



NATIONAL DEVELOPMENT STRATEGIES

POLICY NOTES

SOCIAL POLICY

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Preface

The outcome document of the 2005 United Nations World Summit called on countries to prepare national development strategies, taking into account the international development goals agreed in the various United Nations Summits and Conferences of the past two decades. In order to assist countries in this task, the United Nations Department of Economic and Social Affairs (DESA) commissioned a series of notes for policy-makers and policy-shapers both in the government and civil society, in major and interconnected areas relevant to the formulation of national development strategies: macroeconomic and growth policies, trade policy, investment and technology policies, financial policies, social policy and state-owned enterprise reform. The preparation of the notes received generous funding in part from the United Nations Development Programme (UNDP). Colleagues from UNDP also provided helpful suggestions for and comments on the notes.

The policy notes, authored by experts in these fields, draw on the experience and dialogues of the United Nations in the economic and social areas, complemented by outside knowledge. The notes provide concrete suggestions on the means to achieve at the national level, the internationally-agreed development goals synthesized in the United Nations Development Agenda. The policy notes are intended to provide those at the country level who shape and set policies, with a range of possible alternatives to the standard policy solutions that have prevailed over the past two decades, rather than to prescribe any single course of action. The notes serve to help countries take advantage of and expand their policy space - their effective room for maneuver in formulating and integrating national economic, social, and environmental policies.

I encourage readers to see these notes as complementary inputs into the debate at the country level on development challenges faced and the policies needed to meet them. The issues chosen are vital pieces of the policy mosaic that underlies national development strategies, which are ultimately geared to achieving sustained economic growth with social inclusion and environmental protection.



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List of Acronyms

BONOSOL	Bono Solidario (Bolivia's social pension)
DFID	Department for International Development UK
ECD	Early Child Development
ESCs	Economic and Social Councils
EU	European Union
FDI	Foreign Direct Investment
GBS	General Budget Support
HIV/AIDS	Acquired Immune Deficiency Syndrome
IDPs	Internally Displaced Persons
ILO	International Labour Organization
MDGs	Millennium Development Goals
MTEF	Medium Term Expenditure Framework
NGO	Non-Governmental Organization
OECD	Organization for Economic Cooperation and Development
PAYGO	Pay-As-You-Go Pensions
PRSP	Poverty Reduction Strategy Paper
SARS	Severe Acute Respiratory Syndrome
SWAps	Sector-Wide Approaches
UNDESA	United Nations Department for Economic and Social Affairs
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific, Cultural Organization
UNFPA	United Nations Population Fund
UNRISD	United Nations Research Institute for Social Development
VTET	Vocational and Technical Education and Training
WHO	World Health Organization

SOCIAL POLICY NOTE*

Modern government is based on a social contract between citizens and the state in which rights and duties are agreed to by all to further the common interest. Citizens lend their support to a government through taxes and efforts to a country's good; in return, governments acquire legitimacy by protecting the people's rights and through public policies that benefit all. However, policy making is often captured by powerful groups and elites, making government policies biased and unaccountable to the majority of citizens. With half the world's population living below the two-dollar-a-day poverty line, ineffective social policies can be the spark for state breakdown. Lack of opportunity, authoritarian rule, gross inequity, exclusion and deprivation – all increase the likelihood of a state's de-legitimization and withdrawal of its citizens' support, leading to social disintegration, conflict, and violence.

Social policy is an instrument applied by governments to regulate and supplement market institutions and social structures. Social policy is often defined as social services such as education, health, employment, and social security. However, social policy is also about redistribution, protection and social justice. Social policy is about bringing people into the centre of policy-making, not by providing residual welfare, but by mainstreaming their needs and voice across sectors, generating stability and social cohesion. Social policy is also instrumental in that governments use it pragmatically to secure the political support of citizens, and to promote positive economic outcomes by enhancing human capital and productive employment. Social policies can also create a virtuous circle linking human and economic development that, in the long run, will benefit everybody by boosting domestic demand and creating stable cohesive societies.

This Policy Note seeks to promote inclusive social policies. It highlights opportunities to enhance equity, and concentrates on selected social policies crucial to the preparation of inclusive National Development Strategies. The first section provides a historical perspective on the application of social policy and the arguments for investing in inclusive social development. The following sections concentrate on how to draft National Social Development Strategies. The final part discusses selected social policy priorities on employment, education, health, social protection, culture and conflict prevention. References and essential supporting documentation are provided in the References section at the end.

I. SOCIAL POLICY

Background: In the 1980s and 1990s, the scope of social policy, focused on delivery of limited services and welfare, was insufficient to achieve balanced social and economic development. Social policy was considered residual, secondary to the focus on growth as then mainstream development theory focused on “economic growth first” (Box 1). As such, social policy was given lesser importance and funding, and often was centred on mitigating the unintended consequences of economic change. This residual approach was dominant for about two decades, and led to

* This Policy Note was prepared by Isabel Ortiz, Senior Interregional Advisor, Department of Economic and Social Affairs, United Nations (UNDESA). Comments can be sent to esa@un.org

Box 1
Growth Alone Is Not Enough

Some argue that social policies should not be a primary policy objective for developing countries. Instead, it is said that economic growth should be the first priority, as the benefits of growth will “trickle down” eventually to the poor. The rationale of this conservative argument is that:

- Growth is a pre-requisite for poverty reduction. The benefits of growth will eventually trickle down to the rest of society.
- The rich save more; higher inequality means higher rates of savings, investment and future growth.
- Poverty keeps the labour force cheap and thus encourages investment.
- Minimal social policies and regulations make labour markets flexible, and employment more likely.
- Taxation on higher income groups should be limited to maximize the retained income available for investment.
- Later, as the country becomes richer, defenders of this view argue, governments may invest in social development.

Such views are still influential in development debates, mostly in the form of a vague *“trickle down plus”* approach: growth as first priority, with some basic education, health and other limited social development interventions. Such arguments serve to delay social development and other equitable policies.

However, a considerable amount of recent research shows that economic growth and social development policies must be pursued simultaneously, rather than sequentially, as:

- Poverty and inequality inhibit growth, depress domestic demand and hinder national economic development. Developing countries with high inequality tend to grow slower.
- A low-wage policy has adverse effects on productivity, encouraging countries to compete on the basis of cheap labour, in a “race to the bottom”, further depressing real wage levels.
- While sustained high rapid growth may lift people out of poverty, growing inequality may undermine its impact on poverty reduction, as in China recently. For the vast majority of developing countries, more modest growth and growing inequality have limited, even no, poverty reduction impact.
- The greater the inequality, the less the “trickle-down” effect.
- Only 4.2 percent of the world's growth reaches the poorer half of the world's population.
- Poverty and inequality are an obstacle to social progress, and can lead to social conflict and political instability.
- Historically, social development accompanied industrialization and economic development in most countries. In much of Europe and elsewhere, popular struggles led social development. In East Asia’s ‘late industrializers’, social investment was an integral part of modernization processes, nation building, and productive development.

There is now a consensus on the urgency to promote robust **social and economic policies in parallel**, in a complementary and mutually reinforcing manner. Economic growth permits sustained investments in social development; and human development raises the capacities of people to contribute to growth. Sustainable growth and poverty reduction require socially inclusive National Development Strategies.

Sources: Birdsall (2005): Why Inequality Matters in a Globalizing World; Ocampo (2006): Market, Social Cohesion and Democracy; Ranis and Stewart (2005): Dynamic Links between the Economy and Human Development; UNDESA (2005): The Inequality Predicament; UNRISD (2005): Social Policy in a Development Context; Woodward and Simms (2006): Growth is Failing the Poor; World Bank (2005): World Development Report 2006.

increasing social tensions and malaise.

This minimalist vision of social development was not common in earlier times in the 20th century. On the contrary, today's high-income economies invested heavily in social development, and the populations of Europe, Japan, North America, Australia and New Zealand experienced a level of prosperity unseen in history. Following their example, many developing countries also saw the need to apply social policies as an instrument for nation building. East Asia's social policies, or the comprehensive social security systems in some Latin American countries are examples of these initiatives. These governments saw that social investments were essential not only to modernize and develop a country, but also to achieve social cohesion and political stability.

Many of these pre-1980s social initiatives were weakened as redistributive policies were sidelined by market-oriented reforms and critical attacks on state interventionism. The structural adjustment programmes launched after the 1982 debt crisis severely curtailed social expenditures, to the point that UNICEF appealed for "adjustment with a human face".¹ After having been pared to a minimum, social policies were reconsidered during the 1990s with the renewed attention of development policies to poverty reduction. Even then, social policies were treated as marginal, reduced to little more than the idea of social safety nets in times of economic crisis as in the Asian Financial Crisis and the extension of basic education elsewhere, often left to donor-funded social investment programmes. These were well-intentioned initiatives by committed professionals but not adequate as lasting solutions. These interventions did not address the structural causes of social tensions or build institutions to ensure equitable and sustainable development, decent work and social cohesion.

In the early 21st century, a consensus has emerged that social policy is part of the primary function of the state, and that social policy is more than a limited set of safety nets and services to cover market failure. Well-designed and implemented social policies can powerfully shape countries, foster employment and development, eradicate marginalization and overcome conflict. They are an essential part of any National Development Strategy to achieve growth and equitable social outcomes.

Social policy is also necessary in a globalizing world. The extreme inequality in the world distribution of income and assets seriously undermines the effectiveness of global growth in reducing poverty. The magnitude of distribution asymmetries is significant: In 2000, the richest 1 per cent of adults alone owned 40 per cent of global assets, and the richest 10 per cent of adults accounted for 85 per cent of total world assets; in contrast, the bottom half of the world adult population owned barely 1 per cent of global wealth². This urgent need to reduce poverty, exclusion and conflict has brought social policy to the forefront of the development agenda.

Justification: Social policies are necessary because the benefits of economic growth do not automatically reach all. Inadequate social policies ultimately limit growth in the medium and long term. Social policies are justified not only from a humanitarian

¹ A critical assessment of the impacts of Structural Adjustment Programmes in Giovanni Andrea Cornia, Richard Jolly and Frances Stewart, 1987.

² See UNU WIDER, 2006; Jomo and Baudot, 2007.

viewpoint; they are an economic and political need for future growth and political stability, minimally to maintain citizen support for their governments. Specifically, the arguments for equitable development policies are:

- Investing in people enhances the quality and productivity of the labour force, thus improving the investment climate and, hence, growth.
- Raising the incomes of the poor increases domestic demand and, in turn, encourages growth; greater consumption ratios among lower income groups contribute to expanding the domestic market.
- Highly unequal societies are associated with lower rates of growth.
- Among children, poverty and malnutrition damage health, reduce body weight and intelligence, resulting in lower productivity in adulthood, a high tax for a country to pay.
- Investing in girls and women has numerous positive multiplier effects for social and economic development.
- Unequal societies are not only unjust but also cannot guarantee social and political stability in the long term, which is a barrier to economic growth.
- Gross inequities and their associated intense social tensions are more likely to result in violent conflict, ultimately destabilizing governments and regions, and may make people more susceptible to terrorist appeals and acts.
- Not least, inequality is inconsistent with the United Nations Charter, the Millennium Declaration and the Universal Declaration of Human Rights according to which everybody is entitled to minimum standards of living (food, clothing, housing, education, medical care, social security and others).

Box 2

Redistribution Is Critical To Reduce Poverty and Sustain Growth

Sustained poverty reduction is a twin function of the rate of growth and of changes in income distribution. Redistribution has faster impacts on reducing poverty than growth, but economic growth is necessary to sustain the process over time. An exclusive focus on distribution leads to inflation and stagnation, leaving populations worse-off – the fate of some “populist” governments. An exclusive focus on growth leads to large inequalities, as many countries experienced in the 1980s and 1990s. Redistribution is not antagonistic to growth; it stimulates consumption, raises productivity and is important to sustain growth itself. What is needed is to find combinations of instruments and policies that will deliver both growth and equity (Kanbur and Lustig, 2000).

World Bank Chief Economist F. Bourguignon stresses that income distribution matters as much as growth for poverty reduction. Redistribution is a legitimate goal of public policy, to balance the tendency of the market to concentrate resources. Redistribution may be achieved through domestic taxation, increased development aid and new proposed international sources such as taxes on short-term speculative financial transactions, on arms trade, pollution and others. Jeffrey Sachs, Director of the UN Millennium Project, notes that poverty could be eradicated with only one per cent of the combined GDP of OECD countries. Without equitable policies, poverty will not be eradicated.

Source: Bourguignon (2004): The Poverty-Growth-Inequality Triangle; Daddeviern, Van der Hoeven and Weeks (2001): Redistribution Matters: Growth for Poverty Reduction; Kanbur and Lustig (1999): Why is Inequality Back on the Agenda?; Sachs/UN Millennium Project (2005): Investing in Development: A Practical Plan to Achieve the MDGs.

For these reasons, economic and social policies need to be promoted in parallel, in a mutually reinforcing way, from an early development stage, as part of the country's national development strategy and the social contract between government and citizens.

Importance of Political Commitment: At the World Summit for Social Development (1995), world leaders discussed how residual approaches to social policies had led to adverse consequences, and highlighted the need for comprehensive universal social policies to ensure a “society for all”, in which economic and social development are mutually reinforcing. Their concerns and recommendations were incorporated into the Millennium Declaration, which restates international commitments to core values of freedom, equality, solidarity and peace. Adopted in 2000 by a vote of 189 member nations of the UN, it serves as the basis for the Millennium Development Goals (MDGs), a set of quantifiable and time-bound targets that measure progress in achieving public goods essential to the welfare and cohesion of a society. These were reaffirmed at the 2005 World Summit, with governments’ pledging more ambitious National Development Strategies, backed by increased international support.

To achieve the MDGs, political commitment is necessary, particularly at a time when governments have a reduced national “policy space” (a constriction of domestic policy-making capacity in an open economy), less autonomy in public sector interventions and reduced fiscal capacity.

- To be sustainable, social policies also require the creation of supportive political coalitions, and need to be designed with an eye to constituting such coalitions, while resisting policy capture by elite or vested interests.
- In an era of constricted policy options for national administrations, creativity is needed to enhance capacity for development; governments and development agencies are rethinking state-market relations, abandoning minimalist government approaches, and proposing ways to expand a country's policy space through different macroeconomic and sector policies.
- Successful social policies require the political commitment of a country's leadership, and cannot be imposed by donor-driven conditionalities. There is no “one-size-fits-all” policy. Choices ultimately depend on country context, domestic needs, internal political agreements/alliances, fiscal space, and government motivation. A state’s underlying motives for social policy may include nation building, fostering domestic development, social cohesion and political stability.

Links:

- UNRISD: *Social Policy in a Development Context* <http://www.unrisd.org/>
- UNDESA: <http://www.un.org/esa/>
- UNDP MDGs: <http://www.undp.org/mdg/>

II. SOCIAL POLICY IN NATIONAL DEVELOPMENT STRATEGIES

Governments launch National Development Strategies to build countries that are socially inclusive, employment generating, economically robust and politically stable. Figure 1 presents a flow chart of the process; details are provided in later sections. National Development Strategies are an opportunity to rethink a country's social contract. Technocratic sectoral approaches alone are insufficient. To be effective, national strategies have to be articulated in an integrated manner and supported by a coalition of social and political forces, or social pacts, involving state, business, and organized civil society (see Box 16). This shared vision is the critical factor to sustain development processes. Ultimately, it is the willingness of different social groups to pursue a common interest that allows development to succeed.

