessment is in line with the conclusion reached earlier by the Policy and Operations Evaluation Department (IOB) of the Ministry of Foreign Affairs in its study on *Transition and Inclusive Development in Sub-Saharan Africa* (2018): 'Conditional and unconditional cash transfers are the most effective instruments for reducing poverty and inequality in the short term.'

Role of government and the social contract

The request for advice also asked about the distinctive roles of governments and other actors. The AIV report presents a clear conclusion: any structured system of social protection must ultimately be supported and coordinated by a country's own government. Donors, NGOs, multilateral organisations and the private sector can contribute to this, the AIV states, but will have to fit their contributions into a national framework. This strikes the government as a sensible approach, in the interests of avoiding the risk of different small-scale initiatives paralleling and crosscutting one another without resulting in a sustainable system at the appropriate scale.

The AIV refers in this connection to the importance of a social contract, i.e. a relationship based on trust between the public and the state. The AIV sees this relationship, on the one hand, as a precondition for effective social protection, but notes as well that establishing social protection systems can help establish or strengthen this relationship of trust. Many analyses, including the World Bank's analysis of fragile states, in fact view the existence and strengthening of the social contract, whether implicit or explicit, as a crucial precondition for

stability and sustainable development. This makes the argument that government should take the lead in social protection initiatives even more persuasive.

Finance

The AIV report sees a substantial gap between the need for social protection and the ability of African governments to meet it. In most African countries major programmes are not possible without external funding, at least not yet. The biggest problem is the low level of tax revenues, due to the small size of national economies. For this reason, donors now often contribute to the startup and running costs of programmes, usually in tandem with the national government. The AIV sees a legitimate role for donors here, but concludes that efforts should be made to ensure that the costs are borne entirely by national governments as soon as possible.

At the same time, the AIV points out that donors – and the Netherlands in particular – could make a substantial contribution to long-term domestic funding by participating in activities to end tax avoidance, tax evasion and illicit financial flows. An international solution to many countries' growing debt problems could also bring this goal closer to realisation. These observations and recommendations confirm the importance of Dutch efforts to achieve policy coherence for development (see the annual report on this issue for 2020-2021, Parliamentary Paper 33 625, no. 329).

Alignment with Dutch development cooperation policy and multilateral initiatives

The AIV concludes that support for social protection programmes conforms in principle with the current objectives of Dutch development cooperation policy, namely tackling the root causes of poverty and inequality, and its main themes: food security, gender and education. The Netherlands is in fact currently contributing to the kinds of programmes that the AIV has in mind: last year €28 million was spent on programmes in Ethiopia (the Productive Safety Net Programme (PSNP)), Sudan (the Sudan Family Support Programme) and Mozambique (cash transfers for inclusive development).

The Netherlands works with other donors on each of these activities through a country-specific multi-donor trust fund managed by the World Bank. This is in line with the AIV's recommendation to mainly invest in national social protection programmes through multilateral frameworks. The negotiations on IDA20 replenishment are significant in this connection: the Netherlands is advocating continuing major World Bank investment in the next phase of IDA funding.

Follow-up

The AIV has delivered a clear advisory report that offers useful points of departure for stepping up Dutch efforts on social protection and direct support to vulnerable groups in Africa's poorest countries. The caretaker government has earmarked funds in the draft development cooperation budget for 2022 for an extra contribution to support for cash transfers in Africa. Additional steps can be taken on the basis of the AIV report if the next government's policy provides scope for doing so.