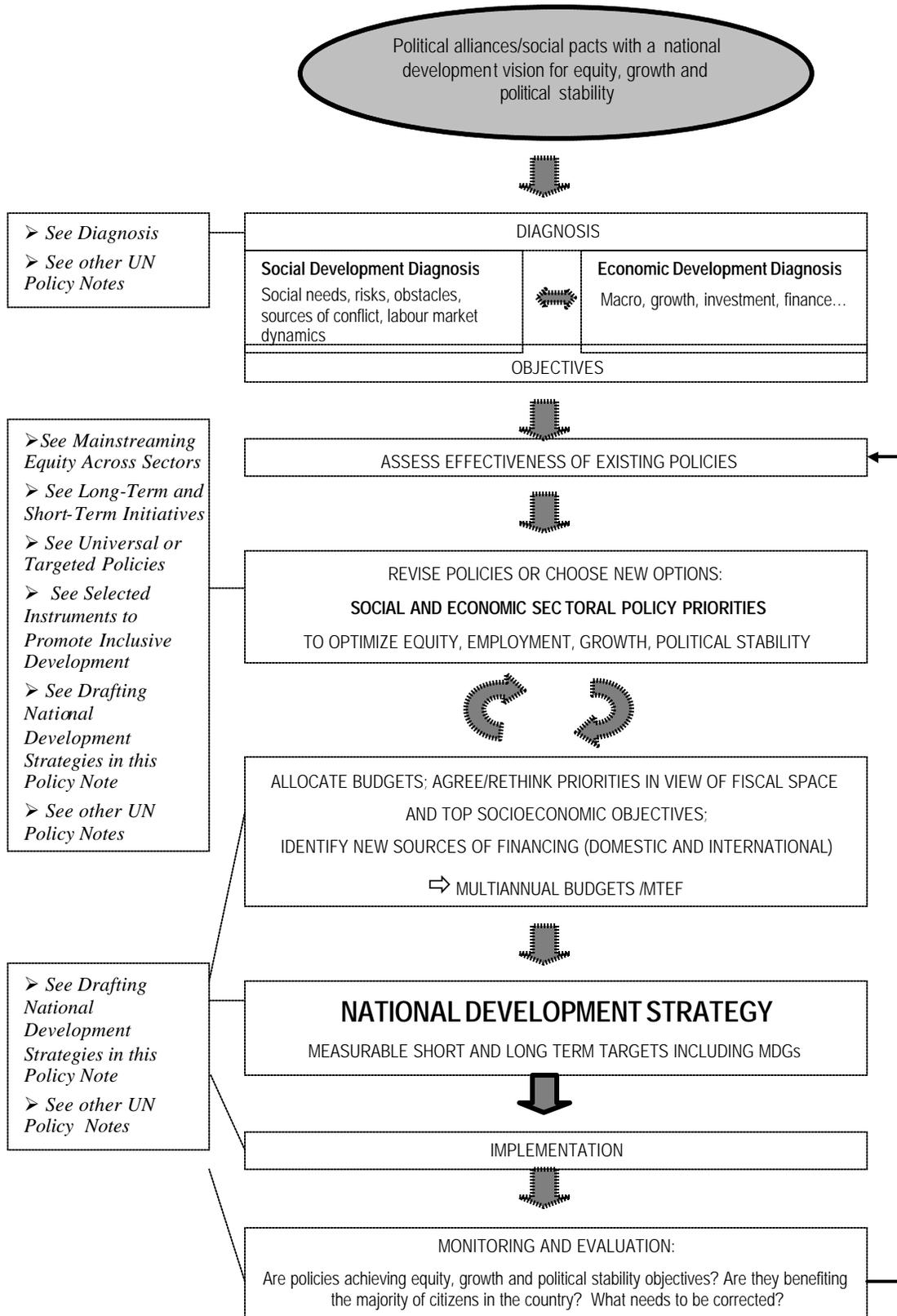
National Development Strategies entail:

1. A diagnosis of social and economic issues, identifying national socio-economic objectives to promote equity, growth and political stability;
2. A review of the effectiveness of current policies to address them;
3. A proposed set of short, medium and long-term policies to optimize developmental impacts;
4. Choosing options in view of a country's fiscal space and national socio-economic priorities;
5. Drafting a National Development Strategy and Action Plan, with the agreed priority policies in the short, medium and long term to achieve national development targets, including the MDGs;
6. Adequate budgetary allocations to support priority policies, preferably in an MTEF (*Medium-Term Expenditure Framework*) linking programmes to a multi-annual budget;
7. Effective implementation arrangements, and
8. Monitoring and evaluation mechanisms, to assess effectiveness and to allow for adjustments and improvements when the national development strategy is revised (normally every 3-5 years).

A recommended approach to National Development Strategies includes:

- Optimizing interactions between economic and social development, focusing on social policies that improve well-being and promote growth, and economic policies that lead simultaneously to growth and social progress; for instance, the set of distribution-sensitive macroeconomic policies presented in the UN Macroeconomic and Growth Policy Note.
- With respect to social policy, abandoning residual approaches and investing solidly in the two main aspects of social policy, redistribution/protection (supporting people's needs and buffering risks) and production (building human capital and promoting employment);
- Combining quantitative and qualitative analyses to understand social, economic and political dynamics;

FIGURE I: NATIONAL DEVELOPMENT STRATEGIES



- Using participatory processes; involving development partners to draw on their expertise and to ensure alignment with national priorities.

Box 3

Common Problems of National Development Strategies

Lack of information :

- ✓ Diagnosis is done without adequate statistical information and analysis, e.g., generalizations about "the poor", or failure to consider some social group in a country, or ignoring sources of conflict.

Lack of coherence between diagnosis, priorities and budgets :

- ✓ Diagnosis is correct, but strategies and action plans do not follow from it; national priorities are not based on the diagnosis.
- ✓ Strategies and Action Plans say the correct things but do not have targets or deadlines.
- ✓ Diagnosis, strategies and action plans are fine, but priorities are not backed by adequate budgetary allocations, which tend to perpetuate earlier expenditure patterns. Many strategies and plans, including some PRSPs, are not properly translated into public investment pipelines.

Lack of participation:

- ✓ Diagnosis, strategies, plans and/or budgets done with very limited or non-representative public consultation, resulting in poor policy design or later rejection.
- ✓ Sector plans are technically good but lose perspective on the reality facing people; it is necessary to develop participatory National Action Plans for the elderly, youth, or indigenous populations, to ensure they are served adequately by all sectors

Lack of understanding of the interaction between economic and social policies :

- ✓ Linkages between economic and social policies not clear to many, e.g. education does not result in employment; education raises productivity, but employment is mostly a result of adequate macroeconomic policies.
- ✓ Poverty reduction does not happen only because of targeted micro-interventions at the local level, but mainly because of equitable policies at the macro and sector levels.

Social Diagnosis

Designing good social policies requires understanding the needs of a country's population from different perspectives. The objectives of social policy are to enhance the well-being of all citizens, build human capital, support employment and enhance social cohesion. Thus, the needs and risks of populations, as well as labour market dynamics and sources of conflict, have to be identified in order to determine the priority objectives of social development.

Identifying needs: As agreed by international declarations, conventions and national legislation, and simply by the social contract between the state and citizens, all the population groups of a country have a right to a decent life (food, clothing, education, health services, employment standards, social security, accessible housing, etc).

Whether starting from the rights of people or from a simpler basic needs approach, the gaps between the reality of citizens and their potential well-being need to be mapped with a drive towards finding solutions.

- What are the gaps? Who are excluded from a decent life and basic needs, and why? Which social group(s) should be targeted with the highest priority? What social policies are needed?
- Provide quantitative and qualitative data with a view to prioritizing needs of the different social groups in the country:
- *Life-cycle and gender differentials:*
 - ✓ Children (boys and girls)
 - ✓ Youth (males and females)
 - ✓ Male and female adults of working age
 - ✓ Old-age males and females
- Income groups:
 - ✓ Groups of people above and below the national poverty line(s)
 - ✓ Headcount ratios: always use the national poverty line, the \$2/day (international poverty line) as well as the \$1/day (extreme poverty line).
 - ✓ Middle classes are important for development (often a small group in low income countries) and should be differentiated.
 - ✓ Whenever possible, disaggregate the findings by region, age, ethnicity, gender and minority status.
- People in the formal/informal sector :
 - ✓ Men and women working in the formal and informal sectors
 - ✓ Main employment categories/livelihoods of people should be considered, as well as differences between urban and rural populations
- Special population groups:
 - ✓ Discriminated groups (because of caste, sex, ethnic origin, etc)
 - ✓ Men and women with disabilities
 - ✓ Indigenous Peoples
 - ✓ Migrant men and women
 - ✓ Refugees, internally displaced persons (IDPs).

Identifying obstacles: In order to build a good strategy, it is essential to identify the barriers and structural reasons that impede social development. What are the reasons for lack of opportunity and access?

- *Political:* The most common obstacles are usually related to elites and vested interests insistent on holding on to their privileges. There are no easy solutions to this problem. They must be tackled in the context of public policies that promote public information, transparency, civil society engagement and other activities that strengthen the social contract. Public Expenditure Reviews are useful tools for public discussion. Well-designed universal policies may help break the deadlock.

- *Economic*: Most developing countries lack sufficient economic investments and activity to fully employ labour and finance social development (policy priorities can be found in the section on Employment); sometimes existing resources (e.g. land, water) are in short supply, even when evenly distributed.
- *Social*: traditional social norms may perpetuate inequality and discriminate against the excluded, for instance by preventing them from entering certain professions, or using public services, etc. There may be racial, caste or religious exclusion; choice to maintain ethnic traditions; or confining women to the home, and depriving them of access to certain occupations, autonomous sources of income, legal assistance and means of redress against in cases of discrimination and exploitation. These must be tackled in the context of sectoral policies.
- *Institutional*: Requirements and procedures that hinder the excluded from benefiting from services; these barriers to access tend to be easy to correct.
- *Environmental and geographical*: Lack of accessible infrastructure is an obstacle for persons with disabilities; geographical isolation and some physical environments (e.g. desert) are obstacles for many communities to benefit from development processes.
- *Psychological*: Prejudice and negative attitudes towards some groups. Distrust and apathy work against inclusive development. Prejudice, values and behaviour may be changed by adequate social policies, as illustrated in the Tackling Prejudice section.

Identifying risks: Poverty and deprivation are not static conditions. Populations, households, and individuals may be in a good condition at one point, but may face various risks that can plunge them into poverty over time. Societies have to take steps to reduce their vulnerability and to cope with shocks when they occur. Vulnerability and risk profiles are good tools for this dynamic approach.

- Vulnerability indicates exposure to hazards and the likelihood that the welfare of an individual or a household falls below minimum consumption levels and/or living standards.
- Risks may include natural disasters, financial crises, harvest failure, war, and serious illness, among others.
- Communities have traditional mechanisms to cope with risks, which should not be disturbed unless replaced by more effective options. However, community and family arrangements should not be the centre of social policies, as they fail to provide one of the most important functions of social policy: ensuring the equitable distribution of the benefits of growth at a national scale.

Identifying labour market dynamics: Work is the main source of income for the majority of citizens and particularly the poor. A labour market strategy is critical to reduce poverty, develop human capital, address gender discrimination, and enhance welfare and productivity. Labour market assessments require a coordinated effort among different ministries and a good understanding of the linkages between economic and social policies. The assessment of the labour-absorbing development pattern of the country is based on an analysis of the composition of economic growth

and the relative labour intensities, the leading sectors and sub-sectors of the economy, the size of the informal sector, domestic and foreign investment prospects, and growth and population projections in the medium and long term. The links with macroeconomic policies are critical. This provides the basis for evaluating options to overcome the mismatch between supply and demand for labour, and to determine which growth, investment and labour market policies may best promote employment with good working conditions.

- What are the characteristics of growth, employment and poverty? Has the poverty rate been reduced at the same speed as the rate of growth? Has growth been “pro-poor”, or trickled down? Has growth generated sufficient and remunerative employment?
- Which are the most dynamic sectors of the economy? Are they labour-intensive? What is their contribution to public revenue (e.g. taxes)? What can be done to promote them and generate more revenue that can be directed towards social development?
- What is the percentage of the population below 18 years of age? Will the economy be able to absorb all new entrants into the labour market? Which policies should be prioritized to ensure youth employment? What policies can ensure equal opportunities for women or people of excluded ethnic groups?
- What can be done to accelerate employment-generating growth? Which macroeconomic policies and sector interventions should be promoted in the short/medium term to secure employment and prosperity for all citizens? What specific active and passive labour market interventions should be prioritized to promote labour demand and good working conditions? Options are provided in the section on Employment.

Identifying sources of conflict: Conflicts of interest among different groups are intrinsic to societies, but problems emerge when there are no mechanisms to deal with them or when these are ineffective. Unattended conflicts leading to violence, whether at micro or macro level (war), carry high human and economic costs. Economists and development specialists tend to design national strategies assuming peace and stability, without taking into account on-going or potential conflict. By ignoring internal tensions, conflicts often escalate.

- *Early warning is essential:* Most conflicts are ignited by grievances in respect of economic disparities (unequal distribution of resources, unemployment), cultural differences (ethnic, religious), or militarization and human rights abuses. Listening to people’s grievances and identifying effective solutions, including mechanisms to deal with dissent, are essential for conflict prevention. National development strategies can be mechanisms to start dialogue, build trust and achieve social cohesion.
- *Conflict prevention analysis* is a useful tool to identify sources of conflict and priorities to deal with them; this is explained later in this Policy Note (see section Beyond Traditional Social Policy).

Gender inequality issues: It should never be assumed that policies benefit men and women equally. Women comprise more than 50 per cent of the population and are amongst the most excluded groups in all too many societies, particularly when poor, informal, disabled, indigenous, etc. Gender status is generally a predictor of relative

exclusion (discrimination, violation of equal rights, lower access to education and paid employment, and lack of agency). However, women are found in equal numbers in each income decile, rich and poor. Combining gender data with age, caste, ethnicity, religion, language, or geographical location, produces a much stronger predictor of vulnerability. Furthermore, women's critical role as social protection providers is often invisible and unpaid: they are involved in unpaid care and called upon as care providers in times of economic crisis.

Listening to people: "Nothing about us without us" is a major motto of organizations of people with disabilities. National Development Strategies are often designed by economists and specialists with inadequate attention to people's perceptions and claims. Listening to people's voice is not only essential for good governance, but also to understand people's grievances and prevent conflict.

Disaggregated quantification is essential: It is important to identify indicators that distinguish conditions and outcomes for different categories of people. This includes

Box 4
Avoiding Generalizations
About the Poor

There are many differences among the poor, particularly in developing countries where the poor represent a large percentage of the population. Differences should be established to ensure adequate policy choices:

- Different causes of vulnerability/risk and needs of populations living below the poverty line are crucial starting points: some may be nomad pastoralists, others may be farm labourers; some may live in catastrophe-prone areas, others may live in urban shanty-towns; some may be refugees and others persons with disabilities. These different categories require different policies.
- The moderately poor, the extremely poor and destitute require different strategies, starting with urgent action to overcome food insecurity.
- Poverty and social exclusion are different concepts, e.g., in Kyrgyzstan, the majority of the population is poor but not excluded; in Bolivia, the majority could be categorized as being both poor and excluded.
- Social policy is not only about reducing poverty; identifying multiple factor exclusion (age, sex, ethnicity, religion, geographical location) is useful to focus a social diagnosis.

disaggregating as much as possible by income, sex, age, and other social categories (e.g. persons with disabilities, refugees, caste or ethnic origin), formal/informal sector, rural and urban areas, geographical regions. Identifying the different social groups may appear obvious but, unfortunately, many development policies overlook differences among population groups or the intensity/depth of their problems. No matter how technically solid national development strategies may appear, social development priorities are often inappropriate or misdirected because they are based on insufficient or overly aggregated information (Box 4). Baseline indicators should be established for each population group, allowing monitoring of measurable improvement.

Box 5
Data Issues: The Politics of Information

- The definition and measurement of poverty and inequality are highly politicized. Poverty tends to be understated as it implies public policy failures. Poverty measurements are most accurate in OECD and Latin American countries.
- National poverty lines use different methodologies and are often not comparable. They are usually based on the per capita expenditure needed to attain 2000-2500 calories per day, plus a small allowance for non-food consumption, often inadequate to cover basic needs – clothing, drinking water, housing, access to basic education and health, among others. If these elementary needs were fully accounted, the number of people living in poverty would soar.
- This is why international organizations started using the one and two-dollar-a-day poverty lines; but this too has obvious flaws. There are criticisms on how these money-metric poverty lines are developed, particularly on the limited meaning of PPP adjustments for the poor.
- In countries where the poor represent a large percentage of the population, poverty lines (headcount ratios) tend to be very sensitive. A few cents more or less per day make a huge difference in the millions of people to be considered poor, as shown in the following example.

INDONESIA 1996: SENSITIVITY OF THE POVERTY LINE

POVERTY LINE			Headcount poverty (% population below poverty line)	Millions of people below poverty line
US\$ per person/day, PPP adjusted	PPP equivalent US\$ per person/month	Equivalent Rupiah per person /month		
0.56	16.91	28,516	9.75	19.2
0.59	17.76	29,942	12.01	23.7
0.62	18.60	31,358	14.39	28.3
0.65	19.45	32,793	16.93	33.4
0.70	21.14	35,645	22.06	43.5

Source: SMERU and World Bank (2000) based on 1996 SUSENAS data. For reference, a dollar equivalent has been added, adjusting the official exchange rate (2,342 Rupiah per dollar) by a PPP conversion factor (0.3889 per dollar).

- Inequality estimates show the distribution of income, consumption or any other indicator. Benefit incidence analysis is a common tool to show the distribution of expenditures/benefits by (i) income group from the richest to the poorest, (ii) social groups, and (iii) geographical area/region. These analyses are not systematically developed in all countries.
- The World Bank conducts Living Standards Measurement Surveys in many countries. They are a good data source, as they often provide disaggregated data on social variables. However, the most vulnerable groups are not included as homeless people or people in institutionalized care are not in households. Intra-household disparities may also not be reflected.
- UNDP has consolidated different social indicators at the national and often regional level, and created a composite Human Development Index (HDI), a useful poverty proxy.
- Researchers are exploring measures of well-being in terms of “capabilities” covering domains such as income, health, education, empowerment, and human rights. Social scientists, e.g. Bennett in Nepal, are also developing other indices to measure empowerment and inclusion.
- Understanding the limitations of data is very important; existing data must be critically evaluated and complemented with studies to fill gaps in knowledge and interpretation. Topics for which no documentation exists should be identified for future research.
- There is an urgent need to harmonize and strengthen social statistics across the world.

Source: Bennett (2005): “Nepal: Gender and Social Exclusion Assessment”; Pogge and Ready (2005): *How not to count the poor*; Ravallion (2003): *Poverty Lines in Theory and Practice*; UNDP: *Human Development Reports*.

Drafting Development Strategies and Action Plans

In order to ensure more equitable and inclusive societies, governments develop national and sector strategies accompanied by action plans with specific targets and deadlines, normally within a three-to-five year time frame. Strategies and action plans start from an impartial diagnosis of problems, leading to determining national priorities. The process of evaluating options is discussed in the context of the available fiscal space. In subsequent sections, financing, implementation, monitoring and participation issues are presented. The rest of this Policy Note discusses selected issues (universal vs. targeted policies, distribution and equity issues across sectors, short-term initiatives, priorities to generate decent employment, education, health, social protection and social cohesion).

Determining National Objectives: The diagnosis should have established the major social priorities in terms of needs of population groups, the risks they face, the obstacles for social development as well as the sources of conflict. This is likely to be a long, detailed list, and it is important to keep it in mind when elaborating the National Development Strategy. The objectives should summarize goals to address these pressing social priorities. Determining objectives is important because it gives the relative priority of sectoral policies. For instance, a typical first objective is to

Box 6		
<i>Typical Social Objectives of National Development Strategies</i>		
OBJECTIVE	MAIN POLICIES	Section
1. Generate decent employment for all to reduce poverty and raise living standards	A combination of macroeconomic policies and decent work agenda	VI
2. Address urgent social needs	Short-term high-impact multi-sector initiatives	V
3. Reduce vulnerability and promote equity	Adequate social protection policies; mainstreaming equity across sectors	III, VI
4. Improve health status of population	Expanding health coverage and programmes	VI
5. Raise education level of population	Increasing enrolments, retention, investing in all levels of education	VI
6. Reduce internal conflict	Interventions targeted to source of conflict	VI
7. Promote social cohesion among social groups	Fostering multicultural societies and tackling prejudice against excluded groups	VI
	Addressing lack of opportunity and access through sector interventions	VI
	National action plans for elderly, youth, etc	III

generate decent employment, given this is the most effective tool to reduce poverty and raise living standards in a country.

Reviewing the effectiveness of existing policies: The ranking of national objectives should provide direction on national priorities. The next step consists of:

- Listing the existing social programmes in a country.

- Assessing the gaps: Do social policies address the priorities identified in the diagnosis? Who benefits? Which groups/areas are not covered?
- If existing programmes were scaled up, would they redress the social problems? Are they the right programmes? How effectively do they contribute to achieving the MDGs and national development goals?
- Are there more cost-effective options to meet the social needs identified in the diagnosis?

In general, all countries have some social policies in place. However, perhaps with the exception of basic education, the effectiveness of existing programmes is often limited due to:

- *Limited coverage*: most social programmes tend to serve only a part of the formal sector, the wealthier segments of society, instead of the neediest that remain in the informal sector in rural areas and not covered by social services.
- *Inadequate policy design*: Often programmes were designed long ago and require significant improvements in equity and efficiency (e.g. avoiding regressive impacts, overlaps with other programmes, cost savings). Many sectoral policies designed in the 1980s-90s are inadequate to generate decent employment, equity and social cohesion, or maximize synergies with economic development (e.g. residual social policies, labour market flexibilization, fees-for-services); they require re-thinking. A discussion by sector and options is presented in later sections of this Policy Note.
- *Insufficient funds*: Developing country governments traditionally have invested little in social sectors, especially during the 1980s and 1990s.
 - *Under-funded recurrent expenditures*: Although recurrent expenditures like salaries absorb most of the social budget in developing countries, they remain under-funded. Salaries of qualified staff should be a priority; social development happens because of human care (a teacher does not need a school to teach, and many countries correctly started by expanding low-cost medical staff, e.g. China's "barefoot doctors"). If resources are increased, they need to cover recurrent expenditures, such as medical supplies or textbooks, better, as they are critical to programme success.
 - *Limited capital investments*: Capital expenditures (and even expenditures for rehabilitation of existing facilities) tend to be limited in developing countries, often financed by donors. Capital investments are necessary, particularly in rural areas; but new construction should be carefully evaluated to assess the social cost-benefit, in the context of the overall budget, as infrastructure is expensive and creates new recurrent costs.
- *Funds incorrectly distributed among programmes*: Often, most funds go to high-cost low-impact programmes that benefit a few, e.g., highly specialized hospitals in the capital, instead of being invested in high-impact programmes that benefit the majority, such as more and better funded and staffed village health programmes.
- *Lack of inter-sectoral linkages*, wasting development potential. For instance, providing wheelchairs for people who need them can help to promote mobility, but unless accessible urban infrastructure and transport exist, people

in wheelchairs cannot have independent living. Similar, spending heavily in education without parallel macroeconomic policies that generate employment.

Prioritizing Options: Social needs are many, but resources are limited. Often, countries have a limited fiscal space, insufficient to cover all required investments. The key to any strategy is prioritizing, so limited resources are directed to interventions that have larger impacts and are cost effective.

Making policy choices is difficult. It requires an evaluation of the trade-offs within and across sectors, having a clear vision of the contributions of different programmes to development, and their cost-effectiveness, governance, and sustainability (Box 7).

Given that most developing countries have limited fiscal space and implementation capacity, the timing and phasing of policies is important. Most countries expanded coverage of social programmes progressively (see sections on Universal Policies, and Options for the Expansion of Coverage); given the urgent imperative to reduce poverty, committing to an ambitious timing is essential for an equitable National Development Strategy.

Ensuring Budgetary Allocations: With the exception of education (and pensions in some countries), social development policies suffer from a "second class" stigma and few funds are allocated, particularly to the Ministries of Health, Labour, Culture and Social Affairs. It is normally necessary to negotiate with the Ministry of Finance, planning agency and relevant authorities for a larger share of the budget, providing the economic and political arguments. An additional strategy is to identify some high-cost low-impact investment (inside or outside social sectors, e.g. dams, military procurement, etc) and debate the opportunity costs of such investment compared to other proposed low-cost high-impact social initiatives. Engaging civil society organizations, donors and the media in public discussion of budgetary allocations for social spending is often beneficial.

National administrations are usually not opposed to the social development of their citizens, but find themselves in situations in which powerful ministries or groups fight for a significant share of the budget, collapsing expenditures for social development. Resistance may come from international organizations, whose experts may push for sectoral approaches ignoring wider social needs. Very often, both in developed and developing countries, the debate is manipulated by vested interests and/or ideological posturing – for instance arguing that social expenditures are causing unmanageable deficits while not mentioning military or other non-productive expenditures that are much larger. In this case, Public Expenditure Reviews and, if available, Thematic Budgets (budgets showing the distributional impacts on gender or other social groups), are useful tools to bring transparency and rationality to decision making.

Financing and Implementing Social Policies

The design of any social programme is directly linked to the analysis of how it can best be financed and delivered.

Box 7
Assessing Social Policies and Programmes

Social Impacts:

- Population covered by a programme/policy, including the distributional impacts on the different population groups of a country.
- The adequacy of benefits to serve the identified needs/risks of people.
- Tips - Generally it is advisable to:
 - choose programmes that serve the critical needs of the majority of citizens (e.g. generating employment, universal services).
 - choose programmes that address the intensity and depth of urgent problems (e.g., famine) and obstacles to development, including conflict prevention.

Cost effectiveness: Evaluating the cost-effectiveness of a programme/policy requires impartial assessment of the following:

- Programme coverage (beneficiaries and benefits)
- The cost of the programme/policy (as a percentage of gross domestic product and total public expenditure), including contingent liabilities, as a result of possible government guarantees to the programmes (e.g. pensions), compared to other programmes.
- Administrative costs, as a percentage of total costs, and how the costs compare with other programmes (e.g. means -testing targeting tends to be expensive);
- Long-term social benefits and positive externalities on development
- The opportunity cost of the policy/programme and its alternatives.
- Tips: Results vary depending on programme design and implementation, but some generic low -cost high-impact interventions (e.g. nutrition programmes) are presented later in this Note.

Governance Issues:

- Implementation capacity to deliver programmes (e.g. complex targeted programmes should be avoided where local government capacity is low).
- Governance concerns: staff absenteeism; evidence that resources may be siphoned off.
- Participation and responsiveness to citizens.
 - ✓ Tips: Resist pressures from vested interests to deliver services (e.g. water or insurance companies, ministries wanting a larger share of the budget) or pressures to prioritize programmes with low social returns (e.g. serving only the elite).
 - ✓ Be inclusive from the outset, providing attention to all groups, not only those with strong voices – sometimes, a group may be well organized and monopolize the development debate; policy-makers need to make fair decisions based on the magnitude of the problems identified in the diagnosis, and also support programmes for those who may be voiceless and have few opportunities.

Sustainability and affordability: Is there sufficient fiscal space to maintain the programme over time? This requires:

- An estimation of projected costs and a country's revenues;
- The government's medium-term sectoral plans and expected changes in allocations as a result of development priorities. The existence of an MTEF is very helpful here.
- If there is a financing gap, evaluate possible internal sources of funding, starting by use of non-productive expenditures (e.g. military, representational) or expenditures with low social returns (e.g. benefiting only upper income groups).
- The role of international transfers through GBS and SWAs is increasingly important for financing social development and is discussed at the end of this Policy Note.

Financing: The variety of social policies may be financed through:

- *Public budgetary support* is the most common financing method, normally through general tax revenues. Sometimes a specific tax can be raised for social purposes, e.g. a health tax on alcohol and tobacco, securing funds to medical services.
- *Fees and income-related contributions* were expanded in the 1980s-90s. However, most programmes, particularly those targeted to the poor, require either public support or cross-subsidization from upper to lower income groups. Unless nominal, user charges often result in sharp reductions in the use of services among low-income groups and are not recommended for basic services.
- *Charitable donations:* Financing from donations tends to be discontinuous and therefore does not allow sustainable social programmes. Such financing can only help fill the gaps on a temporary basis.

Financial commitments under a programme, including its future contingent liabilities, must be evaluated to be sure that they can be met. Many comprehensive social policy programmes failed in the past because governments initiated them without fiscally responsible financing. Successful social outcomes tend to result from progressive tax regimes; governments often undermine capacity for social development by reducing taxes on the rich. If existing revenue should be inadequate to meet commitments and the policy is judged sufficiently important, then ways of raising revenue have to be considered, including new progressive taxes; else, cuts have to be made in other less socially important areas, e.g. military expenditure.

External financing is an option, provided debt does not jeopardize macroeconomic stability. For the poorest countries, grants, concessional assistance and debt relief are preferred options, particularly if they come as General Budget Support (GBS) and Sector-Wide Approaches (SWAs), presented in the final section of this Policy Note. A discussion of the impacts of external financing on the exchange rate is presented in the Macroeconomic and Growth Policy Note.

Affordability: Many argue that social policies are not affordable in developing countries because (i) of a loss in potential investment/GDP due to a supposed equity/efficiency trade-off, and (ii) large social needs will likely create unmanageable fiscal deficits. As discussed earlier in this Policy Note:

- Social development is also an important investment. Investing in people enhances their productivity and thus growth; the most productive world economies committed to social spending in the early stages of their development, while in OECD nations, productivity is much higher in those countries with higher social expenditure per capita³.
- Raising the incomes of the poor encourages domestic demand, thus growth.

³ Cichon, M. et al. (2006), based on OECD data.

- A significant proportion of national budgets is spent on non-productive activities, such as the military, or activities with very low returns; social investments do not need to displace highly productive economic investments.
- In developing countries, social policies have to grow with the fiscal space made available by increasing GDP or aid.

Ultimately, affordability depends on a society's willingness to finance social policies through taxes and contributions. Affordability is at the core of the social contract between governments and citizens: how much a society is willing to redistribute, and how. Countries at the same level of economic development differ significantly in their social spending – OECD countries spend between 15 and 35 per cent of their GDP.

**TABLE 1 : PUBLIC EXPENDITURES IN EDUCATION AND HEALTH
BY REGION (% of GDP)**

Region	Education	Health
OECD countries	5.6	6.7
East Asia and Pacific	3.2	1.9
E. Europe and Central Asia	4.1	4.5
Latin America	4.3	3.3
Middle East and North Africa	n.a	2.7
South Asia	2.4	1.1
Sub-Saharan Africa	n.a	2.4

Source: World Bank *World Development Indicators 2006*; Legend: n.a. = not available.

There are no comparable worldwide estimates for labour and social protection expenditures. However, aid agencies estimate that even the most redistributive social policies, such as non-contributory unconditional cash transfers (or social pensions), can be affordable:

- UNDESA (2007) simulations on a hundred countries show that the cost of universal public social pensions to keep older persons out of poverty averages between 0.2 and 1 percent of GDP
- ILO estimates that a combined package of non-contributory public universal pensions (old age and disability) and child benefits is affordable in most countries, at about 1-5 per cent of GDP; these schemes can reduce poverty by 35 to 40 per cent.
- The cost of providing a more simple targeted social transfer equivalent to \$0.50 a day to the poorest 10 per cent of households ranges from 0.1 to 0.7 per cent of GDP of Africa's poorest countries; the proportion is greatly reduced for countries with higher GDP.
- This must be compared to the costs of other social sector programmes with lower social returns, e.g. contributory pension schemes, reaching as much as 7.3 per cent of GDP in Brazil.

Redistribution: Redistribution is a primary legitimate objective of social policies. Equity enhancing policies are needed to balance the unequal distribution of the benefits from economic growth resulting from unregulated market forces. Public policies can mitigate or exacerbate social differences; the design of any social policy should carefully evaluate its distributive impacts to (i) ensure coverage to excluded groups such as the poor, and (ii) above all, avoid regressive redistribution, e.g., building systems with public resources that mostly benefit upper income groups. Financing social policies implies some transfer of resources, either from taxed citizens to those outside the formal sector, or, as in the case of social insurance, from the working population to the unemployed and older people.

Implementation arrangements: When thinking about new social programmes or expanding existing ones, it is important to define who will implement them and provide sufficient human resources to ensure success. Often, social policies have failed because they only exist nominally (e.g. Ministries of Labour with a small pool of labour inspectors to monitor standards country-wide).

- Is the relevant Ministry capable (in terms of number of staff, staff skills/capacity, equipment, transport, procedures) to implement the programme adequately? What is needed? Are needs adequately budgeted?
- Are there existing institutions to support operation of a new programme? If not, can they be set up quickly? What type of alternative institutional delivery mechanism could be used?
- Do citizens, particularly poor and excluded groups, face any constraints in accessing the benefits of the programmes (high transport costs, language barriers, social stigma, lack of documentation and information)?
- Are systems adequate for participation, to listen to people's voices? Have beneficiaries participated in the design? Are there ombudsmen and/or citizen complaints offices? Are they effective and easily accessible?

There are four main social service delivery mechanisms:

- *Public sector-based*, through central line ministries and local governments, normally best to achieve expansion of coverage and to reduce poverty and social exclusion nation-wide
- *Market-based*, normally good for efficient delivery of services to higher income groups;
- *NGOs and charitable institutions*, normally good for working with communities; and
- *A mix of the above:* Given the scarcity of resources for social policies in developing countries, a best solution may be a mixed delivery system.

Each mechanism has its limitations. Despite the need for efficiency gains in public service delivery, the many shortcomings and failures experienced in the private provision of public services during the 1980s and 1990s should be noted. In some areas, public institutions have been privatized only to be put to some other use, representing a net loss in social capital. Stories abound of companies entering into monopolistic contracts for service delivery and then holding local (and central) governments "hostage" with demands for user fee increases and subsidies.

Additionally, the commercialization of social services has reinforced gender inequalities, increasing women's workload, as they had to assume more care for their families when services became unaffordable. This means that if public-private partnerships are to be established, they must be carefully designed and regulated, and potential market failures identified.

Government intervention is especially needed where natural or quasi-natural monopolies exist (e.g., water, electricity), where private provision is insufficient or not forthcoming (e.g., transport services to remote and scarcely populated areas) or where large capital requirements may create an entry barrier to new companies. Market-based schemes have often found servicing low-income communities unattractive, as compared to the higher returns from servicing higher income groups. The private sector is often not interested in lower income groups and/or remote areas because the associated transaction costs are high and returns low. In countries where the poor represent a significant proportion of the population, public universal provision is generally recommended for primary/secondary education and health, and basic social protection.

NGOs tend to work flexibly with excluded groups, and may deal better with the most difficult aspects of development – changing behaviour and empowering people. In developing countries, local NGOs often are also providers of social programmes, despite being not ideal service providers: local NGOs tend to be uncoordinated nationally with an uneven presence, normally not broad enough to ensure equitable expansion of coverage in a country, their funding tends to be sporadic and discontinuous, and they generally have inconsistent evaluation, monitoring, audits or accountability systems. Local NGOs may be encouraged to continue working on empowerment aspects, but governments may want to take over social services, developing universal systems.

Monitoring: Monitoring allows governments to assess progress in implementing National Development Strategies, and have an early indication of results.

- A set of monitoring indicators refers to programme implementation (activities, disbursements, etc.)
- Equally important is the monitoring of results, the impact of a National Development Strategy on:
 - ✓ Achieving the MDGs.
 - ✓ Population groups: A “reality check”: What programmes are reaching which social groups? How much has their quality of life improved?
 - ✓ Early identification of bottlenecks permits corrective action and revision of a National Development Strategy to ensure it delivers its proposed objectives.

Monitoring of the situation of population groups is facilitated through elaboration of action plans that evaluate the status of people, for instance, National Action Plans for youth, older persons or indigenous communities, with specific milestones and timeframes. These act as “watchdogs” over the different ministries in a country, to ensure that the needs of each population group are mainstreamed across sectors. Normally, a department or government office is responsible for reporting and

monitoring, liaising with sectoral ministries. Adequate participatory techniques to hear beneficiaries' perceptions and claims are critical to monitor and have a good understanding of what happens from a citizens' perspective. Engagement with other government offices has to be as early as possible, and reporting achievements should be tangible and measurable.

Ensuring Participation and Political Sustainability

All stages of policy making are amenable of being participatory:

- Identifying issues and priorities
- Drafting plans
- Elaborating budgets
- Executing programmes
- Monitoring and evaluation, including expenditure tracking and beneficiary assessments.

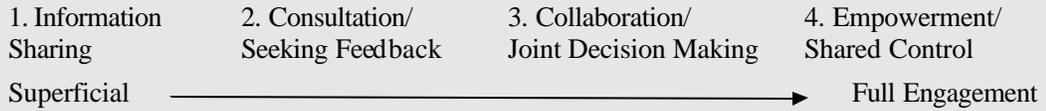
Bringing participation to these different stages is a good practice that helps to improve accountability and transparency in public administration. It is a mechanism to involve all relevant players in decision-making, to engage them in the development process, to resolve sources of conflict and to ensure more equitable distribution of resources. Participation is essential for building political alliances for national development and to sustain redistributive commitments over time.

Participation ranges from the superficial to the “well-built”, from the passive exchange of information to full engagement (Box 9). Transparency and validation of proposals through consultation are very important, but it is not until people feel that they have influence over decisions and resources that affect their lives, until accountability mechanisms extend to them, that citizens develop a sense of ownership and develop trust in governments. The critical issue is who is consulted, and how much.

Participation normally starts with a coalition of social and political groups, or social pacts, involving state, business, and organized civil society, and with the legitimate democratic institutions in a country (parliaments, political parties); but efforts should be made to move beyond that to a broader range of stakeholders, who may well be the key stakeholders. All too often, key stakeholders are not consulted, or insufficiently consulted, over public policies, resulting in policy mismatch, avoidable tensions and conflicts, loss of trust in government and, ultimately, policy failure. The winners and losers of policy change must be taken into account. Policies that may encounter greater resistance need more intense participatory approaches and more extensive consultations with the relevant stakeholders.

<p>Box 8</p> <p><i>Participatory Budgeting in Brazil</i></p> <p>Porto Alegre was an indebted, de-industrialized city. In 1989, the <i>Workers Party</i> won the local elections and decided to break the tradition of elaborating municipal budgets behind closed doors, by consulting citizens on how to spend scarce municipal resources. Public consultations led to a spectacular local development. From 1989 to 1996, among other achievements:</p> <ul style="list-style-type: none"> • Households with access to water increased from 80% to 98% • Households with sewerage system rose from 46% to 85% • School enrollments doubled. • Local tax collection increased 50%, reflecting citizens' satisfaction with public services. <p>Participatory budgeting tools have been widely applied by left-leaning local governments in Latin America and Europe <i>and are now spreading to Asia and Africa.</i></p> <p>See: Wagle and Shah, 2003: Porto Allegre – Participatory Approches in Budgeting and Public Expenditure Management, The World Bank.</p>
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Box 9
Degrees of Participation



Participation is successful when people are empowered to make informed decisions: Participatory processes need to adhere to the principles of transparency and fairness. If participation is manipulated – presenting very partial information, not allowing primary stakeholders sufficient opportunity to speak, etc. – the result will be uninformed decisions and undesirable developmental outcomes. The success of participatory budgets appears to be due to the fact that local governments clearly showed the social consequences of public investments to the public.

Participation is costly in terms of time and resources. Many development initiatives have spent a lot on ad-hoc consultations – sometimes resulting in very poor outcomes due to inadequate procedures. A good way to ensure adequate participation in a cost effective manner is by institutionalizing permanent consultative mechanisms that are able to follow up matters, like the national Economic and Social Councils.

Box 10
The Irish Economic and Social Council

Established in 1973, the Irish Economic and Social Council is an independent body formed by a partnership between:

- Major political parties.
- Employer associations.
- Trade unions.
- Farmer organizations.
- Community and voluntary sector (women groups, groups of older persons and persons with disabilities, youth councils, antipoverty networks)
- Central and local government.

The function of the Council is to analyse and report to the Prime Minister on strategic issues relating to economic and social policy-making, and to provide alternatives for improved social outcomes. The Irish ESC has been very successful in promoting social cohesion. In 1986, the Council formulated an agreed strategy to escape from Ireland's vicious circle of stagnation and unemployment, which led to a national recovery programme accompanied by area-based approaches to fight poverty and social exclusion. Since then, the Irish ESC has been cited as a highly successful example.

See: <http://www.nesc.ie/>; Wagle and Shah, 2003: *Ireland, Participation in Macroeconomic Policy Making and Reform*.

National Economic and Social Councils (ESCs) are a good example of institutionalized participation of representative stakeholders in a society. Reporting to the higher authorities of a country (Parliament, Presidency, etc), the ESCs are advisory bodies that systematically assess the social impacts of public policies and provide alternative proposals for employment-generating economic growth and social justice. The ESCs are a respected "civil society voice" with an impact in policy-making in several countries of the European Union and Latin America. The ESCs function under the social partnership principle to develop social consensus for policy advice, and are formed by elected

representatives from major socio-economic groups, like business associations, labour unions, social movements and NGOs. In Spain and Nicaragua, consumer associations are also included; in the Netherlands and Mexico, university professors and think tanks; in Costa Rica, indigenous representatives are also part of the national ESCs.

For very specific or local issues, the most standard mechanism is consulting directly with the affected people to identify best solutions.

Social development would have not happened in history without the struggle of civil society. Organizing civil society, forging consensus and uniting voices is essential. Unions are the best example of organized civil society; since the 19th century, unions have managed to elect leaders democratically, to collect contributions, to mobilize members for common causes and to unite into national and international federations. Sometimes, strategic alliances with different groups must be forged to get messages across, no matter if they are not exactly the same. Often in the late 20th century, civil society lost ground by being too fragmented.

Links:

- UNDP *Poverty*: <http://www.undp.org/poverty/>
- UNRISD: <http://www.unrisd.org/>
- World Bank: *Social Analysis* <http://www.worldbank.org/>
- UN DESA *Social Policy and Development*: <http://www.un.org/esa/socdev/>

III. MAINSTREAMING EQUITY ACROSS SECTORS

Social policies rely traditionally on education, health, social security/social protection and labour measures, explained in later sections. If adequately designed and financed, they can be major instruments for promoting equity. Building equitable societies, however, requires more. It requires ensuring equity in all domains, from finance to transport. It requires making public services accountable to all citizens, particularly to those that may be excluded. This implies re-engineering public administrations and their sector ministries to have them address the needs of the poor, women, informal sector workers, persons with disabilities and other socially excluded, marginalized or disadvantaged groups.

Mainstreaming equity across sectors, whether housing or energy, requires sectoral strategies that:

- Identify the sector-related needs of different population groups. Are needs being addressed? How well?
- Assess distributive deficiencies in current sector policy.
- Assess institutional weaknesses/obstacles and plan measures to overcome them.
- Prioritize sectoral interventions that benefit the majority of citizens and specific population groups in the short-term.
- Assess adequacy of budgetary allocations and calculate necessary expenditures for prioritized interventions.

- Consult beneficiaries as part of social accountability. Is there transparency in planning, decision-making and budget elaboration? Do government agencies facilitate access to information? Are communities making informed investment decisions? Are they fully aware of the implications of their options and choices?
- Design monitoring and evaluation systems to ensure equity targets are being met.

A malpractice to be avoided at all costs is designing policies/programmes based on sector specific issues, and then indicating they are equitable because eventually, in the long term, they have some beneficial impacts on the poor/excluded groups – when benefits in the short term go to the wealthy. This has been particularly common in large infrastructure projects and financial/enterprise restructuring programmes. When looking at distribution issues, it is important to distinguish between:

- Short and long term
- The intensity of distributional impacts of different policy options.

Whenever addressing equity issues in a sector intervention, vague references to social benefits are to be avoided. The analysis/assessment should consider the needs and potential developmental role of different population groups, and try to accommodate high-impact interventions that will benefit them most.

This requires conducting ex-ante analysis to assess the distributional impacts (income and non-income) from the outset, and study different policy options to maximize positive social outcomes. Examples of ex-ante distributional analysis can be found in the Poverty and Social Impact Assessments (PSIA) done by development agencies. This line of work needs to be improved and expanded beyond the current piecemeal approach (e.g. at the IMF only when dealing with utilities, IMF not studying the distributional impacts of macroeconomic options). For this, governments need policy space to evaluate different alternatives in an open manner. Governments can win the political support of citizens by being accountable through a public debate on the social consequences of policy options.

Links:

- United Nations: Policy Notes for National Development Strategies <http://esaun.org/>
- World Bank: *PRSP Sourcebook and Poverty and Social Impact Analysis (PSIA)* <http://worldbank.org/>
- ILO: *Decent Work and Poverty Reduction Strategies*, ILO Geneva. <http://www.ilo.org/>
- UNDP International Poverty Center: <http://www.undp-povertycentre.org/>
- UN *Millennium Development Handbook* <http://www.unmillenniumproject.org/>

Box 11
Mainstreaming Equity Across Sectors

Area	Typical interventions with equitable/ progressive outcomes	Typical interventions with inequitable/regressive outcomes	Good guidance source	Comments
Culture	Antidiscrimination public campaigns, multicultural events that foster social cohesion	Subsidies to elitist events/ exclusive art	UNESCO, UNFPA, UN Policy Notes	Culture has been out of the donors' domain and needs to be strengthened
Education	Universal primary and secondary education; Programmes to ensure access and retention of students	User fees in primary and secondary education; commercialization of education	World Bank's PRSP Sourcebook, UNICEF, UNESCO	
Energy and Mining	Rural electrification; life-line tariffs (subsidized basic consumption for low income households)	Large power plants, Untaxed oil/mineral extraction	World Bank's PRSP Sourcebook, DFID	Issues such as (re)negotiating contracts with foreign companies are absent
Finance	Regional rural banks, microfinance; managing finance (current accounts, capital flight...)	Reform/rescue of banking system (transfers to large banks); subsidies to large private enterprises	UN Policy Notes, CGAP	
Health	Universal primary and secondary health services, nutrition programmes	User fees, commercialization of health, tertiary highly specialized clinics (e.g. cardiology centres)	WHO, World Bank's PRSP Sourcebook, UNRISD, UN Policy Notes,	Health financing issues require attention from equity standpoint
Housing	Subsidized housing finance, upgrading of substandard housing	Public housing finance for upper income groups	IDS, UN Habitat	The sector needs stronger equity approaches
Industry	Technology policy to support competitive, employment-generating domestic industries, SMEs	Deregulation	UN Policy Notes	
Labour	Active and passive labour programmes	Labour flexibilization	ILO, UN Policy Notes,	
Macro-economics	Employment-sensitive monetary and fiscal policies, countercyclical policies, direct taxation	Cyclical policies, indirect taxation (VAT)	UN Policy Notes, UNDP, UNRISD	
Public Expenditures	Pro-poor expenditures; fiscal decentralization with adequate equalization transfers	Military spending	World Bank's PRSP Sourcebook	
Rural Development	Secure access to land, water, markets, livestock, credit for smallholders	Large investments such as irrigation systems that benefit landowners, rather than poor labourers	World Bank's PRSP Sourcebook	Issues such as land reform should be expanded

Box 11 <i>Mainstreaming Equity Across Sectors</i>				
Area	Typical interventions with equitable/ progressive outcomes	Typical interventions with inequitable/regressive outcomes	Good guidance source	Comments
Social Protection	Non-contributory pensions, cash transfers, social services, etc.; almost all SPs are aimed at redistribution	Private funded pension systems	ILO, DFID, World Bank's PRSP Sourcebook, UNRISD, UN Policy Notes	Address exclusion, and equity, particularly in WB's pension reform
Tourism	Small-scale local companies	Poorly taxed luxury hotel chains	DFID, Overseas Development Institute	Tourism is quite a new topic and needs to be strengthened
Trade	Linking employment-generating local companies with export markets	Most bilateral free trade agreements	UN Policy Notes	
Transport and Infrastructure	Rural roads, affordable public transport, non-motorized transport for households (bicycles, buffalos...)	Large (and costly) infrastructure investments that the poor/excluded do not use	World Bank's PRSP Sourcebook, DFID	
Urban Development	Slum upgrading, accessible universal design	Large urban infrastructure projects in wealthy areas	World Bank's PRSP Sourcebook, DFID	
Water and Sanitation	Rural water supply and sanitation	Poorly negotiated privatizations	World Bank's PRSP Sourcebook	

IV. UNIVERSAL OR TARGETED POLICIES?

The debate over universal versus targeted policies is not new. Most developing countries initiated universal policies from the outset. The 'late industrializers', in their goal to foster domestic development, nation-building and social standards, realized that targeting was unnecessary and administratively costly: universal policies achieved social objectives faster, and provided buy-in and political support for government policies (Box 12).

However, the experience was not as positive in most developing countries, where universal services did not accomplish their purpose: coverage was low, often serving a portion of the formal sector and the wealthiest segments of society who captured benefits, while the poor and excluded groups remained unserved.

In the 1990s, with the renewed attention to poverty reduction, most development agencies strongly recommended targeting services to the poor. Since this came after the 1980s ideological shift in which the welfare state was attacked and commercialization and user fees for social services were introduced, many developing

countries were left with a segmented system, a public system for the poor, and a private system for the upper and middle classes. This generated growing dissent from the latter and severely undermined the political coalitions and social pacts legitimizing governments behind universalistic policies. Additionally, “structural adjustment programmes and PRSPs, driven by a “targeting” rationale, begin by dismantling the exclusive rights of formal labour on the grounds that this will lead to greater labour market flexibility and “pro-poor” policies” (Mkandawire, 2005:5). This policy mix did not work well and appears an incorrect policy choice. The combination of targeting to the poor and commercialization of services for the middle/upper classes, plus flexibilization of labour markets, did not encourage the necessary political alliances for economic development and nation-building, weakening governments, development processes and social cohesion. Universalism, as utilized by the “late industrializers”, appears a far better political economy choice.

Box 12

Models of Welfare

There are three main types of welfare regimes:

- Liberal regimes tend to have residual welfare, safety nets targeted to those individuals in dire need; this is the dominant model in English-speaking countries. It can be traced as far as the English Poor Law (1598) and it remains highly influential within international financial institutions.
- Social democratic regimes tend to favor universalism, based on the principle of solidarity, in which benefits/services reach everyone on the same terms, such in modern Sweden, Holland.
- Corporatist regimes tend to universalism, linking first benefits to people’s contribution to national development, and expanding them over time through subsidies. In most “late industrializers” such as Germany and Japan, welfare entitlements were first directed to groups whose cooperation in economic modernization and nation-building was deemed indispensable by the government, the “productive” working and middle classes; universalism took place gradually, over time new beneficiaries were added by specification of new eligibility criteria.

Source: Esping Andersen (1990): *Three world of Welfare Capitalism*; Mkandawire (2005): *Targeting and Universalism in Poverty Reduction*

There are major problems associated with targeting:

- It is costly; means testing absorbs an average 15 per cent of total programme costs.
- It is administratively complex, requiring significant civil service capacity, and leading to large under-coverage (people not being served) making targeted programmes ineffective; the world’s most successful targeted programmes have large under-coverage rates (e.g. Brazil’s *Bolsa Escola*, 73 per cent of the poor are not reached; US Food Stamps, 50 per cent of the poor are not reached)
- It generates incentive distortions and moral hazard.
- It creates two-tier services, one for upper-income groups and another for low-income groups ? and services for the poor tend to be poor services.

- In some countries, targeting has dismantled provision for the middle classes and weakened the politics of solidarity, contributing to a residual welfare approach. Targeting can backfire politically as middle income groups may not wish to see their taxes go to the poor while they have to pay for expensive private services.
- Targeting can be effective if the poor are a small percentage of the population; when poverty is widespread, the administrative cost, and problems associated with identification, monitoring, and delivery of programmes tend to outweigh benefits.

There is a strong rationale for adopting universal policies in developing countries, particularly if a large number of poor and excluded groups exist. A number of development organizations, including UN DESA, UNDP, ILO, WHO, UNRISD, UNFPA, UNESCO, and the World Bank in selected instances, are currently recommending universal public provisioning.

Nevertheless, targeting can be useful to complement universal policies:

- To ensure quick expansion of coverage (e.g. establishing non-contributory targeted benefits or services for poor and excluded groups, fast-tracking universal coverage)
- To address the special needs of minorities and specific population groups (e.g. the visually impaired).

Box 13

Targeting Methods

- *Categorical or Group Targeting*: Benefits are provided to a specific group, such as mothers, persons with disabilities, children, older persons or communities in a specific geographic area. This is the easiest and cheapest targeting method. Although leakage to the non-poor is normally large, categorical/group targeting increases political support and programme sustainability.
- *Means Testing*: Means-tested targeted programmes provide benefits to individuals or households under certain criteria (e.g., single mothers, households below the poverty line). Means testing is more accurate in targeting poverty, but it has high transaction costs, tends to create social stigma, and normally excludes large numbers of qualified beneficiaries due to complex administrative procedures.
- *Proxy Means Testing*: This is a subset of means testing, in which targeting is done through other (easy to collect) indicators or proxies of the level of income/poverty of beneficiaries, e.g. give discretion to local governments or community groups since they know who is in need. Proxy means testing is cheaper but less accurate than means testing. It has been used to empower communities, but caution is needed because popular values often discriminate against the most excluded members of society, e.g. single mothers for being “impure” or “dirty”, defeating the purpose of many social policies. Additionally, it creates stigma, and it may be easily captured by local politicians to reward supporters.
- *Self-Selection*: Self-selection avoids moral hazard by imposing disincentives on programme participants, either because the benefits are too low, or because there is some social stigma associated with them, e.g. public works, as normally only those truly in need would accept them.

V. SPEED MATTERS: LONG-TERM POLICIES AND SHORT-TERM HIGH IMPACT INITIATIVES

When a government intends to develop equitable social policies, it may want to consider two different sets:

- *Medium and long-term policies* include most important initiatives such as expanding coverage of education services, health and social security, improved labour standards, adequate wage and employment policies, multicultural programmes to enhance social cohesion, or other equitable policies such as rural income generation, land reform, among others.
- *Short-term high-impact initiatives*: While government efforts must concentrate on building long-term structural policies, these take time to develop. Often governments with a commitment to equity need faster results, to address urgent social needs and meet the expectations of people who elected them. A set of fast high impact initiatives can assist governments address basic needs among the neediest segments of the population. These programmes may contain components such as:
 - food stamps, free school meal programmes, nutrition supplements for mothers and children,
 - emergency employment programmes
 - upgrading programmes for substandard housing (water, sanitation, energy-efficiency, household repairs),
 - free access to basic health and essential drugs
 - literacy campaigns, free basic education for all
 - conditional cash transfers to ensure student retention in schools and child vaccination,
 - unconditional cash transfers such as pensions for the elderly poor or persons with disabilities.

Programmes like *Fome Zero* (Zero Hunger) in Brazil have been essential for rapid poverty reduction and to securing support for President Lula da Silva's government, enabling it to establish longer term structural policies. If well designed, these high impact programmes are very low cost (*Fome Zero* costs only 0.2 per cent of GDP). This has been associated with other low-cost high-impact social transfers, like the Brazilian non-contributory pension programme (costing 1 per cent of GDP), presented in Box 14.

These programmes involve multi-sector interventions, and can be additionally used as an instrument to start mainstreaming equity across sectors. If an inter-ministerial commission is formed, directed by a high authority of a country like the President, this sign of political commitment can persuade ministries to modify traditional approaches and demonstrate accountability in serving the needs of the poor and excluded groups.

Box 14 <i>Brazil and Argentina: Short-Term High-Impact Initiatives</i>		
	Brazil: Zero Hunger (2003) and associated programmes	Argentina: Urgent Hunger (2003) and associated programmes
Priority population/ generic targeting criteria	Households in poor areas with: <ul style="list-style-type: none"> • Children below 5 years of age • Persons with disabilities • Malnourished • Pregnant women • Older persons 	Households below the poverty line with: <ul style="list-style-type: none"> • Unemployed head of household • At least 1 child/young person under 18 years • Family member ill or with disabilities • Pregnant mother • Adults older than 60 not receiving a pension
Formulation	NGO <i>Instituto Ciudadanía</i>	NGO <i>Poder Ciudadano y Red Solidaria</i> , other
Coordination	Presidency	<i>National Council for the Coordination of Social Policies</i> (with the ministries of: Social Development, Health, Education, Science and Technology Economy and Production, Labour Employment and Social Security, Federal Planning and Public Investment)
Execution	<ul style="list-style-type: none"> • Ministry of Food Security • Other line ministries • Private sector and NGOs 	<ul style="list-style-type: none"> • National Level: Ministries of Social Development and Health • Regional and Municipal Governments • NGOs
Financing	<ul style="list-style-type: none"> • Public • Private (Companies "adopt" cities financing them), donations 	<ul style="list-style-type: none"> • Public • Accept private donations
Food and Nutrition Component	<ul style="list-style-type: none"> • Food card (US\$17 monthly per household) conditional transfer • Incentives for family farming • Food stamps • Creation of food bank with products from supermarkets/retailers • Distribution of food baskets in poor urban areas (not in rural areas) • Subsidized community soup kitchens 	<ul style="list-style-type: none"> • Household card permits withdrawal of US\$50 from bank cashiers • Incentives to food production and distribution (low cost eateries, community centres, kindergartens, schools and others) • Incentives for family farming
Education Component	<ul style="list-style-type: none"> • Bolsa Familia: Transfer programme (US\$6-\$19 per month) conditional on children attending 85% classes, immunization, mother and child visits to clinics • Literacy programmes • School lunch programmes 	<ul style="list-style-type: none"> • Meals in schools
Water/Housing Component	<ul style="list-style-type: none"> • Programme Cisternas: grants for water and sanitation 	<ul style="list-style-type: none"> • Housing assistance
Employment Component	<ul style="list-style-type: none"> • First Employment Programme for young people • Support to family agriculture in rural areas – technical assistance, credit etc 	<ul style="list-style-type: none"> • Microenterprise promotion • Cooperatives • Capacity building • Promoting associations for local development and Social Change Leaders • Special projects for persons with disabilities
Health Component	<ul style="list-style-type: none"> • Bolsa Familia: Transfer programme (US\$6-\$19 per month) conditional to children attending 85% classes, immunization, mother and child visits to clinics 	<ul style="list-style-type: none"> • Health and Social Train – programme targeted to poor areas, free access to primary health • Assistance for drugs and pharmaceuticals • Community Centres (integrating health and social development at the local level)
Non-contributory Social Pensions	<ul style="list-style-type: none"> • Rural pensions • Urban pensions for the old-age below minimum wage • Disability pensions 	<ul style="list-style-type: none"> • Pensions for adults above 70 years-old • Disability pensions • Pensions for mother with more than 7 children
Webpage	http://www.fomezero.gov.br/	http://www.desarrollosocial.gov.ar/

VI. SELECTED INSTRUMENTS TO PROMOTE INCLUSIVE SOCIETIES

This section presents selected instruments and policy options to fast-track equitable and inclusive social development in the areas of employment, education, health, social protection, culture and conflict prevention.

The selection of inclusive instruments is based on:

- Generating decent employment as a first priority to reduce poverty and raise living standards;
- Addressing urgent social needs through adequate social protection and multi-sectoral programmes.
- For *social services*, it is generally suggested:
 - On the **supply** side:
 - ✓ To increase budgetary allocations for social programmes to expand coverage, aiming at universal provision.
 - ✓ To eliminate barriers to access for poor and excluded groups such as:
 - Fees for services and hidden fees such as school uniforms, extracurricular activities, under-the-table payments, etc.
 - Complicated or restrictive administrative procedures.
 - Services provided in languages not spoken by the population.
 - ✓ To address the differing needs of women and men, for instance addressing women's double work burden and ensuring access to adequate infrastructure in water, sanitation, transport, and child care.
 - ✓ To target inaccessible remote areas.
 - ✓ To include minorities and special population groups, designing targeted programmes if necessary.
 - ✓ To improve the quality of services from a user-perspective.
 - On the **demand** side:
 - ✓ To raise awareness and promote behavioural change.
 - ✓ To support demand for services (e.g. ensuring that people have knowledge of them, using conditional cash transfers if necessary).

Employment and Labour

Generating decent employment must be a primary development objective. It is estimated that 430 million jobs are needed to provide employment in the next decade, but the pattern of job creation in recent years has been the opposite: increased labour insecurity, “jobless growth”, and segmented labour markets with large wage differentials.

Labour market policies were widely used after World War II until the mid 1970s, coinciding with significant real wage and employment growth. Historically, countries with successful developmental experiences intervened in their labour markets; governments progressively formalized the labour force as a way to expand the tax base, build social protection systems, raise social standards and develop their domestic markets. However, during the 1980s and 1990s, “the United States deregulated labour market and residualist welfare state became widely acknowledged as the model for good employment performance... lower wages, less job security, and reduced income support” (Howell, 2005:2). Wage and income inequality increased in most countries including the United States, fostered by labour market reforms. In 1965, CEOs were paid 51 times as much as a minimum wage earner in the United States; in 2005, this had risen to about 821 times; in most developing countries, particularly in Africa, the number of “working poor” has increased. Labour flexibilization reforms did not lead to increased employment; according to the ILO, world averages show that both unemployment rates and employment-to-population ratios have remained constant between 1995-2005. Instead, labour reforms led to increased informalization of the labour force, predominantly in Latin America, Eastern Europe and the former Soviet Union. This increased precariousness of work not only had negative impacts on people selling their labour, it also reduced the national tax base, limited financing for social policies, contracted domestic markets, and induced migration⁴.

National Development Strategies should promote labour-absorbing development patterns. This requires coordinated action of all development-related ministries and an appreciation of the inter-linkages between economic and social policies. Different policies and different sectoral patterns of growth affect poverty reduction; poverty reduction is stronger when growth is labour-intensive. In the 1980s-90s economic policies were detached from social objectives such as generating employment and protecting people’s incomes. Economic policies were left with a narrow focus on containing inflation, budget deficits, liberalizing product/factor markets and trade, and were a major reason why inequality increased worldwide. Ultimately, full employment only occurs if a country’s economic growth and activities absorb labour. For this, governments need employment-sensitive macroeconomic policies, as presented in other UN DESA Policy Notes. In contrast to conventional wisdom in macroeconomic theory, the effects of monetary and fiscal policy on aggregate demand are important for employment.

Employment generation is a necessary but not sufficient condition for poverty reduction; many people in developing countries work long hours for insufficient pay, under bad working conditions and are not able to bring their households out of poverty. This is why the ILO introduced the “decent work agenda” in 1999. It involves (i) fair income, (ii) standards in the workplace, (iii) social protection for all, (iv) skills development for enhanced productivity, and (v) social dialogue.

⁴ Economic Policy Institute (2006): *The state of working America*. ILR Press, Cornell University; ILO (2006): *Global Employment Report (trends brief)*, Geneva: International Labour Organization.

Box 15

How to Generate Decent Employment

Decent jobs are a result of adequate macroeconomic and labour policies:

(i) Employment-sensitive macroeconomic and sector policies:

- Monetary and fiscal policies that boost aggregate demand; a tight monetary policy focussed on containing inflation does not generate jobs.
- Adequate exchange rate policy combined with technology policy to stimulate output growth; gradual and sequential trade opening to support it.

(ii) Labour policies: Decent employment is not only about generating jobs, most poor people work long hours but they cannot bring their families out of poverty; it is also about adequate salary and working conditions.

- Social Pacts/Dialogue
- Active and passive labour market policies, including labour standards and fair income

Labour market policies and programmes are important to reduce poverty, facilitate human capital development, address discrimination, enhance working conditions, allocate human resources to their most productive uses, and encourage growth and development. The following programmes and policies may be considered:

Active labour market programmes

- Direct employment generation (promoting small and medium enterprises, cooperatives, wage subsidies, public works, guaranteed job schemes).
- Labour exchanges or employment services (job brokerage, counselling offices)
- Skills development programmes (training and retraining of labour to enhance employability and productivity).
- Special programmes for youth and persons with disabilities.

Passive labour market policies

- Unemployment insurance.
- Income support policies.
- Labour regulations and standards such as adequate wage policies (minimum salaries, wage indexation, equal pay for work of equal value), job security provisions (recruitment/dismissal of employees), working conditions (minimum age, maximum working hours and overtime, leave provisions, occupational health and safety), industrial relations, special protection for mothers, and antidiscrimination provisions to protect women and minorities.

Labour administration issues are very important, particularly the capacity of Labour Ministries to adequately inspect working conditions in order to ensure enforcement and compliance.

- A Labour Department needs to have sufficient staff at national and local level.
- There are two types of inspections: (i) routine contract and payroll reporting from firms and (ii) on-site inspections.
- Dispute settlement mechanisms need to exist: Oversight Commissions, Labour Courts. These must include complaint and appeal processes for both employers and employees.

Critical Policy Issues:

(1) Starting the Decent Work Agenda: Social Pacts for Employment-Generating Policies

National Development Strategies are best to articulate labour market policies with positive synergies between economic and social development. National Development Strategies, through their social pacts, are well suited to arrive at optimal solutions in macroeconomic policy, the need for productivity, job and income security and support for employment-generating enterprises. The level of protection, benefits and flexibility will vary from country to country; the key is identifying a balance to ensure sustained economic activity and positive social outcomes, where employers can win on productivity gains and workers from job and income security.

Adequate coordination of economic and social policies is critical for success. Social dialogue on labour and competitiveness matters is not enough; tight, employment-constraining, highly contractionary macroeconomic policies have adverse effects on employment. There needs to be coherence between labour and competitiveness policies, and monetary and fiscal policies. Recent success stories include Denmark, Ireland, the Netherlands and Sweden; these countries balanced macroeconomic policies, social protection and labour standards for workers, and competitive policies for employers. Some of these countries outperformed the United States experience in terms of employment generation, without embarking on labour flexibilization programmes.

Box 16

Spain: The Moncloa Social Pacts

In 1975, Spain entered a transition to democracy after decades of authoritarian regime. Labour unrest grew with the deterioration of the economy, no collective bargaining schemes in place and political instability. In October 1977, the newly elected government called for a national political agreement to make the transition successful. Major political parties, economic and labour groups set aside their differences. Meeting at the Moncloa government palace, they agreed on a new development consensus for the country. This included a recommended 20% wage increase, a reduction of enterprise controls and restrictions, fiscal reforms, better governance and a redefinition of the role of the state, the army and police, as well as freedom of speech and association. The Moncloa Pacts is regarded as one of the most successful social pacts of recent times.

See Maravall (1986): Political change in Spain and the prospects for democracy, in O'Donnell, Schmitter and Whitehead (eds): *Transitions from authoritarian rule*.

Transparency of information and social dialogue are the best instruments to promote consensus among all parties involved and to reach optimal solutions. For this, certain conditions are necessary:

- A good understanding of the links between economic and social policies
- Successful collective bargaining tends to happen when negotiations are centralized (not at factory level), when unions have large numbers of members and are well coordinated.
- Promoting freedom of association may require providing workers with protection and security, as violations of their right to associate persist in different forms, including murder, violence, and refusal to allow organizations the legal right to exist and function.
- Unions can be a positive force for development, but if too confrontational, may damage development. Ideally unions, companies and government work together to adequately time employment-generating macroeconomic policies, achieve productivity increases to enhance enterprise competitiveness, and maintain labour security and social protection. Additionally, unions can work together with governments to improve corporate governance, helping to eliminate malpractice and abuse among entrepreneurs.
- The costs of not engaging in social dialogue include productivity losses due to labour disputes, conflict, and potential collapse of the necessary social pacts for national development.

(2) Labour Standards and Fair Income

Countries must aim for an appropriate legislative framework that strikes a balance between economic efficiency and labour protection, including provisions on issues such as minimum age, occupational health and safety, minimum salary, maximum hours and overtime, job benefits, or antidiscrimination provisions to protect women, persons with disabilities, minorities.

- Most countries have ratified international conventions on the matter, and have national legal provisions.
- *Core Labour Standards*: No explicit ratification is needed for them to be part of the legislative framework of a country; by virtue of their membership in the ILO, all countries are held to promote the fundamental Core Labour Standards consisting of: (i) freedom of association and the effective recognition of the right to collective bargaining, (ii) abolition of all forms of forced or compulsory labour, (iii) elimination of discrimination in respect of employment and occupation, and (iv) elimination of child labour.
- Normally, labour standards are implemented progressively, starting with key aspects or sectors, for instance, time-bound programmes to combat child labour that start, in a first phase, by avoiding children's work in hazardous activities (prostitution, mines, explosives, etc.)

Box 17
Arguments For The Decent Work Agenda

In the 1980s and 1990s, the conventional free-market argument was that a flexible labour market with limited regulation was better for development as it reduced costs and made firms more competitive, expanded entrepreneurial activities and thus enabled firms to create more employment. However, recent evidence points out that:

- *Employment*: Labour flexibility has not been accompanied by increased employment in economies where the demand for labour is low, a situation common to most countries. Instead, it leads to informalization and job precariousness. Many European countries (e.g., Denmark, Ireland, Netherlands, Spain, Sweden) substantially reduced unemployment without labour market reforms and while maintaining generous unemployment schemes (Howell, 2005). Employment is not related to labour market flexibility, but to macroeconomic policies that are effectively coordinated with social policies. The strong welfare states of northern Europe (Denmark, Netherlands, Norway and Sweden), with employment rates as high as the United States and the United Kingdom, demonstrate that employment is fully compatible with “rigid” labour markets, high social protection and collective bargaining.
- *Productivity*: It is fully demonstrated that decent work raises productivity; it improves workers’ health, skills and motivation, reducing wasteful labour turnover.
- *Labour costs*: There is more controversy regarding its effects on labour costs. Raising standards correlate with increasing labour costs; but, there is also evidence that:
 - Higher labour standards, unless very high, do not reduce FDI (OECD, 2000); in developing countries, FDI shows more concern for non-labour issues such as accessing domestic markets, corruption or quality of infrastructure.
 - Higher labour standards impact local labour-intensive firms using unskilled labour at very low wages with no protection; however, the competitiveness a country may have by exploiting cheap labour is short-lived, pushes a country into a “race-to-the-bottom”, and does not contribute to the development of a domestic market.
 - Both investor and consumer activism in developed countries demand higher standards and exporting local firms can build on it (DFID, 2004).
- *Poverty Reduction*: Impacts on poverty reduction are large. Work-related injuries can plunge families into poverty, avoidable with adequate occupational health and safety and social protection. Better earnings reduce poverty, and have positive impact on reducing child labour, and increasing the chances that a child will be educated.
- *Domestic Demand*: By raising incomes, the decent work agenda contributes to boosting domestic demand and expanding national markets.
- *Equality*: Labour standards address discrimination in employment and are key to supporting inclusive policies for women, or ethnic and minority groups. Freedom of association may allow even informal workers to negotiate better prices for their work.
- *Political Stability*: Social dialogue may form national coalitions for development; citizens living with more dignity and income tend to support their governments.

All governments committed to support “full employment and decent work for all...as a central objective of our...national development strategies” at the 2005 World Summit. The decent work agenda is officially supported by UN agencies and by major financiers like the EU.

Sources : DFID (2004): *Labour standards and poverty reduction*; EU Commission (2006): *Promoting Decent Work for All: The EU contribution to the implementation of the decent work agenda in the world*; Howell (2005): *Fighting Unemployment: Why Labour Market Reforms are not the Answer*; OECD (2000): *International trade and core labour standards*. UN General Assembly (2005): *World Summit Outcome*. United Nations

Legislation on recruitment includes affirmative action to promote certain groups (e.g. women, persons from a low caste or excluded ethnic group, persons with disabilities; see Box 18); a variety of countries have developed affirmative action policies to empower excluded social groups; the policy is opposed by those supporting meritocracy and by arguments of group capture of benefits.

Legislation on termination: Normally, employers are required to give a legal period of notice before firing employees, meet minimum severance conditions, negotiate large-scale retrenchments with unions, help displaced workers to recover outstanding legal entitlements such as wage arrears.

- *Issues*: Minimal or no legislation on termination gives firms all the power, particularly when allowing them to fire employees without notice or compensation, and has negative impacts on productivity, as job insecurity discourages workers from improving performance for the company. Advance termination notice, fair compensation and redeployment policies are necessary from a social development point of view. On the other hand, excessive labour regulations/rigidity are disincentives for entrepreneurial activities; in particular, practices like life-tenure are strongly discouraged. The optimal solution is again somewhere in between, balancing job security and support for employment-generating enterprises.
- *Implementation*: Adequate labour law on job recruitment and dismissals. Dispute settlement mechanisms need to be in place.

Box 18

Malaysia's Affirmative Action

Introduced in 1970, Malaysia's New Economic Policy from 1970 enacted pro Bumiputra policies in response to the racial riots of 1969. Aimed at "restructuring society" to reduce interethnic disparities, it used quotas (university and college admissions, public scholarships, positions in government and business ownership) as a strategy to provide opportunities to the ethnic Malay population, at the time, an economically and socially excluded group of mainly poor farmers, while the local business sector was controlled by ethnic Chinese. After more than 30 years of affirmative action for the Malay majority, the system is no longer justified and is being phased out and replaced by more meritocratic system. However, once introduced, such programmes are difficult to phase out.

See: Jomo KS (2004): *The New Economic Policy and Interethnic Relations in Malaysia*.

Wage policies are important from a human rights perspective. During recession, crisis or in conditions of large excess labour supply as in most developing countries, employers find themselves in a very strong bargaining position. Employers can obtain labour at salaries as low as the value of a daily meal, even if productivity criteria allow for higher wages, because the only alternative for workers may be starvation. Properly enforced minimum wage legislation can and should prevent such abuses.

During the 1980s-90s, wage policies were discouraged in developing countries as ineffective given the large number of people in the informal sector, enforcement difficulties and companies' search for low labour costs. However, recent empirical research shows a positive relationship between minimum wage and poverty reduction (Lustig and McLeod, 1997). The relationship is found across different poverty

measures (headcount ratio for extreme and moderate poverty lines, poverty gap, calorie intake) and population groups (rural and urban). Additionally, there is strong evidence that increased wages lead to productivity gains and boost domestic demand; this has led large companies to pay workers above national standards at times, e.g. automobile manufacturers such as Ford (United States) and Fiat (Italy).

- *Identifying an adequate minimum wage increase:*
 - Minimum wages vary from country to country, even region to region. In principle, they should allow for an average family to meet its minimum basic, not just food, needs.
 - Minimum wages may be a good tool to reduce poverty, but they should not be raised uncritically. The costs to the public and private sectors (and their links to pensions and other social benefits which tend to be indexed to minimum wages) should be carefully evaluated to ensure that the policy is affordable and that there is an optimal balance that contributes to both development and poverty reduction. The adequate wage level should be determined through balancing social contributions/benefits, taxes, and employers' profit share.
- *Implementation of minimum wage:*
 - By ordinance or law, ideally universal, applicable to any worker in the country;
 - Enactment of laws does not guarantee enforcement; this normally depends on labour inspectors and unions holding companies accountable and compliant. Dispute settlement mechanisms need to be in place.

Other wage determination mechanisms are *indexation of wages to inflation*. A great worker concern worldwide is to maintain the real value of wages. Employers (concerned about labour costs), and governments (about inflation), often find themselves sharing the same position when it comes to wage increases in tripartite negotiations, and indexation tends to be lower than inflation.

- *Identifying an adequate wage increase:* Some European and Asian countries have instituted National Wage Councils for tripartite negotiations to ensure optimal solutions and maintain good levels of productivity and international competitiveness. In Singapore, additional to wage increases through the National Wage Council, profit-sharing in the form of bonuses has been encouraged as a productivity incentive and a way to share interest in enterprise development by unions; in 2006, as part of the *Progress Package*, a programme to enhance redistribution of growth profits among Singaporeans, the *Workfare Bonus Scheme* was introduced by the government to support low wage workers (ranging US\$75-375 monthly, to be paid 90 per cent as a cash transfer and 10 per cent as a contribution to the *Medisafe* medical scheme).
- *Implementation:* By ordinance/law, or as a government recommendation.

(3) Skills Development for Enhanced Productivity

Skills development includes a variety of pre-employment training programmes for young people, and retraining and skills upgrading for workers. Training may include workers from skilled operators (drivers, machine operators) to technicians and para-professionals (electronics, para-medical, nurses, etc). Skills development programmes are delivered by both public agencies (Ministries of Labour or Education) and private

companies. What is essential is an adequate linkage with labour market demand and employer requests; this may be best achieved when combined with internships in companies.

Often, short-term training to upgrade skills is also provided at *labour exchanges or employment services*. These are job brokerage and counselling offices. The main objective is to link supply of labour with demand, matching people searching for employment with job vacancies, assisting job-searchers to improve their CVs or biodata, doing first interviews, and helping workers improve productivity and find better jobs (e.g. typing, telephone skills, etc.). Labour exchanges or employment services are relatively inexpensive and should be promoted as they are important elements for facilitating a dynamic labour market; however it is important to recognize their limits in countries where the demand for labour is low.

(4) Productive and Freely Chosen Employment

Direct employment generation interventions to promote public works, self-employment, youth employment programmes, guaranteed job schemes, wage subsidies to companies, support to cooperatives or small and medium enterprises. They are the most heavily funded employment programmes in OECD countries. These interventions can positively create employment and support disadvantaged or at-risk workers, but substitution, deadweight, and displacement effects can dissipate their potential benefits. Good programme design, implementation and most particularly careful monitoring are essential, requiring that benefited companies disclose information transparently.

- *Wage and employment subsidies*: Often, companies receive tax breaks, grants, secured government contracts, subsidized credits and other financial incentives; the logic of this public strategy is to attract investment. Employment generation can be added as a criterion for receiving public support. Cooperatives, small and medium enterprises and large enterprises can be subsidized according to the number of jobs they create. By supporting companies, governments may encourage longer-term job creation and economic development. Determination of the duration and degree of a wage subsidy varies country to country; under the United States Targeted Job Tax Credit, companies are paid a 50 per cent wage subsidy for up to two years. Special benefits to companies can be added if firms employ people with fewer opportunities such as young people or persons with disabilities; e.g. “Jobstart” programme for youth in Australia and the United Kingdom.
- *Public works programmes* are widely used as a short-term employment measure. Public works do not reduce long-term unemployment; the objectives are: (i) providing emergency jobs (e.g. antipoverty measure, during economic crisis) and (ii) keeping workers in contact with the labour market, reducing the chance that they become stigmatized by being unemployed for too long. Normally the targeting method is self-selection (Box 19)

(5) Social Protection for All

This is part of the decent work agenda but in this Policy Note is addressed in the section on Social Protection Policies.

Links:

- ILO Decent Work Webpage <http://www.ilo.org/>

Box 19

The Indian Rural Employment Guarantee Act

Inspired by Maharashtra's State Employment Guarantee Act in 1976, a national programme was enacted in September 2005. The programme is a major strategy to fight poverty in rural India, promising wage employment at least 100 days to every rural household in which adult members volunteer to do unskilled manual work. Any adult who applies for work under the Act is entitled to be employed on public works within 15 days ? thus, the Employment Guarantee Act provides a universal and enforceable legal right to basic employment. The programme is starting in 200 districts, to be expanded to all 600 districts of India in five years. State governments, Panchayat Raj institutions as well as NGOs are involved in implementation. It is expected that the programme will cost 2% of GDP and have a significant positive impact protecting rural households from poverty and hunger, reducing rural-urban migration, and fostering a more equitable social order in rural areas.

See: <http://rural.nic.in/rajaswa.pdf> ; Ghosh, J. (2006): *India: Right to Work as Social Policy*.

Education

Education is closely linked to virtually all dimensions of development – human, economic, and social. An educated, technically skilled workforce is critical for long-term economic growth. Expanding girls' education has positive effects on fertility, infant mortality, nutrition, and enrolment rates of the next generation. Education is also a key factor in improving governance, as education empowers people, allowing them to develop critical thinking and life skills. Education comprises:

- **Early Child Development (ECD)** to ensure the balanced psychomotive development of the child through basic nutrition, preventive health, and educational programmes
- **Primary Education**
- **Secondary Education**
- **Higher Education**
- **Vocational and Technical Education and Training (TVET)**
- **Non-formal Education and Adult Programmes**
- **Special Education** for persons with intellectual or psycho-social disabilities.

Critical Policy Issues

(1) Eliminating Fees and Promoting Universal Free Primary Education

Achieving the MDGs has translated into school enrolment ratios rising significantly in recent years. Part of this progress is a result of the elimination of school fees. This includes eliminating hidden fees such as school uniforms, extracurricular activities,

under-the-table payments, etc. Fees were introduced during the 1980s-90s as part of cost-recovery mechanisms to promote sector efficiency and to cope with the severe budget cuts resulting from adjustment programmes; it had remarkably negative social impacts. Uganda was one of the first countries to move away from fees, introducing a policy of free universal primary education in 1996 that managed successfully to first reduce the gap in schooling for the poor and later the gender gap in enrolments. Experience in other countries (e.g. Cameroon, Kenya, Malawi, Tanzania) strongly supports the argument that fees curtail student enrolment, and currently there is worldwide agreement on the need to eliminate fees for primary and basic education.

Eliminating fees in schools is not sufficient to ensure educated populations; education requires keeping children in school. Inequality in retention and completion rates remains high for many, particularly girls, given the pressing needs of poor households (household care economy that pulls girls out of school, opportunity costs of children in school instead of working, deficient nutrition, etc). Conditional cash transfers like PROGRESA/Oportunidades in Mexico (Box 20), conditional on school attendance, are good practices to ensure that girls attend class, to deter using child labour as a risk coping strategy, to promote demand for services and to provide opportunities for children in poor/excluded households. Other retention policies may include school feeding programmes, scholarships, school fee waivers, and special safety measures for girls (transport, separate latrines, increased number of female teachers).

Box 20

Mexico's ProgresA/Oportunidades Programme

The programme started in 1997 and currently covers 20% of Mexico's population: low income rural and urban households. The programme consists of conditional cash transfers to mothers, specifically:

- Education: Up to \$58 (boys) and \$66 (girls) if children attend 85% of classes
- Health: Free basic health care for all members of the family; a number of check ups and training on health and nutrition grants access to nutrition cash transfers.
- Nutrition: \$15 per family for improved food as well as vitamins/micronutrients for children and pregnant/lactating mothers.

The programme has been very successful. Providing cash to poor households reduced the number of people below poverty by 10% in a few years. By promoting the use of education and health services, PROGRESA/Oportunidades had positive impacts on family health and student retention, particularly of girls, as well as people's satisfaction with public services. Cash transfers also had a very positive effect in monetizing rural areas. The programme was so successful, the Fox Administration expanded it, adding savings plans for young people's studies and other components.

See: <http://www.progresA.gob.mx/> and Coady and Skoufias (2000): *The Education, Health and Nutrition Program of Mexico (PROGRESA)*.

(2) Importance of Secondary, VTET and Tertiary Education

The priority given to achieving the MDGs has put a lot of emphasis on basic education and often the importance of other essential education services is overlooked, damaging development efforts. Secondary, VTET and tertiary education are essential for developing professional skills and critical thinking in a country.

Countries at all stages of development require trained experts such as medical graduates and teachers, and management skills essential for sound public administration and economic activities. This may appear obvious, but the emphasis given to basic education has often come at the cost of higher education, ignoring the positive externalities of universities. Technical and vocational education is particularly important because it provides people with market relevant skills that improve employment prospects. This is particularly true when curricula are properly designed to respond to local productive activities. When linked with employment support programmes like "first employment" for young people, it can have major positive social impacts. A critical issue is funding. Historically, many OECD countries in the 19th century, including the United States, provided free secondary and tertiary education as part of their development strategies, but the financing realities of many developing countries have not made this possible. In most places, secondary, VTET and tertiary education receive public support but require fees from students. The UN Convention on the Rights of the Child supports free primary education and, where appropriate, free secondary education to expand access.

(3) Quality and Relevance of Education:

Education systems need to ensure that children and young people acquire critical thinking, problem-solving skills and knowledge needed to be successful in today's world. Curriculum reform, including improved curricula that meet local needs (particularly in rural areas, linking with local economic activities), teacher training, school accreditation and strengthened national educational standards are essential for education to be a catalyst for growth and poverty reduction.

(4) Other Programmes for Education for All

Education for all requires bringing the benefits of education to every member of society in all countries, having special attention to girls, indigenous communities, children with disabilities. Ensuring enrolment and retention of children at risk, combined with multicultural and special education, can redress inequities in education. The prevalence of high adult illiteracy is a strong sign of inequity and exclusion in a country. Non-formal basic education and literacy programmes for adults and out-of-school youth are important for increased equality and productivity in a country. Additionally, educating women of child-bearing age has large positive impacts in households.

Links:

- UNESCO: <http://www.unesco.org/>
- World Bank: <http://www.worldbank.org/education>
- UNICEF: <http://www.unicef.org/>

Health

Progress in Health and Social Security (or Social Protection) has been much less positive than in Education, to say the least. According to the ILO, only 20 per cent of the world's population has some type of health and social security coverage – and in Sub-Saharan Africa and South Asia, only 10 per cent have some form of rudimentary coverage. This is, 80 per cent of the world's population have no coverage at all.

The availability of health care services and access to them are critical for the well-being of individuals and communities, and has a direct impact on their productivity and economic performance. Many people think of health as a personal consumption issue, not realizing that improvements in health provide substantial economic payoffs. In low-income countries, as much as 95 per cent of private financing for health comes from individual out-of-pocket expenditures, while this figure is only 37 per cent in high-income countries. Developing countries should consider ways and means to provide public funding. The arguments for public support of health services are strong: improved health increases worker productivity and reduces the number of days off because of illness; in children, malnutrition reduces intelligence, body weight, and returns on educational investment. Public health interventions are vital to the health of a society as a whole, and are the only effective means of preventing widespread transmission of communicable diseases such as malaria, HIV/AIDS, tuberculosis, cholera, polio.

- **Primary Health Care** comprises essential levels of health care provided equally to everyone, such as emergency care; basic curative care, including minor surgery and drug management; dental and oral health; maternal and reproductive health; and preventive services (health promotion, health education, vector control, immunization and vaccinations). As primary and secondary care have the most important impacts on the general health of a population, public and free (or at a nominal rate) services are encouraged.
- **Secondary Health Care** includes ambulatory medical services and commonplace hospital care (outpatient and inpatient services) via referral from primary health care services.
- **Tertiary Health Care** includes specialized medical services (ie. cardiology) and are generally only available in the capital, at national level.

There are multiple issues regarding health financing. Generally, three main options exist:

- Fully public health systems, funded from tax revenues, to which any citizen has access for free or at a nominal fee; if well managed and financed, this has best impacts on national health.
- Fully private health systems, financed by individuals; from an equity stand point this is not an advised option, particularly in developing countries. Fee-waivers for low income groups are an option.
- Social insurance schemes by which individuals pool risks, so households covered by the scheme do not pay the full cost to service providers when they use services. This is a most common practice as there is significant private provision of health services. Governments start by an insurance scheme for formal sector workers, and expand progressively to other groups as a supplementary scheme, normally through cross-subsidization and/or support from general tax revenues. Some options for the expansion of coverage are provided below. The key is who is covered and what is covered; the latter requires careful analysis as governments may not want to see the health budget wiped-out by expensive curative treatments.

Critical Policy Issues

(1) Extending Coverage of Health Care

In order to raise the health status of populations, the main priority is expanding the coverage of affordable health services. This requires some degree of public support. Historically, many countries pursued redistributive health care based on universalist objectives, either by subsidizing social insurance or providing tax-based public health services. This was the case in most OECD countries (except the United States), and some low- and middle-income countries, such as Costa Rica, Taiwan (Province of China) and the Republic of Korea. Many African states in their early post-independence period attempted to rapidly expand public provision of health services to their populations, but the effort was truncated. Additionally, all socialist states such as China, Cuba, Sri Lanka and the former Soviet Union before the 1980s built public health services.

In the 1980s, the push for market-based reforms and a residualist approach to social policy resulted in a trend to commercialize health services in middle- and low-income countries. Development agencies encouraged a “private-public mix”; liberalization of private clinical provision, insurance and pharmaceutical sales; moving away from tax-based systems to encourage local resource mobilization, including user charges for government-provided services, drugs and supplies. This represented a retreat of the state from provision of health services. Governments were advised to maintain a minimalist regulatory role, with the responsibility to address market failures and provide basic health services for the poor when the private sector failed to deliver.

The renewed attention to poverty reduction at the end of the 1990s led to a questioning of this model, as evidence emerged that it had increased inequalities and caused greater poverty:

- Fees and cost-recovery mechanisms are regressive; people who cannot pay are excluded, while catastrophic health costs are a key cause of impoverishment where health care is paid from people’s pockets. According to UNICEF and WHO, user fees generally provide a very small portion of health budgets, rarely more than 5 per cent; however, they have highly negative impacts on poor people as health services may not be affordable to them.
- Given very limited public resources, health services for the poor did not expand sufficiently and when they did, quality was very low, so most people in the world remain without access.
- Pro-poor health services that excluded the better-off and the healthy did not allow for cross-subsidization and risk pooling, the essence of public health systems in most developed countries.
- Private health care is expensive, has many failures and perverse incentives (providers may over-treat patients and costs escalate). In the United States, health inequities are significant and the residual public system for low income/uncovered citizens actually absorbs a significant amount of public funds, particularly for older persons. Well managed public systems can be cost-effective.

- Paradoxically, developed countries have almost universally established progressive social insurance or government-based health care systems (only the United States and Singapore have private shares over 50 per cent), while most low- and middle-income developing countries, with the largest number of poor people who cannot afford payment for services and drugs, have regressive private health care systems. This includes India and China, whose populations suffer severely from this barrier to health care access.
- Statistically, countries with longer life expectancy, lesser morbidity and higher productivity have redistributive health care systems and higher public health expenditures.

Currently, UN agencies and sections of the development banks are focusing health policy on expanding coverage and reconstructing public sector capacity. Addressing barriers to health starts by investing in comprehensive health care services, with adequate service provision at the local level, including access to emergency obstetric care. Fees for basic health services and essential drugs are discouraged (unless nominal).

The main options for expanding health coverage are:

- *Option 1- Extending progressively an existing social insurance scheme, making it universal by targeting poor/excluded groups:* Starting by covering people in the formal sector and expanding towards inclusion of the self-employed. Universalization requires significant subsidies to those outside the formal sector, whose irregular forms of employment do not permit standard insurance arrangements. A recent good example is the Republic of Korea; remarkably, the government managed to achieve full health coverage in only 12 years. If this option is followed, a critical issue is timing.
- *Option 2: Introducing universal benefits/services at once,* financed from general taxes/state revenues. In Thailand, Prime Minister Thaksin Shinawatra declared in 2001 that health care would be available to all Thais immediately through a universal health care system for a nominal fee (the so-called *30-baht insurance scheme*) equivalent to US\$0.75 co-payment per visit. For this option, the critical issue is resources; the boldness of such a political commitment may help ensure they are made available.
- *Option 3: Encouraging contributory micro-insurance schemes for the informal sector* and waiting until they expand, in the expectation that eventually the coverage gap between the formal and informal sectors may disappear – as in Bangladesh and India. Several important issues emerge with this option. First is the sustainability of some micro-insurance schemes; while there are extremely successful examples, including Grameen Kalyan in Bangladesh and SEWA in India, a myriad of other smaller schemes present problems of sustainability and adequacy of benefits, given the modest contributions the poor can afford; better linkage to microfinance and reinsurance schemes must be encouraged. Second, progress is very slow; voluntary schemes will likely take decades, if ever, to cover everybody in the informal sector. If this were to happen, then a third issue would be harmonizing and merging schemes. Mutual and self-help schemes should not be discouraged, given that they are assisting as many as 40 million poor and

excluded people; however, they are no panacea and should not be taken as a substitute of a universal national social security system.

Box 21

Sewa Microinsurance Scheme, India

The Self-Employed Women's Association (SEWA) is a registered trade union working mainly with women in the informal sector. Since 1972, its struggle has been to ensure that the minimum wage is obtained, to provide legal recourse where necessary, and to ensure democratic representation at every level of the organization. The trade union has almost 250,000 members. They are mostly hawkers and vendors, home-based workers, and labourers. The scheme covers health insurance (including a small maternity benefit component), life insurance (death and disability), and asset insurance (loss or damage to housing unit or work equipment). SEWA members can choose to become members of the insurance scheme (at present, only 14 percent of all SEWA members are insured). The asset and health components come as a package, and life insurance is an option. The total premium is approximately \$1.5 (Rs60) per annum for the combined asset and health insurance package and an additional Rs15 provides life insurance as well. Premiums and benefits are presently being restructured. Membership and claims processing are done through the SEWA Bank, along with a considerable field presence. Mobile services are also available for premium collection (normally associated with microfinance deposits and loan repayment collections).

See: <http://www.sewainsurance.org/>; Ortiz, 2001: *Social Protection in Asia and the Pacific*

From a variety of points of view, Option 1 appears most feasible. In most low-income countries (Sub-Saharan Africa, South Asia), the predominant form of primary care is comes from small-scale private providers treating individuals for fees, particularly in rural areas. This may be complemented by better public health services under a social insurance scheme. In most middle-income countries public and private health systems coexist, and their services could also be combined under a social insurance scheme. Starting by covering the formal sector (middle and working classes), universalism can be fast-tracked through non-contributory targeted benefits for poor/excluded groups, financed from general budget revenues. For instance, providing low income households with a health card allowing people to use health services for free or for a nominal fee quickly reduces the gap between the poor and non-poor – a similar policy was developed in Colombia in 1993 with very successful results: in only four years access to medical services expanded from 10 per cent to 50 per cent of the poorest quintile of the population.

(2) Maternal and Reproductive Health

These services include curative and preventative health services for women of reproductive age. The challenges of reproductive health are large, and free public services are advised, given their positive impacts on (i) women's health, (ii) infant and toddler health, and (iii) fertility regulation. Approximately one woman dies every minute from complications of pregnancy and childbirth; but reproductive health is not only about mortality/morbidity, it is about the recognition of women's rights to control their fertility and sexuality, and empowering women to avoid sexual violence, rape, genital mutilation and honour killings, to mention a few.

(3) Combating HIV/AIDS and Malaria

This is a global priority and part of the MDG commitments. In developing countries, combating the spread of HIV/AIDS and malaria requires significant international assistance, as their fiscal space is limited and treatment expensive. In Tanzania, direct budget support from donors is supporting 50 per cent of health expenditures. Global funds are also essential, e.g. for fighting malaria.

(4) Other Programmes to Promote Health for All

- Nutrition programmes are low-cost and have high impacts on the poor. They have been highlighted in several places in this Policy Note and are a very cost-effective priority for governments to consider.
- Health education is additionally very important for households – issues such as healthy lifestyles, adequate use of water, nutrition, prevention of transmittable diseases including HIV/AIDS, occupational health and safety at work, and awareness of health problems in the community can be taught and have major impacts on the well-being of populations.
- Immunization programmes also belong to this category of low-cost high-impact interventions
- Often the availability of health services is not sufficient to ensure their use: demand has to be promoted – conditional cash transfers as described for Argentina, Brazil and Mexico in Box 14 and Box 20 are good instruments to foster demand, explained in detail later in this Policy Note.
- Remote communities can be served by mobile services, like Bolivia's *Health Brigades* who deliver periodic check-ups and emergency services to indigenous communities in the Andes.
- Persons with disabilities require special services that must be built-in such as orthopaedics, rehabilitation.
- Avoiding exclusion in indigenous communities requires their consent, medical staff speaking native languages and integrating traditional practices in a complementary (but never substituting) manner.

Links:

- WHO: <http://www.who.int/en/>
- UNRISD: <http://www.unrisd.org/>

Social Protection

Social protection or social security provide a set of instruments to bridge the gap between vulnerable groups and the non-vulnerable by diminishing people's exposure to risks and enhancing their capacity to protect themselves against hazards/loss of income. Because of the strong redistributive character of most social protection policies, they were not favoured by conventional approaches during the 1980s-90s (except pension reform projects); in extreme cases like Bolivia, the Ministry of Social Security was closed down. However, social protection is necessary in any society because the benefits of growth do not reach all, and people do not have the same

capacity to overcome risks. Given the urgency to eradicate poverty, social protection is currently at the forefront of the social development agenda.

Social protection programmes include:

- ***Social insurance*** to cushion the risks associated with unemployment, poor health, disability, work injury, and old age.
- ***Social assistance***, for groups with no other means of adequate support, such as:
 - Social services, institutionalized or community-based, to vulnerable sections of the population, such as severe cases of disability, orphans, street children, battered women, substance abusers, migrant workers, refugees.
 - Conditional or unconditional transfers of cash or goods.
 - Temporary subsidies, such as energy life-line tariffs, housing subsidies, or price support mechanisms (e.g. supporting the price of staple food in a crisis).
- ***Other schemes to assist communities and the informal sector*** include agricultural insurance, food insecurity programmes, social funds, disaster prevention and management.

The adequate mix of social protection policies will vary country to country, depending on the specific risks and vulnerabilities identified in the diagnosis of the National Development Strategy. The extensive variety of social protection instruments cannot be described in detail in this Policy Note; for this, references are provided in the bibliography. A discussion on selected priority policies is presented below: pensions and social transfers, and other complementary programmes for the informal sector, women and children.

Critical Policy Issues

(1) Expanding Pension Coverage

In the 1990s many pension reform programmes were fostered in developing countries, particularly in Latin America and Eastern Europe. The idea was to avert an old age crisis in which social expenditures would swamp government spending, promote individual contributions to ease workers' mobility, avoid government mismanagement of pension funds and have positive externalities for the financial sector as people's savings are invested in capital markets.

The general model used for reforms is a multi-pillar system. Pillar I involves contributory and non-contributory pensions, normally with a defined benefit, funded through a Pay-As-You-Go (PAYGO) public system (current working generation paying retirees through tax contributions), the most common pension scheme worldwide. Pillar II consists of defined contributions (instead of a secure defined benefit) invested in financial instruments normally through private insurance/pension funds. Pillar III consists of voluntary additional pensions for upper income groups. Most radical reforms involved a complete abandonment of PAYGO (Pillar I) to develop Fully-Funded (Pillar II) pension systems.

As presented earlier, social insurance is important because it allows for equitable cross-subsidization – e.g. in health insurance, the healthy pay for the sick; in publicly provided pensions, the younger generation is custodian for the older generation. This equitable intergenerational social contract was broken in many countries when privately funded systems were introduced; however, the critical need to reduce poverty and achieve the MDGs has led many people to question this approach in developing countries. The arguments are:

- Reforms did not have any impact on improving coverage given that the poor do not have any capacity to contribute to expensive private insurance systems, nor do private pension fund companies have an interest to serve the poor.
- The transition from a public to a funded private system is costly, difficult to afford for most countries, as the current generation has to pay for the retirees under the old system (through taxation) and pay their own private contributions. Many developing countries, starved of resources for basic social investments, reformed their pension systems and now are paying the high fiscal costs of transition.
- The administrative costs of insurance/pension fund companies tend to be very high, making returns lower.
- The risk of financial market fluctuations is left to pensioners, who risk losing all their life savings if financial markets collapse. In many cases, the state (the taxpayer) acts as a guarantor of last resort, having to bail out private companies and provide safety nets for citizens in case of financial downturns.
- The positive effect of funded private systems on capital markets did generally occur, making them more liquid and mature; however, the objective of a pension system is not to develop capital markets, but to provide effective old-age income support.
- Additionally, investing savings in financial instruments other than national bonds meant a loss of resources for governments, as pension savings have been crucial in financing public investments in many of the ‘late industrializers’ (e.g. electrification in Finland, housing in Singapore, etc).

There are a variety of options when reforming a pension system, and they should be carefully evaluated, avoiding pressures from insurance companies and other vested interests. Recent experience shows that public pension systems (PAYGO/Pillar I) under good governance remain best from an equity point of view in developing countries; these may be accompanied by private pension schemes for upper income groups.

Countries like Argentina, Bolivia, Brazil, Namibia or South Africa, have introduced universal non-contributory pension schemes as an instrument to fight poverty (Box 22). This has taken a variety of forms, from the universal Bono Solidario (BONOSOL) in Bolivia (US\$225 per year to any old person on or above 65) to Brazil’s pensions for rural population on or above 60 (men) and 55 (women) with a monthly benefit equivalent to the national minimum wage (approximately US\$87 per month). While benefits provided are modest, the impacts on poverty reduction have been large. ILO points that social pensions and transfers have reduced South Africa’s poverty gap by 47 per cent. In countries like Senegal and Tanzania, ILO estimates that

poverty could be reduced by 35 to 40 per cent. For rural poor households, having an older person has become an asset, a source of income to sustain basic needs for the whole family. Additionally, transfers serve as cash injections to rural economies, having a positive impact on local development. United Nations and ILO estimate these basic non-contributory pensions may be affordable for most countries, estimated at around 0.5 to 2 per cent of GDP on average, at least much more affordable than contributory private funded schemes. In Brazil, contributory pensions cost 7.3 per cent of GDP, while the poverty-reducing non-contributory rural pension programme is estimated to cost only 1 per cent of GDP.

Box 22

Namibia's Social Pensions

After independence from South African colonial rule in 1990, the Namibian government had to deal with large social disparities and extremely vulnerable population groups due the impacts of HIV/AIDS and the exclusionary effects of apartheid – Namibia has one of the highest income disparities of the world. The government reformed the inherited social security system, expanding coverage through non-contributory social pensions to deal with these vulnerabilities. It provides a flat-rate means tested unconditional cash transfer to (i) all Namibians above 60 years-old (US\$30 per month, in 2001 coverage had reached 92% of the targeted population), (ii) persons with disabilities (US\$25 per month), (iii) child support benefits (approximately US\$15 per child/month), and (iv) additional grants for foster parents (US\$15 per child/month, to encourage adoption of HIV/AIDS orphans). Total costs are 2.6% of GDP, currently the Namibian government is studying how to further target the programmes and provide higher benefits to the poor, excluding the non-poor.

See: Schlegelger (2002): *Namibia's Universal Pension Scheme* ILO.

In low income countries, transfers, whether conditional or unconditional, are fast redistributive mechanisms that are increasingly used to (i) reduce poverty and food insecurity in low income households, (ii) expand coverage of pensions in countries where social security is not well developed, (iii) promote use/demand for social services, and (iv) monetize rural economies. Box 23 describes the mechanisms.

(2) Addressing Urgent Community Needs

Other social protection instruments for the informal sector include:

- Multisector short-term high-impact programmes, described earlier.

Food security programmes should be a top government priority, and must start with early warning systems mapping food-insecure households (by degree of inadequate food consumption and under-nutrition), and combating the causes of food vulnerability with medium-term policy options such as small-scale

Box 23
Social Transfers – How They Work

Types of Social Transfers: There are two types:

- (a) *Social pensions or unconditional cash transfers* (e.g. disability or old-age pensions, child benefits, given to anybody who is disabled, in old-age, has children) (see examples Box 22 and 14),
- (b) *Conditional cash transfers* (released on accomplishment of pre-set conditionalities, for instance, child attendance at 85% of school classes and getting immunization vaccines) (Boxes 20 and 14). It is important to understand that conditional transfers can only be developed where education/health services exist and where government has significant administrative capacity. Unconditional cash transfers are much easier to implement and more effective to reduce poverty rapidly.

Scope : Conditional transfers normally start in selected areas, and expand progressively depending on outcomes; social pensions tend to have nation-wide coverage.

Targeted or universal benefits? Conditional transfers tend to be targeted (e.g. PROGRESA/Oportunidades and Bolsa Familia in Boxes 13 and 14 are targeted to households below the poverty line); unconditional transfers may be universal, given to the whole population of a country (e.g. universal child benefits), or group targeted (e.g. anybody who has a disability, is chronically ill or in old age).

Financing Public, normally low cost. Basic social pensions tend to cost between 0.5% and 2% of GDP; conditional transfers cost 0.1% to 0.7% of GDP depending on scope and benefits.

Typical implementation arrangements :

- *Disbursements* – To be effective, social transfers must be regular and predictable. Two main aspects are important: periodicity of disbursements and method. Where developed financial systems exist, beneficiaries should be given transfers on monthly basis, as this is best to ensure a stable income for basic needs. Where systems are less developed, or administrative costs larger, governments may opt for a yearly payment (e.g. Bolivia's BONOSOL) or semi-yearly (e.g. pensions in India). With regards to the disbursements methods, different alternatives exist:
 - Banking system: in Brazil and Argentina, beneficiaries use electronic cards; as positive externalities, cards serve as a credit instruments in local shops. If no electronic banking system exists, rural banks or microfinance institutions can be used; it can be a way to expand banking services to communities.
 - Postal services, as in the case of pensions in India.
 - Schools or health centres for remote locations (teacher or nurse collects funds from district bank and delivers to families; this system has been successful in Kalomo, Zambia).
 - NGOs can also deliver transfers, as in Mozambique.
 - Armed convoys – where insecurity is high, e.g., Namibia, armed vehicles have been used.
- *Monitoring of compliance* (for conditional transfers): Done by professional/technical staff; in the case of child class attendance, teachers fill out a form; in the case of mothers and children attendance at health clinics, getting vaccinations, etc., nurses fill out specific forms. It is important to notice that these administrative procedures are complex and thus slow down the expansion of conditional cash transfers; these conditional programmes tend to have large under-coverage rates.

Source: DFID (2005): *Social Transfers and Chronic Poverty*; Help Age, IDS, Save the Children (2005) *Making Cash Count*; Cichon et al (2006): *Changing the Paradigm in Social Security: From Fiscal Burden to Investing in People*, ILO.

agriculture and cash transfers. Except in extreme emergency or exceptional circumstances, distribution of food is inadvisable, as it hinders development efforts; in particular, distributing food brought in from the outside has a negative impact on local farmers, who may then be unable to sell their products, causing more poverty. It is preferable to monitor food insecurity with early warning systems, and provide poor households with food stamps, cash transfers, and agricultural inputs, stimulating local economic activities.

- *Community-based social funds* are typically managed at the local level, empowering communities, NGOs, and local governments. They provide finance for small-scale projects, such as livelihood programmes and infrastructure, using local labour, encouraging skills development and contributing to a community's social capital.
- *Disaster preparedness and management* are essential to assist communities at risk to cope and mitigate impacts. Developing countries are where most people are killed, injured, affected, and left homeless as a result of disasters, due to low construction standards and the vulnerability of people. There has been a recent trend towards increased disaster relief aid programmes. However, the huge economic and human loss caused by disasters points to the critical need to invest in disaster preparedness. Relief efforts are notorious for their bad governance; the World Bank estimates that as much as 50 per cent of funds/goods have disappeared in corruption in some cases. In any case, relief does not reduce vulnerability. Investing in better construction standards and housing programmes, disaster management centres for hazard assessment, risk reduction and monitoring programmes, emergency response and assistance systems, and strengthening community-based preparedness are better mechanisms to reduce loss of human life and the scale of damage.

(3) Supporting Women and the Unpaid Care Economy

- Both in developing and developed countries, the bedrock of social protection is women's unpaid family care. Societies would not survive if women (and girls) did not perform many tasks, including housework, cooking, childcare, care for the elderly and sick family members, and generally holding the social fabric together. This unpaid work covers shortfalls in formal social protection, but carries important costs borne by women (and girls), resulting in the tendency for them to fall far behind men in educational and remunerative economic attainment. Worse, this unpaid work is usually not even socially dignifying. It often results in humiliation, restriction of freedom, even slavery. Women's development requires increased social protection. In developed countries, birth grants, child benefits, extended maternity leave, kindergartens, home care, and free or low cost access to medical services, were central to women's emancipation, integration into the paid labour force, and had the positive externality of population regulation.

(4) Child Protection

- Children and youth constitute about half of the world's population. Thus, investing in them is critical for raising labour force productivity and a country's international competitive advantage. Lack of adequate protection

and under-nourishment result in stunting, poor health, and low intellectual capacity which have high costs to societies. Additionally, as agreed in the UN Convention on the Rights of the Child, children should be protected from all forms of abuse and exploitation, such as child labour, child prostitution, or the adversities faced by the girl child. ECD, nutrition and school feeding programmes, child allowances, initiatives to help street children, programmes to empower the young to avoid marginalization, criminality, sexually transmitted diseases, early pregnancies, and drug addiction, are some important social protection instruments.

Links:

- ILO: <http://www.ilo.org/public/english/protection/index.htm>
- World Bank: <http://www.worldbank.org/sp>
- ADB: <http://www.adb.org/SocialProtection/default.asp>
- DFID: <http://www.dfid.gov.uk/news/files/social-transfers.asp>

Beyond Traditional Social Policy: Tackling Prejudice, Changing Behaviour, Building Social Trust and Cohesion

The 1995 Copenhagen Social Summit, held just after genocidal massacres in Yugoslavia and Rwanda, emphasized the need to disseminate values of tolerance, peace, democracy and social integration.

This refers to value formation. Value transmission is particularly intense during childhood, as children internalize attitudes, rules and expectations of parents and teachers. But values are permanently redeveloped and keep changing during adulthood through peer groups, media, arts, culture, religion, experiences and personal thinking. While the transmission of values (between or among generations) generates some continuity and cohesion, value content matters tremendously. Value orientations that promote tolerance, non-violence, diversity and solidarity, build much more cohesive societies. Social scientists have long developed theories on the importance of norms, beliefs and values as cement of society, yet the topic remains largely off the radar screen of the development community, probably because of its intangibility; aid agencies have concentrated on hard-core investments like infrastructure and seldom entered such topics.

Values can be built and promoted. Tolerance, respect for diversity, non-violence, solidarity, trust in society, contribution to the community, are beliefs and behaviours that can be taught. Attitude and behaviour changes are also essential to transform stereotypes and relations that discriminate and inhibit women to enjoy substantive equality. This requires that programme designers:

- Understand the existing cultural values.
- Have clear objectives on the values that need to be altered for social progress.
- Gain support from the local structures including religious leaders; a technique is providing solid scientific evidence of the benefits from other countries, putting aside emotions and value judgments.

- Support allies and “drivers of change”; encourage local level groups and organizations in dialogue.
- Design adequate programmes. The following options may be considered:
 - *Educational curricula*: Multicultural education is best to ensure equity and respect for cultural diversity in countries where more than one language/ethnic group exist, giving students the opportunity to understand and respect other cultures, instead of imposing a dominant language and excluding a culture. It also makes children respectful and curious about other cultures internationally.
 - *Media programmes*: Media can play an essential role in changing attitudes and tackling discrimination and exclusion. Journalists are key for informing and equipping the public to understand and participate in development debates. Alternative approaches include mixing entertainment with educational approaches on developmental issues; BBC, UNESCO, UNDP, and other agencies and NGOs have good practice experiences in promoting values and behavioural change through well-researched mass-audience entertainment-educational radio and television programmes like soap operas (Box 24).

Box 24

Afghanistan's "New Home, New Life" – Transmitting Values Through Media

In 1994 during the Taliban regime, the BBC World Service Pashto service for Afghanistan, launched an educational radio soap opera, “New Home, New Life”, designed by BBC staff and donor agencies to meet educational needs of both refugees and those in Afghanistan. The story line presented the lives of fictional villagers in Afghanistan and delivered important social messages related to reintegration of war returnees, women, mine awareness, health, hygiene and sanitation, tolerance and conflict resolution. The soap opera remains highly popular till today, as many Afghans identified with the characters.

See: UNESCO <http://www.unescobkk.org/index.php?id=1647>

- *Public education and information campaigns* have long been used for sensitization and educational purposes. They use marketing techniques for snappy, clear and well targeted content messages (e.g. TV and radio spots). Educational campaigns have been very successful in promoting healthy lifestyles, anti-discrimination and other issues. They can be utilized to inform people of their rights, deal with all forms of discrimination, stigma or non-compliance with labour standards.
- *Investing in culture*: Educating people in their heritage and the heritage of other cultures promotes understanding, tolerance and respect for diversity – if bias and myth creation are avoided. Investing in tangible and intangible heritage also has positive externalities for tourism. Heritage must be accompanied by cultural activities supporting: (i) the arts, promoting creativity of new artists to keep culture alive, and (ii) popular collective events that everybody can enjoy, such as street activities/parties, in a spirit of recreation, fun and informal “intercultural get-together”, an important way to promote social cohesion.
- *Supporting drivers of change*: Community and national leaders who promote equitable arguments and inclusive alternatives are natural allies for progressive value change.

- *Empowering people and promoting associations:* Excluded people tend to internalize inferiority and repress their voice. Lack of voice and inability to dialogue creates social risks, as it may lead to violence. When people associate and share their problems, the result is often increased encouragement, capacity for self-advocacy, ability to organize, to create positive change for themselves and their communities. Associations help communities to defend their interests, and can be linked to microfinance, cooperatives and other local development programmes. As people's associations sometimes stand up against powerful local interest groups, it is necessary to protect them from extortion and intimidation.
- *Making governments accountable:* Distrust and apathy are a result of people being isolated and de-linked from decisions that have impacts on their lives, and may lead to alienation, marginalization and violence. Ultimately, citizens trust governments that respond to their problems and expectations, are reliable, avoid large inequities, work towards building stable societies that benefit people and deliver social justice. Maintaining the social contract between government and citizens is essential to promote social trust.

Conflict Prevention

Conflict prevention has attracted significantly more attention than social cohesion/integration, despite the two being intrinsically linked. According to a recent World Bank document, the key characteristics of a society resilient to violent conflict include:

- Political and social institutions which are largely inclusive, equitable, and accountable.
- Economic, social, and ethnic diversity rather than polarization and dominance.
- Growth and development that provide equitable benefits across society.
- Culture of dialogue rather than violence.

However, in practice, conflict prevention remains a specialized issue, dealt with by conflict prevention specialists. Most national and sector strategies, done by economists and sector specialists blind to conflict matters, are designed ignoring internal frictions and sources of tension as it is perceived as “political”, thus beyond the development domain. Yet social contestation has often shaped countries and driven social reform in history; if ignored or suppressed, it may lead to further violence. It is essential that National Development Strategies recognize sources of conflict and address them, before tensions escalate.

- *Early warning:* The sources of conflict vary from country to country but generally involve severe grievances due to vertical inequalities (e.g. class conflict and struggle) or horizontal inequalities (e.g. differences among ethnic or religious groups). Risk screening indicators include: (i) history of earlier conflicts, (ii) high prevalence of poverty and inequality, (iii) political instability and non-responsive governments, (iv) denial of political and civil rights, (v) militarization, (vi) proliferation of small arms, (vii) ethnic dominance, (viii) conflicts in neighbouring states, (ix) high male youth unemployment, and (x) culture of violence, myth-making, public perceptions.

- *Tackling potential causes of conflict*: National Development Strategies are the perfect setting to prioritize interventions to deal with the internal sources of tension identified, before conflict takes violent forms, e.g. reforms aimed at equity and youth employment programmes. This includes supporting participatory processes where people can voice their grievances, and institutions for effective dispute resolution.

Box 25

Burundi: Conflict Prevention Strategies

Since independence in 1962, Burundi has experienced recurrent genocide mass killings (1965-69, 1972, 1988, 1991, 1993) with an approximate toll of 350,000 dead and 1.3 million refugees and IDPs. The risk that ethnic violence between Hutu and Tutsi will resume is high. After a period of limited donor assistance “doing no harm”, in 2004 the Permanent Secretariat for Economic and Social Reforms of Burundi and donors engaged in a conflict prevention analysis to address the structural causes of conflict, in order to ensure that development aid would effectively contribute to prevent a recurrence of violence. It was found that the main cause of conflict was inequity in a context of extreme poverty; to address disparities, programmes to support employment, land distribution, rural development, social protection and human development were identified for excluded groups. It was also found that the conflict is essentially elite-driven and manipulated; therefore, media projects and public information campaigns were proposed to promote social cohesion and end a culture of myth-making and prejudice. The analysis also showed that conflict was caused by a culture of impunity towards violence in the context of militarization and of small arms proliferation; to address this, the following measures were identified: support to national judicial and security systems, truth and reconciliation processes, and demobilization and reintegration programmes.

Source: Brachet and Wolpe (2005): *Conflict Sensitive Development Assistance – The case of Burundi*. The World Bank.

Beyond developing equitable and tolerant values and preventing conflict, social cohesion is also about the other intangible aspects of citizens' well-being, their right to live in dignity, to use freely their mother tongue, to enjoy time with their community, to laugh, to have fun, to be creative, all essential aspects of mankind and signs of healthy societies. This is not only a result of material well-being, but of living in societies with no fear, with no exclusion.

Links:

- UNFPA: <http://www.unfpa.org/culture/>
- UNESCO: <http://portal.unesco.org/culture>
- World Bank: *Conflict Prevention and Reconstruction* <http://web.worldbank.org/>

VII. INTERNATIONAL REDISTRIBUTION AND SOCIAL JUSTICE

The global system that emerged in the late 20th century has generated much resistance. Inequality has increased between and within countries. The richest 10 per cent of the world's adult population receives 85 per cent of total world wealth; the poorest 90 per cent gets only 15 per cent of it. If power is the ability of groups to protect and advance their interests, 90 per cent of the world's population is disempowered. Global rules reflect global power, the interests the world's elite top 10 per cent who enjoys almost all the income generated by mankind. The huge gap between the rich and the poor has become more worrying since the world is facing the threat of organized terrorism from groups based in some of the world's poorest countries.

While the economic benefits of globalization go to a few countries, companies and individuals, social policies and their costs must be dealt with at the national and local levels, with fewer resources, within a diminishing policy space.

The justification for international redistribution, through increased and improved development aid, cannot be stronger. For globalization to be accepted, it will have to be a globalization that benefits the majority, a globalization for all, instead of a few.

Accepting global responsibility for social development may be done by:

- Having global accountability for the MDGs and promoting international standards to halt the "race to the bottom".
- Building global and regional social policies.
- Supporting committed governments in developing countries with equitable National Development Strategies with increased aid, aligned and harmonized, particularly with budgetary support.

Global and Regional Social Policies

Cross-border problems such as health pandemics or illegal migration have highlighted the need to manage global public goods. Many social issues are beyond national boundaries and governments may want to consider coordinating global and regional social policies such as:

- Health (e.g. transmittable diseases such as SARS, Chagas, avian flu).
- Social redistribution mechanisms like global/regional social funds to target depressed areas or to redress inequalities.
- Economies of scale in social investments, e.g., not all countries can develop high quality universities/research centres or pharmaceutical industries to produce cheaper generic drugs, but these can be developed regionally.
- Labour regulations (e.g. migration agreements, labour standards) to combat "the race to the bottom".
- Cooperation on regulation of public and private delivery of social services (water, electricity); regional formations in principle are in a stronger position

than isolated governments to negotiate with private providers to ensure access, affordability and quality standards in commercial services and utilities.

- Social charts, human rights councils ; the European Union's European Court of Justice or the Council of Europe's Court of Human Rights could serve as useful models of mechanisms by which citizens can be empowered to challenge the perceived failures of national governments to fulfil their rights.
- Cooperation to promote employment-generating local investment and allow more progressive tax systems (e.g., through coordinated measures to control capital flight, tax havens and tax competition).
- Risk pooling mechanisms such as international agricultural insurance against crop or livestock risks; most agricultural insurance experiences have failed across the world because of their small size, collapsing when a major catastrophe occurred, however, by pooling risks internationally, and by adequate reinsurance, schemes can work.
- Beyond specific topics, there is an urgent need for a framework of global governance to construct a safer and fairer world, an international consensus to make globalization work for all ? a global social contract.

New Instruments of Development Aid

The instruments of aid have been progressively evolving from projects to transfers from developed to developing countries, either in the form of GBS (*General Budget Support* to a government) or SWAps (*Sector Wide Approaches*, budget support to a specific sector like Health), supporting governments with good governance, multi-annual budgets/MTEFs (*Medium Term Expenditure Frameworks*) and minimized fiduciary risks.

How can governments ensure that the new instruments of aid work to support social development and, ultimately, people? How can GBS and SWAps be best used to support equitable National Development Strategies?

- It is essential that SWAps and GBS be used as instruments of redistribution and social justice, this is, that they reach people, and are not utilized to sustain institutions (e.g. a Ministry) or development processes (e.g. completion of an MTEF), or are simply used as fast disbursing mechanisms of donors aid.
- Some GBS donors like the European Union believe in linking disbursements to outcomes – this could include attainments in respect of effective impacts on excluded groups.
- Social transfers become particularly attractive from the point of view of direct and quick impacts on low-income households; governments can finance social transfers through both GBS and SWAps.
- GBS has allowed citizens to contribute to policy and distribution debates around the budget. In some countries, GBS has supported participatory budget processes and gender responsive budgets; governments could also promote other thematic budgets (e.g. showing distribution impacts on other excluded groups).

- In practical terms, this means moving aid away from donor projects and small grassroots activities to support structural change and governments building equitable social systems. Ultimately, GBS supports governments as the legitimate institutions with a social contract to supervise a country's economic and social development to benefit its citizens.
- Civil society activities at the national and local levels must be expanded, funded through special funds.

Increased aid could support equitable National Development Strategies in which social policies go hand in hand with economic development under good governance. In that way, developed and developing countries would better share responsibility on achieving global prosperity and the Millennium Development Goals.

VIII. CONCLUSION

Effective policies to redress poverty, inequality and lack of opportunity are an urgent imperative. Social policy, as an integral part of public policies, provides a set of instruments to regulate and supplement market institutions and social structures, ensuring redistribution, protection, cohesion and social justice. Social policies complement and reinforce economic development by enhancing human capital and productive employment.

Governments launch National Development Strategies to build countries that are socially inclusive, employment generating, economically robust and politically stable. National Development Strategies are not only a technocratic exercise; they are an opportunity to rethink a country's social contract. This requires the creation of supportive political coalitions, while resisting policy capture by elite or vested interests.

This Policy Note presents the steps necessary in drafting inclusive National Development Strategies: diagnosis of social priorities, selection of policy options, financing, implementation, monitoring, participation and political sustainability.

A set of critical issues are discussed: the need to mainstream equity across sectors, from energy to transport; the need for universal policies, with attention to the poor and excluded groups; and the need of short-term initiatives complementing long-term policies, to ensure that urgent social issues are addressed rapidly, and political support for governments remains stable.

Selected social policy instruments to fast-track equitable and inclusive social development are presented in the areas of employment, education, health, social protection, culture, and conflict prevention. These selected policy options are accompanied by implementation issues. There are no best solutions or “one-size-fits-all” formulas. Each country has different social needs, development objectives and fiscal capacity to achieve them, and will choose a different set of policies.

Finally, this Policy Note closes with some remarks on the need for better global governance to reduce global poverty and social inequities. The challenge of our generation is to shape globalization, to manage it equitably and sustainably. This may be done by means of international and regional social policies, accompanied by increased development aid, aligned and harmonized, supporting equitable National

Development Strategies. The responsibility to build a better 21st century for all is now in our hands.

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